

## Research on Strategy to Establish Competitiveness for Micro and Small Enterprises in Bolivia

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**Abstract** This paper aims to provide information and recommendations on policy and strategy to develop and strengthen micro and small enterprises (MSEs) to overcome informality. Specifically the study seeks to: assess the current situation and the nexus of the informal sector of the Bolivian MSEs economy in order to draw conclusions and propose strategies that enable these companies increase their effectiveness of operations, considering the external and internal causes that might affect their correct performance, and suggestions about government policies which may be considered beneficial for a rapidly development.

**Key words:** Micro and Small Enterprises; Competitiveness; Implementation strategy

### 1 Introduction

The term Micro and Small Enterprises (MSEs) comes from companies that are privately owned and operated with a small number of employees and relatively low volume of sales. These enterprises are privately owned corporations, partnerships or sole proprietorship, mostly classified according to other methods such as sales, assets or net profits.

Independence is the major advantage an owner found to launch a small company. Obtain the freedom to operate independently is the best reward got; however it is a hard full time work required and most of the times, entrepreneurs that want to skip dependence ultimately found in their customers a new boss<sup>[1]</sup>.

Small businesses often face a variety of problems related to their size. A frequent cause of bankruptcy is undercapitalization. This is often a result of poor planning rather than economic conditions. It is common rule of thumb that the entrepreneur should have access to a sum of money at least equal to the projected revenue for the first year of business in addition to his or her anticipated expenses.

Generally speaking about the Bolivian situation, in the modern sector exists multinational corporations and large national companies, characterized by the presence of new technologies, a high level of productivity, efficient administrative and management, generally they are capital intensive and labor saving. Production is primarily aimed at foreign markets, highlighting areas such as hydrocarbons, mining, soy and its derivatives, and forest products as well, in the services sector are the telecommunications, electricity and rail transport. The modern segment is part of neoliberalism and globalization as it is focused on the production and export of raw materials and appropriate of the economic surplus.

The traditional segment is composed mainly of micro, small and medium enterprises and small urban producers, farmers and rural communities. This sector, which has historically been excluded from public policy, is characterized by an accentuated obsolescence of the production system, technology dates from the late nineteenth or early twentieth centuries and it shows a low productivity. They are mostly family businesses, with lack business administration and management skills. Its production is focused on the domestic market, mainly local; getting low profitability due to the low prices they sell their products, at the same time, for their low quality. In this way it highlights the short capacity of this segment to generate benefits that enable to reinvest and grow, despite they generate the most employment in the country.

The importance of this study is to analyzed the MSEs behavior in the Bolivian market through statistics data and current information to attain significant assesses according to the nowadays reality; considering the diagnosis criteria and the information supported, propose a possible way to overcome difficulties in the growing process. Businesses success or fail occurs because of the power of their ideas, the wisdom of their decisions and the efficiency of their operations. But besides this, is important ponder these enterprises must deal with tighter budgets, smaller margins, narrower profit and loss balance sheets than those managed by large companies.

## 2 Participation and Situation of Micro and Small Enterprises

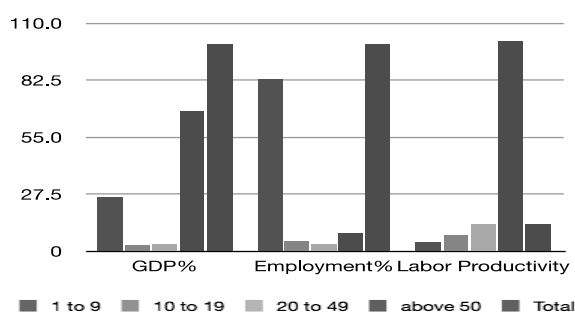
Since the eighties, the Bolivian economy went under major transformations due to the introduction of structural reform programs, and went from being a state-dominated economy to a liberal one, through the privatization of former state owned enterprises. As a result of this process, public employment decreased from 26% to 12% of urban labor force in less than 15 years, causing a reallocation of public labor into the private sphere. MSEs embraced most of the released labor, whether as entrepreneurs or as employees. Thus, nowadays MSEs employing up to 20 workers constitute the vast majority of all enterprises in Bolivia <sup>[2]</sup>.

