STRATEGIC ALLIANCES BETWEEN SMALL OR MEDIUM-SCALE AGRIBUSINESS ENTERPRISES AND LARGE CORPORATIONS

Nerlita Masajo-Manalili

INTRODUCTION

Today's environment is characterized by dynamic change and technological breakthroughs where business organizations, small and large alike, find themselves in a game with fast-changing rules. Market behavior, for instance, has changed as people across geographical areas and of varying cultures now clamor for homogeneous products, when not too long ago their product preferences were highly differentiated. This homogenization of product preferences is fueled by technical breakthroughs such as sophisticated communication and transport facilities that, in turn, enhance the mobility of the factors of production (Shapiro, 1992).

In response to this trend, most enterprises around the world regardless of size are searching for more responsive global strategies. The intensification of world competition has become a battle directed to attract customers and to retain a significant market share over a sustained period of time (Rosov, 1988).

A similar reality is that business enterprises are confronted with lower growth sales, shifting population, as well as scarce, if not, dwindling resources. This constrained and fast-moving environment will make marketing a more important discipline than it has been before (Lilien and Kotler, 1983). Confronted with steep competition and scarce resources, companies are turning more and more to strategic partnerships or alliances in their bid to ensure their products' entry into the market and consequently to sustain market share.

While alliances may have a variety of objectives, market entry is the most cited, as many firms find that a contractual arrangement with a foreign competitor is a better way to enter a market than the traditional distributor, licensee, or joint-venture approach. Domestic partnering among firms is likewise common. Larger firms encountering difficulties resulting from their inability to adjust and be flexible prefer to look for strategic alternatives rather than end up unable to produce their products and services at the price and quality demanded by their clients. At times, large firms restructure and increase reliance on outsourcing or contracting to smaller firms for works ranging from research, marketing, and training.

Nerlita Masajo-Manili is a Professor at SERCA, Laguna, Philippines.

The smaller firms usually have the flexibility to adjust to specific job demand requirements, a characteristic that larger firms lack. Small firms are inherently vulnerable and may not sustain their long-run share of markets. Yet they have extended their scope and competence in terms of usage of advanced technologies and adoption of innovative practices (Pitt et al., 1990). These extended scope and competencies are the very reason why more recently large corporations, domestic and multinationals alike, are viewing small and medium-scale enterprises (SMEs) with renewed interest.

Quite often, the entry of a large enterprise, more so that of a Multinational Corporation (MNC) in a developing country, has been viewed as heralding the death of the many small-scale industries (SSIs) operating in the same sector. This traditional David-and-Goliath adversary role has given way to a lot of tensions and lack of cooperation between the two sectors of the industry. This should not be the case. MNCs have an essential role to play in the socioeconomic development of a country in much the same way that the SSIs have their own particular contributions to make (Chico, 1981).

The implications of globalization for SMEs are two-pronged. It offers an opportunity for a wider market while likewise bringing a deafening message that MNCs are here to stay, and, therefore, have to be viewed in a more realistic light. Whichever way one looks at it, the challenge for SMEs is to enhance their competencies and seek new types of arrangements to facilitate their entry to the global market, which most SMEs find difficult to pursue.

OBJECTIVES OF THE STUDY

The study is an attempt to contribute empirical support to the literature on actual and potential strategic alliances between small and medium-scale agribusiness enterprises (SMAEs), on one hand, and Large corporations (LCs), namely, large domestic corporations (LDCs) and multinational corporations of the Philippine agribusiness sector, on the other hand. In general, the study aims to assist SMAEs in finding alternative strategies to enhance their global competitiveness through the documentation, evaluation, and analysis of varying forms of strategic alliances. The end view is to determine if alliances as a strategy are worth pursuing and, if so, what forms are most appropriate to various types of agribusiness enterprises.

The study likewise looked into a) factors contributing to success or failure of the alliance, b) criteria used in selecting firms to ally with, c) ways by which these criteria can be explored, and d) most appropriate type(s) of SME-LC alliances by type of commodity or agribusiness venture to help ensure the enhancement of SME survival, stability, and growth.

