

# THE ASSESSMENT OF FINANCIAL, TECHNOLOGICAL AND COMPETITIVE CHALLENGES EXPERIENCED BY SMALL SERVICE ENTERPRISES IN ABUCAY, BATAAN

*Diana Grace G. Rodrigo<sup>1</sup>, Kirndeeep K. Brar<sup>1</sup>, Alexandrae N. Quicho<sup>1</sup>,  
Angelica Faith P. Vinzon<sup>1</sup>, Edessa G. Flordeliz, PhD<sup>2</sup>*

<sup>1</sup>Accountancy, Business and Management Strand, Senior High School Department

<sup>2</sup>Faculty Member, General Education Area - Collegiate Department

Correspondence: diannarodrigo20@gmail.com

## ABSTRACT

*Small business enterprises, particularly service, are proliferating around the world due to their ease in establishment, however, they are more vulnerable to challenges as well as failing within the first year of operation. This paper aims to give light to the small service enterprises' assessment on the three main challenges to business survival and development namely: finance, technology, and competition. This research is limited to the small service enterprises within the municipality of Abucay in the province of Bataan. The researchers used stratified random sampling in selecting their respondents and survey questionnaires in gathering their data. Frequency Distribution, Descriptive Statistics as well as One-Way ANOVA were used in treating and analyzing the data the researchers gathered. The researchers found out that the respondents disagree that finance is a challenge to their business, the usage and integration of technology is low in small service enterprises, and small service enterprises sense a low degree of competition. Additionally, there is no significant difference in financial, technological, and competitive difficulties among the respondents when grouped according to profile.*

**Keywords:** *small business, service business, small service business, challenges, finance, technology, competition*

## INTRODUCTION

According to Quintero-angel & Liu (2018), approximately 90% of companies around the world fall under the category of Micro, Small and Medium Enterprises (MSMEs), and Small and Medium Enterprise (SMEs). Watse (2017) states that small businesses play an important role in the contribution and development of the nation's economy. They are an effective form of employment generation. Small business enterprises, particularly service, are proliferating around the world due to their ease in establishment, however, they are more vulnerable to challenges as well as failing within the first year of operation Persson (as cited in Adisa, 2014) .Van Praag (as cited by Adisa , 2014), states that "Of every 100 start-ups, only 50 firms survive the first three years."

There had been various researches across the globe pertaining to the challenges experienced by small businesses. In Nairobi, Kenya, SMEs face the challenges like competition among themselves and from large firms, difficult and lack of access to credit, cheap importations, and insecurity and debt collection (Bowen, 2009). ASEAN (2015) also states that the SME sector within Asia is also faced by challenges in terms of lack of finance source, inability to keep up with the technological development, competition, facilitation, and product or service promotion.

Mitigating small business challenges could result in sustaining the operations of small for longer than the first five years (Gumel, 2017). Improving the conditions and upgrading the role of small enterprise in the Philippine economy is integral so that the country's economic growth could be felt by

the masses of Filipinos more directly instead of relying on the growth driven by large firms to “trickle down” to the bottom (Habito, 2016).

In Abucay, there has been a research conducted on management practices of small enterprises by fellow Letranite researchers by Dirain, Villanueva, Llanda, & Nicdao (2017), however, there has been a gap on research in terms of looking at the general challenges faced by small businesses in Abucay in terms of finance, technology, and competition. This research aims to assess the challenges of small service businesses in Abucay pertaining to those three factors.

### **Small Business**

In the Philippines, small businesses have two operational definitions based on employment and value of assets. Small enterprises have about 10 to 99 employees and a value of assets ranging from 3 to 15 million. The Philippine Statistics Authority 2017 List of Establishments quantifies a total of 924,721 business enterprises in the country. MSMEs make up a total number of 920,677, in which 88,412 were small enterprises.

### **Service Business**

Service businesses are defined as providing an activity or performing a task for commercial purpose. The task done helps a business or an individual in areas like consulting, accounting, transportation, cleaning, hospitality, traveling or maintenance. The customers perceive value from intangible activity or service provided. This type of business also hires more employees compared to manufacturing and trade industries (Chappelow, 2019). Additionally, service business is one of the strongest and fast-growing sectors of the Philippine economy. It has a gross value-added contribution that reached to 57% in 2014 (from 36.6% in the 1970s), and it is reported to grow by an average of 6.3% from 2000 to 2014.

