

Organization, Management and Operation of the Wood Furniture Industry in the Cagayan Valley Region, Philippines

Wilfredo T. Lacambra, Ph.D.
College of Engineering, AMA International University Bahrain

Abstract

A survey of the organization, management and operation, uncovering problems encountered; and the alternatives that are open to sustain and improve the growth of the wood furniture industry in Region II. A questionnaire, supplemented by interviews and observations, was used as the basic research instrument to the three hundred sixteen respondents. This study attempts to draw up the organization, management, operation and problems of the wood furniture industry in Region II which may give insights into the reason why the industry has been lagging behind most other sectors. It is the intention of this study to be able to draw up a data base on the furniture industry from which plans and policies could be formulated for the upswing of the industry and thus, take part, in a way, in the improvement of the economic performance in the region and the country, in general.

Keywords: Furniture Industry, Micro, Small & Medium Scale Enterprises, Cottage Industry

1. Introduction

Promotion of micro, small and medium enterprises in the countryside is concurrently a major thrust of the government as well as the private sector. The emphasis being given to cottage and small industries is anchored on its tremendous potentials to contribute effectively in the pursuit and achievement of three primary national objectives: a) employment generation, b) to accelerate industrial development of the rural areas, and c) to improve income. Such opportunity is focused on one of the potential industries, the furniture making industry and its shares to spur industrial development in the countryside.

The furniture industry in the region is a very good example of a "resource—based industry" and the most prevalent manufacturing activity by virtue of the number of firms existing and the number of workers employed. In the efforts to alleviate poverty, entrepreneurship development in the micro and cottage industry can be developed to induce productivity and income generation among the local population. Recognizing the vital role of small—scale industries in the country, the government has placed a high priority in its development especially in the countryside in order to achieve a balanced socio—economic development of all and medium industries is "anchored on its tremendous potentials to contribute effectively in the pursuit and achievement of three primary national goals: employment generation, accelerated industrial development of the rural areas and wider participation by all income classes in economic development."

In keeping with the national program of developing micro, small and medium -scale industries as one measure of hastening countryside development in support to the industries drive, the government through the Department of Trade and Industry has considered this sector as one of the concerns of its development programs. Among these is the woodcraft industry which is primarily engaged in furniture making. The rationale behind such selection is the fact that the region has some of the best timber resources in the country. The Cagayan Valley Region has a total land area of 3.6 million hectares, seventy two percent or approximately 2.6 million hectares is declared as public forest land. Isabela alone has a classified forest reserve and timberland area of 300.752 hectares and 310.304 hectares of unclassified forest land. These yield the quality hardwoods — Narra, Dao, Yakal, Molave and others which made the province as one of the top log—producing provinces in the Philippines and the first in Luzon. The woodcraft industry, therefore, enjoys an advantage in terms of raw materials not to mention the relatively easy transfer of technology and labor. A limited initial survey conducted by the Department of Trade and Industry, Industry and Investments Development Division in Region 02 revealed that these firms have been experiencing similar problems encountered by furniture establishments in the rest of the country. Foremost of these problems are financing and poor technology which result in the inability to expand marketing operations. However, such problems seem to be balanced by other factors, among which are: the comparative advantage in raw materials and labor availability, uncomplicated technology which lends itself to easy transfer, and market potentials.

Modernization has not caught up with the industry. Its production is still in the semi—mechanized stage and is essentially of the jobbing type. The firms have not ventured to mass produce inasmuch as the local market is limited and foreign market has not been tapped. This may be attributed to relatively higher freight cost compared with the more complete facilities of Cebu, Manila and Subic.

Surprisingly, the growth of the industry, in terms of number of firms, has been slow paced despite the abundance of raw materials in the region. Although the present state of the industry leaves much to be desired, prospects should prove favorable given the necessary orientation and boost from concerned sectors. Since the importance of SMI development to Philippine economy and private institutions have formulated programs that

would create a healthy environment for SMI growth.

Cottage, small and medium enterprises (CSMEs) make up a significant share in the Philippines' national economy. On the average, CSMEs account for 98% of total establishments, 50% of total employment and 25% of total value-added in the manufacturing sector. In 1985, there were a total of 5,369 enterprises in the organized manufacturing sector (composed of small, medium and large enterprises) operating in the country. Approximately 88% of this number were small and medium enterprises. The food industry ranked highest in terms of number of establishments with 1,331 firms or 25% of the total manufacturing sector. This was followed by wearing apparel with 911 or 17%, and 413 or 8% consisted of metal working, textiles and wood products taken collectively.

Philippine furniture is one of our emerging, nontraditional export products. In terms of value, it now ranks as the twelfth largest export commodity of the Philippines. The leading markets for Philippine furniture products are the United States, Japan and Australia absorbing more than 70% of furniture exports. Philippine furniture also went to the United Kingdom, France and Canada—all three countries increased their furniture imports from the Philippines.

In the Cagayan Valley Region, furniture industry is considered the biggest in terms of the number of firms existing in from the beginning dependent on wood as the raw material and attained considerable gains in terms of economic performance during the last decade. Over the years, the industry has proliferated and is considered as the major source of employment and livelihood for approximately 50,000 people region wide.

Statement of the Problem

1. What is the personal profile of the owner/ manager of the wood furniture industry establishments in Region II?
2. How are these establishments organized in terms of capital and other requirements? (organization as used in this research refers to the founding or start of the business).
3. How are these establishments managed and operated? What are the prevailing problems of the furniture industry in Region II? What are their strengths and weaknesses?
4. What are the prospects of the furniture industry in the region?
5. What alternatives are open to improve the growth of the industry?

2.1 Conceptual Framework

The State establishes the necessary framework under which business enterprise may be established and operated.

Section 1 of Article XII of the 1987 Philippine Constitution on National Economy and Patrimony clearly states that the "State shall promote industrialization and full employment through industries that make full and efficient use of human and natural resources, and which are competitive in both domestic and foreign markets. However, the State shall protect Filipino enterprises against unfair competition and trade practices".

Section 20 on State Policies recognizes the indispensable role of the private sector, encourages private enterprises, and provides incentives to needed investments.

The Medium—Term Philippine Development Plan establishes the promotion of cottage, small and medium enterprises for an industrial development effort.

The Magna Carta for Small Enterprises and the Kalakalan 20, which Congress has enacted, provides a comprehensive framework that hopes to rationalize, promote and strengthen the small and medium industries.

With these mandates, the Philippine government encourages the promotion of cottage, small and medium—scale industries as a potent tool for industrialization. Furthermore, the dispersal of industries in the regions is now a prime concern of the government, thus the countryside population with the ultimate goal of a more or less equal flow of wealth and a balanced-pace of industrialization.

