

Impact of Performance Based Remuneration Systems on Productivity

Performance of Local Industries

The Philippines Experience

By

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Philippines

1.0 Economic Development in Philippines

1.1 Key Economic Trends

Today we reach the halfway mark for this current year 2008, and everybody knows it's been a challenging year for the Philippine economy so far. Based on most recently available data on the economy, below are 10 key indicators that provide a good picture of how the economy has fared this year so far:

Prices are rising rapidly. The inflation rate has already hit double-digits outside of Metro Manila (10.2%) with food showing the steepest price rises at 14.3% nationwide. Surging oil and food prices have been the primary culprit and while this has been a global phenomenon this gives little comfort to the average Filipino whose wages are being left even farther behind by the soaring cost of living.

Large numbers of jobs are being lost. The April labour force survey reported a net loss of 168,000 jobs over the past 12 months with the industry sector taking the worst hit with 244,000 jobs lost. Agriculture actually gained 46,000 jobs while services produced 30,000 net new jobs.

Domestic production and overall income have slowed down across the board. The industry sector slowed down the most, with construction (particularly government construction) and manufacturing slowing down the most. Agricultural production likewise slowed down and actually declined by 0.8% from last quarter's level. Services continued to lead the economy's growth but its growth has also moderated to 6.9% from last year's 8.4%. Communications posted the slowest growth in recent memory which at 4.3% is a far cry from the double-digit growth the industry had been accustomed to in past years. Water transport

(sinking ferries notwithstanding) actually zoomed at 26% and air transport at 13.3%.

Personal consumption spending slowed down dramatically. The drastic slowdown is more obvious on a quarter-on-quarter basis from an average 1.3-1.5% quarter-on-quarter growth in recent years (implying 5.2-6% annual growth). Personal consumption grew only 0.3% in the first quarter implying an annual growth of only 1.2%. Surging inflation is the clear culprit. Rising prices always slows down people's spending and slower wage remittances did not help either. When people slow down on their purchases the rest of the economy also slows down.

Fixed investment has rebounded. This is one of only two positive developments in this list. Private construction and durable equipment growth (led by electrical machinery, water transport equipment, agriculture machinery, road vehicles, aircraft, and mining equipment) has managed to offset the steep drop in public construction. Last year, election-related government spending propelled the unusual surge in economic growth and the latest revisions on last year's growth data show just how dramatic this factor was. The 2007 second quarter (i.e. election period) growth in public construction was upped further from the earlier-reported 39.7% to a whopping 59.4%. Public spending has now returned to more normal levels (hence the recorded drop of almost 10%) but it is genuinely good news that private investment spending has managed to more than compensate for this.

Foreign direct investments dropped steeply. What makes the above even more good news is that overall investment growth happened despite the fact that net

inflows (per BSP data) of foreign direct investments have dropped rather steeply this year (-75% in contrast to last year's 195%). This indicates all the more that private investments by Filipinos saved the day for us. They not only offset the big drop in public investment but also the even bigger drop in foreign investments as well.

The Government has reduced its spending. As indicated above public construction dropped steeply and government consumption spending has likewise gone down by 1%. The Government had vowed to balance the budget this year but this was clearly being pursued more by cutting back spending rather than by improving tax collection. It therefore gives little comfort that the government has posted surpluses in the last two months keeping the budget deficit down to P18.8 billion so far.

Exports have reversed dramatically. Last year's export growth of 11 % is now mirrored by a drop of 11%. Imports meanwhile dropped even more steeply than they did last year. While Business Process Outsourcing (BPO) still managed to grow it slowed down to half (7.6%) of last year's growth (14.7%).

Growth in net income inflows remained high. This is not so much because of a surge in inflows but because of the steep drop (-23%) in outflows. Wage remittances actually slowed down from last year. This is a trend worth watching closely especially as the host economies of Filipinos abroad brace for even worse times.

Gross international reserves grew by nearly half. BSP bought close to \$11 billion last year bringing reserves to \$36.2 billion or more than six months worth of imports from just \$25.6 billion a year ago or 4.6 months worth of imports. This

was largely to prevent the peso from appreciating faster, a problem which has now reversed itself as the doubling in oil prices within the past year has led to currency depreciation anew.

Overall, the year so far has been so much unlike last year and Filipinos everywhere can feel it in their pockets. The year is only half way through and unfortunately things aren't exactly looking up.

Experts Foresee Economic Growth In 2007

Entitled “What Lies Ahead for The Philippines in 2007: An Economic Forecast”, members of the Philippine Association of National Advertisers (PANA) looked into the general landscape of the Philippine economy and the advertising industry from different perspectives such as market research, government, and the SMEs.

Ms. Aggie Mañalac of ACNielsen presented the Filipino pulse based on recent consumer spending behavior studies and trends. “There is a positive outlook for the Philippine economy in 2007 brought about by a significant increase in consumer confidence levels towards the areas of job prospects and personal finances.” She said, however, that in spite of such increase in consumer spending, the market remains critical with their money-spending behavior. She lists convenience, affordability and value for money as key attributes in consumer spending activities and registers the following markets as sales prospects: “millennium moms” or working moms, mature markets, “housebands” or household husbands and “NetGens” or those born during the internet era.

Mr. Dante Sy, Deputy Director of the Department of Finance, provided an economic forecast from a political point-of-view. His forecast supported that of Mañalac's. Both foresee a positive outlook for the Philippines in the coming year. He states the following precedents to support his claim, 1) the forthcoming May elections are set to generate more jobs for the Filipino people, 2) there is an increase in exports particularly in the areas of shipping, R&D and training, ICT, electronics, healthcare and wellness, and steel, 3) the ratification of the 2007 budget, 4) the World Bank to invest \$300 billion in Philippine infrastructure, 4) the restoration of tax benefits for investors in Subic and Clark as approved by Congress and 5) the continued strengthening of the Philippine peso.

Brother Ben Quiñones of the Coalition of Socially Responsible SMEs shared his forecast on the Philippine economy in two perspectives, "All is well except for investments," he said. He analysed the Philippine economy as a system governed by corporations, the banking industry and the government. "What hinders equitable wealth distribution are the vicious cycles of booty capitalism, poor governance, poverty and social chaos, situating the Philippines at the roster of "high-risk" investment spots for foreign investors," he said. He persuaded the PANA general membership to take on the following steps in solving this problem: 1) look beyond macroeconomic policies and consider the various laws and regulations that hold back the productivity of industries and 2) increase investments in the manufacturing sector.

1.2 2008 ECONOMIC FORECAST and CONSUMER TRENDS

At the 10th PANA General Membership Meeting held at Merk's Bar last October 25, Professor Leonor Magtolis-Briones of the National College of Public Administration and Governance in UP Diliman presented "Fearful Forecasting for 2008". Prof. Briones claimed that in developing countries like the Philippines, forecasts at this time of year are laden with uncertainties. First reason is that 2007 is an abnormal year, it being an election year which will make it difficult to use as the basis for 2008 projections. Another factor is the planned balanced budget policy to be implemented in the coming year. She further said that, "Economic performance largely depends on how the government handles the succession of crises it must deal with." This is in reference to the current issues being hurled at the government. Unfortunately, the government's explanations on the cash gifts to the public officials and the explosion that killed 11 persons and injured a hundred others remain unsatisfactory. Professor Briones further stressed that, "The main issue here is governance."

Based on the Diokno analysis of the Philippines' economic performance in the last 10 years, Professor Briones highlighted the improvements in the economy but mentioned that the growth is not enough to reach and significantly improve the lives of the people at the bottom of the economic ladder. She said that for companies whose target market are people in the countryside, it is important to note that the decline in the agricultural sector will have an implication in this market's purchasing power. Further, Professor Briones pointed out that 2007 being an election year, government expenditure is quite high but the same cannot be assumed for 2008 because of the balanced budget implementation scheduled for next year.

Other social indicators presented by Prof. Briones were the poverty threshold, Educational Development Index (EDI) and healthcare index. Data shows that in 2003, 26 million Filipinos are living below poverty threshold and 13% of the population is living in extreme poverty. Education and health care are suffering as well. All the key indicators on the quality of education in the country are down while government spending on basic health care is also being neglected. The professor challenged those companies in the health care industry to do something about this. Professor Briones recommended more involvement from the private sector in governance. She said that governance is not just the business of the government, it is the business of all the sectors of society. "If your principals play a more active role in governance and in other concerns of the country through advertising, perhaps 2008 will not be as fearful or even fearsome," she concluded.

On the other hand, Ms. Russel Adra-Hidrosollo, Director of Consumer Panel Services - ACNielsen (Philippines) Inc., shared with the PANA members the result of their study on FMCG and Key Consumer Trends for 2008, using the consumer panel method. She revealed that there was an increase in spending for food and non-food items with tea drinks and hair treatment topping their respective categories.

There are three factors contributing to the growth in the market of products. First is the increasing concern by consumers for health, wellness and youthfulness. Consumers want products that are healthful and beneficial to them. They also want to look good and feel good thus there is a proliferation of spas and water refill stations as well as the increase in the demand for body cleansing and

personal paper items. To support the claim that present consumers are concerned about health, Ms. Hidrosollo presented data showing that Filipinos are more worried about getting diseases as compared to people from other countries. This trend spells out opportunities for pharmaceutical companies.

The second factor is the increasing patronage for convenience. Consumers want quick and easy-to-use goods. Third, is the consumers' continuing need for value. Households would rather spend on essential items than on products which do not belong to the consumer basket. Moreover, consumers who cannot afford to buy even the essential items before are now able to do so because of the presence of more affordable alternatives or smaller/lower-priced packaging.

Ms. Hidrosollo stated that these three trends will go beyond 2007. There will be continued focus on eating healthier and looking better. Consumers will still need products that will make their lives easier and they will always want to get their money's worth in the products that they buy.

Some basic facts about The Philippines for the year 2007 are as follows:

Capital	Manila
Land Area (km square '000)	300.0
Exchange rate (per \$)	46.15
Population (millions)	90.5
GDP (billions)	US\$ 144.1
GDP (PPP) per capita (\$)	3,225
Real GDP Growth (%)	7.3
GDP (PPP) per capita (\$)	US\$ 12,742.51
Consumer Price Inflation (%)	2.8
Unemployment Rate (%)	6.3
Labour Force (millions)	35.9
Current Account Balance	2.9
Direct Investment:	
Stock Inward (\$billions)	16.0 (2006)
Flows inward (% of GDP)	2.0

Source : Asian Institute of Management Policy Centre for World Competitiveness Yearbook 2008

1.3 Global Competitiveness: The Philippines¹⁰

The Philippines was ranked 71st position out of 134 economies in the Global Competitiveness Report 2007-2008. In terms of stage of development, the Philippines had been identified to be in the Factor Driven Stage where companies compete on the basis of price and sell basic products or commodities

¹⁰ Based on the Global Competitiveness Report, 2007-2008 and 2008-2009 (World Economic Forum) Country Profile on Philippines

with their low productivity reflected in low wages. Maintaining competitiveness at this stage of development hinges primarily on well-functioning public and private institutions, appropriate infrastructure, a stable macroeconomic framework and a healthy and literate workforce. In addition, the Philippines has seen an improvement in its macroeconomic stability since last year with a shrinking government budget deficit and lower public debt.

On the other hand, the main obstacles to greater competitiveness are related to the quality of the country's public institutions and a lack of efficiency in its labour market. The institutional environment is characterised by the perception that government spending is highly wasteful (ranked 120th), a lack of evenhandedness in the government's dealings with the private sector (117th), and general concerns about corruption in the public sphere. In addition, the threat of terrorism imposes significant costs on businesses in the country (ranked 125th).