### **Finance**

Small businesses face various challenges starting from its establishment up until its operational phases. Aldaba (2012) states that insufficient access to financing it is commonly perceived as one of the major constraints that affects SMEs growth, performance, and competitiveness. The challenge in finance starts with the difficulty in acquiring it and sustaining it for small business upgrades. Internal funds by itself, however, cannot adequately support the business most of the time especially during expansion (Aldaba, 2012).

Small business owners in Kenya find it challenging to loan in banks due to the requirement of collateral (Adisa, 2014). SMEs, mainly the smaller type, have been incapable to access funds and qualify for financial request due to poor credit history, insufficient collateral and insufficient sales, income or cash flow, unstable business type, and poor business plan (Aldaba, 2012). Financial management also plays a key role in sustaining the capital.

Financial constraints, thus, impede the growth of micro and small scale enterprises as stated by Osoimehin, Jegede, Akinlabi, Babatunde & Olajide (2012). At the same time in Nigeria, Watse (2017) states that 96% of businesses are constantly forced to shut down because of insufficient access to funds.

### **Technology**

According to (Durowoju, 2017), technology is an external force that is complicated to foretell. Small and Medium Enterprises (SMEs) managers are often perplexed on developing technology, as investing on it can be pricey and over the top. Purchasing new technologies means diversion from manual to a more smart and developed way.

### **Competition**

An industry is made up of a few big firms and many small enterprises. Due to the existence of other firms in the industry, SMEs are reported to have faced difficulties from expanded competition (Yoshino & Taghizadeg-Hesary, 2016).

### **Theoretical Framework**

**The Theory of Innovative Enterprise**, according to Lazonick and O’Sullivan (2000) as stated by James (2017), the enterprise that undertakes the transformation and improvement of industrial conditions, dominates the industry. They have less production cost and successfully compete for market share at less prices. They also generate surplus revenues and invest in new technologies. An innovative enterprise can outperform the optimizing firm (produces at smaller volumes and at higher prices). The small businesses function more efficiently with the integration of technology while at the same time gain a competitive edge against their competitors.

**Porter's Five Forces, particularly, Competition in the Industry** refers to the number of competitors and their ability to undercut a company. Chappelow (2019) states that the larger the number of competitors, along with the number of

equivalent products and services they offer, the lesser the power of a company. Conversely, when competitive rivalry is low, a company has greater power to charge higher prices and set the terms of deals to achieve higher sales and profits. This shows that small businesses are positively or negatively affected by their competitors in the same industry.

This study aims to assess the challenges faced by small service businesses in the municipality of Abucay. Specifically, this quantitative research aims to answer the following questions:

1. What is the demographic profile of the respondents in terms of:
  - 1.1 Sex
  - 1.2 Age
  - 1.3 Level of Education
  - 1.4 Position in the business
2. What is the demographic profile of the Small Service Enterprises in terms of:
  - 2.1 Ownership
  - 2.2 Years of Operation
  - 2.3 Number of Employees
  - 2.4 Type of Service Business
3. How may the challenges experienced by the Small Service Businesses be described in terms of:
  - 3.1 Finance
  - 3.2 Technology
  - 3.3 Competition
4. Is there a significant difference in the challenges experienced by the Small Service Enterprises when grouped according to profile?

Figure 1 shows the challenges namely technology, finance, and competition as well as how they affect the assessment of challenges of Small Service Businesses.

This study would greatly benefit and impart knowledge on various sectors. Information gathered from this research could serve as a basis for decision as well as enlighten the minds of several sectors of the society. The municipality of Abucay will benefit for they will be informed on the present challenges that small business enterprises in their area face. This in turn would help the municipality in aiding and cultivating small businesses while at the same time improving the town as a business environment. The study would inform the aspiring entrepreneurs on the challenges they may face in establishing a small business in Abucay. It would also help avoid mistakes that would lead to the failure of the business while at the same time increase the business lifespan. The study would raise awareness to the business owners on the challenges and opportunities they face. The study will help them know what problems to fix and what areas in their business that they could improve. The study would serve as a reference and inspiration for future researchers who will have similar or closely related topics. This topic could be furthered by future researchers. The study would contribute additional knowledge to the body of knowledge while at the same time adding to the limited number of researches conducted on small businesses.