2.2 Review of Literature

David C. McClelland, in an extensive research study conducted on entrepreneurs, claimed that the very key entrepreneurs have to offer to progress is their inner concern those values and motivations that have led them to tap and take advantage of favorable economic opportunities and turn them into profitable and successful venture. This inner concern or value in entrepreneurs, according to McClelland's findings, is their high need for achievement. In his study of numerous successful entrepreneurs, he found the following characteristics higher than usual intensity in an entrepreneur: (1) he has a high degree of need for achievement and likes to take personal responsibility; (2) he likes to take moderate risks which means he does not undertake an activity 1, A.th excessive odds; (3) he wants to know the results of his efforts; (4) he tends to persist in the face of adversity and is not easily discouraged by failure; (5) he tends to be innovative; (6) he demonstrates some inter—personal competence; (7) he is future—oriented; (8) he lives "in process" and is constantly developing; (9) he tends to be mobile; and (10) he is not completely contented, not satisfied with the status quo, nor with what he has already achieved.

Recently published research has explored the nature of entrepreneurship in the islands of the Pacific. This research, focused on the role of the local entrepreneur in the development of the small island nations of the South Pacific, and one of the primary purposes was to assess the social and economic factors that contribute to the success or failure of small business in these islands. It appeared that most island entrepreneurs were male, over forty and well established in the local community. This relatively "mature" group of entrepreneur not only benefitted from the support of their own family but were also able to draw an extensive network of contracts and traditional ties within the community. Most island entrepreneurs appeared to have had virtually no previous experience in running a business or any relevant exposure to business practices. They came from families with no heritage in business and where they themselves were either civil servants, teachers or subsistence farmers. Their business skills were largely learned by trial and error, and given traditional method of learning in the islands, relied on observation and then on imitation. It is not perhaps surprising that many Pacific islanders chose to start a business that were in the service sector with retailing and transport being the most common (both of which could easily be learned and imitated through observation). This "copycat mentality" was apparent throughout the region and led to the proliferation of certain types of small island markets, culminated in the success of a few and the downfall of many.

The chances of failure are obviously increased if those involved have limited relevant experience as it appears to have been the case with most of these island entrepreneurs. Moreover, their precarious business future was further jeopardized by the diversity of motives for going into business. Even though the economic benefits and expected profits were important, in many cases, personal motives superseded business logic. Commercial endeavors were seen as a way of gaining independence or achieving power and status in the local community. Thus, in Western Samoa, status and prestige could be reinforced by commercial success. Similarly, in Papua New Guinea, material wealth, if used shrewdly, could be used to weave a network of political power of the individual entrepreneur.

Wang Bin made an observation about the gradual shift "from a state—controlled economy to capitalism in China with the emergence of individually owned and operated small enterprises. The following were some of the problems that hinder the development of township entrepreneurs in China: (1) stiff competition; (2) negative values such as spending on non—productive activities, i.e. holding extravagant wedding celebrations, funeral and similar rites in rural areas; (3) severe lack of professional manpower and scarcity of skilled technical workers; (4) low productivity and poor quality of products; (5) lack of laws and regulations to ensure the protection of the interest and rights of township entrepreneurs. The author recommended the following: (1) establishment of a more market-oriented management and employment of management oriented people; (2) upgrading the educational level of employees of township entrepreneurship; (3) creating tie-ups with big urban enterprises; (4) formation of cooperatives among entrepreneurs; (5) encouraging entrepreneurs to invest more in production instead of spending for luxurious activities; and (6) clear cut governmental regulation and supervision of small business entrepreneurial activities.

2.3 Entrepreneurship and the Goals of the National Economy

Section 1 of Article XII of the 1987 Philippine Constitution directs the socialization of the national economy and the Filipinization (Filipino ownership) and nationalization of the patrimony of the nation, viz:

For a developing country like the Philippines, with a large population growth and an excess labor supply, there is an inherent advantage in adopting a development strategy that promotes industrialization and full employment. An important aspect of industrialization is that it generates a high level of employment. Factories and industrial sites create job opportunities and thus create sources of livelihood for the people. The high incidence of poverty in the country is rooted in unemployment. Our nation will never recover economically, socially and politically as long as the problem of mass poverty persists. The first step towards the solution of the problem is, therefore, the creations of massive work opportunities that will absorb the millions of unemployed and underemployed labor in our country today, and this can only be done through full and rapid industrialization.

Along this line, the government now encourages labor-intensive industries first as against those which are capital-intensive. Also, industrialization need not be associated with large business. Small and medium-scale industries require little investment but employ more people per unit of capital-use. The same is true of industries that make full and efficient use of human and natural resources. Economic efficiency minimizes costs of production and prices of goods thereby making them more competitive in both domestic and foreign markets. They generate a high degree of employment and earn foreign exchange for the country while contributing to industrialization.

2.4 Economic Progress through Grassroots Entrepreneurship

There has been the belated realization that in order for the country to attain real economic progress, entrepreneurship must emanate from the grassroots level. This means that there must be genuine economic decentralization and small business enterprises must be developed. To encourage entrepreneurship, especially in

the regions, structural bottlenecks in the form of administrative and bureaucratic red tape should be reduced if not eliminated. Rural based industrialization may also bring about the added benefit of resolving the congestion and traffic woes of Metro Manila. As rural enterprises bring about the economic improvement of the countryside, the demand for labor will likewise increase which will be powerful deterrent against migration to Metro Manila. Over time, the growth of Metro Manila's population will slow down so that congestion will be resolved and there will be a subsequent and balanced improvement in the quality of life. A relatively simple initiative of encouraging countryside business enterprises will go a long way towards guiding the country into long-term sustainable economic growth and progress. Entrepreneurs in the countryside, if one were to seriously look at them, are in fact more market-oriented and aware of the fact that it is only when they are able to produce their goods and services at the lowest cost that they can succeed. All that these entrepreneurs in the countryside really need is the right environment, a reasonable "breathing space", including a minimum of bureaucratic and constricting rules and regulations to enable them to succeed.

2.5 The Role of Government in Entrepreneurship Development

Government financing schemes for small-scale industry entrepreneurs began in the 70's with the Small and Medium Industries Lending Programs (SMILE) of the Development Bank of the Philippines and are now continuing mainly through the Industrial Guarantee and Loan Fund (IGLF) and the Guarantee Fund for Small and Medium Enterprises (IFMSE) which utilize accredited government and private financial institutions as conduits. However a review of both schemes showed that most of the loans still went to the urban areas. This is blamed on the concentration of the banking system in the cities the use of specialized staff based in the urban centers to implement these schemes and the collateral orientation of banks. A new financing scheme "Tulong sa Tao Self-Employment Livelihood Assistance (TST-SELA) program has been launched by the Department of Trade and Industry that channel funds to entrepreneurs through private voluntary organizations (PVOs). With an initial fund of Y100 Million, the fund to be supervised by a national council with equal representations from the government and private sectors. Another innovative approach at the local level is the Micro Enterprise Development Project (MEDP) of the Small Enterprise Research and Development Foundation (SERDEF), the affiliate foundation of the UP Institute for Small Scale Industries (UP-ISSI). With a grant from USAID, SERDEF extends loans to micro entrepreneurs (assets of P50,000 and below) through private voluntary pr non-government organizations (NGOs).