SIGNIFICANCE OF THE STUDY

Small and medium-scale rural enterprises are a major source of livelihood in developing countries, often next only to agriculture in terms of current rural employment. As the capacity of agriculture to generate additional livelihood progressively declines, more rural people in the future will have to turn to employment in small-scale enterprises (Fisseha and Davies, 1981).

The need to support SMEs to enhance their marketing focus is more imperative with the World Trade Organization's (WTO) agreement to comply with the rules and discipline of the Generalized Agreement on Tariff and Trade (GATT) – Uruguay Round. With this agreement, the 117 member countries committed themselves to increasing access to their markets, and reducing export subsidies and internal support to agriculture over the period of the agreement: 1995 – 2006 (for developing countries) (Aqua-farm News, 1994). When tariffs are cut in developed countries and, more importantly, in developing countries, domestic industries are exposed to competition the same way that resources are shifted to more efficient uses, which will boost productivity and living standards (Philippine Chamber of Commerce and Industry, 1994).

In the Philippines, compliance with the WTO agreement was paved with the passing of Republic Act (RA) 8178 in March 1996. While the agreement offers market opportunities, it likewise exposed agri-based SMEs to stiffer competitions as more competitive foreign SMEs are expected to take advantage of liberalized trade. Apprehensions are escalating as the prospect of tougher competition looms ahead, and with it comes the reality that SMEs survival is dependent on their ability to go global. Breaking into the global market is not only profitable for small business but also essential to their ability to remain competitive (Zimmeres, 1996).

The impact of WTO-GATT is greatly anticipated in the agribusiness sector because of the Philippines' predominantly agricultural economy. Clarete (1994) affirms the unique export opportunity created by this agreement for Philippine agriculture and agribusiness system comprising about half of the Philippine economy. According to him a stable growth of Philippine agribusiness is key to realizing and sustaining growth objectives of the Philippine Medium Term Development Plan and that in the long run, there is nothing to expect except the development of medium scale industries and ultimately heavy industries if an agri-industrial strategy is pursued. The challenge, therefore, is to nurture SMEs and equip them with management ammunition to enable them to survive in an environment characterized by open competition.

Prescriptions for small business management according to d'Amboise and Muldowney (1988) are grounded in general management, but the literature "is not sufficiently specific when applied to small business" particularly on topics relating to strategic management and performance (Parker, 1989). Systematic research into appropriate configurations of strategies, structures, and styles of managing small firms and how they are best implemented offers a real prospect of advancing small firm policies and practices (Pitt et al., 1990).

The presence and consequent impact of MNCs in developing countries like the Philippines have long been an issue. The more popular issue against MNCs is that by the very act of investing in a foreign country, they are able to create conditions for international disputes and gain considerable power in forging the structure of national and international development. Exponents of MNCs, on the other hand, argue that though MNCs presence provides potentials for serious abuse, the said threat is far outweighed by the substantial economic benefits that flow from the provision of marketing opportunities, improved generation of employment, and training for new skills and technology transfer.

Buckley (1988) as cited by Dhingra (1991) reported that past research on international investment and the globalization process has mostly focused analysis on the large MNCs of industrialized countries. Yet Knell and Gale (1990), in the same paper of Dhingra, assert that there is a role for smaller firms in the international market; only the opportunities for them are different from those of larger MNCs. They added that the globalization of SMEs has often remained less studied even when these enterprises contribute significantly to the total volume of international business. This study is a modest attempt to remedy that dearth of research.

CONCEPTUAL FRAMEWORK

The definition of strategic alliance adopted in this study comes from Yoshino and Rangan (1995). According to them strategic alliance is any interfirm link falling within the nontraditional contractual agreements and within equity arrangements that involve no new entity or that do not provide for the creation of a new one. Specifically, strategic alliance include nontraditional contract agreements (joint undertakings with R&D, product development, marketing, and manufacturing), long- term sourcing agreement, shared distribution-service and standard setting research consortia, as well as no new and noncreating entity equity agreements such as minority equity investments, equity swaps, and nonsubsidiary joint ventures.