**Table 1 GDP Employment and Productivity by Size of Enterprise**

Number of employees	GDP in (Bs).	GDP%	Employment	Employment%	Labor Productivity
1 to 9 (Micro)	12.404.498	26.32	2.983.503	83.1	4.16
10 to 19 (Small)	1.330.717	2.82	170.291	4.7	7.81
20 to 49 (Medium)	1.630.215	3.46	122.976	3.4	13.26
Above 50 (Big)	31.759.937	67.39	312.450	8.7	101.65
Total	47.125.367	100	3.589.221	100	13.13

Data source: Own elaboration, based on Vega (2010)

**Figure 1 Contribution to Employment, GDP and Productivity**



**Figure 1 Contribution to employment, GDP and Productivity**

Other important consideration is the competitiveness that these enterprises show to the economy, since most of them have none strategy plans to develop their business, their only aim is get the daily profit that covers the main expenses <sup>[3]</sup>. This low background makes them be far by expecting hopes of develop. Next table highlights some aspects considered of the MSEs low productivity:

**Table 2 Qualitative Definition of the MSE in Bolivia**

Criteria	Micro Enterprise	Small Enterprise	Medium Enterprise
Entrepreneur Talent	Weak	Medium/Strong	Strong
Background Level	To Primary School	Above Primary School	University/Professional
Revenue Usage	Personal consumption, work capital, save	Capital accumulation, work capital and fixed, can save	Capital accumulation, work capital and fixed, can save
Organization	None	Familiar Organization	Areas establishment with specific tasks
Hierarchy	Boss - employee	Intermediate hierarchy	Intermediate hierarchy

Source: Own elaboration, based on Dorado (2006)

After contemplated the qualitative analysis of these enterprises performance, is important consider the quantitative characteristics as well. Next table show up the important issues of profit, assets and transaction in general.

**Table 3 Quantitative Definition of the MSE in Bolivia**

Criteria	Micro Enterprise	Small Enterprise	Medium Enterprise
Annual transaction volume (USD)	From 0 to 30.000	Between 30.000 and 40.000	From 400.000 to 1.200.000
Fixed Assets (without estate) USD	From 0 to 10.000	From 10.000 to 50.000	Above 50.000
Credit requirement (USD)	To 5.000	To 100.000	To 300.000
Occupied personal	From 1 to 10	From 11 to 20	From 21 to 50

Source: Own elaboration, based on Dorado (2006)

### 3 Methodology Research

The study and the research is based in all the information taken from different sources, the major purpose firstly is to determinate the importance of the MSEs development and its influence in the Bolivian economy. Determinate the current situation and evaluate the main reason of the slow growing process in the entrepreneur competitiveness.

According the evaluation made by the study, the following step is to recommend a general plan or strategy to execute, depending the company situation. Running a business is not an easy job, but this report task is to notify Bolivian MSE reality, getting their strengths and weaknesses to deduce the most significant changes to make; also achieving short run or long run objectives as a formal firm well established.

### 4 Diagnosis of the MSEs

Through all exposed above is necessary to make a diagnosis of the problems facing MSEs in Bolivia, the main pondered criteria are:

- One of the fundamental problems of micro enterprises is they take part of the informal economy, where the state has no control, being one of the challenges insert them into the formality to be active agents of the entire spectrum of the economic activity.
- Micro-entrepreneurs to formalize have difficulty due to the bureaucracy in the process of creating companies, and their costs are high as well.
- MSEs have to face unfair competition generated by the smuggling, which does not pay taxes, influence peddling, corruption and plagiarism.
- Lack of financing access, resulting in excessive guarantees, high interest rates in the financial system and the slow process of loan approval.
- Have no technically trained workers, to adequately address the problems that arise in production.
- Lack of access to technology is another major problem to be more competitive in quality.
- MSEs must expand their universe of taxpayers, due to political calculation, tax purposes means not to affect the informal sector<sup>[4]</sup>.