There is no specific government or private organizations tasked to exclusively promote the small scale industry sector through improvement of its products and technological capabilities. However, the various research institutes under the Department of Science and Technology (DCST) have taken on the additional task of catering to the sector. The DTI, in its recent reorganization, has expanded the functions of the Product Development and Design Center of the Philippines to include the training of small entrepreneurs through designs and processes. The MEDP project of SERDEF also orients the local enterprises to a technology generation through training seminars and extension activities. The NDC—NACIDA Raw Materials Corporation, was set up to import raw materials for distribution to the small industrial sectors as well as acquire indigenous raw materials. There were also attempts to improve the raw ma—materials, for example, of the metalworking industry by directing the National Steel Corporation, a government—owned entity, to manufacture quality raw materials for the industry. For a time the Department of Environment and Natural Resources (JENR) granted permits to gather forest products utilized by the furniture and handicraft industries to the industry associations to facilitate access to these materials.

A wide array of marketing assistance program are also available. The most notable are the Market Encounter Program which brought the department store buyers and export traders to the regions to see and b4 the products of local entrepreneurs; the Design Markets which provide on—the—spot product and package evaluation, design and adaptation; and the One Stop Shop in Exports which puts together all the government agencies involved in processing export papers and documentation.

Just recently, the government has created new programs to assist new and small enterprises. These are the Big Brother Program and the Adopt—a—Province Program. The government has also taken steps to make the business climate more conducive to growth of countryside business enterprises (CBEs). This is best exemplified by the administration's certification of a bill granting incentive to countryside business enterprise, more popularly known as the "Kalakalan 20". This proposed legislation is currently deliberated id Congress. The Big Brother aims to develop linkages between firms of different sizes. This will be done with the establishment of business centers in regions where large business and small firms can compliment each other. The centers will be primarily production and marketing areas but may also be used for training and raw materials procurement. The main support, technology or production and financial support shall be a component of the program. On the other hand, the Adopt—a Province Program taps successful "provincianos" to act as catalysts for the development of firms in their native provinces or in a province of their choice. The development coordinators will be assisted by a senior DTI official to form a teach team which will serve as catalysts of development in the

province. Support services will be provided by the DTI and the People's Economic Council (PEC). In terms of creating an atmosphere conducive to increased economic activity in the rural areas, the proposed bill on CBEs "provide for measures that will cut down bureaucratic red that has fettered the entrepreneurial spirit of ordinary people striving to break out from poverty". The bill also provides for simplified procedures for registration and the payment of taxes, licenses and business fees. The speedy enactment of the bill will help encourage investments, generate employment, and increase incomes in the country-side. As noted in the President's transmittal letter to Congress, "this is consistent with our thrust of promoting growth and equity, accelerating development and industrial dispersal.

2.6 Policy Guidelines on Government Livelihood Programs Related to Entrepreneurship

The principles governing these guidelines are as follows:

1. Institutionalization of private sector participation in formulation and implementation of livelihood programs and projects.
2. Primary program targets are the unemployed in the low-income sector.
3. In terms of geographic distribution, priority shall be given to areas where large number of un— employed and underemployed are located.
4. Government agencies, except the Department of Social Welfare and Development (DSWD), should not be involved in direct lending activities.
5. Credit shall be extended through accredited financial institutions and non—government organizations (NGOs), as may be determined by the respective agencies.
6. Eight agencies are designated as lead agencies, namely, the Department of Agriculture (DA), the Department of Trade and Industry (DTI), Department of Environment and Natural Resources (DENR), the Department of Agrarian Reform (DAR), Department of Labor and Employment (DOLE), Department of Education, Culture and Sports (DECS), Department of Interior and Local Government (DILG) and Department of Social Welfare and Development (DSWD).
7. The National Economic and Development Authority (NEDA)Board, Social Development Committee, the various Regional Development Councils (RDCs), Provincial Development Councils (PDCs) and Municipal Development Councils (MDCs) have been designated as coordinating mechanisms for livelihood programs and projects at the national, regional, provincial and municipal levels, respectively.

3. Research Design

The researcher made use of a descriptive survey to establish a profile of selected wood-furniture industry in Region II. The observation method was also used. The research instrument consisted of a questionnaire, supplemented by interviews and observations were conducted on legitimate firma operating in the region. The questionnaire, is a combination of structured and open-ended questions to facilitate responses and, at the same time, to allow the respondents to express themselves freely without being limited by given choices in their answers. Explanations were also given to the respondents when questions were not easily understood. Ocular inspection of shops were also carried out to obtain a wholistic view on individual operations. Interviews with selected authoritative persons in the furniture industry was also resorted to as a means to validate the study.

The final number of respondents resulted in a sample size of three hundred sixteen or 91 percent of the target population. This is deemed sizable enough to represent the entire population. The questionnaire was used as the primary research tool in this study. The researcher made use of frequency count, percentage and ranking method in interpreting the data gathered.

4. Results and Discussion

The mean age of the respondents is 42.0 which shows that majority or 59.1 percent belong to the older age group of forty-one and above. The oldest is 68 years and the youngest is 23.

AGE DISTRIBUTION OF THE OWNERS/MANAGERS

Age Bracket	Frequency	Percentage
25 and below	5	1.6%
26 - 30	22	7.0%
31 - 35	37	11.7%
36 - 40	65	20.6%
41 - 45	69	21.896
46 - 50	89	25.3%
51 and above	38	12.0%
TOTAL	316	100.0%

Education, experience and training

Majority, two hundred eighty-eight or 72.2 percent of the respondents did not go beyond high school

with a significant number of eighty-five or 26.9 percent having completed elementary education only. Financial reasons account for the low level of educational attainment among the respondents such that they had to work early in life to help their families earn a living. Many started working in furniture shops after quitting school while others went into farming. A distribution of the educational attainment of the owners/managers is presented.

The importance of educational attainment is reflected in the performance of those who attended, completed college and those who went to graduate school whose shops are observed to be comparatively better in terms of size and management than the others.

EDUCATIONAL ATTAINMENT OF RESPONDENTS

Level	Frequency	Percentage
Attended Elementary	12	3.8%
Completed Elementary	85	26.9%
Attended High School	75	23.7%
Completed High School	56	17.7%
Attended Vocational School	18	5.7%
Completed Vocational School	14	4.4%
Attended College	19	6.1%
Completed College	33	10.4%
Went to Graduate School	4	1.3%
TOTAL	316	100.0%

In terms of experience, half of the respondents have owned/managed their shops for at least 10 years. The longest period of ownership is in the bracket of 36-40 years for six or 1.9 percent while the shortest is less than a year for twelve or 3.8 percent. A distribution of the number of years in the business is shown. While these figures seem to indicate that the length or duration in years in the business is relatively short, it does not reflect the prior experience of the owners/managers in the business.

NUMBER OF YEARS OF SHOP OWNERSHIP

Number of Years	Frequency	Percentage
Less than a year	12	3.8
1 — 5 years	77	24.4
6 —10 years	160	50.6
11 —15 years	17	5.4
16 —20 years	10	3.2
21 —25 years	12	3.8
26 —30 years	8	2.5
31 —35 years	14	4.4
36 —40 years	6	1.9
more than 40 years	-	-
TOTAL	316	100.0%

Before they had established their own shops, two hundred eighty—three or 89.5 percent had worked first in furniture shops where they acquired enough experience to go on their own. Most of the respondents worked as production workers. Forty one others or 12.9 percent stated that they never had experience in furniture shops. Table 4 shows the various work experience of the respondents in the business and other profession/trade.