This definition totally excludes traditional agreements of arm's length buy-sell contracts, franchising, licensing and cross licensing, and entity dissolving arrangements such as mergers and acquisitions.

Strategic alliance as defined will be viewed under the new marketing concept where the firm's customer's base is its most important and most valuable strategic asset; as such, the strategic concern is how best to serve the customer, given the companies' limitations in developing and delivering products and services (Webster, 1994). Given that strategic alliances are usually entered into by any firm to better serve its customers (given its competencies and limitations), then it follows that strategic alliance is a response to a firm's need to serve its customer base, remain in competition and develop competencies, which are otherwise non-achievable if the firm remains on its own. Relating strategic alliance focus to company performance in the light of varying environmental opportunities and constraints is one major step in evaluating enterprise performance, with the end view of enhancing the stability and survival of the alliance.

An alliance strategy has for its underpinnings the consideration of product objective, market opportunities, and competitive advantage wherein the desired impact is based on a given target market or segment. The impact is achieved through a choice of marketing programs geared towards the product, the market, or both.

As in any objective setting and evaluation, these programs are examined in terms of how well they have accomplished the product objective set usually in volume of sales, market share, and in relation to enterprise growth and acquired competencies, given the market opportunities and competitive advantage.

Sales measure the demand for the enterprise's products while market share is a performance indicator relative to competitors. Enterprise growth indicators used were employment size and asset size. The number of employment was the basis of enterprise classification and any positive change was an indicator of growth. The size of the total assets was included to determine if size is a critical factor to a firm's profitability, which is a measure of performance. Inclusion of total assets likewise removes the bias that may be brought about by differing size.

Enterprise-specific marketing variables such as market expansion and product improvement were included to detect if competencies along this line changed. These factors were reflective not only of the acquired competencies that may or may not be attributed to alliance, but also of an enterprise ability to survive in the domestic as well as global markets.

As most SME failures have been attributed to poor management (Berryman, 1983) and lack of technical and financial capabilities, enhanced management, technical and financial capabilities were included as performance indicators. This was supported by Charan (1991) who said that for a network to thrive, top management must focus on behavior and horizontal leadership. Though admittedly these are difficult to quantify, he said that they become the central measures of performance.

Enterprise performance, however, is anchored on how well an alliance has provided a conducive environment to implement current marketing strategies, or has even helped in the formulation of new ones. The marketing strategy serves as the major link between corporate marketing planning and situation analysis. One must not forget that this marketing strategy is caused by a more fundamental corporate strategy that must not be neglected in the process of implementing the marketing strategy, the same way that this marketing strategy is an offshoot of one's analysis of the environment.

What this author suggests is that any alliance strategy should be viewed from a dynamic perspective, since it changes as the corporate objective or the situation analysis changes over time. Following this line of thinking, the framework of marketing study in Figure 1 will be adopted.

The presence of large enterprises in the same industry where the SMEs operate and their consequent impact on the latter's performance that range from simple to direct linkage, provided the analysis arena for the study. The success of any alliance is usually gauged through achievement of the objectives by the partnering firms. In addition, the commonality of factors for all the successful and failing firms identified would lead one to the identification of the contributory factor to success or failure, which could then be inputted as policy considerations for SME development. Thus, the sampled enterprises were evaluated in terms of their alliance objective achievement. Contributory factors either to success or failure were identified and used as basis for potential enhancement of SMEs.

METHODOLOGY

To determine the impact of alliances, a sample of 71 agribusiness firms in Mindanao were initially selected for study on the basis of the Philippine Statistical Industry Code for agribusiness enterprises. A complete listing of the 19 MNCs into crop production and manufacturing in Mindanao was made but only 15 were interviewed. In the areas where MNCs were located, 12 LDCs that have characteristics similar to those of the MNCs were identified. Thirty-four SMEs and 10 other LCs with alliance with the earlier sampled 27 LCs (15 +12) were interviewed.