### 5 Proposal Implementation Strategies

The Bolivian economy is mostly affect to its GDP by the contribution of the Micro enterprises; it also has a big influence in the employment sector, since they hoard an important percentage of the total. The growing and the productivity improvement of the MSEs are considered an imperative forward step in the Bolivian economy. However is also known through all the difficulties to overcome in the long way, nevertheless facing adversity is all about attitude and courage, just not get any distract to finally reach the mainly aim. According the assessment made earlier it is conclude that must be consider three different factors that might be determinant or not for the enterprise raising:

#### 5.1 Experiences and education

Some clarity emerges when it is recognize the threshold effect of education. MSEs with more highly educated owners tend to grow more quickly, but a country-specific threshold must be reached to observe this growth effect. In the other hand according to Nichter and Goldmark (2009) small business owners often learn on the job. Work experience may contribute to MSE growth in at least two ways:

directly, by expanding the capabilities of MSE owners and employees through the acquisition of skills and knowledge; and indirectly, by expanding entrepreneurs social networks. Entrepreneurs with more years of work experience typically have faster-growing MSEs<sup>[5]</sup>

Is important recognize the difference between these two points, however for the business advance both go together; in consequence taking as an initial pattern of reference is considered the education and the constant training. According to the author Saldías (2007) he proposes three golden rules to follow in order to get a success business; considering this issue, owners and personal of the MSEs should reinforce<sup>[6]</sup>:

#### 5.1.1 Know how to buy

This is considered the initial of the productive chain, accepting that the cost of suppliers is the central of the sell price. Identify the vendors under the concept that vendors are as important as clients; considering provision sustainable and logistics that responds to the volume needs. The delivery must be just in time

#### 5.1.2 Know how to produce

Is important to comprehend the art of the micro administration of cost and productivity of the product, succeeding the tools as: adequate technology, planning and control, cost projection, constant training, productivity systems, human resources incentives and what is more important is the change of attitude in the production process, that means: orderliness, schedule achievement, efficiency and product quality.

#### 5.1.3 Know how to sell

Every success firm begins in the market and finishes in it. Managers should understand what the client is asking for, adapt their process agreeing the demand, and also develop marketing strategies and corporative image as well. Provide a distinctive product and a new element in the global competitiveness (The service that most of the times is more important than the price).

### 5.2 Technology implementation

Considering about a new implementation and the execution of new infrastructure and system platforms will depend exclusively if the firm presents failures that delay its production; meaning that it may involves an upgrading change in the production process with the usage of technology tools. The major purpose of this point firstly is to evaluate the limitations of the production, and then use the technology to support the efficiency of the procedure, referring to big or small changes in order to shorten the time, which is consider the most important asset of a business<sup>[7]</sup>.

Implementing a system that takes control of the entire business is the ideal purposefulness, since most large and success companies are totally systematized, showing an efficiency performance in their service; so the execution must begin taking consideration of these reference pattern. Reach into formality functioning would be the essence of a prestigious business image. The globalization also goes together with this term of IT (Information Technology), which offers huge opportunities of internationalization, that enables the company expand its client portfolio and be known around the world only counting with the necessary information that may introduce the company. Two important aspects to be consider in the technology implementation are:

#### 5.2.1 Systematize the production process

Make the new technology tools help the production procedure, making it easier to manage and easy to control, only getting the supervisors monitor the correct function that involves the production; so therefore the final result will be reducing the processes time that were usually used.

#### 5.2.2 Systematize the business management

Design and implement an informatics system that manages the entire functioning of the business, for this purpose the important areas that must be systematized are: administration, financial accounting, distribution and sales, purchases, bank transactions, inventory management, elaboration reports and partners relationship. Is important understand that the usage of the correct software can become a significant assistant to improve the productivity, in order to become competitiveness in the local market. The system implementation should be gradually, according the enterprise goes growing up.