With regard to labour market inefficiencies, last year's report showed that the Philippines was ranked 100th with a severe brain drain problem, little flexibility for firms in wage determination, excessively high firing costs and reducing the incentive for hiring. This year, labour market inefficiencies points towards wages are not flexibly determined by companies (108th), regulations impede firms from freely hiring and firing workers (101st), and firing costs are excessive (ranked 108th). The labour market inefficiencies highlighted had hindered job creation. It is encouraging however to note that the ranking of Pay and Productivity in the Philippines ranked at the 57th (Table 1.1) position is among the highest in terms of performance on labour market efficiency.

It is therefore important that the Philippines review its labour market policies and this research on determining the Performance Related Remuneration Systems will reveal pertinent practices among Small and Medium Enterprises in the Philippines and which can be best practiced by other Small and Medium Enterprises for wider dissemination and implementation. The details of the Philippines ranking in the 7th pillar of labour market efficiency are as shown in Table 1.1.

Table 1.1 : Rankings of Labour Market Efficiency¹¹

Indicators	Rank/134
Cooperation in labour-employer relations	71
Flexibility of Wage Determination	108
Non-Wage Labour Costs*	24
Rigidity of Employment*	61
Hiring and Firing Practices	101
Firing Costs	108
<i>Pay and Productivity</i>	57
Reliance on Professional Management	40
Brain Drain	116
Female Participation in labour force*	86

Source : Global Competitiveness Report 2008-2009

* Indicates hard data

¹¹ Global Competitiveness Report 2008-2009 on The Philippines Pg. 227

2.0 SMALL and MEDIUM ENTERPRISES in the Philippines

In the Philippines, 99.1% of the businesses are small and medium enterprises (SMEs) and only 0.99% are large enterprises. Republic Act No. 9501, The Magna Carta for Micro, Small and Medium Enterprises (MSMEs), signed by President Gloria Macapagal Arroyo on 23 May 2008 defines micro enterprises as entities with total assets of not more than Php 3,000,000, small enterprises as companies with Php 3,000,001 to Php 15,000,000 worth of assets and medium enterprises as firms with total assets of Php 15,000,001 to Php 100,000,000. The said assets exclude the land on which the firm's office, plant, and equipment are situated. The new law, R.A. 9501 amends the 17-year old R.A. 6977 or the Magna Carta for Small Medium Enterprises.

2.1 The Philippine Setting: SMEs Data, Government Incentives & Laws and Other Issues

2.1.1 General Information and Data

An SME is any business activity or enterprise engaged in industry, agri-business and/or services whether single proprietorship, partnership, cooperative or corporation whose total assets inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated must have value falling under the above mentioned categories. SMEs are perceived to have greater linkages to micro-enterprises (backward linkage) and medium and large businesses (forward sub-contracting links). Among the rationale for developing SMEs in the Philippines includes the fact that they use resources more efficiently than large enterprises. The Philippines' advantages in terms of investment environment includes having an open market

economy, reliable infrastructure support, available special economic zones and strategic location, hospitable lifestyle, competitive investment incentives and quality human resources.

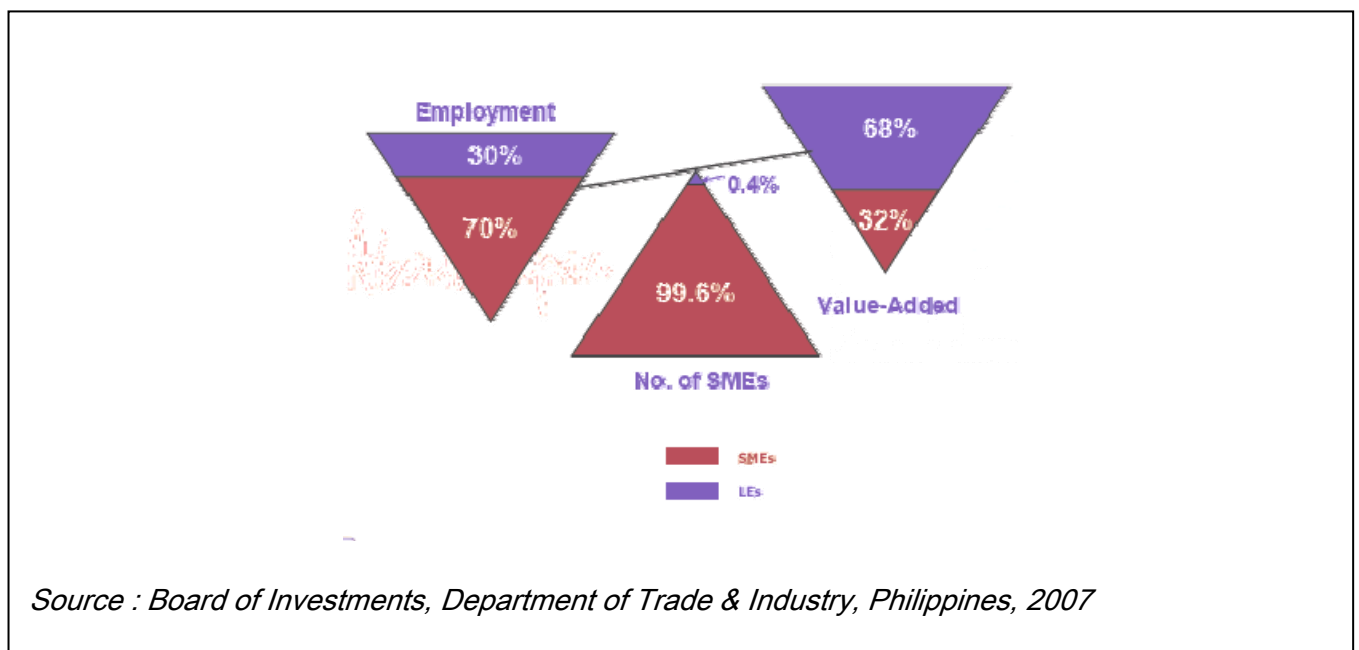
Philippine SMEs usually join a bigger organisation, cooperative and association.

In the Philippines, SMEs are acknowledged to have the following major roles:

- Substantial contribution to national economic activity
- Major source of economic dynamism, economic and social functions at all levels of society
- Major source of provision of outsourcing products and services
- Major contribution to regional, local and community economic development.

Figure 1.1 below illustrates the Philippine SME share, its composition and comparative data with other Asian Countries (Source: Board of Investments; Department of Trade & Industry, Philippines 2007).

Figure 1.1 Philippines: SME Share



SMEs in the Philippines are also categorised by sector and by its size, as illustrated in Table 1 below (Data as of 2007).

Table 1.1 : SMEs by Sector

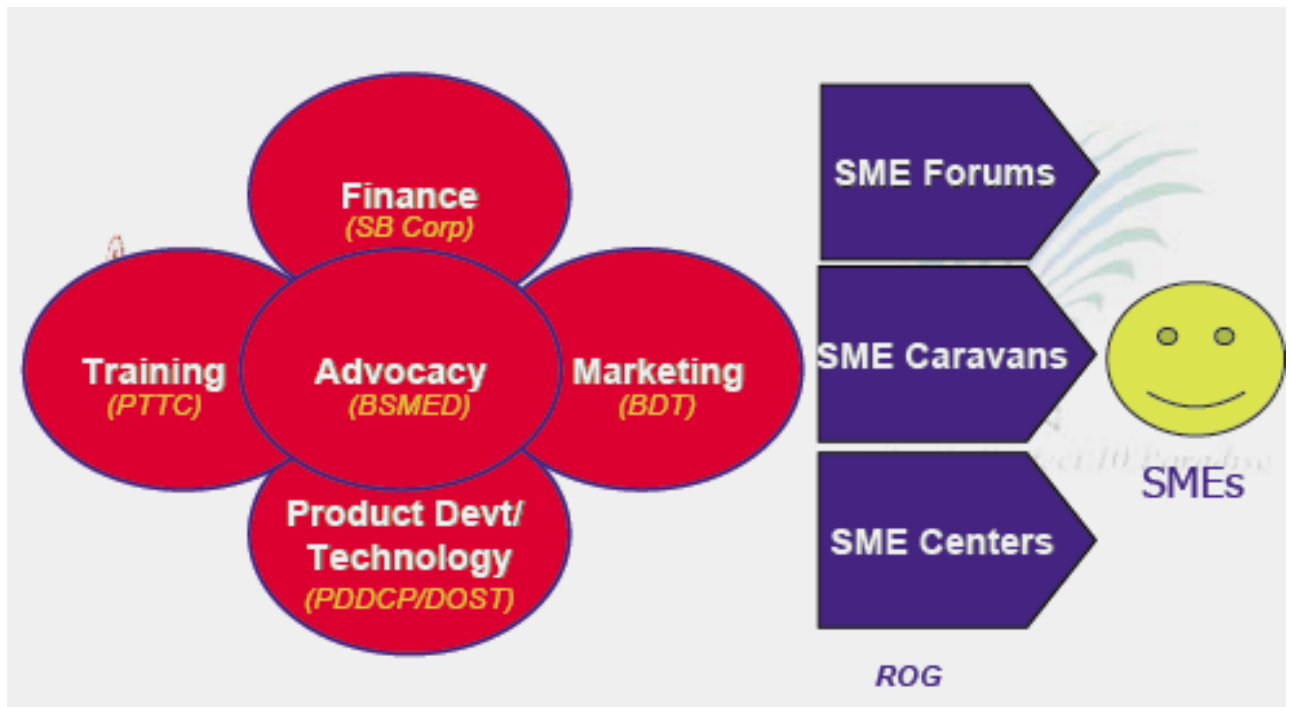
Industry	% of Total Establishments				
	Micro	Small	Medium	Total MSMEs	Large Enterprises
Wholesale & Retail Trade	95.7	4.2	0.1	99.9	0.1
Manufacturing	88.2	9.9	0.8	98.9	1.1
Hotels & Restaurants	92.0	7.7	0.2	99.9	0.1
Community, Social, & Personal Service Activities	94.3	5.5	0.4	99.9	0.1
Real Estate, Renting & Business Activities	88.4	10.0	0.7	99.1	0.9
Health & Social Work	94.7	4.6	0.4	99.6	0.4
Financial Intermediation	76.6	22.7	0.3	99.6	0.4
Transport, Storage and Communications	75.2	22.4	1.3	98.9	1.1
Education	52.8	41.7	3.1	97.6	2.4
Agriculture, Hunting and Forestry	47.0	45.9	3.2	96.1	3.9
Construction	55.6	36.4	3.9	95.9	4.1
Electricity, Gas and Water	39.6	43.5	8.9	92.1	7.9
Fishery	45.2	49.8	2.6	97.6	2.4
Mining and Quarrying	60.4	32.0	4.0	96.3	3.7

**Table 1.2 : Comparative SME Data in Selected Asian Economies
(values in %)**

	Malaysia	Thailand	Philippines	Korea	Japan	China	Indonesia
SME Establishments	94.4	98.0	99.6	99.0	99.0	99.7	99.99
Employment	40.4	55.8	69.1	69.0	88.0	74.0	99.04
Value-Added	26.0	n.a.	32.0	46.0	56.0	74.0	99.04

The National SME Agenda / Philippines Policy Environment for SMEs is one of the government's focus. SME Development is a priority in the "8-Point Program of the President" and the Department of Trade and Industry (DTI) has been appointed as its lead agency. Among its main tasks are the formation of SME Core Groups in the bureaucracy, Product development, Marketing, Financing, Training, among others. It uses a Comprehensive and Integrated Approach in running the program, as illustrated in the figure 1.2:

Figure 1.2 Comprehensive and Integrated Approach



SME's are defined in two major ways, by assets or employment size. DTI defines small and medium enterprises as provided under the Magna Carta of SMEs (R.A. 6977 as amended by R.A. 8289) as any business activity or enterprise engaged in industry, agribusiness and/or services whether single proprietorship, cooperative, partnership, or corporation whose total assets inclusive of those arising from loans but exclusive of the land of which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

Micro	-	less than Php3, 000,001
Small	-	Php3, 000,001 up to Php15, 000,000
Medium	-	Php15, 000,001 up to Php100, 000,000

SMEs may also be defined by the number of employees.