On training in running a small enterprise, ninety — eight or 31 percent said that they have heard or were aware of the assistance given by the government in this regard while two hundred eighteen or 69 percent answered in the negative. Interestingly, only fifty-two of the ninety—eight had availed of the training assistance by attending a DTI sponsored "Small and Medium Enterprise Development Seminar" for a few days.

PREVIOUS WORK EXPERIENCE OF RESPONDENTS

Work Experience	Frequency	Percentage n=316
In Furniture Shops		
Production Worker	242	76.6
Manager	12	3.8
Employee	14	4.4
Production Supervisor	15	4.7
Others: Farmer	82	25.9
Laborer	45	14.2
Employee/Clerk	16	5.1
Army/PNP	25	7.9
Managerial Position	18	5.7
Architect	4	1.3
Civil Engineer	10	3.2

Note: Multiple responses.

Those who attended the seminar said that they are now making use of what they had learned from the seminar. Twenty further said that the training is helping "just enough". Twenty-two indicated "very much" while ten said the help is "little". As regards training related specifically to furniture making, one hundred fifty or 47.5 percent indicated that they have attended such training while one hundred sixty-six or 52.5 percent answered in the negative. Training was sponsored by the Cottage Industries Training Center (CITC), DTI Provincial Office and the Bureau of Domestic Trade and touched on production techniques, quality control, design, finishing and wood working, lasting for one week at the most for each area. On the effect of the trainings on their operations, all those who attended said that they are now making use of what they had learned. However, twelve said that the extent is only "little", fifty-two said "just enough" while eighty-six stated "very much".

The owners started their shops at an average age of 36.03 which does not include the years spent in other shops. This seems to indicate that the respondents decided to go on their own at a relatively young age. The old-timers in the business started even younger while those who started late have either worked long previously in other shops or had other jobs before venturing on their own shops. A distribution of the age brackets when the respondents started their own shops is shown. Two hundred twenty-one or 70 percent of the respondents stated that their furniture shops are the only source of income/livelihood for their families. It is therefore imperative for them to make the business succeed in order to support not only themselves and their families but the families of many of their workers as well.

AGE WHEN OWNERS/MANAGERS STARTED BUSINESS

Age Brackets	Frequency	Percentage
20 – 25	21	9.8
26 – 30	52	16.4
31 – 35	60	19.0
36 – 40	87	27.5
41 – 45	40	12.7
46 – 50	30	9.5
51 above	16	5.1
Total	316	100.0%

On the other hand, ninety-five or 30 percent indicated that they have other sources of income aside from their shops. Among the other sources enumerated were; farming, animal raising, sari-sari store, employment, pension salary of employed wife, rice mill, and other business. While they have other sources of income, however, they said that their shops are their major source of livelihood. Most of the owners/managers likewise said that aside from managing, they also involve themselves in the other aspects of operations. Three hundred eight or 97.5 percent said that they also supervise production and do selling. In addition, two hundred ten or 66.4 percent others also do production work themselves aside from supervising and selling. Only eight or 2.50 percent said that they confine themselves to managing. This indicates that the owners/ managers do not find-the time to engage in other income generating activities which ties in with the fact that their shops are their major source of livelihood.

Organizing the Business

1. Reasons for establishing the business

People go into business primarily to gain profit. As to the specific business they engage in, their reasons vary. The respondents have several reasons for investing in a wood furniture making enterprise. Each gave at least two reasons while some even checked up to five, with the opportunity available, the most common reason given is

that the business is a primary source of income or livelihood as indicated by two hundred sixty or 82.3 percent of the respondents. The least number, twenty—six or 8.2 percent think that there is an existence of a ready market.

REASONS FOR ESTABLISHING THE BUSINESS

Reasons	No.	% N=316	Rank
Primary source of income	260	82.3	1
Augment family income	75	23.7	9
To be my on boss	143	45.2	4
To improve economic and social status	78	24.7	8
Know the business	204	64.6	2
To utilize skills and previous experience	178	56.3	3
To take advantage of local opportunities in terms of raw materials	94	29.7	7
Not successful in other occupation	96	30.4	6
Existence of a ready market	26	8.2	10
To get ahead without any formal education	104	32.9	5

Note: Multiple responses

2. Initial investment

Initial investment of the respondent firms averaged 1518,650 but majority of two hundred eighteen or 67 percent had initial investments below this figure. Interestingly, one shop had an initial investment of only t400 but that was in 1956 when the value of the peso was still high. The highest recorded initial investment was t 00,000 by a corporation established in 1988. Many gave only estimates of their investments.

INITIAL INVESTMENT OF FIRMS

Amount	Frequency	Percentage
5,000 and below	130	41.116
5,001 - 10,000	60	19.0%
10,001 - 15,000	15	4.7%
15,001 - 20,000	13	4.2%
20,001 — 25,000	6	1.9%
25,001 — 30,000	16	5.316
30,001 — 40,000	5	1.6%
40,00M — 50,000	12	3.8%
50,001 —100,000	7	2.2%
100,001 — 200,000	3	.9%
200,001 —300,000	6	1.9%
300,001 —500,000	1	.3%
No record	42	13.3%
TOTAL	316	100.0%

3. Sources of investment

As regards the sources of investment, a few of the respondents gave at least two sources, the most common being family and personal savings. It is important to point out the source because where the investment comes from borrowing either from the banks or from other sources, the business is already incurring liability which somehow affects its working capital.

SOURCES OF INVESTMENT

Sources	Frequency	Percentage n=316
Family Savings	145	45.9%
Personal Savings	90	28.5%
Borrowed from friends/ relatives	65	20.6%
Proceeds from sale of property	25	7.9%
MEDP/TLRC & SMEGF	24	7.6%

Note: Multiple responses

4. Number of workers

The initial number of workers averaged 4.13. Majority of two hundred fifty-eight or 81.6 percent had an initial number of five and below with forty-eight or 15.2 percent starting by themselves. The highest initial number was twenty. On the other hand, there is a slight increase in the average number of workers from 4 to 6. Nevertheless, majority of two hundred ten or 66.5 percent still have a number of workers in the five and below bracket. From the initial to the present number, there are one hundred twenty six or 40 percent which increased their workers by an average of seven. The number of workers of one hundred thirty-seven firms or 43.3 percent remained unchanged while fifty-three or 16.7 percent shops decreased by an average of 1.5.

