GROWTH OF SMALL PRODUCERS’ ASSOCIATIONS: A COMPARATIVE ANALYSIS OF CASES IN TWO PHILIPPINE PROVINCES*

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Producers’ Associations are organizations of small producers designed to serve members’ interests, including those pertaining to the acquisition of technological know-how, market linkages and access to credit. However, not all associations have achieved the same level of performance. For public and private agencies engaged in enterprise promotion and which utilize such affiliations as conduits of funds, it should be useful to evaluate possible determinants of success. Using these affiliations as the level of analysis, this paper compares two cases of producers’ associations, and evaluates variables that may be linked to the disparities in their development.

Background

Reflecting the assessment of the Bankers Association of the Philippines, Buenaventura (1994) characterized small enterprises as undercollateralized, limited in market and with individually small capacities to absorb a significant amount of credit. The inherent risks involved, coupled with the consequent high costs of transacting with small enterprises render this segment an unattractive market for banks financial services.

This problem of access to credit has not gone unnoticed. As early as the middle 80’s private volunteer organizations (PVOs) and non government organizations (NGOs) had started to bridge the gap between financial intermediaries and small enterprises. Lamberte’s (1991) review of credit policies affecting the small enterprise sector noted that even the 1987-1992 Medium Term Development Plan recommended the use of PVOs and NGOs as conduits for

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credit facilities. It is widely believed that these affiliations, which are run and managed by volunteers, have the potential for reducing transaction costs, and for making more informed evaluations of members' credit needs.

Access to credit alone has not guaranteed the growth of these affiliations, however. From the standpoint of sources of credit, it should be enlightening to identify those characteristics that are linked with an association's success, and to incorporate these a priori insights into their evaluation.

The review of literature examines the following concepts; perspectives in enterprise promotion, the stages of growth of solidarity groups, and the variables considered as significant discriminants of an association's success.

Types of Enterprise Promotion, Development Objectives and Assessment of Results

Cotter (1996) pointed out that the assessment of development interventions varies with type of enterprise promotion. Thus, enterprise promotion should distinguish between Poverty Alleviation (PA) and Business Growth (BG). PA deals with survival oriented microenterprises, while BG deals with businesses which have potential for growth. Given the different development objectives, and the divergent types of targeted entrepreneurs, the distinction should serve to clarify the expected impact of developmental interventions, and the resulting assessments of such programs.

Solidarity Groups and Stages of Growth

The concept of solidarity groups emerged in the 1970s as a possible development strategy in helping NGOs channel small loans, training and other services to the poor. Some well-known examples are the Grameen Bank model, the Dominican Development Foundation model, the BRAC model and the Save the Children Bangladesh model. From these action research projects Chen (cited in Gerber, 1994) observed some lessons gained by researchers:

1. Group pressure tended to be strong if members have known each other for a long time.
2. Success in organizing the groups increase with members perception that this will promote their interests.
Fay and Doyle (cited in Gerber, 1994) proposed a linear model of group development consisting of: forming, storming, norming and performing.

Stage I – Forming. During this stage the group members come together and establish the forms of behaviour that are acceptable to the group.

Stage II – Storming. In this stage members recognize the extent of the tasks demanded by being a member of the group and react on a personal, self-interested level.

Stage III – Norming. During this stage members accept the group norms, their own role within the group, and the other members.

Stage IV – Performing. With the group establishing its interpersonal norms, it becomes a group capable of diagnosing, problem solving and making decisions that will support the group as a whole unit.

Characteristics of Small Business Management Associations

Based on a survey of 133 SBMOs (small business management organizations) in Africa and South Asia, Gibson and Havers (1995) proposed a set of characteristics of a successful SBMO. The term SBMO refers to that group of organizations which have the following characteristics.

1. The membership consists of small business owners, or managers of small business.
2. The purpose of the organization is to serve the collective interest membership.
3. They are run on a non-profit basis.
4. They have some kind of a legal identity.

Producers’ associations which are the subjects of study in this paper satisfy this definition of SBMOs.

Purpose and Rationale

Umali’s (1996) review of entrepreneurship research in the Philippines covering the decade from 1985 to 1994 did not show any investigation directed towards identifying success characteristics of affiliations of business organizations. To date, there has been no
documentation of producers' associations in the Philippines, their membership profile, size and other demographics. The researcher is personally aware that they exist in the 20 priority provinces (identified in the Social Reform Agenda), and that such associations or their analogues (chambers, industry associations) are in all probability also present in the rest of the 77 provinces.

For a large number of small enterprises, these producers; associations (or alternatively, small business management associations), continue of offer the most promising mechanism for the delivery of technical, marketing, and credit services. For public and private agencies engaged in enterprise development, it should be useful to examine local producers' associations, their stages of growth and the organizational characteristics linked with their success.