**METHODOLOGY**

The researchers are citizens of Abucay who came up with this topic upon observation and curiosity on the state of the small businesses around their municipality. The researchers also utilized survey questionnaires. They had requested and were granted permission by Solvason James, the Director of Olva Academy, to use the questionnaire attached to the research entitled *“Assessment of Challenges Facing Growth of Small and Medium Enterprises, a case of SMEs in Iringa Municipality.”* The researchers also requested and permitted by Jong Geun Lee, the author of the research entitled *“Assessing the challenges and opportunities for small and medium enterprises (SMEs) in the Vietnamese apparel retail market.”* The researchers took a portion of the demographic profile and the finance part from James’ research and took the technology and competition part from Lee’s research. The researchers also asked for permission to slightly modify their questionnaires in order to fit to their study. The authors were also given a copy for approval and transparency.

**Conceptual Framework**

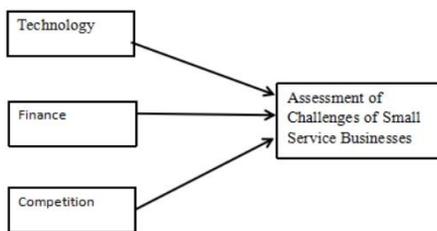


Figure 1

Figure 1. Conceptual Framework

The current study applies a quantitative research approach and descriptive approach. Quantitative research emphasizes the measurement and analysis of casual relationships between

variables not processes. Descriptive approach is defined as a research which describes the characteristics of the population or phenomenon that is being studied. It mainly focuses on depicting the nature of a demographic profile or segment, and the “what”, without focusing on “why” the phenomenon is occurring.

The participants of this study are business owners or managers of small service enterprises in Abucay. The total number of populations was acquired by the researchers from the Abucay Municipal Hall. The researchers were also briefed on how small businesses in the Municipality of Abucay are categorized by the Business Licensing Officer. Additionally, a list of the small service enterprises was produced by the researchers after thoroughly scoring the list of small businesses given by the Business Licensing Officer. The list of small service enterprises was further validated by the Business Licensing Officer. The classification of what is a service business and a small business is based on the data given by the Business Permit Licensing Officer. It is further classified in accordance to the Revenue Code of the Abucay Municipality. The cottage businesses, with an asset size of 500, 000 and below and 1 - 10 workers along with small businesses, with an asset size of 500, 000 to 5 million, and a number of workers ranging from 11 to 99 are both considered by the Municipality of Abucay collectively as “Small Business.” This study would take into consideration the challenges, specifically in terms of finance with regards to acquisition and management, as well as technology use and level of competition, thus, arriving to the assessments of the small service businesses.

**Table 1. Sample Population Matrix**

Type of Service Business	Population	Sample Size
Food Service	30	25
General Service	27	25
Education Service	5	4
Health Service	7	6
Business Service	6	5
Total:	75	63

This study has a total population of 75, and a sample size of 63, as was shown in Table 1. The number of respondents was in compliance to the calculations of Raosoft with a 95% confidence level and a 5% margin of error. Additionally, the researchers used Stratified Random Sampling Method in selecting their respondents.

The researchers used Basic Statistical Tools. The form of Data Analysis, to be used in this study is Frequency Distribution Table for the demographic profile of the respondents. Descriptive Statistics in turn was used to describe the challenges faced by the small businesses in terms of finance, technology, and competition. At the same time, One-Way ANOVA was used in determining the differences experienced by the small service enterprises in Abucay when grouped according to profile.

**RESULTS AND DISCUSSION**

The data presented in Table 2 is the demographic profile of both the respondents and the small service enterprises. For the respondents, the females are of 40 or 63.5 %. The study also discovered that respondents of age range 41 to 60 years old are most engaged in business endeavors. At the same time, 46 or 73% of the respondents are graduates of college. 33 or 52.4% of the respondents are the owners of the business while 30 or 47.6% are managers.