Logistic regression models were used to determine a) whether or not alliance as a strategy is beneficial to agri-based SMEs, and what firm is it best to ally with, MNC or LDC; and b) whether or not alliance led to objective achievement, and what factors contributed to the achievement or non-achievement of objectives.

Fourteen explanatory variables were initially fitted against sales volume and market share in the first model, namely: number of products, product improvement, nature and number of improvement, product share, asset size, employment size, nature of competencies acquired (production, operational, management, and financial) and alliance with MNC or LDC treated as dummy variables.

Models Used

The logistic regression model was used in the study as it has become the standard method for regression analysis involving dichotomous data (Hosmer and Lemeshow, 1989).

Figure 1: Conceptual Framework

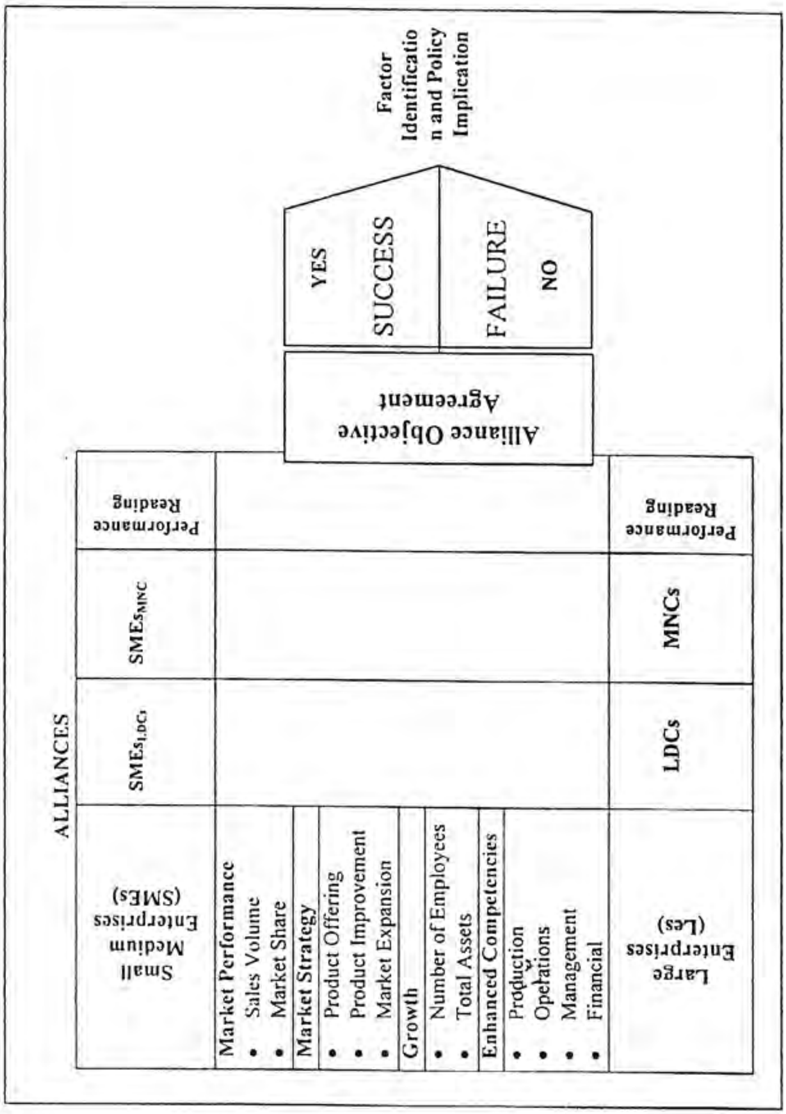


Figure 2: Models

Model 1

To determine a) if alliance as a strategy is beneficial or not to agri-based SMEs and
b) what firm it is best to ally with (MNCs or LDCs)

Sample: SMEs with or without alliance.

a. Y = sales volume, where 1 = Sales volume increased.
0 = Sales volume did not increase.