In this study, the researcher assumes that success of these associations can be measured by BG indicators of long term sustainability and sound business principles: capability to meet financial obligations, growth in membership, markets. Thus, the study is limited to the extent that it overlooks those laudable achievements, if any, that are PA in nature, e.g.: rehabilitation of drug dependents, reduction in the incidence of malnourished children, impact on poor women, rehabilitation of disaster victims and similar welfare types of objectives.

The purpose of this study is to validate the success characteristics proposed by Gibson and Havers (1995), using Philippines experiences.

METHODOLOGY

Data

The data used in this study are based on information on two producers' associations: the Association of Negros Producers' in Negros Occidental (Case1), and the Pampanga Gifts Toys and Houseware Manufactures' Association (Case2). As a preliminary to a planned national study, and in connection with the NEED (National Economic Enterprise Development), the researcher undertook a series of field studies in the provinces of Negros Occidental, Guimaras and Antique; and subsequently, Pampanga. Interviews were conducted with the NEED (National Economic Enterprise Development), the researcher undertook a series of field studies in the provinces of Negros Occidental, Guimaras and Antique; and subsequently,
Pampanga. Interviews were conducted with officers and members of the four provincial producers' associations, based on a prepared interview guide. On-site visits were conducted in the factories of member enterprises. Additional information were obtained from documents provided by the associations themselves, loan documents available at the TLRC (Technology and Livelihood Resource Center), a government owned and controlled corporation, as well as those provided by the Securities and Exchange Commission. Interviews with officers and members of the provincial associations indicated that verifiable data on the associations' membership and history were not always available. Subsequent checks with the SEC showed that compliance with SEC reporting requirements ended with the filling and approval of the articles and by-laws, to the exclusion of the required annual financial reports. The researcher's assessment was that a national study was not immediately feasible.

External Validity of the Categorization

As an alternative, the researcher chose to study the two most verifiable experiences, rather than several but fragmented accounts. The final choice (Negros Occidental and Pampanga) resulted from consultations with a key informant (Mr. Lorenzo Sarmiento) a professional product designer formerly with the Department of Trade and Industry, and currently assigned with the PCCD. As a product designer, he has interacted closely with these two associations for more than four years. Case 1 represented what was considered a successful association, while Case 2 represented the other category. The external validity of these categorizations rests on this expert's assessment.

RESULTS AND DISCUSSION

The performance of any organization should be viewed in the context of the environment within which it operates. Some of these indicators appear in Table 1. In 1988 when Case 1 was founded, the province had more than twice the poverty incidence as Case 2. Primarily a sugar producing province, the accumulated effect of the decline in the sugar industry contributed to the deterioration in the province's economic and peace and order situation. Case 2 was founded in 1990 during which time Pampanga had twice the population density of Negros Occidental. Despite the smaller population pressures in Negros Occidental, the continuing
economic dislocation manifested itself in an infant mortality rate which was twice that of Pampanga. In 1991 Pampanga and Central Luzon suffered from the devastation brought about by the Mt. Pinatubo eruption. The cohort rate measured by number of students who finish elementary school relative to those who enter the primary level, was still higher in Pampanga than in Negros Occidental.

Table 1. Selected Quality of Life Indicators in Negros Occidental and Pampanga

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Negros Occidental Case 1</th>
<th>Pampanga Case 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty Incidence 1988</td>
<td>4.20%</td>
<td>26.10%</td>
</tr>
<tr>
<td>Population Density 1990 in persons per sq.km.</td>
<td>284.30</td>
<td>70.300</td>
</tr>
<tr>
<td>Birth Rate 1991</td>
<td>15.31</td>
<td>8.52</td>
</tr>
<tr>
<td>Total Death Rate 1991</td>
<td>2.23</td>
<td>2.90</td>
</tr>
<tr>
<td>Infant Death Rate 1991</td>
<td>4.27</td>
<td>6.24</td>
</tr>
<tr>
<td>Cohort Survival for Public and Private Schools SY '90-91</td>
<td>8.45</td>
<td>85.33</td>
</tr>
</tbody>
</table>


Comparison of Characteristics

Table 2 shows a tabular summary of the similarities and differences of Negros Occidental and Pampanga with respect to the seven hypothesized characteristics, and their respective dimensions. The discussions appear in the following sections.

Commonality of Interest

Commonality of Interests was measured in terms of gender, industry and geographic location. Among the three measures, the most pronounced difference lies in the degree of gender homogeneity, showing 82% female for Case 1 and 57% female for Case 2. A number of studies in psychology (as well as their applications in marketing) document the existence of gender differences as regards both perception and information processing. In both Pampanga and Negros Occidental, geographical concentration appears to be a strong basis for bonding.
Origins and Motivation

Founded two years apart, both cases were initiated by the private sector, rather than by the government, donor or by any external body. It is generally acknowledged that the Provincial Governor was supportive as early as the nascent stage of Case 1. Harper and Roy (1992) cited the importance of this distinction as impacts on the issue of 'ownership' and 'commitment' by members. (In our interview with Rev. Dick Johnson, an Anglican minister working with an NGO food processor in Guimaras, he expressed the observation that members of the Guimaras Producers; Association do not seem to have a sense of ownership and commitment to the association, since this was perceived as government initiated).