**Table 2. Demographic Profile of the Respondents**

	Frequency	Percent
<b>Gender</b>		
Male	23	36.5
Female	40	63.5
<b>Age</b>		
20-40	28	44.4
41-60	31	49.2
61 and above	4	6.3
<b>Level of Education</b>		
High School	16	25.4
College	46	73.0
Post-graduate	1	1.6
<b>Position of Respondents in the Business</b>		
Owner	33	52.4
Manager	30	47.6

45 or 71.4% of the service enterprises are of sole ownership. 36 or 57.1% of the service enterprises have been operating for less than 5 years. 46 or 73% of the service enterprises have less than 5 employees. 17 or 27% of the service enterprises have 6 to 49 employees. At the same time, 25 or 39.7% of the small service enterprises are considered as food service.

**Table 2. Demographic Profile of Small Service Enterprises**

	<b>Frequency</b>	<b>Percent</b>
<b>Operation Years</b>		
Less than 5 years	36	57.1
6-9	11	17.5
10-14	4	6.3
15-19	3	4.8
20-24	2	3.2
25 years and above	7	11.1
<b>Number of Employees</b>		
Less than 5	46	73.0
5-49	17	27.0
<b>Business Ownership</b>		
Sole ownership	45	71.4
Partnership	9	14.3
Family business	7	11.1
Corporation	2	3.2
<b>Type of Service</b>		
Health	6	9.6
Food Service	25	39.7
Business	5	7.9
Education	4	6.3
General	23	36.5

Overall, the values show that the respondents disagree that finance is a challenge to their business as evident in the calculated mean of 1.84 supported by the standard deviation of 0.72. The mean falls within the range of values 1.81 - 2.60, as was calculated by our statistician translated to an overall answer of “disagree” from our research questionnaire. However, small business owners in Kenya find it challenging to manage the finances of their business as well as loan in banks due to the requirement of collateral (Adisa, 2014). SMEs, mainly the smaller types, have been incapable of accessing funds and qualifying for financial request due to the firms’ poor credit history, insufficient collateral and insufficient sales, income or cash flow, unstable business type, and poor business plan (Aldaba, 2012).

**Table 3. Descriptive Statistics**

<b>Challenges in terms of:</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Interpretation</b>
Finance	1.84	0.72	Disagree
Technology	2.39	1.10	Low
Competition	1.83	0.70	Low

The usage and integration of technology is low in small service enterprises, as evident in the mean of 2.39 supported by

the standard deviation of 1.1. The mean falls within the range of values of 1.81- 2.60, as was calculated by our statistician leading to an overall answer of “low usage” from our research questionnaire. The pace of innovation and technology continues to encompass not only the developed markets but also the developing ones. Small enterprises are faced with the issue of fostering effective innovation. It can be efficient and effective to small enterprises, however, due to size and resource limitations, they are unable to develop new technologies or utilize and improve the existing ones (Durowoju, 2017)

Small service businesses sense a low degree of competition as stated by the calculated mean of 1.83 supported by a standard deviation of 0.70. The mean falls within the range of values 1.81 - 2.60, as was calculated by our statistician translated to an overall answer of “low competition” from our research questionnaire. However, in Nairobi, Kenya, SMEs face challenges like competition among themselves and from large firms, according to Bowen (2009) as stated by Adisa (2014).

Table 4 presents the results of One-Way ANOVA in which financial, technological, and competitive differences were tested when grouped according to profile.

When grouped according to business ownership, there is no significant difference in financial, technological, and competitive difficulties among the respondents. This is evident in the calculated sig value of 0.108 for financial difficulties, 0.077 for technological difficulties, and 0.136 for competitive difficulties.

When grouped according to years of operation, there is no significant difference in financial, technological, and competitive difficulties among the respondents. This can be seen in the calculated sig value of 0.156 for financial difficulties, 0.579 for technological difficulties, and 0.848 for competitive difficulties.