Micro	-	regular employs less than 10 workers
Small	-	10 – 99 workers
Medium	-	100 – 199 workers

Additional statistics on SMEs are as follows:

- 99.6% of registered establishments are SME's
- SMEs generate 69.9% of jobs, contribute 32% of value while the remaining 68% are still contributed by large and multinational enterprises
- SMEs account for 32% of the total economic output of the country.

A 2003 ILO survey of SMEs based on geographical distribution across the country using DTI's "list of SMEs," shows that 92% are owned by Filipinos. Incidentally, the famous BMBE law appears to have caused a reclassification of many small enterprises into micro enterprises. In any case, of interest to HR practitioners, is the occupational employment patterns of SMEs based on the 2006 integrated survey by the Bureau of Employment Statistics (BLES) of the DOLE.

Current Regional Minimum Wage

Employers including small businesses may implement policies and impose terms and conditions of employment as they deem fit given their operating and profitability requirements. These policies and employment terms and conditions however must be consistent with mandated labour policies set forth in the Labour Code of the Philippines.

Under the Labour Code, employees are entitled to compensation or wages, overtime pay, holiday and premium pay, service charges and tips in service businesses, SSS, EC and NHI remittances, service incentive leaves, and retirement pay.

Regular Compensation

Employers must pay employees no lower than the minimum wage rates prescribed by law. The minimum wage rates are based on the normal working hours of eight (8) hours a day.

The current regional daily minimum wage rates as of June 2008, are set forth in the table below.

For non-agriculture:

NCR	P345-P382
CAR	243- 260
Region III	251-302
Region IV-A	236-320
Region IV-B	240-252

SUMMARY OF CURRENT REGIONAL DAILY MINIMUM WAGE RATES

Non-Agriculture, Agriculture

As of October 2008

(In pesos)

REGION	WO No./ DATE OF EFFECTIVITY	NON- AGRICULTURE	AGRICULTURE	
			Plantation	Non-Plantation
NCR a/	WO 14/June 14, 2008	P 345.00 - 382.00	P 345.00	P 345.00
CAR b/	WO 13/June 16, 2008	243.00 - 260.00	226.00 - 242.00	226.00 - 242.00
I c/	WO 13/June 22, 2008	220.00 - 240.00	220.00	195.00
II d/	WO 13/June 15, 2008	227.00 - 235.00	215.00 - 223.00	215.00 - 223.00
III e/	WO 14/June 16, 2008	251.00 - 302.00	236.00 - 272.00	216.00 - 256.00
IV-A f/	WO 13/June 01, 2008	236.00 - 320.00	216.00 - 295.00	196.00 - 275.00
IV-B g/	WO 04/June 19, 2008	240.00 - 252.00	198.00 - 207.00	178.00 - 187.00
V h/	WO 13/ July 1, 2008	196.00 - 239.00	207.00 - 217.00	187.00 - 197.00
VI i/	WO 16/ July 6,2008	240.00 - 250.00	218.00	208.00

REGION	WO No./ DATE OF EFFECTIVITY	NON- AGRICULTURE	AGRICULTURE	
			Plantation	Non-Plantation
VII j/	WO14/June 16, 2008	222.00 - 267.00	202.00 - 249.00	202.00 - 249.00
VIII k/	WO 15/June16, 2008	238.00	219.00	219.00
IX l/	WO 15/ July 3, 2008	240.00	215.00	195.00
X m/	WO 14/June 1, 2008	241.00 - 256.00	229.00 - 244.00	229.00 - 244.00
XI n/	WO 15/June 16, 2008	265.00	255.00	255.00
XII o/	WO 15/June 16, 2008	245.00	225.00	220.00
XIII p/	WO 09/June 20, 2008	233.00	223.00	203.00
ARMM q/	WO 11/ June 29, 2008	210.00	210.00	210.00

- a/ Granted a P 20 increase consisting of P15 basic wage & P5 COLA, The COLA shall be integrated into the basic wage on August 28, 2008.
- b/ Granted P P10.00 & 15.00 COLA per day depending on the area and industry classification.
- c/ Granted P 10.00 COLA.
- d/ Granted P 12.00 wage increase and integrated P8.00 COLA under WO No. RTWPB-II-09 into the basic wage.
- e/ Granted P 15.00 increase consisting of P5 basic wage & P10 COLA; integrated the P9 COLA under WO No. RB III-13 into the basic wage.
- f/ Granted P 12-20 wage increase as follows: P 16-P20 (Growth Corridor Area) P14 (Emerging Growth Area) P12(Resource Based Area)
- g/ Granted P 10 wage increase to all minimum wage workers & P5 COLA to non-agriculture sector only.
- h/ Granted P 13 COLA, the P6 from P13 COLA shall be integrated in the basic wage on January 1, 2009.
- i/ Granted P15 Emergency Relief Allowance (ERA) until October 15, 2008
- j/ Granted P P17.00 wage increase
- k/ Granted P10 COLA
- l/ Granted P 15 wage increase consisting of P5 basic wage and P10 COLA for a period of three months; thereafter, P5 out of the P10 COLA under WO No. IX-14 shall be integrated into the basic wage.
- m/ Granted P12 COLA & integrated the P16 COLA under WO No. RX-12 into the basic wage. The P10 COLA under WO No. RX-13 shall be integrated into the basic wage on November 16, 2008.
- n/ Granted P15 COLA & integrated the P16 COLA under WO No. RTWPB XI-13 into the basic wage. The P10 COLA under WO No. RX-14 shall be integrated into the basic wage on September 16, 2008.
- o/ Granted P 7-10.50 wage increase & P3-5 COLA.
- p/ Granted P13 increase consisting of P8 basic wage & P5 COLA.
- q/ Granted P 10.00 wage increase.

Source: National Wages and Productivity (Commission Updated: 08 October 2008)

Businesses Exempt from Minimum Wage Laws

If the company is a service establishment with not more than 10 employees, a distressed establishment with a deficit of 20% or more of current paid-up capital or a new business enterprise outside the National Capital Region (NCR) or is in an export processing zone, the company may pay employees below minimum wage rates on condition that a request is filed for exemption from compliance with wage orders with the National Wage and Productivity Council (NWPC).

If the company does not pay minimum wages, it will be subject under Republic Act No. 8188 to a fine not less than Twenty-five thousand pesos (P25.000) nor more than One hundred Thousand pesos (P100.000) or imprisonment of not less than two years nor more than four years or both such fine and imprisonment at the discretion of the court. You may also be ordered to pay an amount equivalent to double the unpaid benefits owing to the employees. Payment of this indemnity may not absolve you of criminal liability.

Computation of Wages

The salaries and wages of your employees depend on whether you pay them on a monthly or daily basis. Monthly-paid employees are those whom you pay every day of the month, including unworked rest days, special days and regular holidays. Daily-paid employees are those whom you pay for days actually worked and on unworked regular holidays.

The Equivalent Monthly Rate (EMR) of your employees is computed as follows:

Monthly Paid Employees

The formula for the EMR of monthly paid employees is:

$$\text{EMR} = (\text{Applicable Daily Rate} \times 365) / 12$$

The factor of 365 days consists of: 302 ordinary working days, 51 rest days, 10 regular holidays, and 2 special days.

Workers Paid by Results

Workers who are paid by results, including home workers and those who are paid on piecework, *takay*, *pakyaw*, or task basis, shall receive not less than the applicable statutory minimum wage rates prescribed under the Regional Wage Orders for normal working hours or a portion thereof.

Adjustments in the Applicable Minimum Wage rate (AMW) is computed as follows:

1. Amount of increase in AMW \div Previous AMW \times 100 = % increase
2. Existing rate/piece \times % increase = Increase in rate/piece
3. Existing rate/piece + increase in rate/piece = Adjusted rate/piec.

Apprentices, Learners and Handicapped Workers

If you have apprentices, learners or handicapped workers you would need to pay them no less than 75% of the applicable statutory wage rates. Apprentices and learners are those who are covered by apprenticeship/learnership agreements duly approved by the DOLE.

Additional Compensation

Holiday Pay

Companies need to pay employees holiday pay when you require them to work on legal declared holidays or special days.

Regular holidays include:

Date	Holiday
January 1	New Year's Day
Movable Date	Maundy Thursday
Movable Date	Good Friday
April 9	Arawng Kagitingan
May 1	Labour Day
June 12	Independence Day
Last Sunday of August	National Heroes Day
November 30	Bonifacio Day
December 25	Christmas Day
December 30	Rizal Day

Your employees who work on a regular holiday (for work within 8 hours) are entitled to twice (200%) their basic wage

Premium Pay

Companies need to pay employees premium pay or additional compensation if you require them to perform work on non-working days, such as rest days and special days.

The current premium pay rates are as follows:

Work	Premium Rate (of daily rate)	Total Rate
Work on rest days or special days	30%	130%
Work on rest day which is also a special day	50%	130%
Work on regular holiday which also a rest day	30% of 200%	260%

The company may opt not to pay your managerial employees, workers paid by results or field personnel the above premium pay.

Overtime Pay

If the company requires employees to perform work beyond eight hours a day the company would need to pay them additional compensation as follows:

Work	Overtime Rate
Work > 8 hours on ordinary working days	25%
Work > 8 hours on rest day or special or regular holidays	30%

Night Shift differential

If employees work at night between 10:00 pm and 6:00 am the company is required to pay them Night Shift Differential (NSD) as follows:

Work	Rate (of hourly rate)	Pay
Night shift (10pm to 6 am) considered regular work	-	-
Ordinary day	10%	110%
Rest day, special day or regular holiday	10% of rest day, special day or holiday rate	110% of rest day, special day or holiday rate
Night shift considered overtime work	-	-
Ordinary day	10% of 125%	110% of 125% of basic rate
Rest day, special day or regular holiday	10% of rest day, special day or holiday rate	110% of rest day, special day or holiday rate

If the company employs not more than five workers and you are a retail or a service establishment then there is no need to pay night shift differential. There is also no need to pay managerial employees and field personnel the NSD.

Service Incentive Leave (SIL)

If employees have been with the company for at least one year, whether service is continuous or broken, the company needs to pay them Service Incentive Leave (SIL) equivalent to five days. The SIL may be used for sick and vacation leave purposes. If the SIL is not used up within the year, it may be commuted or paid its money equivalent at the end of the year. In computing the SIL, the basis shall be the salary rate at the date of commutation. The availability and commutation of this benefit may be on a pro rata basis.

The company need not grant SIL if employees are already enjoying this benefit such as when they are already given a vacation leave of at least five days. The company also need not accord SIL to your managerial employees and field personnel. If the company is employing less than ten employees there is no need to also pay them SIL.

Service Charges

If the company is a service establishment such as hotels, restaurants and night clubs, the company may charge an additional 10% to your customer's bill for distribution to employees.

If the company collects service charges, employees are entitled to an equal share in the 85% of the total of such charges, except managerial employees. The company may retain the remaining 15% to answer for losses and breakages and for distribution to managerial employees at discretion.

The company must distribute the shares of the employee in the service charges no less than once every two weeks or twice a month at intervals not exceeding sixteen (16) days. If the company stops collecting service charges they are required to provide and integrate into the basic wage of your employees the average share previously enjoyed by them for the past twelve months immediately preceding such stoppage.

Tips

If the company does not collect service charges but practice the pooling of tips given voluntarily by customers to employees the company should ensure that the

pooled tips are monitored, accounted and distributed in the same manner as the service charges.

13th Month Pay

The company also needs to pay rank and file employees 13th month pay no later than December 24 of every year. One half of the required 13th month pay may be made before the opening of the regular school year and the other half on or before the 24th of December of every year. The minimum 13th month pay is not less than 1/12 of the total basic salary earned by an employee within a calendar year.