A review of the articles and by laws of Case 1 and Case 2 (1988 and 1990, respectively) tend to support the earlier assumption that these are economic driven associations, thus justifying the BG perspective. A 1996 brochure issued by Case 1, however, traced its objective as that of developing backyard industries to provide additional income to farm workers. Whether this marks a significant change in the character of the Association, from BG to PA is not clear.

The declining economic and peace and order situation in Negros Occidental appears to be the main contributory factor to the creation of the association. Often mentioned in the interviews were instances of desperation when landed families would sell their assets, in exchange for an opportunity to work as maids and drivers abroad. In Case 2, the formation of the association cannot be traced to a comparative driving force.

Quality of Office Bearers

A notable difference exists in the educational attainment of board members. While Case 1 had a consistent set of college graduates, Case 2 only 70% of the board members of 1993 had college degrees. In contrast with Case 2, the founders in Case 1 were predominantly housewives with little business experience.

Party Politics

Internal politics, if there were any, did not appear as problem to Case 1. From May 1991 until April 1992, the Association of Negros Occidental Producers availed of a 3 (M) credit line
from the TLRC. In 1993, it obtained a four year term loan of P 3 (M) from the same agency. To date the Association had maintained a 100% repayment rate.

In Case 2, however, cliques within the Association resulted in a perceived inequity in the evaluation of members loan applications. The P 5 (M) conduited loan granted by TLRC in 1993 was monopolized by the board of directors, while members’ applications did not receive their due appreciation. Of the loans from this fund, practically all are now in default. The Association now faces serious collection problems from the loan beneficiaries, and a deterioration of its credit standing from funding agencies.

Table 2. Comparison of Case 1 and Case 2 along the Gibson and Havers’ Characteristics

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Dimensions</th>
<th>Negros Occidental Case</th>
<th>Pampanga Case 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commonality of Members’ Interests</td>
<td>Gender</td>
<td>82% female</td>
<td>57% female</td>
</tr>
<tr>
<td></td>
<td>Industries</td>
<td>Fashion accessories, gifts toys and housewares, furniture/furnishing; food</td>
<td>Wood, non-apparel, metalcraft, giftwares</td>
</tr>
<tr>
<td>Proximity</td>
<td>Production facilities are in 21 out of 32 cities and municipalities. 86% are located inn Bacolod</td>
<td>Distribution of location from San Fernando: 50% are w/in 20 km; 33% between 20-40 km; the rest between 40-60 km.</td>
<td></td>
</tr>
<tr>
<td>Origins and Motivations</td>
<td>Founded</td>
<td>1988</td>
<td>1990</td>
</tr>
<tr>
<td>Source of Initiative</td>
<td>Private</td>
<td>*Provincial leadership was active as early as</td>
<td>Private</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Received assistance from</td>
<td></td>
</tr>
<tr>
<td><strong>Quality of Office Bearers</strong></td>
<td><strong>Education</strong></td>
<td><strong>Board members have been college graduates from the time of founding</strong></td>
<td></td>
</tr>
<tr>
<td>-------------------------------</td>
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<td>---------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td><strong>Type of precipitating factors that led to forming the associations</strong></td>
<td><strong>Economic disaster caused by decline in the sugar industry</strong></td>
<td><strong>70% of Board Members were college graduates in 1993; 100% college graduates in 1997</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Professional experience</strong></td>
<td><strong>Original Board members were housewives with minimal business experience</strong></td>
<td><strong>Original Board members were themselves already producers; 1993 Board members had little business experience</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Avoidance of Party Politics</strong></td>
<td><strong>Objectivity in evaluating loan applications</strong></td>
<td><strong>No evidence of divisive party politics</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Cliqu s influenced evaluation of members credit</strong></td>
<td></td>
</tr>
</tbody>
</table>

- the nascent stage of the association
- *Objective is to promote interests of the Producers (Articles and By-Laws)*
- *Seeks to provide income to farm workers*

- **Provincial Government in setting up trade fairs**
- *Objective is to promote unity among producers for economic growth and development (Articles and By-Laws)*
<table>
<thead>
<tr>
<th>Sticking to the Knittings</th>
<th>Number and variety of activities engaged in by association</th>
<th>Training of members, assistance to other associations, organizing trade fairs, participation in international trade fairs</th>
<th>Training of members, organizing trade fairs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowing the members</td>
<td>Requirements to maintain active status</td>
<td>Completion of: five required seminars, all sectoral training seminars, participation in trade fairs within a prescribed period from date of joining the associations</td>
<td>Training of members, organizing trade fairs</td>
</tr>
<tr>
<td>Funding base</td>
<td>Sources</td>
<td>Membership dues, income from Display Center, income from processing members' loans</td>
<td>Membership dues</td>
</tr>
</tbody>
</table>
Core Business