Independent variables:

Dummy, where D_1 = 1 = SME is with alliance with MNC.
0 = SME is without alliance with MNC.

D_2 = 1 = SME is with alliance with a LDC.
0 = SME is without alliance with a LDC

X_1 = no. of product offerings

X_2 = product improvement 1 = with
0 = without

X_3 = product improvement 1 = entirely new product type
0 = old product improved

X_4 = market expansion 1 = with expansion
0 = without expansion

X_5 = asset size

X_6 = employment size

X_7 = competency acquired 1= with acquired competencies
0= no acquired competencies

X_8 = production competencies 1 = with improvement
0 = no improvement

X_9 = operational competencies 1 = with improvement
0 = no improvement

X_{10} = management competencies 1 = with improvement
0 = no improvement

X_{11} = financial capabilities 1 = with improvement
0 = no improvement

b. Y= market share, where: 1	= Market share increased.	
	0 = Market share did not increase.	
Independent variables:		
Dummy, where	D_1	1 = SME is with alliance with MNC.
		0= SME is without alliance with MNC.
	D_2	1= SME is with alliance with LDC.
		0= SME is without alliance with LDC.
X_1 = no. of product offerings		
X_2 = product improvement	1 = with improvement	
	0 = without improvement	
X_3 = product improvement	1 = entirely new product type	
	0 = old product improved	
X_4 = market expansion	1 = with expansion	
	0 = without expansion	
X_5 = asset size		
X_6 = employment size		
X_7 = competency acquired	1=with acquired competencies	
	0=no acquired competencies	
X_8 = production competencies	1 = with improvement	
	0 = no improvement	
X_9 = operational competencies	1 = with improvement	
	0 = no improvement	
X_{10} = management competencies	1 = with improvement	
	0 = no improvement	
X_{11} = financial capabilities	1 = with improvement	
	0 = no improvement	

Model 2

To determine
a) if alliance led to objective achievement or not,
b) what factors are contributory to the achievement or non-achievement of objectives

Sample: SMEs with alliance.

Y = alliance objective achievement, where 1 = Objectives were achieved.
0 = Objectives were not achieved

Independent variables:	
D = Dummy, where	1 = with alliance with an MNC 0 = with alliance with an LDC
X_1 = employment size	
X_2 = years of alliance	
X_3 = business type,	1 = if production (crop) based 2 = if manufacturing based
X_4 = outcome of alliance,	1 0 = individually prospered 0 1 = merger 0 0 = alliance dissolved
X_5 = type of alliance	1 0 = marketing 0 1 = research and development 0 0 = others

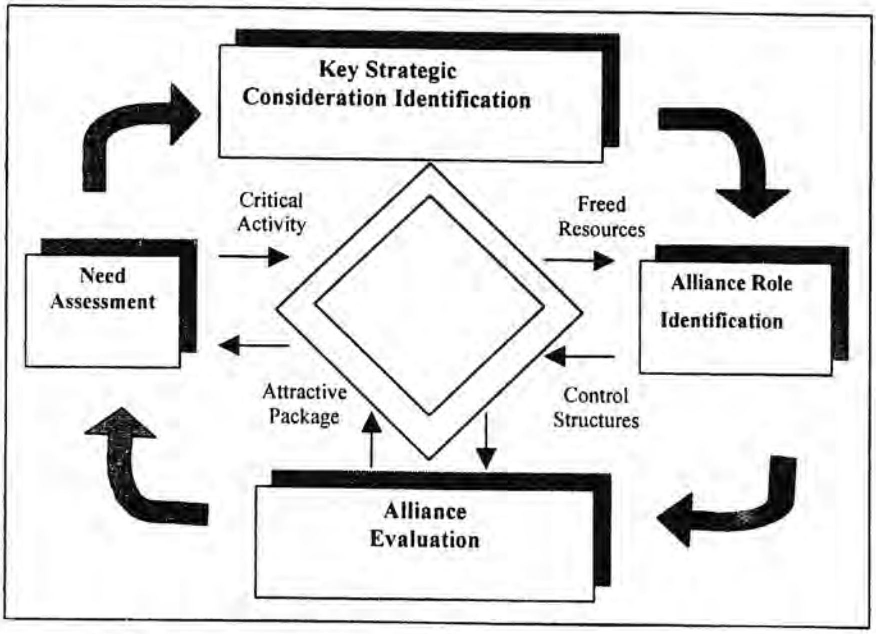
Several models were formulated to operationalize the objectives of the study. The dependent variable Y was assumed to take on two values or was assumed to be binary (Figure 2). The following are the models used and the corresponding objectives they operationalized.