The "basic salary" includes all remunerations or earnings paid for services rendered. It does not include allowances and monetary benefits which are not considered part of the regular or basic salary such as the cash equivalent of unused vacation and sick leave credits, overtime, premium, night differential and holiday pay and cost-of-living allowances.

Retirement Pay

If the company has employees who have reached the age of 60 years or more but not beyond 65 years old the company needs to pay them retirement. However, if retail, service and agricultural establishments with no more than ten employees, the company is exempted from paying retirement pay. The minimum retirement pay is one-half (1/2) month salary for every year of service. A fraction of at least six (6) months is considered as one whole year. "One-half month salary" includes:

- 15 days salary based on the latest salary rate

- cash equivalent of 5 days of service incentive leave;
- one-twelfth (1/12) of the 13th month pay.

These benefits are over and above those granted by the Social Security System.

SSS Registration

The company is also required to enroll employees under the Social Security System (SSS) program which provides insurance and protection for private-sector employees including resident foreign employees. SSS benefits include disability pension, retirement, funeral benefit, sickness allowance, maternity and paternity leave and loans.

For single proprietorship business, the company should accomplish and submit SSS Forms R-1 (Employer's Data Record) and R-1A (Initial or Subsequent List of Employees). If the business is a partnership or a corporation, the company also needs to submit articles of partnership or incorporation. The company should also require employees to secure an SSS number and that they are reported for coverage under the SSS.

The company must report all employees for SSS coverage within thirty days from the date of employment by submitting an accomplished SSS Form R-1A (Employment Report) at the nearest SSS office. The company is also required to deduct from employees salaries the monthly SS contributions based on the schedule of contributions and remit these contributions to any SSS-accredited bank/SSS Head Office/ SSS selected branches on or before the 10th day following the month when the said contributions are due and applicable.

Maternity Benefits

The company must advance maternity benefits to female employees whether married or unmarried equivalent to 60 days for normal delivery, abortion or miscarriage or 78 days for caesarian section delivery. The rate is equivalent to 100% of the average daily salary credit. Your female employees should be SSS members at the time of delivery, miscarriage or abortion and must have given the required notification to the SSS through the company and the company must have paid at least three months of maternity contributions within the twelve-month period immediately before the date of contingency. Maternity benefits like other benefits granted by the SSS, are granted to employees in lieu of wages and is not included in computing the employee's 13th month pay.

Paternity Leave under Republic Act No. 8187

The company is also required to grant paternity leave or time off from work to all your married male employees regardless of employment status (e.g. probationary, regular, contractual, project basis) to allow them to lend support to their wives during the period of recovery and/or in the nursing of their newborn child. The paternity leave consists of seven (7) days with full pay for the first four deliveries of the employee's lawful wife. Availment of the paternity leave may be after the delivery without prejudice to an employer's policy of allowing the employee to avail of the benefit before or during the delivery provided that the total number of days shall not be more than seven days for each covered delivery.

Tax Compliance

Companies must also ensure that you are withholding the proper taxes due on the compensation, benefits and other taxable emoluments paid to all employees.

2.2 Total Employment and Occupational Structure

Total employment in the non-agricultural sector with 20 or more workers was estimated at 2.8 million as of payroll period ended June 30,2006. Of this number, 43% were employed in the industry sector and 57% in the service sector. In the industry sector, plant and machine operators and assemblers constituted the largest occupational group (37.5%) while clerks (17.8%) and service workers (21%) dominate the service sector. Low proportions of managers, managing proprietors and supervisors were noted. They accounted for just 7.9% of the workforce in the industry sector and 11.1% in the service sector.

Vital Occupations defined as occupations that employers considered as most vital to business success was also presented by the mentioned survey. It was felt that these occupations may require special interventions with respect to training and development of people in or about to enter these occupations. Survey results listed a total of 317 individual occupation titles perceived by employers as vital to business success. In the order of importance they are:

- Managers, managing proprietors and supervisors
- Professionals and clerical groups
- Technical and associate professionals
- Service workers
- Plant, machine operators and assemblers
- Trades and related workers

- Sales workers
- Labourers and unskilled workers.

Hard-to-fill occupations, on the other hand is defined in the survey as those which have presented employers with the greatest recruitment difficulties over the last three years. It gives an idea to HR practitioners in the SMEs of the relative availability of these skills in the labour market at the time. Recruitment difficulties were felt mostly in establishments engaged in manufacturing (32%), wholesale and retail trade (17%), real estate, renting and business activities (12%) and private education (10%).

On an average the median number of months that took employers to fill a vacancy considered as hard-to-fill positions was three months. A large majority of these hard-to-fill positions are on the high-end jobs, professionals (41%), managers, managing proprietors, supervisors (19%), technical and associate professionals (15%). Specifically, the top five hardest jobs to fill across sectors in the order of their importance were accountants, auditors, nurses, technical and commercial sales representatives, computer programmers, and mechanical engineers.

2.3 Incentives, Laws and Policies for SMEs in the Philippines

The Philippines' investment environment boasts of attractive Investment Incentives, among them are:

- 4 to 8 years Income Tax Holiday
- Special 5% tax rate on gross income after the lapse of ITH (for IT Park/Ecozone locators)

- Tax and duty exemption on imported capital equipment (for IT Park/Ecozone locators)
- 0% duty on imported capital equipment (E.O. 528)
- Exemption from 12% input VAT on allowable local purchase of goods and services (e.g., communication charges)
- Unrestricted use of consigned equipment
- Exemption from wharfage dues
- Employment of foreign nationals.

Employers including small businesses may implement policies and impose terms and conditions of employment as they deem fit given their operating and profitability requirements. These policies and employment terms and conditions however must be consistent with mandated labour policies set forth in the Labour Code of the Philippines. Under the Labour Code, employees are entitled to compensation or wages, overtime pay, holiday and premium pay, service charges and tips in service businesses, SSS, EC and NHI remittances, service incentive leaves and retirement pay.

Employees must not be paid lower than the minimum wage rates prescribed by law. The minimum wage rates are based on the normal working hours of eight hours a day.

2.4 Other Incentives, Laws and Policies / Philippine Policy for Small and Medium Enterprises

- **SME Development Plan (2004 -2010)**

The SME Development Plan (2004-2010) is a strategic development plan that builds on the gains of the National SME Agenda. Strategies for implementation are based on a 3-pronged approach which includes the Enterprise level, the Sector level and the Broad-based level. The Enterprise level provides comprehensive and focused support to enhance managerial and technological capability. It also provides business opportunities for development of new ideas that promote diversification of the industrial structure. The Sector level promotes sustained operations through directed sector services. It aims to Develop and promote services that will support industrial linkages between local SMEs and leading industries. Lastly, the Broad-based level aims to improve access of SMEs to financing. It promotes an enabling business environment and aims to improve access to programs and capacity-building for institutions.

- **Magna Carta for Small Enterprises (1997)**

The Magna Carta for Small Enterprises is a landmark legislation to foster a dynamic SME sector. It is guided by 3 major principles in setting the pace for SME development which includes:

- Minimal set of rules and simplification of procedures/requirements
- Private sector participation in the implementation of SME policies/programs
- Coordination of government efforts.

- **Barangay Micro Business Enterprises (BMBEs) Act (2002)**

The Barangay Micro Business Enterprises Act or the BMBEs includes the following:

- Major incentives
- Income tax exemption from income arising from operations of the enterprise
- Exemption from the coverage of the Minimum Wage law
- Priority to a special credit window
- Technology transfer, production and management
- Training, marketing assistance programs.

- **SME Unified Lending Opportunity for National Growth Program**

The program is a financing program under the National SME Development Plan with DTI as lead implementer. Among its objectives are to:

- Simplify and standardise the lending procedures to enhance SMEs access to much needed funds
- Shorten the list of documentary requirements to further facilitate the lending process
- Create a wider, borderless financing system that will afford the SMEs greater access to short-and long-term funds
- Lower the effective cost of borrowing by SMEs
- SMEs assistance also in terms of market exposure, human resource training and product development.

- **One-Town One-Product (OTOP) Program.**

Offers assistance on Product design and development, Skills and entrepreneurial training, Marketing assistance, Introduction of appropriate technologies, and Financing.

- **An Act Providing Assistance to Women (RA 7882).**

This particular legislation recognises the special role of women in development and supports women entrepreneurs who are engaged in manufacturing, processing, service and trading businesses. Under this program, Government Financing Institutions (GFIs) like the Landbank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) are mandated to provide assistance to non-governmental organisations (NGOs) engaged in developing women's enterprises to a limit of P2M provided the NGOs has an operating track record of a year, existing women enterprises to the upper limit of P50,000 and potential women entrepreneurs with sufficient training up to a limit of P25,000 each.

- **Direct Tax (Income Taxation)**

This policy includes the provision of fiscal incentives to all registered Barangay Micro Business Enterprises (BMBEs) and exemption from payment of income tax for income arising from the operations of the enterprise. The LGUs are encouraged to reduce the amount of local taxes, fees and charges imposed or to exempt the BMBEs from local taxes, fees and charges:

- Exemption from advance payment of customs duties and taxes
- Duty free importation of machinery and equipment, raw material inputs and packages

- Tax credit for imported inputs and raw materials primarily used in the production and packaging of export goods which are not readily available locally
- A tax credit of 25 per cent of the duties paid on raw materials and capital equipment and/or spare parts. The credit is available to exporters of non-traditional products who use or substitute similar locally produced inputs
- A tax incentive.

Mandatory Allocation of Credit Resources to Small Enterprises

All financing institutions are required to set aside at least 6% and at 2% for small and medium enterprises respectively of their total loan portfolio.

Non-tax Incentives

The government also gives out non-tax incentives in the form of guarantee and financial facilities. Among the examples are:

- SME Force - SME Financing for Organisationally competent and Excellent Franchise Businesses is a franchise development financing facility that will be implemented with the participation of the franchisors' organisations. Coupled with the "Captains of Industry" it will be used as a strategy to develop backward and forward linkages among and between leading businesses and SMEs in the domestic economy.
- FIRST LIGHT - A financing program for the best business ideas that will contribute to the development of the five priority industries. The best ideas shall be competitively chosen from proposals endorsed by DTI through its regional/provincial offices.

- GUIDE - Guarantee Incubation for DTI Endorsed Enterprises is a P100 million direct lending facility of the Small Business Guarantee and Finance Corporation (SBGFC).
- Small Enterprise Financing Facility (SEFF) - SEFF was established to supplement the financial system's resources for small and medium enterprise development financing. Under the SEFF, accredited financial institutions (AFIs) which are in need of funds for small and medium enterprise financing may approach the SBGFC and apply for accreditation as lending conduits. Prospective SME borrowers may then directly apply with any of the AFIs under the SEFF. With SEFF, the SBGFC finances up to a maximum of 90% of the project cost with the AFIs co-financing at least the remaining 10%.
- Rediscounting Facility for Small Enterprise Loans - It is a credit window where accredited financial institutions (AFIs) may negotiate their eligible SME loans/credit instruments with SBGFC. AFIs, which wish to avail of loans from the window, can rediscount their promissory notes by assigning/endorsing with recourse promissory notes in favor of the SBGFC together with its underlying securities.
- Guarantee Program - This product was designed to encourage financial institutions to lend to SMEs by providing a guarantee cover of up to a maximum of 90% on the loans of qualified entrepreneurs. Such a scheme is aimed at increasing the flow of funds from the formal lending institutions to the small and medium enterprise sector especially those without collateral. The guarantee works as a collateral substitute or as a collateral supplement.

- Transactional Direct Financing Facility - This is a stop gap program which immediately addresses the credit needs of SMEs particularly in the export sector. Here, SBGFC coordinates with a network of industry associations to determine specific problem areas wherein SBGFC could directly intervene. SBGFC provides direct financing on a per transaction basis. The program aims to assist SMEs at critical periods such as in the production of outstanding confirmed orders or the liquidation of receivables to finance ongoing production. A variant of this facility was later launched to assist SMEs with requirements of longer-term maturities up to a year for business expansion and other working capital/fixed asset requirements.