COMPARATIVE INITIAL AND PRESENT NUMBER OF WORKERS

Number of workers	Initial		Present	
	No.	%	No.	%
5 and below	258	81.6	210	66.5
6 – 10	38	12.0	67	21.2
11 – 15	17	5.4	25	7.9
16 – 20	3	1.0	6	1.9
21 – 25	-	-	4	1.3
26 – 30	-	-	2	0.6
31 – 40	-	-	2	0.6
Total	316	100.0%	316	100.0%

5. Assets

The two corporations recorded the present value of their assets as e6 million and P2.7 million, respectively accounting for 35.0 percent of the total. The average value of assets is P24,781 from a total of P24,857,398 which two hundred seventy four firms reported. Majority of two hundred eight or 65.8 percent have assets below the average. The lowest given value is P3,500. There are forty-two or 13.3 percent which gave no figures because of the absence of records while others gave the nearest estimates.

ASSET SIZE OF FIRMS

Amount	Frequency	Percentage
5,000 and below	14	4.4%
5,001 - 10,000	68	21.5%
10,001 - 15,000	56	17.7%
15,001 - 20,000	32	10.1%
20,001 - 25,000	38	12.1%
25,00M - 30,000	8	2.5%
30,001 - 40,000	6	1.9%
40,001 - 50,000	20	6.3%
50,001 - 100,000	15	4.8%
100,001 - 150,000	10	3.2%
150,001 - 200,000	2	0.696
200,001 - 1,000,000	3	1.0%
1,000,001 above	2	0.6%
No record	42	13.3%
Total	316	100.0%

6. Classification

Based on the type of operations and the value of their assets, majority of the firms are classified as cottage industries. There are two hundred eight or 65.8 percent in this group. One of the biggest firms fall under medium-scale category while, four firms qualified as small-scale. Comparing their status with that at the start of the business, upon organization, there were two hundred fifty-eight or 81.6 percent shops that were still considered as cottage industries. One started as a small-scale while none qualified as medium-scale. There is no way of classifying those who did not indicate the value of their assets although as observed, most of them belong to cottage industry category.

CLASSIFICATION ACCORDING TO LEGAL FORM

Legal Form	Initial		Present	
	No.	%	No.	%
Single Proprietorship	307	97.2	300	95.0
Partnership	8	2.5	14	4.4
Corporation	1	0.3	2	0.6
Total	316	100.0%	316	100.0%

7. Perception on the organization of the business

Majority, one hundred ninety or 60 percent of the respondents think or feel that they did not adequately organize their business in terms of sufficient capital, needed equipment and other requirements. As a result, such inadequacy has now made them realize that: their business is in bad shape for sixteen or 8.4 percent, the business is stagnant for twenty-six or 13.7 percent, the business is experiencing problems for one hundred twenty-seven or 66.8 percent and the business could not compete for ninety or 47.4 percent. On the other hand, one hundred twenty-six or 40 percent feel that they adequately organized their firms resulting to: the business is making good for sixty-three or 50 percent, the business is growing for sixty-eight or 54.0 percent, the business is not encountering difficulties for six or 4.8 percent and the business is competitive for forty-two or 33.3 percent.

Managing the Business

As stated earlier, previous research revealed that one of the outstanding characteristics of small firms is the simplicity of their management and organizational structure. Small firms are, therefore, understandably not expected to observe managerial processes with the same degree of sophistication in large firms. In fact, not all managerial processes are observed by small firms. Among the processes, planning, organizing, staffing, directing and control are found to be practiced by the respondents although not quite formally, and in varying degrees.

1. Planning

There are one hundred eighty-five or 58.5 percent who do some planning in running their firms while one hundred thirty-one or 41.5 percent do not. Among the plans that they informally formulate are: work plans which are done by one hundred twenty-one or 38.3 percent of the respondents; financial plans by sixteen or 5 percent; production plans by sixty-four or 20 percent and sales plans by thirty-seven or 11.7 percent•

2. Organizing

In terms of organizing their operational activities, one hundred seventy-four or 55 percent said that they perform it while one hundred forty-two or 45 percent do not observe it at all. For those who do not organize as a process, sixty-nine or 48.6 percent said that they determine and assign activities as they come; fifty-three or 37.0 percent do it on a day-to-day basis while twenty-one or 14.8 percent think that their activities need no organizing at all.

3. Staffing

In staffing, the respondents consider skill, physical fitness, experience, potentials and friends or kinship as factors. While emphasis on skills and experience were checked by two hundred or 63.3 percent and one hundred eighty or 56.9 percent respectively, there are constraints in hiring of such workers. Other criteria which merited response were: potentials by one hundred forty-two or 45 percent, physical fitness by twenty-seven or 8.5 percent and friends or relatives by twenty-six or 8.2 percent.

a) Hiring practices

The shop owners acquire their workers by; training in the shop or on the job apprenticeship for two hundred eleven or 66.8 percent; pirating from other shops by sixty—eight or 21.5 percent; graduates of local vocational school by forty—eight or 15 percent and in some cases, recruited from outside the region by fifty—one or 16 percent. Because there are simply too many shops in certain places, some owners resort to pirating which results in unfavorable relationships and animosity among them. As earlier stated, while skills and experience are important considerations, shop owners sometimes have to content themselves with hiring workers not as qualified and simply train them on the job because the skilled and experienced workers can choose the place of employment. Compounding the problem is the tendency for those with potentials, once trained and gaining some skills and experience to transfer to the bigger shops that offer higher wages.

b) Problem with workers

The most common problems of the owners with their workers are low output/productivity, transfer, and absenteeism. For a labor—intensive industry such as wood furniture—making, such problems do affect operations. The low output or productivity can be attributed to the fact that many have workers who are on—the—job training simply because skilled workers are difficult to recruit with the presence of many shops. Competitive wages have to be offered. Likewise, other problems like trainees and absenteeism also contribute to low output.

PROBLEMS ENCOUNTERED WITH WORKERS

Problem	No.	% N = 316
Low Output/Productivity	100	31.6
Transfers	79	25.0
Absenteeism	79	25.0
Fast Turnover	64	20.0
Stubborn Workers	53	16.8
Poor Quality of Work	64	20.0
Laziness	37	11.7
Tardiness	74	23.7
Inefficiency	20	8.2
Lack of Skills	12	3.8

Note: Multiple responses

c) Fast turnover

With difficulty in staffing, the respondents likewise encounter problems on turnover. The average /limber of years of workers stay is 1-2 years at the most for majority of the firms. There are one hundred sixty-four or 51.9 percent who noted this fast turnover. There are fifty-five or 17.4 percent who even said that their workers stay in their shops less than a year. There are ninety or 28.5 percent who indicated 3-4 years stay. Only seven or 2.2 percent said that the workers stay in their firms for an average of 5-9 years and only leave to put up their own

shops or engage in other undertaking.

d) Pay system

Two hundred twelve of the firms or 67.1 percent pay their workers weekly. There are fifty-eight or 18.3 percent who pay contractual basis (by piece of work) while forty-six or 14.6 percent pay on a daily basis. Wages are based on rate per day which depends on skills and experience and range from P80 to P150 a day.