RESULTS AND CONCLUSION

Strategic alliances are predominant features of the agribusiness sector in the Mindanao region. Their presence was established in six areas of the value chain, namely: input-production, input-manufacturing, production-purchase, manufacturing-trucking, production-physical distribution, and purchase-physical distribution. These were the areas de-integrated from the enterprise value chain and consequently opened to outsiders or partner SMEs. In effect, these are the opportunity areas for strategic alliance between agri-based enterprises covered by the study.

There is a discernible pattern of alliance adoption by LCs comprised of need assessment, key consideration identification, alliance role identification, and alliance evaluation (Figure 3). This pattern is a simpler version of Yoshino and Rangan's (1995) road map to forging alliances, as no reconfiguring the value chain creating fallback positions and maintaining strategic options were discerned. Though shorter, the documented pattern involves sufficient consideration and analysis, reflective of the fact that enough preparation went into alliance formation on the part of the LCs. The same cannot be said of SMEs, however, as most ventured into the alliance not of their own volition but as enticed by alliance-initiating LCs (Figure 3).

Figure 3: Alliance Adoption Pattern



Alliances by the sampled LCs are crafted more for strategic marketing rather than as a product strategy move and are aimed at tapping market opportunities and enhancing competitive advantage. Product specifications of agricultural commodities are set as early as production. As such, the product objective seldom served as the basis for strategic alliance as much as market opportunities and competitive advantage did. If ever product improvements were undertaken, they were usually done for purposes of yield improvement or production-related reasons such as less susceptibility to diseases or similar reasons, and not for product improvement that will directly cater to the needs of the customer.

There seemingly is an indication that LCs use alliances to facilitate market entry while others look at them as a strategic move to sustain market share. Alliances are the LCs' response to the pressure of globalization to enhance their competencies and ability to compete in the global market. Initiated by the LCs, basically MNCs, strategic alliances have given rise to SMEs, have generated employment, and have provided alternative economic benefits to SME proprietors and their families.

On the basis of quantitative models used in the study, however, there was no evidence to show that an SME's alliance with a LC (be it an MNC or LDC) is a better predictor of the increase in its sales volume or market share.

Variables such as market expansion and operational competency enhancement were, however, found to positively influence the probability of increasing the sales volume of SMEs. This means that, in terms of operational competency and market expansion variables, alliances contributed to increasing the sales volume and market share of the sampled SMEs.

Dummy variables, with or without alliance, were found as non-contributory in enhancing the sales volume and market share of SMEs with alliance. It follows that using this model, alliance is of no significance to SMEs be they with MNCs or LCs. This could be attributed to two factors. The first is that given that 14 of the remaining 29 cases of SMEs with alliance, indicated that they acquired competencies through conformity to standards imposed by allied LCs, the impact of alliance may have been subsumed by the variables on competencies acquired. The second is the possibility that sales and market share may not be the true measure to capture alliance significance at the relationship level that the enterprises are in. The income of SMEs is usually used to meet family subsistence requirements and is not being plowed back for enterprise performance enhancement. These measures may be too short term in nature that they may not actually appear in the alliance. More appropriate socioeconomic variables such as welfare enhancement, per capita income, and related variables may be more useful.

Comparing SMEs with alliance with those without alliance shows no significant differences in terms of selected attributes such as employment size, asset size, number of product, and product improvement. This means that alliance or non-alliance is of no consequence on the sampled SMEs.