- **Assistance in the Facilitation of exports/import**

Export Assistance Network (EXPONET) - serves as a trade facilitation office that provides real and immediate assistance to existing and potential exporters. Services include Export Trade Information Dissemination, Export Procedures and Documentation, Buyer-Supplier Matching, Export Financing and Incentives and Raw Material Sourcing, Tax and Duty-Free Importation of Raw Materials for Re-export, Institutional Linkages, Handling of Export Trade complaints, and Exporters Accreditation.

SME Centers - SME Centers are "one-stop-shops" located in various parts of the country that provide information, advisory and consulting services in the following areas: productivity, improvement, technology upgrading, market information, product and market development, trade promotion, credit, financing and entrepreneurial development.

SMEs, if properly nurtured and given necessary push and incentives, create the backbone of the economy – this is the very reason why governments around the world promote its development. Various government sectors and agencies have been created to handle SME creation, training and etc. and more incentives are created as well to further promote its growth. Despite the differences of countries' definitions of SMEs, below are a few of the commonalities observed:

- The SME sector provides the means of creating employment opportunities at relatively low capital cost and they also induce the establishment and growth of other industries which contribute to employment absorption and utilisation of available resources. It promotes employment in rural areas, as well.
- SMEs are training ground for entrepreneurial talent and enable risk-taking and motivated individuals to find avenues to new types of enterprises and innovations.
- SMEs can contribute to the strengthening of the industrial sector. They can complement large firms by relieving them of the necessity of making certain parts or performing certain operations which the smaller units can provide at a lower cost.
- SMEs are starting to also be aware of how to handle and formally manage their human resources.

The Development Bank of the Philippines, being the country's premiere development financial institution reaches into practically all of the fundamental sectors that fuel progress and development. Its efforts in connection with the development of SMEs are manifested in various support programs of the bank in the areas of financing and technical assistance. SMEs continue to receive a

substantial share of DBP assistance. This is cognisant not only of SMEs ingenuity, ability to respond to new market trends and create job opportunities, but also of their pivotal role as buffer during economic downtrends due to their ability to persevere hardships and bounce back during economic recessions.

SMEs in the Philippines are generally supported by the government through laws, policies and incentives. Among the incentives given are acts, regulations and laws in support of its development, tax incentives, loans and financing support, marketing and training assistance, program and project development, and others. The national government has also been very supportive of SMEs as evidenced by the policies, support structures and programs earlier discussed. SMEs in the Philippines are however beset with global competition problems. They are apprehensive about the adverse effects of trade and investment liberalisation where there is freer flow of trade and investments across national borders. In an open market, only the big corporations are expected to survive due to their ability to access market information and technical and managerial know-how. To keep SMEs afloat under this market scenario, frameworks that would mould SMEs into globally competitive enterprises were created. As a starting point, various policies for SMEs were legislated and embodied in the policies earlier discussed.

3.0 Performance-Based Remuneration Systems On Productivity Performance Among Local Industries

What kind of human resources system should one have in a family business? Family businesses comprise a big sector of SMEs and local industries in the Philippines. The most usual and simple advise of an expert in HR is for a family business to have a system that will ensure that the right number and quality of

people are present and are doing the right things at the right time in the right places. For this to be achieved, one can have a team of HR professionals with the organisation or outsource the HR function. Below are a few insights for entrepreneurs managing its human resources most applicable to local small or medium enterprise. A bulk of the discussion dwells on performance-based remuneration and its effect in ensuring an excellent organisation.

3.1 Basic HR for SMEs

3.1.1 Talent Management

Attracting and retaining talents is a basic issue for both SME's and large companies. The latter usually spend a fortune poaching and handcuffing talents. Talent attrition is a common phenomenon. The paradox in talent management lies in getting the right talent to work and stay with the company longer. A company will not have all the talents in the industry all at the same time. Scouting for talents should be likened to buying fruits, don't buy all the ripe ones at the same time, get those that will be ripe tomorrow and three to five days from now. If you can't get the best get the young ones who can be the best. Great talents leave if they feel useless. Talent utilisation is therefore important. When a business is still small there is a better chance of knowing everybody in the organisation. It is not good to hear that one department is talent-laden and the others are bleeding for talents.

3.1.2 Compensation

Some entrepreneurs think that all problems can be solved by money. They usually attract talents by paying high salaries and perks. When employees get disgruntled they give salary increases or bonuses. This does not work all the time. The people you attract with money will likely be attracted with more money by your competitors. Some talents are mercenaries. And money does not solve problems, not even money problems. Like cosmetics, money can hide the pimple, but not for long. So how do you compensate your people? This may sound simple but it is complicated. Pay only for creation of value that your customers are willing to pay for. Have a simple system of discriminating and differentiating people according to position, performance, person and potential. By the way, your HR manager doesn't have to do the payroll himself or herself, outsource payroll preparation and task the HR manager to help you find the next payroll money. Use compensation i.e. salary, benefits and incentives as a reward, not entitlement.

If you want to have an excellent organisation, pay for excellence and celebrate for excellence. Some organisations pay for aging, longevity pay and graduated benefits according to tenure. Some encourage laziness and pay more for people who take longer to complete tasks and overtime pay for working beyond regular hours. Knowing that people perform differently, some organisations still give pay increases and benefits across the board. This is the best way to kill motivation among talents.

Pay for performance is good. But you must ensure that there is a line of sight between what people are doing and the business results you want to achieve. It is pathetic if employees have great performance appraisals but the business does not achieve its goals. Henceforth, you should have only two types of employees – those who are serving the customers directly and those who enable them to serve the customers better. If somebody in your organisation has a job that does not enhance customer value then you are paying him/her unnecessarily.

Equality is not the essence of compensation – perhaps, equity is. But you can't go wrong if you discriminate and differentiate. We will have better talents working with us if we reward them for creating value that our customers are willing to pay for.

3.1.3 Career Development and Training

People want to grow in an organisation. When they stagnate or stop growing in your company they go elsewhere. Career development need not be sophisticated. Many SME's practice this well others don't. It is the responsibility of the head of the business organisation to ensure continuity of the business. People come and go, some earlier, others later. Learn to spot potential i.e. how far a person can go in the organisation. It is not true that everybody can become what he wants to become. If you ask your employees what they want to become many will want your job. In reality, not everyone is capable of stepping into your shoes. Be discriminating in developing your people. Training and development costs a lot, do not train everybody to replace you someday. Train everybody to be effective on their jobs and provide training. Train people with potential so that

they can assume positions of greater responsibility. Differentiate between need for training and discipline. If the problem is skills then train. If the problem is attitude then discipline.

3.1.4 Organisation Development

Have a simple way of diagnosing what's wrong with the organisation. You don't have to be full-time OD practitioners, you can get an OD consultant to occasionally look at what ails your organisation. Employee satisfaction surveys are just one of the ways to get the pulse of your people. Make the most out of teambuilding activities by being clear on what the teambuilding wants to resolve and see if it is resolved.

3.1.5 Employee Relations

There is really no need to memorise the labour laws but a basic understanding is a must. Talents don't leave the company, they leave their bosses. Make sure that bosses know how to respect employees rights, exercise their prerogatives in the right way, and discipline their people whenever necessary. Ensuring industrial peace and harmony in the workplace is not the sole responsibility of HR manager. Every manager and supervisor should be responsible for creating a working environment that makes people contribute their utmost. Managers and employees alike can't work in a hostile environment. You don't need a full-time employee relations manager. Get a consultant who knows the labour laws and can make management and labour agree. The HR profession (or practice) today has evolved into a level of sophistication that many CEOs can't make business decisions without consulting their HR managers for people implications. Whether yours is a small, medium or large enterprise, you can enhance business success

by making fundamental HR part of your business systems. You have a “make or buy” decision in your hands. For SMEs, a good compromise is having a full-time HR manager who can outsource many of the things discussed.

3.2 The Impact of Human Resource Practices and Compensation Design on Performance

In a research and analysis of family owned SMEs by the Journal of Small Business Management in 2006, it was found out that HRM practices such as high wages, incentive pay, promotion from within, among others (employment security, selectivity in recruiting, employee ownership, participation and empowerment, training, and skill development) are a few of the practices acknowledged as having great value to the organisation. Competitive compensation packages, training and development, recruitment package, maintaining morale, use of performance appraisals were more important for high sales growth performing firms than for low sales growth performing firms. In addition, high sales growth performing family owned SMEs used more cash incentive compensation at every level in the organisation and incentive compensation in the form of cash, non-cash and benefits and perks of employees.

HRM practices were compared within a sample of high and low performing family owned SMEs split based on sales growth. Effects on performance by primary HRM practices such as recruitment package, performance appraisal, compensation and benefits, maintaining morale and training and development have been examined. First, differences in importance placed on each of these human resource areas are explored and then their relationship to performance is

determined. Finally, differences in the use of various forms of compensation (i.e. cash incentives, non-cash incentives and benefits and perks) across different organisational levels and their effect on performance were explored. The study started by providing an overview of HRM practices and their link to organisational performance. Next, the importance of the HRM issues and compensation design was reviewed. Then, the differences in HRM practices for high and low performing family owned SMEs were empirically examined. The design of incentive compensation systems across high and low performing family owned SMEs were examined as well. Finally, based on the results, practical implications for the management of family SMEs were considered.

The study shows that HRM practices such as employment security, selectivity in recruiting, high wages, incentive pay, employee ownership, participation and empowerment, promotion from within, training and skill development have great value to the organisation productivity and performance of the organisation. Recent research has empirically shown the positive relationship between HRM practices and important organisational outcomes such as productivity, turnover, and firm performance.

3.3 Performance Management for Small and Medium-Sized Enterprises and Improving Competitive Capability of Companies

Marc Alba and others have studied the main concepts of a Global Performance Management for SMEs to improve the competitive capability of companies especially for small and medium sized enterprises.

As an introduction, they acknowledge that the new business ecosystem realities are the result of three major cyclones; globalisation, increasing competition moving more and more from enterprises to value chains and even increasing customer dictatorship which is introducing an enriched definition of business excellence, enhancing the traditional quality/cost/time variables with new views such as innovation and agility, eco-responsibility (environmental impact, green products and services) ethics and social responsibility (including gender issues). This new environment is increasing pressure on companies which are involved in the so called business visibility vicious cycle where large companies get bigger and bigger and small companies smaller and smaller and thereby less and less visible. This vicious cycle often ends with the small company being dismissed from the marketplace. To break this cycle, companies need to find a way to get visible even being small. The approach is necessary threefold: Companies must first of all improve their business excellence then they need to find a way to radiate this to the market (customers, consumers, competitors), finally there is a need for the market itself to enhance its end-to-end transparency.

Most Companies nowadays know the importance of measuring accurately their main KPIs (Key Performance Indicators). However, a review of the classic performance management methods is a clear must in the new business context. The goal is to develop a new paradigm named Global Performance Management (GPM) that combines two new performance management approaches, Extended Performance Management for Collaborative Networks and Virtual Organisations, and Enriched Performance Management.

Main concepts and the framework developed within the GPM-SME project especially designed to help SMEs to improve their competitive capability by the effective measuring of their innovation and their network visibility in collaborative environments. The main benefits that this set of methodologies, architectures and toolset that provides for a company are:

- *Enrich the measurement and management of performance* helping industrial companies in integrating new management concepts required by end consumers and new legislations.
- *Extend the measurement and management of performance* helping industrial companies in including more and more all internal and external agents involved in the value chain/network of each firm and increasing its visibility.
- *Provide ready-to-use and easy-to-use instruments* for industrial companies to improve on a daily basis the measurement and monitoring of their operations. This includes particularly the availability of open source and standards-based IT tools.
- *Enhance the level of homogenisation and consistency* of performance management across industrial companies through (even *de facto*) standard conceptual frameworks, reference models, indicators and methods.