4. Directing

All the respondents check the performance of their workers in terms of quantity and quality of work. Two hundred twelve of the owners or 67.1 percent said that they observe the worker and then demonstrate how the work can be done better (for substandard workers). One hundred four or 32.9 percent motivate while twenty-six or 8.2 percent resort to warning and sixteen or 5 percent said that they make constructive criticisms.

a) Disciplinary measures

Erring or misbehaving workers are warned, the more common disciplinary measure employed by one hundred fifty-eight or 50 percent of the owners. If offenses are repeated, fifty-three or 16.7 percent said that they are forced to fire workers. There are sixty-four or 20 percent who find advising and talking to the errant worker effective. Other disciplinary measures employed are: reprimand by twenty-six or 8.2 percent and suspension by twenty-one or 6.6 percent. There are forty-two or 13.3 percent who said that they do nothing and just expect the workers to correct themselves by simply relying on the "hiya" value of the Filipinos.

b) Understaffed

Two hundred five or 65 percent of the respondents admitted being undermanned while one hundred eleven or 35 percent said they are not. None stated that his firm is overstaffed. Among the reasons given for understaffing; one hundred thirty-two or 41.8 percent said that they have insufficient capital to hire more workers. Likewise, they cannot afford higher wages for ninety-five or 30 percent for the skilled and experienced workers. Only ten or 3.2 percent said there is a lack of qualified workers. This understaffing affects their operations especially production.

5. Control

In terms of control, one hundred sixty-eight or 53.2 percent stated that they observe personnel performance check. There are one hundred six or 33.5 percent who utilize production reports; forty-two or 13.3 percent follow cost control. Expectedly, the corporations employ sales reports and inventory control in managing.

Accounting Records

In any business, records are necessary. They document transactions which may be needed to provide a basis for certain decisions. The accounting records being sought to determine if they are used are Sales Book, Purchase Book, Cash Book, Credit Book, Inventory Record and Withdrawal Record. These are the most commonly used even by small firms. The use of Sales Book to record sales is observed by one hundred twenty-six or 40 percent of the firms. Of those who do not use it, one hundred ninety or 60 percent keep track of their sales by just listing their sales in a notebook while a few said that they just use memory work.

The Purchase Book is used by thirty-six or 11.4 percent of the firms while two hundred eighty or 88.6 percent said they usually put their purchases listed in a notebook but admit that they could not keep track of all their expenses all the time. Only forty-two or 13.3 percent make use of Cash Book to record cash position while two hundred seventy-four or 86.7 percent said they do not have a clear picture of their cash balances because they do not use a Cash Book. Others rely only on the cash on hand for their cash positions. A better number, one hundred or 31.6 percent, maintains a Credit Book which records transactions, both receivables and payables. However a good majority of two hundred sixteen or 69.4 percent do not make use of this accounting tool. They keep track of credits by listing them haphazardly and unsystematically in a notebook. Only twenty-seven or 8.5 percent maintain an Inventory Record while two hundred eighty-nine or 91.5 percent do not. As regards Withdrawal Record, only twenty-one or 6.6 percent said they keep such tool while two hundred ninety five or 93.4 percent do not see the need for it.

FREQUENCIES OF RESPONSES TO THE USE OF ACCOUNTING RECORDS

Records	Yes		No	
	No.	n=316	No.	n=316
Sales Book	126	40.0	190	60.0
Purchase Book	36	11.4	280	88.6
Cash Book	42	13.3	274	86.7
Credit Book	100	31.6	216	68.4
Inventory Record	27	8.5	289	91.5
Withdrawal Record	21	6.6	295	93.4

Note: Multiple responses

The reasons why these important records are not maintained are: one hundred forty-eight or 46.8 percent admit not knowing how to use the records; one hundred eleven or 35 percent said they do not have time to work on them granting they know how to use these records. It is worth noting that one hundred sixty-eight or

53.2 percent said they do not realize the importance of these records while one hundred thirty-two or 41.8 percent indicated they cannot afford a bookkeeper to maintain the records for them.

Management Practices

Only three of the management practices presented to the respondents are found to be observed by many although they still do not constitute a majority. One-half of the respondents hire relatives as workers or employees. With the difficulty in hiring skilled and experienced workers, however, this is expected. Moreover, some said that they can place trust on their relatives.

On the other hand, the keeping of Customer Credit File indicates that many, one hundred thirty-two or 41.8 percent sell on credit but intimated that such practice has tied their working capital to receivables. Among those who do not keep the file, one hundred eighty-four or 58.2 percent, many said they do not need to since they sell on cash-basis most of the time. Because of competition, one hundred five or 33.2 percent have realized that there is a need to improve or develop the product. It is important to note, however, that the more important practices are not observed. Those who do are noted to be the bigger shops and those owners/managers have attained a higher level of education. Expectedly, only the two corporations observe all common management practices except hiring of relatives who are not qualified.

FREQUENCIES OF RESPONSES TO BUSINESS PRACTICES UNDERTAKEN BY THE FIRMS

Management Practices	Y e s		No	
	No.	% n=316	No.	% n=316
Keep and record all (or most) transactions in the appropriate books/records	32	10.0	284	90.0
Segregate business from personal funds	27	8.5	289	91.5
Retain a Bookkeeper	32	10.0	284	90.0
Retain a CPA for annual audit	7	2.2	309	97.8
Continue effort to develop the product	105	33.2	211	66.8
Market study, development and diversification	27	8.5	289	91.5
Keeping Customer Credit File	132	41.8	184	58.2
Hire relatives as workers	158	50.0	158	50.0

Note: Multiple responses

Most of the management practices are not covered because one hundred eighty—four or 58.2 percent admit not knowing how to do it. Two hundred eighty—nine or 91.5 percent believe that business funds make no difference from personal funds and, therefore, there is no need to segregate them. There are seventy-nine or 25 percent who said that observing such practices is time-consuming while ninety or 28.5 percent think that such practices are only an additional expense especially if they hire a bookkeeper or retain an accountant.

Production and Operations Aspects

1. Raw Materials

All the respondents use narra as basic raw material. As supplement thirty-two or 11.4 percent also utilize tanguile. The preference for narra, a high quality but expensive specie of wood, is inspected since this time abounds in the four provinces and the shops, therefore, can obtain this for a reasonable price. The use of narra is also one of the selling points of the firms because of its vaunted durability and quality.

a) Sources

Again, all the respondents listed carabao or water loggers as a major source of basic raw material. Other sources are the saw mills and lumber stores. Only the two corporations are able to buy from logging concessionaries because they can afford larger volume.

b) Forms

Two hundred ten of the firms or 66.5 percent buy their wood in round or square log form while one hundred six or 33.5 percent buy a combination of square and already sawn logs. Round or square logs still need to be sawn, and thus entail additional expense. Notwithstanding this, most still prefer to buy wood in these forms because it enables them to transform to the length and thickness desired to suit their particular requirements. Already sawn logs do not afford them this opportunity and flexibility.

c) Terms of payment

Two hundred sixty or 82.5 percent of the respondents buy their basic raw materials on cash basis while fifty or 15.8 percent buy on terms, i.e., a down payment of 50 percent and the balance in thirty days. Six respondents are lucky to procure on credit for thirty days. There is a similar pattern in the purchase of supplies where two hundred sixty-five or 83.9 percent also buy on cash basis. There are thirty or 9.5 percent who are able to negotiate with hardware stores a term c7 50 percent down and balance in thirty days while twenty-one or 6.6 percent said, they are extended credit in full for thirty days.