While Case 2, has been engaged in training of members, as well as organizing trade fairs, Case 1’s activities included participation in CITEM expositions and trade missions abroad. Additionally, for the past three years, it has been extending training assistance to associations outside of Negros Occidental. There is serious doubt that the last activity of Case 1 contributes at all to its core business, or whether it possesses the capability to undertake training of this magnitude, covering 20 provinces.

Knowing the Members

In Case 1, the monitoring of members appear to take place thru a regular rating scheme. Membership status can be maintained thru compliance with five basic training programs: pricing and costing, packaging, shipping, basics of exporting, participation in trade fairs, negotiation with foreign buyers. In addition, members are required to attend all sector specific seminars. Participation in trade fairs is expected within a reasonable period of time.

No evident mechanism for monitoring members’ activities exist in Case 2.

Funding Base

In Case 1, internally generated funds are obtained from membership dues, commissions from sales thru their display center and from a 3 to 4% spread on conduited funds. In Case 2, membership dues appear to be the only source of the Association’ funds, since it has no display center.

Comparative Growth of Case 1 and Case 2

From a BG perspective, there are differences in the pattern of growth of Case 1 and Case 2. The following paragraphs compare the credit standing, growth in membership, growth in market.

Table 3 contains comparative data indicative of credit standing, membership, sales and production.
### Table 3. Comparative Growth of Case 1 and Case 2

<table>
<thead>
<tr>
<th>Dimensions of Growth</th>
<th>Negros Occidental Case 1</th>
<th>Pampanga Case 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership</td>
<td>1988-46 members</td>
<td>1990-more than 100</td>
</tr>
<tr>
<td></td>
<td>1993-150 members</td>
<td>1994-16 members</td>
</tr>
<tr>
<td></td>
<td>1996-95 members</td>
<td>1996-30 members</td>
</tr>
<tr>
<td>Market internationalization</td>
<td>1996-20% exporters, 11% direct exporters</td>
<td>1997-20% exporters</td>
</tr>
<tr>
<td>Credit standing</td>
<td>100% repayment rate</td>
<td>Negligible repayment rate</td>
</tr>
</tbody>
</table>

**Credit Standing**

Clearly, the two are extreme illustrations of credit worthiness. Case 1 was the recipient of a P 3 (M) credit line and a P 3 (M) term credit. The association had a 100% repayment. Case 2, on the other hand availed of a P 5 (M) loan in 1993, which has remained overdue.

**Membership Growth**

Case 1 tripled its original membership in 1993, but suffered a decline in 1996. Case 2 started with 100 and presently only has 30 members. Rapid increases in membership appear to compromise the need to screen the motivations and qualifications of members.

The present membership of Case 1 is twice the original, while that of Case 2 is 30% of the original size. It should be noted that a rapid increase in the membership of Case 2 was followed by an equally rapid decline. Increase in membership of Case 1 appears to have followed a more moderate pattern.

**Market Growth**

Case 1 clearly illustrates the expansion from no market to an export oriented market. It presently has 22% direct exporters. Case 2 has 20% direct exporters.

**Growth in Sales and Production**

The total sales and production data for the associations are unavailable. Case 1, though, has indicative data of the growth of its members. These are data gleaned from interviews with Mr. China Gallagea, Mr. Marivic Rios, and Mr. Lando Madera.
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The two cases tend to support the importance of the characteristics that were hypothesized: commonality of member interests, origins and motivations, quality of office bearers, avoidance of party politics and familiarity with members. The paper also calls attention to potential problems that may arise due to Case1's role as trainer/program manager for a national program. Sources of credit and those institutions which facilitate the delivery of credit services should find it useful to examine target producers' associations in the light of these variables.

The main contribution of these paper is in demonstrating the usefulness of these variables in discriminating between successful and unsuccessful associations.

The paper can neither assign relative importance to each of these characteristics, nor can it provide a measure of these variables' combined explanatory power. Future studies should examine the possibility of employing multivariate analysis to answer questions. From the standpoint of program design, future investigations should address the following interesting questions:

To what extent does kinship among members contribute to the association's success?
How crucial is local leadership in overcoming the inertia arising from a perceived faceless, impersonal national government?
What mechanisms can be adapted to monitor the progress of producers' associations?
Given that Case 1 has had a tradition of commerce, what outcome may be expected in areas which have a different starting point, due to a long culture of poverty?
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