3.4 SME Performance, Innovation for Local Economic System

Networking activities and R&D are also a few of the relevant and main drivers of productivity performance and output innovation for Small and Medium Enterprises (SME) playing in a local economic system. Give the intangible nature of many techno-organisational innovation and networking strategies, original

recent survey data for manufacturing and services are exploited. A methodological framework to empirically test complementarities among R&D and networking in a discrete setting was introduced in their study. Second to this, empirical evidence on productivity drivers and on complementarities between R&D and networking strategies with respect to firm productivity even without networking was also introduced in the study,

R&D is a main driver of innovation and productivity even without networking. This may signify in association with the evidence on complementarities that firm expenditures on R&D are a primary driver for performance. The complementarities with networking is a consequential step. Networking by itself cannot thus play a role in stimulating productivity and innovation. It can be a complementary factor in situations where cooperation and networking are needed to achieve economies of scale and/or to merge and integrate diverse skills, technologies and competencies. This is compatible with a framework where networking is the public good part of an impure public good wherein R&D plays the part of the private-led driving force towards structural break from the business as usual scenario. Managers and policy makers should be aware that in order to exploit assets complementarily and possibly transform it into competitive advantages, both R&F and networking are to be sustained and favoured. Our evidence suggests that R&D may be a single main driver of performance.

Since R&D expenditures are associated with firm size, a policy to sustain it is to be directed towards firm enlargement. After a certain threshold firms have the force to increase expenditures. The size effect is nevertheless non-monotonous.

Least important for majority of firms still remaining under a critical size threshold, policy incentives should be directed to R&D in connection with networking through which a virtuous cycle may arise. It is worth noting that it is not networking as such but the main engine. Networking elements are crucially linked to innovation dynamics, it is nevertheless innovation that explains and drives networking and not the often claimed mere existence of local spillovers or of a civic associative culture in territory. Such public good factors exist but are likely to evolve with and be sustained by firm innovative dynamics.

There are various performance productivity measures for SMEs and local industries. Most Companies nowadays know the importance of measuring accurately their main KPIs (Key Performance Indicators) to further improve productivity but essentially areas may be assessed on how to further improve performance and productivity. Among the items mentioned are improving capabilities of company to develop new paradigms in assessments, improve their competitive capability by the effective measuring of their innovation and their network visibility in collaborative environments, networking activities and R&D to drive productivity performance.

3.5 SMEs Performance and Compensation Management

New approaches for organisational performance measurement to assist small and medium enterprises (SMEs) better manage their business risk are constantly being developed. These enterprises which are considered vital to economic growth and job provision are susceptible to business failure primarily due to poor risk management associated with inadequately informed decision making. Improved performance measurement provides a basis for better

informed decisions for both control and improvement. It is recognised that SMEs are likely to be less financially stable and hence more likely to fail. Financial insecurity reflects the higher levels of risk exposure of SMEs, a consequence of the interactions of many size-related factors including:

- access to funding
- access to, and influence over, customers and markets, particularly export markets
- access to, and retention of, knowledgeable and competent staff, including managers
- access to, and influence over, both strategic and commodity suppliers
- influence over communities
- product and service mixes and volumes
- access to research and development
- access to technology
- productivity and quality of their value-added outputs.

Projects are also directed towards establishing a measurement-focused approach to managing organisational performance, consistent with quality management principles. Critical factors for success of the approach included:

- alignment with the enterprise's goals
- promotion of systems thinking to ensure integration and consistency
- relevance and practicality of measures to real business and organisational needs
- ease of adoption.

In studies, eight general themes have merged from the set of case studies with each theme providing opportunities for improvement of measurement as follows:

1. Design of an overall performance measurement system

Among the case study enterprises only those enterprises with some track record in quality management had some structure to their measurement system. All enterprises were able to demonstrate some degree of financial measurement but this did not necessarily mean that the financial information was well structured. For example, a number of small enterprises did not analyse cash flows on a regular basis thus relying on occasional 'back of the envelope' calculations. Financial summaries provided by accountants were supplied for mandatory reporting purposes rather than for financial management. Few of the measurement systems were structured to provide management with clearly differentiated strategic, tactical and operational information. Where structure existed, it tended to reflect simple aggregation rather than differing levels of management accountability. Only those enterprises with some history of quality management had any quantitative information about what their stakeholders thought of them, how their management system was working and whether their products and services were satisfactory. Sample Recommendation: Implementation of a structured measurement system will provide managers with an increased understanding of their business through both the discipline of development and the availability of relevant information.

2. Planning and decision-making based on information

Again, with the exception of those enterprises with some quality management history, the SMEs lacked formal planning, both strategic and business/operational. Where planning existed, it tended to be at the business/operational level and was not necessarily related to ongoing performance measures nor generally to explicit long-term goals. Performance indicators tended to be discrete events.

Example, 'The training program will be completed by July 1') rather than continuous measures. The quality-oriented enterprises were not necessarily good at 'relevant' measurement even when their planning was comparatively advanced.

3. Scope of information for decision-making

For those SMEs having a measurement system, lack of understanding of the requirements of the system at the design stage meant that the system had limited scope and depth. Availability of data across functions and core processes is patchy, presumably reflecting historical needs and reporting. Some functional managers in medium enterprises were clearly lacking appropriate data to do their jobs.

Sample recommendation: Measurement needs to cover all the information necessary for planning and control (e.g. markets, customers, staff, products, services, in-process variables, suppliers, inventories, system capabilities, etc)

4. Design of the management system

Small enterprises see little need for a formal approach to design of their management system. Medium enterprises realise the need for explicit management, but the system tends to grow reactively and spontaneously rather than as a result of planning and anticipation. It might be expected that 'fixing' the measurement system would largely address the issues to do with the management system. For example, accountabilities and responsibilities for functions, teams and individuals would be aligned through the measurement-related work.

Sample recommendation: Identify and address those aspects of the management system required to promote development of the performance measurement structure.

5. Data collection

The total amount of data available to the enterprise varies greatly. It may have some internal data (e.g. operational processes) but usually very little external (e.g. competitor's performance). Such data as are collected tend not to be operationally defined. In-process and supplier control standards are poorly defined and understood. Data quality is largely unknown. Measures are not checked for accuracy, repeatability and reproducibility. Management data tend to be collected after the fact for trouble-shooting rather than for prognostic purposes. Medium enterprises are likely to be collecting some operational data and aggregating them for management purposes. Enterprises with some quality management experience are likely to be superior in terms of data availability and reliability.

Sample recommendation: As recommendations 1 to 4 are carried out, implement measurement and start collecting data. Validate quality of data.

6. Data analysis

SMEs tend to lack resources required for good analysis and interpretation of data, competencies, tools and techniques. Enterprises with some quality management experience are likely to have developed some limited capability to turn data into information. Effectiveness is likely to be limited by the previously identified measurement related constraints.

Sample recommendation: Identify and develop resources appropriate to the ongoing needs of the enterprise for performance measurement and analysis.

7. Data presentation

Data tend to be presented in simple tabular form. Financial data may include some comparisons (e.g. vs last month, last year) and may include some aggregation (e.g. YTD). Enterprises with quality management experience may have started to develop graphical presentation of the information in the data. Reports such as monthly summaries are likely to be very limited in their scope and depth. It is unlikely except in enterprises with quality management experience that any non-trivial statistical work will have been done in regard to data collection, analysis and presentation.

Sample recommendation: Implement appropriate presentation of data.

8. Review of the overall performance measurement system

Except in enterprises with quality management experience there is no structure for a review of measurement. Even within this group measurement will only be reviewed as part of the bigger scheme of a general quality review. The fact that development of measurement is lagging may be noted but will only be acted upon in advanced quality-oriented enterprises that actually understand the implications of failure to adequately measure, analyse, report and act.

Sample recommendation: Implement mechanisms to ensure that the measurement system is itself subjected to regular assessment and review

Organisational performance measurement methodology has demonstrated its relevance to a significant number of SMEs in its case study program. For all cases in which a need for performance measurement was identified by the SME's, the methodology was considered effective in terms of outcomes and efficient in terms of resources, specifically time and cost. For those SMEs for which performance measurement was not an issue of specific interest, the outputs of the assessment were considered relevant but secondary to more pressing issues. In all instances, the methodology was considered as resource efficient and the results to be of interest. Further, new approaches for organisational performance measurement to assist small and medium enterprises (SMEs) better manage their business risk are constantly being developed.

4.0 Impact of Performance-Based Remuneration System on Performance and Productivity

Over the last years, the issue of rewarding and paying employees has become a subject of much study and research. However, despite the many theories and techniques developed, performance appraisal is still very much an art. SMEs are often perceived as low wage-payers because they are not large enough to use sophisticated and systematic wage techniques. But while SMEs are more conservative than large companies on basic or fixed wages, they are known to be generous when it comes to paying bonuses during good times. Unlike large companies, SMEs practiced “flexi-wage” long before it became popular and they also continue to lead their larger counterparts in performance appraisal.

In other words, there is no single formula which companies can adopt. Much depends on factors such as the work itself, the kind of individual and work behavior required, the stage of growth of the business or organisation, as well as the cultural characteristics and preferences of the owner and manager. In general, all companies have to pay wages according to the degree of job difficulty and how well the job is performed. Wage practices vary in the extent to which companies adhere to these fundamental principles of job difficulty, performance and skill scarcity.

Large companies prefer to use impersonal and systematic techniques such as job description, job evaluation, wage surveys and performance appraisal to decide how much to pay their employees. And while they are more systematic and better than SMEs in defining job worth they are seldom any better when it comes to appraising performance. This is where most of the problems arise.

Performance appraisal is an Achilles heel. It troubles most managers and supervisors because of the conflict between perception and expectation. It is almost impossible to get it right despite the use of sophisticated quantitative and qualitative measures. Considerable experience, trust and judgment are needed before a performance appraisal can be applied fairly and consistently.

Managers in large companies are usually in such a hurry that they do not take the time needed to build up on trust and judgment. They soon find out that it is easier to “play politics”, manipulate the numbers or rely on their authority to push things through rather than try to be honest and objective. This leaves many employees feeling that the management despite the systems and techniques still resorts to favouritism. Hence, it is who the manager likes which determines who gets the biggest bite of the cherry. As such, many “unrecognised” good performers leave large companies for smaller ones where they can be more effectively recognised and rewarded.

Traditionally, SMEs do not use job descriptions to clarify duties and responsibilities although most of them now do so because employees today expect greater transparency in what is expected of them. What SMEs lose out in job definition, the successful ones at least gain by trying harder in performance appraisal. Realising that performance appraisal will always be a judgmental process and not just a matter of setting targets and measuring outputs they set out to fine-tune the process by checking with colleagues, other bosses, and even customers and suppliers rather than rely on the numbers or immediate boss for performance input.

Smart SME bosses never lose sight of the real performers. They know who are the “fair-weather” performers, people who work only when the boss is around. They know that while it is possible to “fool the boss”, it is much more difficult to fool your colleagues, your customers or suppliers. From informal but often elaborate networks at grassroots levels as well as among other bosses and major customers and suppliers the SME bosses check around regularly on who is really contributing and who is not. This is what large companies call “360 degree performance appraisal” or “balanced scorecard” which many are now trying to develop, albeit, on a more systematic basis.

Thus, just as SMEs themselves are adopting the more sophisticated and systematic wage practices of the larger companies, paradoxically, the large companies are adjusting to the SMEs’ well-rounded judgments on performance and contribution. the large companies are adjusting to the SMEs’ well-rounded judgments on performance and contribution. Of course such an informal process may break down when companies grow bigger. This is often the reason why when SMEs grow, their wage systems fail because the bosses cannot continue to exercise this informal but rounded performance assessment judgment. In this respect small is still beautiful.