Most buy their basic raw materials, especially wood, on cash basis in order to assure a continuous supply. The proliferation of shops in places like Ilagan and Tuguegarao enable the suppliers of logs to press for cash payment since they can always have ready buyers. Those who buy on credit are only able to do so because

of goodwill and established relationships with the supplier and the prevalence of some Filipino values like "pakikisama".

d) Inventory of raw materials

Most of the firms, three hundred or 95 percent, buy only the basic raw materials required by present and immediate future production. Only sixteen or 5 percent maintain an inventory and these are the largest shops in terms of investment and capital. The reason given for not making an inventory of basic raw materials like wood and supply are: uncertainty of customers' orders such that inventory will therefore only tie up funds one hundred ninety or 69 percent, insufficiency of funds to maintain an inventory for one hundred sixty-three or 51.6 percent and finished goods inventory are not maintained anyway with fifty or 15.8 percent. The inability to maintain raw materials inventory sometimes hampers production as there are instances when supply of logs run out especially when the carabao loggers have not yet arrived from the mountains to cut logs.

2. Products

There are three classification of product lines manufactured: home furniture's, office furniture's and building components. Basically, these shops are makers of home and office furniture but good orders for building components are included in their lines.

a) Concentration and specialization

Majority of the firms produce almost all the furniture's under each classification, but not one indicated having a complete product line. Some are constrained by equipment that may be required to make certain products or by the production intricacies involved as well as the lack of skilled workers who are knowledgeable or have the expertise in making a particular furniture. At least thirty—two or 10 percent concentrate or specialize in a particular furniture that is salable like "botaca", an indigenous Ibanag relaxing chair.

3. Capacity

Most of the firms could not ascertain their production capacity giving only the factors that affect their ability to produce, among which are number of workers and ready availability of raw materials. They estimated, however, that simple furniture sets take at least one week; the more elaborate sets, about two weeks at the most.

4. Production System

Except for ten shops or 3.2 percent which are engaged in mass production, the rest, three hundred six or 96.8 percent operate purely on job order system. A few said that for large volume of orders which usually come from outside the region, and with deadlines for delivery have to be met, they sub-contract or parcel out the orders. There is a difference between sub-contracting and parceling: in the former, the price in the province prevails, in the latter, the price agreed in Metro Manila which is usually higher would be the price for the shops who receive a parcel of the large orders.

5. Production facilities

Mr. Constancio S. Silva, DTI consultant on Furniture Industry and considered as a furniture expert has provided a list of basic equipment required for better operations in the industry in relation to the list of products earlier identified. This list is shown in Table 16 which also shows the number of firms with such equipment. It could be noted that not all firms have all the listed equipment. Only the simple hand tools are listed by all the firms.

NULBER OF FIRMS ACCORDING TO PRODUCT LINES

Product Lines	Frequency	Percentage n=136
Home Furnishings		
Sala Sets	247	78.2%
Dining Sets	247	78.2%
Bedroom Sets	185	58.5%
Headboards	206	65.2%
Botacas	248	76.9%
Cabinets	211	66.8%
Dividers	185	58.5%
Simple Chairs	237	75.0%
Office Furnitures		
Office Tables	211	66.8%
Office Chairs	222	70.2%
Swivel Chairs	21	6.0%
Building Components		
Jalousies	79	25.0%
Window Jambs	110	34.8%
Door Panels	200	63.3%
Others (Wood Floor Tile)	12	3.8%

Note: Multiple responses

MACHINERY AND EQUIPMENT PROFILE

Equipment	Frequency	Percentage N=136
Cross Cut Saw	222	70.2%
Table Saw	200	63.3%
Jointer	127	40.2%
Thickness Planer	100	31.6%
Band Saw	132	41.8%
Drill Press	53	16.8%
Portable Router	127	40.2%
Compressor	95	30.1%
Spray Equipment grinder	168	53.4
Grinder	53	16.8%
Sander	84	26.6%
Wood Lathe	42	13.3%
Circular Saw	200	63.3%
Simple Hand Tools	316	100.0%
Surface Planer	158	50.0%
Mortizer	22	6.9%
Others (Kiln Drier)	2	0.6%

Note: Multiple responses

Of the listed equipment, only five respondents indicated having them all, including even a kiln drier. The rest, three hundred eleven or 98.4 percent, do not have all although many indicated to have most of the equipment.

Those who do not have all the necessary equipment admitted that this limitation somehow affects their production; two hundred thirty-seven or 75 percent said the work period lasts longer; the quality of work is affected according to ninety-five or 30 percent; while seventy-nine or 25 percent said that labor costs increase. Delving into the reasons why the firms do not have all the necessary equipment, the survey revealed that there are two hundred eleven or 66.8 percent attribute this shortcoming to lack of sufficient funds. Ninety-five or 30.1 percent of the respondents justify the deficiency by the size of their shops which only need the basics, while fifty-three or 16.8 percent said that their equipment is adequate for the present product lines they carry. There are seventy-nine or 25 percent who like to have all the equipment but could not afford these.

6. Designs

One of the factors that make furniture salable is design. Sixty-three or 20 percent have a variety of designs for customers to choose from while two hundred fifty-three or 30 percent admit to having no variety at all. Inquiry disclosed that, most of the time, the customers specify their own designs upon ordering. Two hundred eleven or 66.8 percent of the shops merely follow customer designs. Forty—two or 13.3 percent copy from furniture print advertisements while one hundred five or 33.2 percent keep a furniture catalogue. There are actually no furniture designers in all the shops surveyed. In the past years, each shop tried to outdo one another through improvements in the features of the furniture's they make. New entrants some years back introduced intricate carvings on the furniture's to make them look like a piece of art. Everyone followed suit and carvers were recruited from Pampanga and went to the extent of even pirating workers from known furniture establishments in Metro Manila.

7. Quality control

Quality of work is one important consideration in furniture making. According to the DTI, local shops have not yet fully penetrated other markets outside the region, including exports, because of quality problems. Interestingly, nobody responded as not observing quality control. Seventy—nine or 25 percent believe they are observing quality control strictly on their production while two hundred thirty—seven or 75 percent are honest enough to say "not always". The areas of quality control as observed are in wood drying which all said to be doing. However, only five indicated to be making use of kiln drier; the rest rely on sun drying. Wood drying is emphasized because it greatly affects the quality of the finished product. Other areas of quality control are on workmanship which includes uniformity and smoothness, among others, and finishing. The importance of a kiln drier in wood furniture making needs to be emphasized, according to Silva. However, this equipment is very expensive for an ordinary shop to afford. To remedy the problem of kiln drying, the DTI sometime in 1987, organized the shop owners in the provinces and helped them secure a loan from the Development Bank of the Philippines and other lending institutions to put up a common kiln drier. Upon the completion of the plant, however, problems among the owners arose as regards its operation. The pilot kiln drier project of the association would have been successful if the firms cooperated among themselves to support operations. To a certain extent, the government regulations on logs and transport of wood products have hampered operations because the shop owners fear that they may not be able to get the same wood and quantity fed into the kiln drier. They are also apprehensive that their logs may be confiscated on the way to the plant site. The kiln drier, for

economy, has to process wood in a given quantity and individually, each shop could not meet that required volume, necessitating combining the lumber or wood with those of others. Those who observe quality control, but not always", advance the reason that "alight defects are hardly noticeable anyway" which was shared by two hundred twelve or 70.2 percent of the firms. Others, eighty—six it 27.2 percent said that strict quality control observance would only add to expense if work is repeated and delays completion of work according to forty—two or 13.3 percent.