### 5.3 Government support

The Government support is one of the important features that might help and open the opportunities to MSEs improve their productivity, however it is considered not a determinant reason for not got a significant develop, since nowadays is not difficult mention some companies that run their business within the formality according the actual policies of the new government. However considering three important issues to be supported by the Government that might influence the MSEs growing, are:

#### 5.3.1 Access to credit

Difficult at the same time for some entrepreneurs is to obtain a quickly credit to invest in business, due to all the bureaucracy and long procedure that takes get it; because of this inconvenient situation most enterprise owners prefer to get their capital from other sources; so according this position Government should interfere within bank superintendence to regulate and make more accessible work credit. This position suggests Government find some ways to help new enterprises launch their production more competitive in the market. The more opportunities of credit entrepreneurs got the more chances to invest they obtain, since strategy plans for improvement need the economic support to get it real.

### 5.3.2 Control and regulation of smuggling

Smuggle is one crucial circumstance due to many informal business compete among them, mostly referring to the price product. The simply fact that most micro businesses work within smuggle, means that their product get in the country not legally, avoiding fee taxes merchandise. A serious control and regulation of taxes according the real condition in which both parties benefit supervised by the state would be a good solution to relief the informality and at the same time an incentive to improve the procedure in which managers decide how to administrate their company.

### 5.3.3 Free capacitation

The major weakness of Micro and Small entrepreneurs is the lack of knowledge, most of the times they launch their own business only with the empirical experience they have gained through life. Mainly, low capacitation in these people are due they do not consider the importance of training and theory guidance, they mostly focus in the empirical learning or just simply this issue does not enter in their monthly budget; if Government offers this guide for free and promote its benefits will motivate entrepreneurs take consideration in their education. Both parties are advantage with this implementation.

## 6 Conclusions

According the Bolivian business structure, what predominates is the microenterprise sector. Within it there are the productive microenterprises with opportunities for development and also there are the subsistence microenterprises. The dominant sector is the second one, which creates itself as dampers for unemployment, whose comparative advantage is precisely the informality. Both types of microenterprises are important. On one hand are those (subsistence) that generate employment (or underemployment) and a production with little or no value added and others that not only generate employment but also possess added value and potential to develop as businesses through its ability to linked to productivity chains. These chains facilitate access to technology, credit and microenterprise market, enabling formalization and growth. However the sector policy should emphasize the training of human resources in the sector, increase competitiveness, facilitate the incorporation of technological improvements and create incentives to cooperate in marketing.

Bolivia has been shaken by frequent cycles of political and social instability. The consequence of poor governance has prevented the continuation of any strategy for development that would overcome the great social differences, economic, and political power as well. The lack of governance has also meant scarcity or no economic predictability that ultimately affects not only the development of the private sector but from achieving the goals of programs implemented with international cooperation. Political stability is a necessary condition for strengthening governance.

A major weakness of Bolivia is the poorly develop of the state institutions or the poor quality of the legal system that encourages informality and poverty, which prevents increase competitiveness. On the other hand, the low skilled human resources, and low technological improvement policy are well known; moreover, innovation rules and laws considered obsolete are not faced. Therefore, the institutional development and policy innovations are conditions to overcome informality.

Also is important promote market expansion programs and to initiate or strengthen networks of cooperation. The biggest market for MSEs is still being the local. This is because, the deficiencies in road infrastructure greatly increases transport costs. This makes it even more necessary to develop the business association to break the bottlenecks that prevent them from gaining greater competitiveness. It is also undeniable that the state bureaucracy and the demands on foreign trade are still heavy and the largest in the region, except; therefore it is necessary to look for patterns of integration between companies in order to create production chains and clusters, organizing its demands from the perspective of MSEs for greater physical integration. Urge to create services export promotion, clear and reliable information on market access inputs, processes, technologies and markets for final products.

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