Four case experiences of successful SMEs in the Philippines are presented as follows:

- Micro/backyard business – Chicken Adidas on a Stick
- Small Financing Business in the province
- Figaro Coffee Company – medium enterprise
- Binalot - Medium

4.1 A Story Behind Adidas On a Stick – Sample of Micro Business

Adidas or chicken feet is just one of the many street food that we see everyday in just about any crowded place or busy street in the Philippines Metropolis. Other delicacies on the menu are helmet (chicken's head), gulong (pig intestines), barbeque and the very popular isaw (chicken intestines).

Leticia Llamdo or Ka Letty of San Miguel is just one of those who earn a living through selling of street food in their makeshift carts. According to the national Statistics (NSO), self employed workers like Ka Letty represent more than a third of 33.7M employed in the country as of Jan 2008

Selling isaw has been the main source of income of Ka Letty and her family for the past 7 years. Her husband Edwin has no regular job and both their 2 children are still studying. Most of the time people can see the whole family working together in their small business specially during weekends. The man of the house would set up a charcoal grill while the son Edgar and daughter Carla, prepare the sauce and vinegar for the street chow.

Ka Letty, a 54 year old Bicolana confessed that they started a mini store with a capital of only P500 or USD11 only. Up to now she cannot believe how such a small amount has managed to provide their daily needs for years. That is why she has committed herself to maintain and improve their livelihood. As early as 4.30am, she is already in the market to make sure that the chicken and meat she will get will be fresh. She also sells hotdogs and *inihaw na bangus*(milkfish) from time to time to add new entries in her menu. From 6 PM to 10PM, 7 days a week she is a regular fixture along the stretch of Lupang St. The only time you see her spot empty is when it rains.

Another thing that affects their street food business is when there is misunderstanding between family members. What Ka Letty does is to remind them of importance of their store. She would explain that this is their bread and butter and a day of not selling isaw means losing a minimum daily income of P300. It is a good thing that her words are enough to heal wounds. And just in time before sunset when their first customer arrives. When asked how she sees herself 10 years from now, Ka Letty does not mind still selling Isaw. Her priority is to ensure that her 2 children are able to finish college.

Ka Letty believes that her children have learned a thing or 2 in their small business, something that they can apply once they work in bigger companies with more employees and more professionally run a few years from now. She instills in their young minds the importance of passion, dedication and focus on what ever they do.

Simple measures of performance for this micro business is on the basis of number of sticks they are able to sell per day. To achieve a net profit of at least P 300 they need to sell minimum of 100 sticks at P 15 based on a mark up of 20%. Over the past 7 years they have increased their sales by around 20% yearly which they were able to achieve via diversification and ensuring quality of food they serve. They also get pre-orders for fiestas and parties not limiting their clientele to walk-ins. On peak days they are able to sell around 300-400 sticks. Because the Philippines is subject to typhoons which affect the business of Ka Letty, a portion of their daily income is saved so that they are able to meet their needs during such time.

While the Llamado family merely puts meat and chicken intestines on sticks daily there is more movements than meets the eye. Watching them do their thing, one can have sense a camaraderie that mirrors a company where the management and its employees work hand in hand to achieve business success. In every stick they sell hard work to achieve a dream is on its tip. Their meager income is used not just for their daily subsistence but to send their children to school for a better future. A lot of families in the Philippines survive through this simple family business. In fact, more and more banks are providing micro financing as part of their CSR(Corporate Social Responsibility). The likes of Ka Letty are given as low as P 5 K loan which they pay in affordable terms.

4.2 Financing company in the province – Sample of Small business enterprise

A corporation formed through the effort of 14 incorporators. The said corporation started its operations on 1 July 1987 with the amount of P10M as start up capital. The very nature of this corporation is financing with the objective of extending financial assistance to consumers in need by means of collateral loans like real estate and chattel mortgage loans and to extend credit aid to entrepreneurs in need of capital in putting up and or engaging in business dealings. It has 8 regular employees. The branch has 5 departments namely Loans, Accounting, Credit Investigation, Collection and Cash. The company being situated in the province does not discriminate in terms of age, sex and religion.

Since the beginning of the corporation, it mostly caters to individual accounts and is very aggressive in marketing to clients with acceptable loan collaterals

such as real estate properties, brand new trucks, heavy equipment, vans, cars whether for business or public transportation use, newly assembled reconditioned motor vehicles directly purchased from accredited and reputable assemblers and specialised equipments on a case to case basis. The loanable amount is 70% of the appraised value or market value whichever is lower.

The company has been operating for the past 21 years now. It primarily aims to extend credit to qualified applicants and has established credit procedures and standards that are responsive to the needs of qualified applicants while protecting the interest of the company as well. It also aims to produce sound and collectible loans and maximises the financial investments of the company. Companies like this help in encouraging small business entrepreneurs to contribute to the development of the sector's economy as well as providing jobs to the community.

General policies were also formulated to guide the company and personnel to perform a smooth flow of transaction and to provide service quality to the customers. The company personnel are expected to design credit accommodations based on applicant's capacity to pay without duly increasing the company's risk. Applicants are treated with utmost confidentiality and professionalism. Credit evaluation are within the established credit policy and based on appropriate valuation methods on the unit or property offered as collateral. Market research also is conducted periodically to maximise profitability. The company is also subject to the capital requirements as imposed by the Securities and Exchange Commission. Loan provided ranges from P25K to P400K depending on the collateral at 21% interest rate per year. Compared to

the bank the interest rate is higher whereas for the bank it is at about 12-15%. However, the banks have stricter terms and higher collateral requirements so most of the starting entrepreneurs loan from them.

Performance /productivity measures observed

Performance measure of the company – Target number of clients per branch at minimum of 50/month with a loan exposure of not lower than P6M. Collection efficiency is targeted at 60%. The company manages its capital to ensure its ability to serve its operating needs and to maintain strong credit rating and healthy capital ratio. Based on the actual data for the past years it is able to maintain 50 clients per month with P 5.9M release/month. Collection efficiency is at 40.22% lower than the standard 60%. Net income as of September 2008 compared to the same period of last year is down by around 5%.

Associate's performance measure and compensation practices

The company adopts a philosophy of equitable pay, paying higher for more difficult job based on the prevailing rate in the industry and the location. It has annual performance review using the following criteria: Quality of work, productivity based on set standards, Job knowledge, dependability, initiative and attendance and trait oriented dimensions like resilience, office decorum, team work. The individual rating of the employees determines the amount of bonus to be given yearly although no regular merit increases are given as it is also dependent on the performance of the company.

Aside from those mandated by law, they provide credit accommodation to employees, leaves, profit sharing and bonuses, clothing allowance and health

benefits. Profit sharing/annual privileges are given as tied to the company's performance as follows:

Incentive	Nature	If profits is at least within target	If 10% higher than target	If 15% higher than target
officers	PB(one time) Incentive	1-2 months Local trip	2-3 months Asian trip	4-6 months Australia/Europe
Staff	PB Incentive	.5-1 month No outing allowance	1-2 months Outing allowance of P500/pax	2-3 months Outing allowance of P1000/pax

The grant of yearly increases is not a practice since this becomes part of the carrying cost of the company and contributes to mediocrity. Increases follow those mandated per law. However, on a case to case basis, the Board decides to give yearly adjustments to deserving employees depending on individual performance and over-all company performance. Given the global slump and the experience with sub prime in the States, the company has instituted stricter credit requirements and terms and more aggressive effort in their collection.

Comparative Income Statement

Income	2008	2007
Interest income from Loans and receivables	P 21.9M	P 19.8M
Other income	1.3M	1.4M
Gross Income	23.2M	21.2M
Expenses		
Operating Expense	13.8M	12.1M
Compensation and benefits	5.1 M	4.7M
Income before Tax	4.3M	4.4M
Income tax expenses:		
Current	.372	.379
Deferred tax	(.100)	(.99)
Net Income	P 3.99M	P 4.1M

4.3 Figaro Coffee Company- Sample of medium enterprise

The idea of Figaro came to light over cups of coffee. It all began one Sunday afternoon in 1993 as Chit Juan, the founder and her friends were having their usual round of the brew that followed a weekly lunch gathering. As was usual of their get together the last of the granules had been scraped from the coffee jar. The social gathering quickly turned into an impromptu business planning session and soon after the Figaro Coffee Company was born. Pooling their resources, Chit and friends opened their first Figaro at Glorietta in Ayala Center. The small stall was a test, they wanted to see if they could find kindred among coffee lovers among the commercial district upscale population.

Was the country ready to upgrade from instant coffee? The response overwhelmed the Figaro owner because they were offering coffee concoctions way beyond what Filipinos were used to. Figaro was fast to capture the public's curiosity and recognition. Some espressos and cappuccinos had made their way into the after lunch, mid-afternoon and after dinner rituals of the mall crowd. The time for specialty coffee had arrived. Fourteen years later, Figaro has become synonymous with the best in local specialty coffee and has grown to a network of 52 cafes including 3 overseas branches.

The founder, Chit Juan found a creative outlet she was looking for, a venue where she can apply her marketing and selling skills. The company found ways of creating concepts that would make their coffee product more appealing to its target market. They were concerned in getting the pulse of the customers so Chit would personally talk to them to get feedback. From introducing specialty coffee, Figaro realised it had a new mission educating the public about coffee. Coffee was such an ordinary thing but nobody knew much about it. The company educated itself by joining tours abroad, attending seminars and all these learnings were translated into something simple that the employees and the customers can easily understand.

The customers good response to Figaro encouraged the Board to directors to branch out. One key element in Figaro's success is its astute financial management. Instead of spending their income for personal travels etc. the profits were plowed back to the business. The company's reach expanded strategically, their stores mushrooming all over Metro manila's key commercial centers. The employees were given conservative increases and minimum

benefits at the start but were made aware that they are partners and as the business grows they also grow with the business. They were involved and aware of the business direction and therefore the company survived being non-unionised over the years as the employees commitment also increased.

With appreciation for the success Figaro had amassed, its board sought ways to give back to the community that supports the business. The employees were given conservative increases and minimum benefits at the start but were made aware that they are partners and as the business grows they also grow with the business. They were involved and aware of the business direction and therefore the company survived being non-unionized over the years as the employees commitment also increased interest in coffee.

As a Filipino company, Figaro felt compelled to do its part in making the industry's plight known and reversing the downward spiral it was experiencing. They worked on convincing more farmers to go back to planting coffee from more profitable crops, building up the barako image(local Filipino coffee) as the national coffee and retelling the rich coffee heritage which was almost forgotten. Yearly coffee farm tours starting in 1999 were made to enable the Figaro patrons to have a wider appreciation of the farm-to-cup route coffee before it is enjoyed at Figaro cafes. The tagline is that for every cup, they are able to help the farmers and promote the coffee industry in the Philippines. The following year, the Figaro Foundation launched the "Save a barako campaign". Through information drives via brochures and store marketing, Filipinos were made aware of the fact that the barako or Liberica coffee farms only grow in 3 countries, one of which is the Philippines. Since coffee farms were being converted to golf

courses or being planted with more profitable crops, less and less farmers were planting the barako making it head for extinction. In the farms, the Barako campaign saw the Figaro foundation tree-planting activities for 5 straight years aimed at planting 100,000 barako trees. In Figaro stores, Barako coffee was sold as beans and in cups, with portions of the profits going toward this planting campaign. Such philanthropic activities continued. Thus in 2002, in recognition of the vision of its founder Chit Juan, she was tapped to co-chair the newly created national Coffee Development Board to oversee the development of the industry and the promotion of the Philippines coffee in the global market.

Today, Figaro Coffee Company is not known just as much for its efforts in revitalising the Philippines coffee industry as it is for its excellent coffee. There is a certain sense of nationalism felt in enjoying a cup of Figaro, knowing that with each cup one is supporting a worthy cause to make our country closer to regaining its place as a world supplier.