For LCs, employment size and management competency acquisitions were found to be better predictors of sales volume. Alliance or non-alliance was found to be of no consequence to LCs in terms of its potential as a predictor of enhanced sales volume and market share. As LCs has a direct hand in shaping strategic behavior, management competencies contribute a lot in enhancing strategic decisions and consequently performance. This helps to explain that for SMEs, which have no direct influence on their strategic behavior only on operational activities, operational competency enhancement is the better predictor of sales volume and market share.

The study provided empirical support that LCs, particularly MNCs, facilitated enterprise creation and alternative income generation as well as employment. LCs have likewise broken new development grounds, which, if left to the government sector, will require a longer period to undertake owing to lack of resources. This is particularly true of plantation enclaves, which were totally inaccessible prior to LCs' entry.

There was some evidence that LCs have contributed to competency enhancement in the SMEs that were associated with allied LCs that imposed high standards. If appropriately enhanced, these acquired competencies are potential triggers for eventually weaning SMEs from LCs and letting them operate on their own. There were few indications, however, that SMEs were thinking along this line.

The SMEs in return have afforded LCs capital utilization efficiencies in the process of providing much needed service of comparable quality but at lesser cost. Operational efficiency enhancement was also the SMEs' indirect contribution to LCs. LCs' resources were freed for investment in other areas of operational enhancement.

It appears that the impact of the alliance is mainly on the perceived attainment of goals, and impact is primarily effected through acquired competencies. Even with acquired competencies, however, SMEs are not yet that empowered to operate on their own or even undertake marketing activities by themselves. Since the SMEs are greatly dependent on LCs for marketing activities, they are unable to shape their own market or make strategic moves that would enhance enterprise operation.

This supports Lynch's (1994) observation that marketing can only operate effectively if it is rooted in a clear sense of corporate purpose that reflects internal capability as well as external reality; in short, if it is rooted in strategy. On the part of SMEs they are still wanting in terms of full identification of enterprise purpose as well as internal capability enhancement.

Figure 4: Added LC-SME Insights

- The entry of LCs, particularly MNCs, gave rise to the establishment and not death of SMEs, as claimed by some sectors.
- Strategic alliances with SMEs are the LCs' response to the pressure of globalization so as to enhance competencies and be able to stay in competition.
- Strategic alliances have created trust and teamwork and have led to boundary-less cooperation between partnering enterprises.
- Alliances were crafted more for purposes of tapping market opportunities and enhancing competitive advantage than for product enhancement. There was evidence to show that an alliance was considered as a strategy for market entry and for sustaining market share.
- Although they may have shown signs of improvement, SMEs have not yet reached that level where they have shown the skills to shape their strategic behavior and market options.
- It is the SMEs' powerless state, not necessarily their size that prevented them from adopting appropriate strategic moves. Market options are key to an enterprise determination of its strategies, for in the absence of such options the enterprise is less empowered to either undertake or implement strategies.

Despite the proliferation of SME establishment as well as competency enhancement in the study area, the fact remains, as was likewise found by Pitt et al. (1991), that SMEs are inherently vulnerable and may not sustain their long-run share of markets. Thus there is a need to find ways by which they can be assisted, given the critical role they play in the agribusiness sector.

Considering as well that they are operating within the business realm of LCs, efforts should be directed on how best both parties' development can be enhanced. Added insights were likewise gained on LC-SME relationship (Figure 4).

RECOMMENDATIONS

Because market expansion and operational competency acquisition as well as financial competencies and product improvement enhance the likelihood of increased sales volume and market share, recommendations are geared towards market expansion, enhanced investments in research and technology, and a nurturing environment supportive of the growth and development of LCs and SMEs, individually and jointly as allies.

Policies on standards concerning growership arrangements, continuing enterprise education, and nurturing of functional alliances should likewise be implemented and appropriately articulated. The foregoing is best achieved through the establishment of an SME Authority that will service the requirements of SMEs, which comprise 99 percent of all enterprises in the country.

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