When grouped according to the number of employees, there is no significant difference in financial, technological, and competitive difficulties among the respondents. This is can be seen in the calculated sig value of .424 for financial difficulties, .282 for technological difficulties, and .535 for competitive difficulties.

Since the values are greater than the alpha value of 0.05, this means that the null hypothesis is accepted.

**Table 4. ANOVA Statistics of the Dependent Variables**

<b>Ownership as the Grouping Variable</b>						
		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Financial Difficulties	Between Groups	3.131	3	1.044	2.112	.108
	Within Groups	29.157	59	.494		
	Total	32.288	62			
Technological Difficulties	Between Groups	8.080	3	2.693	2.398	.077
	Within Groups	66.262	59	1.123		
	Total	74.342	62			
Competitive Difficulties	Between Groups	2.686	3	.895	1.922	.136
	Within Groups	27.490	59	.466		
	Total	30.177	62			
<b>Years of Operation as the Grouping Variable</b>						
Financial Difficulties	Between Groups	4.129	5	.826	1.671	.156
	Within Groups	28.159	57	.494		
	Total	32.288	62			
Technological Difficulties	Between Groups	4.672	5	.934	.764	.579
	Within Groups	69.670	57	1.222		
	Total	74.342	62			
Competitive Difficulties	Between Groups	1.019	5	.204	.398	.848
	Within Groups	29.158	57	.512		
	Total	30.177	62			
<b>Years of Operation as the Grouping Variable</b>						
Financial Mean	Between Groups	.339	1	.339	.647	.424
	Within Groups	31.949	61	.524		
	Total	32.288	62			
Technology Mean	Between Groups	1.406	1	1.406	1.176	.282
	Within Groups	72.936	61	1.196		
	Total	74.342	62			
Competition Mean	Between Groups	.191	1	.191	.389	.535
	Within Groups	29.986	61	.492		
	Total	30.177	62			

The study determined the demographic profile of the small service enterprises and their owners in Abucay, Bataan. This also includes their assessments on challenges in terms of finance, technology, and competition. This study also tested if there is a significant difference among the challenges

experienced by the small service enterprises when grouped according to profile.

## CONCLUSION

For the demographic profile, majority of the respondents were females, within the age range of 41 to 60 years old. Additionally, they are also college graduates as well as the owners of the business. For the demographic profiles of the small service business, majority are of sole ownership. The majority of the small service enterprises have been operating for less than 5 years with less than 5 employees.

The respondents disagree that finance is a challenge to their business. At the same time, they sense a low degree of competition. This is further supported by the *Porter's Five Forces-Competition in the Industry* in which if there is low competition, the enterprise would have a better control and financial advantage. However, small business owners in Kenya find finance a challenge especially in terms of its management as well as loaning in banks (Adisa, 2014).

There is also a low usage and integration for the small service business, which could prove as a challenge since the use of technology in business in this modern world could further aid its everyday operation and future development. This is further supported by the *Theory of Innovative Enterprise*, according to Lazonick and O'Sullivan (2000) as stated by James (2017), as the enterprise that integrates technology would be more efficient in its everyday processes, thus, dominating the industry.

Moreover, there is no significant difference in financial, technological, and competitive difficulties when grouped according to profile. Thus, the null hypothesis: there is no significant difference in the challenges experienced by the small service enterprises when grouped according to profile is to be accepted.

## RECOMMENDATIONS

This research could motivate future quantitative and qualitative researches. For quantitative, the researchers would like to recommend for aspiring researchers to find the significant relationship between and among the challenges experienced by the small enterprises. The future researchers could also prefer to use another type of business like manufacturing or merchandising instead of using only service business. The future researchers could also choose a different place to conduct a study similar to this one. Moreover, future

studies could also be conducted in order to further verify the results produced in this study. A qualitative research tackling and in-depth semi-structured challenges of small businesses could also be inspired from this research

The researchers would like to recommend to the small service enterprise owners to take good care of their business as well as to broaden their knowledge in terms of finance and management.

The researchers recommend for the municipality to regularly check the status of the small businesses around the area through interviews or survey so that they may be able to glean what ails the businesses around them and how to help as a governing body. The municipality could also host seminars for business owners to widen their knowledge in terms of business and financial management.

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