Apart from Figaro's role in local coffee, it also became known for its franchising to open opportunities to other entrepreneurs. With the help of a partner franchisee, Figaro was able to reach more target areas without spreading its resources too thinly. It allowed promising entrepreneurs to invest in a worthy business endeavor. The company formally opened its door to franchising in 1998 and to date has partnered to more than 20 franchisees.

Compensation and performance measures employed.

Figaro as a company has a very strong sense of values. Thus, the employees performance evaluation includes dimensions that focus on integrity, sense of ownership and love of Work and of God and good customer service. Compensation is paid according to job difficulty and risk. A cashier is paid higher than a waiter. However, just like in a restaurant business, Figaro shares the tips/service tax to its employees. Aside from the base pay, they enjoy variable pay in the form of tips.

Multitasking is also encouraged in the company. This enables the company to continue its operations in the absence of an employee. Model employees are also recognised based on attitude, openness to the demands of the job to be ready for multi tasking and his overall performance/productivity.

Aside from coffee, other products like pasties, doughnuts and cakes are also served in Figaro. Quality is an important performance dimension. This is measured on the basis of the number of rejects experienced from the customer. Zero reject rate is the target. Both speed and quality of service is important. The company keeps its ears open to customer complaints particularly in terms of service delivery

The level of commitment of Figaro employees is high because they are aware of service to the community that their company leaders espouse. Not only do their firm commit to revitalising the coffee industry in the Philippines and making them world class but they are committed to continue giving jobs to coffee farmers, planting barako trees, adopting farms and sharing the proceeds to farmer

growers. This is a classical example of an enterprise with a heart who does not only focus on profitability but enriching other's lives, particularly of the poor farmers with a strong sense of nationalism as it also aims to help the Philippines be recognised for its coffee industry. On the side, it encourages other entrepreneurs through franchising to help continue this vision while at the same providing employment .

4.4 BINALOT

Binalot started as an all-delivery concept to serve Makati and Mandaluyong business districts then eventually progressed into a dine-in and to go when their customers asked for a place where they can sit and dine. Owner Rommel Juan narrates their business quests and always listened to their market and tried to meet every need, as they are opening more outlets outside the mall to be able to reach more people. Being attentive to their customers needs, they have very competitive and affordable prices as he points out their commitment toward their patrons.

The Binalot menu includes a varied list of favorite Pinoy meals e.g. delicious Adobo, Tapa, Bistek, Tocino, Longganisa, all atop steaming rice and garnished with enticing sidings of either atchara or itlog na maalat and kamatis, all affordably priced. It's like eating in a fiesta with an urban twist—the concept which Rommel Juan and his brother Raffy along with a friend, Aileen Anastacio created in 1996 with Php50, 000 as an initial investment

They capitalised on their food packaging--banana leaves which they get directly from banana growers in Batangas and Quezon. The leaves are cleaned with a

food grade disinfectant; heated over with flame to sanitize it before serving. They get their supplies from where these products are done best e.g. beef from Batangas, red eggs from Pateros, tocino from Pampanga, bangus from Dagupan, and more.

In their aim to better serve their existing and prospective customers they have created a website that would also reach the surfing audience. Recently, they have redesigned their site that proves to be attractive and at the same time, sends the right message to its viewer. It has increased their visibility on the Net and they received more franchise inquiries online

Binalot has evolved from a family owned corporation to a professionally run organisation. Employee evaluation is based on performance – a required and measurable specific output according to his or her competency. There is an annual plan which establishes the Binalot vision that will guide the company and its employees for the year. It has to be clear for the employees as well where the company is heading. Ten years into the business, the challenge now is in growing the company, market share, and staying true to the initial vision.

5.0 SME's in the Philippines : Issues, Challenges and Way Forward

5.1 Promoting SME development : Issues and Suggestions

On several social and economic grounds, small and medium-sized enterprises (SMEs) are of overwhelming importance in most Asian countries including those in the Association of Southeast Asian Nations (ASEAN). It is also the biggest source of domestic employment providing a livelihood for over three quarters of

the region's workforce especially women and the young. The relative share of SMEs in total output and exports is generally much smaller i.e. one third or less. As such the SME sector will remain the backbone of virtually every economy in this region and for that matter of the world in the foreseeable future. A concerted push in support of SME growth and competitiveness moreover is no longer an option. SMEs and by extension all business firms have to manage growth and change in an environment where the pace, patterns and organisation of production have evolved fundamentally.

The new development context requires a change in both perception and practices, in other words, a new or different mindset in the promotion of SME development. As is apparent from the preceding discussion, competitiveness is increasingly man-made, furthermore, it can be leveraged by factors other than location and natural resource endowments. One lever is through the maintenance of on-going access to the available store of global information and knowledge including market standards, marketing opportunities and innovative technologies. Another is embodied in the large gains in collective efficiency and flexibility through participation (whether or not at arm's length) in clusters of firms, or in networks of inter-linkages backward with suppliers, laterally with other producers and providers and forward with users and consumers. Yet another leverage relates to the firm's own capabilities for ongoing learning and improvements in efficiency and flexibility, indeed, business enterprises (both large and small) must become and remain learning organisations under the new development paradigm. In general, SMEs will have to be assisted and facilitated to grow, multiply and replicate into a sufficient (critical) mass across industries and sectors. In the process, the level of competitiveness and dynamism of

domestic enterprises and by implication of the economy as a whole will be greatly enhanced.

5.2 RECOMMENDATIONS

As mentioned above, in general SMEs will have to be assisted and facilitated to grow, multiply and replicate into a sufficient (critical) mass across industries and sectors. In the process, the level of competitiveness and dynamism of domestic enterprises and by implication of the economy as a whole will be greatly enhanced. Among the Challenges and opportunities in Philippine SMEs and local industries is Human Resource Development and capacity-building. Among the areas that seen to have the need to be enhanced are SME sector skills in management and organisation, entrepreneurship development programs, and the fostering of SME capabilities for inter-firm networking and linkages. Philippine Policy in Enhancing SME Marketing Capabilities include enhancing SME capabilities in and reliance on ICT and E-Commerce and establishing inter-linked on-line networks for SME products and services.

5.2.1 Interventions Needed to Respond to These Challenges

- Review of the curricula of the courses in tertiary and vocational education to make them more responsive to the needs of the industry. The often heard “mismatch” between what the schools produced and what the industry needs has still to be addressed. Tesda’s “ladderized” educational system in coordination with CHED is a right move towards positively addressing this mismatch.
- Manpower skills development among the SMEs must be enhanced. HR plays a pivotal role in this endeavor.

- DOLE interventions through the conduct of more Jobs Fairs, strengthening of the Public Employment Service Office (PESO), and timely and relevant labour market information are needed.
- Overseas employment may be reviewed. While employment overseas should be encouraged to alleviate unemployment and generate much needed dollar remittance, the government should not ignore the needs of the industry. The suggestions of some quarters to impose a minimum years of service in the country before professional workers like doctors, nurses, physical therapists, engineers, etc. are allowed to work overseas should be seriously considered.
- The Labour Code and the other social legislations should be reviewed to respond to the worldwide trends on labour flexibility.

These external and internal interventions must be given impetus if we are to sustain the role of SMEs as the engine of economic growth. Three major issues that need to be addressed have also been raised by the Philippine government in order to achieve development and success among SMEs in the country:

- First, the fact that 60% of the labour force is employed by SMEs. These workers are not getting the kind of benefits that they should get because the big businesses get 75% of the sales value in the industry. Increasing the share of SMEs in the terms of volume of sales would mean a raise of income and benefits to the people.

- Next is readiness of SMEs for globalisation. It is foreseen that in the next two or three years the European business community will likely invest in companies that are ISO-certified. ISO is the organisation which presents standard management and production systems for the use of companies around the world.
- Third is improving the marketing campaign of the small and medium companies. The biggest problem of the SMEs is the Philippines, Gabor says, is marketing and not having access to credit as generally perceived. She believes that any local product can easily enter the world market but are not patronised because they are not known to people. She suggests that SMEs should be assisted in areas of marketing like packing, smart pricing, prompt deliveries, and others.

The Department of Trade and Industry (DTI) has also recognised the importance of SMEs in the country with its 32% contribution to the economy. They consider the SME sector as the backbone of the Philippine economy as it plays an integral role in the war against poverty. SMEs also distribute economic activities to the countryside and help ensure a more reasonable distribution of income in the country.

International organisations like the Asian Development Bank (ADB), the World Bank and the International Monetary Fund (IMF) are also aware of the significance of SMEs in nation building. The said groups believe that one way of helping in poverty alleviation is by supporting the small and medium businesses through various activities and programs.

The government, through R.A. No. 9178 known as the Barangay Micro Business Enterprise (BMBE) Act of 2002, has set a policy in promoting the establishments of BMBEs by giving benefits and incentives to enterprises. For its part, the DTI has formulated the National SME Development Agenda with the help of the key players in SME development, including other concerned government departments and agencies. The DTI has also launched projects like *Sulong Pinoy: Helping the SMEs and One Town, One Product (OTOP)* programs to promote entrepreneurship and create jobs. These projects benefit thousands of SMEs nationwide.

The Center for Industrial Competitiveness (CIC) of the DTI came out with new measures to improve the business environment in the country. CIC Executive Director Virgilio Fulgencio said that they have coordinated with Local Government Units (LGU) in efforts to simplify business registration procedures. Fulgencio cited faster business procedures, the reduction in the days and cost to register a property, and the creation of a credit information bureau as some of the improvements that would achieve great results in the long run. Fulgencio, speaking at the recent public forum on the 2008 World Competitiveness Yearbook, said that the country's 2010 goal of rising to the top third of the world's most competitive countries can be accomplished if the cooperation between the government and private sector continues. The study, released in the second quarter of this year by the Switzerland based Institute for Management Development (IMD), showed that the Philippines has moved to 40th place for last year's 45th out of 55 countries.

The Asian Institute of Management Policy Center reports that the country's strengths as a global competitor include a low cost of living, lower inflation rate,

an effective fiscal management, and an extensive labour market. However, the country still faces major problems such as sustaining economic growth and addressing unemployment. This is where SMEs can significantly help the country. If more small and medium businesses will survive and remain successful in the long haul, more jobs will be created and economic stability will be attained. An effective mechanism for building Philippine global competitiveness is sound people practices with the People Management Association of the Philippines (PMAP) is promoting. PMAP encourages owners and managers of both SMEs and large corporations to invest in human capital development that can be a key factor in their company's success.

5.3 SME Development Strategy

SMEs face various challenges in the area of human resource development, technology and R&D, access to financing, to name a few. These concerns are addressed in the "Philippine SME Development Strategy". The Strategy prioritises the following five strategic imperatives in SME development:

(1) Narrowing the focus by identifying priority sectors. Identify list of 5 priority sectors.

(2) Promoting mutually beneficial linkages among small and large firms. Promote industrial-subcontracting exchange schemes, strengthening SME associations, establishment of linkages and cooperation between small, medium and large firms.

(3) Strengthening technology and R&D initiatives:

Boost agencies' efforts in examining and promoting technologies that would

benefit SMEs, promote use of quality standards, and fast-track the full operationalisation of APEC Center for Technology Exchange and Training for SMEs (ACTETSME) as a resource center for information networking, mobilization of training opportunities, and upgrading technical know-how.

(4) Bolstering human resource development:

Create, expand and improve curricular training programs in entrepreneurship, management and technical skills for SMEs and develop appropriate materials for such training. Identify HRD requirements in specific industries. Provide facilities/resources for skills training in special economic zones.

(5) Improving access to finance

Develop innovative financing schemes using non-traditional sources and schemes such as cooperatives and associations and equity financing and venture capital, respectively.

SMEs will continue to need the support of the government in the challenges they constantly face. Among the Challenges and opportunities in Philippine SMEs and local industries is Human Resource Development and capacity-building. Among the areas that seen to have the need to be enhanced are SME sector skills in management and organisation, entrepreneurship development programs, and the fostering of SME capabilities for inter-firm networking and linkages.

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