Because of such attitude on quality, one hundred thirty—two or 41.8 percent experienced return of products by customers for reworking due to quality and/or defects, although this is seldom done by customers. Still, another ninety or 28.5 percent experienced customer rejection because of quality issues but hastened to add "rarely".

8. Scheduling of work

Most of the firms indicated a job—order system of production, but they have different methods of scheduling work. One hundred forty—eight or 46.8 percent schedule production work by customers order while one hundred twenty seven or 40.2 percent schedule by product. This is not actually exclusive because they adopt a combination of both systems, depending on the situation. Division of labor is practiced by seventy—four or 23.4 percent of the firms which have a larger number of workers. One corporation does it systematically by department and further by division of labor within the department.

9. Cost of production

As regards the costing of production, only twenty—one or 6.6 percent believe that they include all costs in computing production costs. Five firms admit not being able to include all costs while two hundred fifteen or 68.0 percent are not sure. Seventy—four or 23.4 percent do not know exactly how to compute production costs. Most of the firms, in fact, make estimates only. There appears to be a correspondence between level of education attained and the ability to compute production costs precisely. The failure of most firms to record costs further makes it difficult to correctly determine cost breakdown. They argue that costs vary, depending on product being made. Estimates of cost breakdown, however, given for a typical furniture set are: raw materials and supplies — 52 percent; overhead — 9 percent; labor — 31 percent; selling and miscellaneous expenses — 8 percent.

10. Production problems

Most of the firms are encountering production problems, one way or the other. Among the production problems listed, the most prevalent are high or increasing cost of raw materials and supplies and the lack of training and know—how on production techniques. It seems ironic that, with the abundance of raw materials in the provinces of Region II, the high cost of raw materials persists. As gathered from opinions and observations, the causes are: buyer's competition (because of number), government regulations and the propensity of logging concessionaires to sell to urban centers and for exports. The lack of raw materials, however, is only encountered by twenty—six or 8.2 percent and these are shops remote from the sources of supply. A tabulation of production problems is shown in Table 17.

Marketing Aspects

1. Sales

For the three—year period ending 1990 covered by this study, only seventy—four or 23.4 percent reported sales in 1988; ninety five or 30 percent in 1989 and 1990. The rest either did not want to divulge their sales figures or simply did not have records. Some of those who listed their sales gave their nearest estimates.

PRODUCTION PROBLEMS ENCOUNTERED BY THE RESPONDENTS

Problems	Frequency	%	Rank
Lack of skilled worker	95	30.0	6
High or increasing cost of raw materials	237	75.0	1
High or increasing cost of supplies	221	70.0	2
Lack of continuous supply of raw materials	26	8.2	9
Lack of adequate or needed facilities	200	63.3	3
High cost of labor	168	53.2	5
Absence of variety of product designs	42	13.3	3
Costing	168	53.3	5
Quality control	190	60.0	4
Wastage control	48	15.0	7
Lack of training and know—how on production techniques	221	70.0	2

Note: Multiple responses

The average sales in 1988 was P124,202.70 from a total of P9,191,000. For 1989, total sales amounted to P12,317,700 for an average of \$129,660. In 1990, there was a drop in total sales to \$10,186,120 and consequently on average sales to P107,222.30. Sales increased by 34.0 percent in 1989 but decreased by 17.3 percent in 1990. Most of the shops who reported sales in 1988 had figures in the \$10,000 and below and the P\$11,000 to P20,000 brackets.

2. Market

With the market in the provinces saturated by the presence of so many shops, the respondents have no alternative but to explore other geographical market territories including exports. Other markets already entered are the whole of Cagayan Valley, other regions in Luzon including Metro Manila and as far as Batangas. All shops still service the provincial markets, however, Only five firms claim to have penetrated the export market, notably the United States. A geographical distribution of market reach is shown in Table 19 while geographical distribution of sales is presented in Table 20.

Table 18
Comparative Sales Figures For Three Years Ending 1990

Total sales Sales Bracket	1988 (74 firms) P9,191,000				1989 (95 firms) P12,317,700				1990 (95 firms) P10,186,120			
	F	% to total no. of firm	Amount	% to total Sales	F	% of total No. of Firms	Amount	% to total sales	F	% to total # of firms	amount	% to total sales
10,000 and below	30	40.6	300,000	3.3	25	26.3	225,000	1.8	18	19.1	180,000	1.8
10,001 – 20,000	10	13.5	175,000	1.9	20	21.1	317,500	2.6	25	26.3	380,000	3.7
20,001 – 30,000	4	5.4	200,000	2.2	12	12.6	330,000	2.7	10	10.5	300,000	2.9
30,001 – 40,000	10	13.5	375,000	4.1	5	5.3	190,000	1.5	10	10.5	332,000	3.2
40,001 – 50,000	6	8.1	291,000	3.2	6	6.3	300,000	2.4	10	10.5	500,000	4.9
50,001 – 75,000	6	8.1	360,000	3.9	12	12.6	865,200	7.0	12	12.6	800,400	7.9
75,001 – 100,000	-	-	-	-	5	5.3	420,000	3.4	-	-	-	-
100,001 – 150,000	4	5.4	590,000	6.4	6	6.3	720,000	5.8	6	6.3	900,000	8.8
150,001 – 1M	-	-	-	-	-	-	-	-	-	-	-	-
1M – 2M	4	5.4	6,900,000	75.0	2	2.1	3,800,000	30.9	30.9	2.1	2,805,270	27.5
2M above	-	-	-	-	2	2.1	5,150,000	41.8	41.8	2.1	4,000,000	39.3
Total	74	100.0%	9,191,000	100.0%	95	100.0%	12,317,700	100.0%	95	100.0%	10,186,120	100.0%

GEOGRAPHICAL DISTRIBUTION OF MARKET REACH

Area	Number	Percentage
Within the province only	64	20.2%
Within the province and Cagayan Valley	68	21.5%
Within the province, Cagayan Valley and other regions including Metro Manila	116	36.7%
Within the province and other regions including Metro Manila	58	18.4%
All areas and export	10	3.2%
Total	316	100.0%

Since most of the firms are on job order system of production, it may be reasonably expected for them not to study market demand and produce accordingly. Of late however, travelers to and from Metro Manila drop by the shops located along the national highway and buy what are readily available because of which many firms have resorted to producing those preferred by these travelers. As a result, there are now thirty two or 10 percent who said that they study market demand, one hundred sixteen or 36.7 percent indicated sometimes; the rest, one hundred sixty—eight or 53.3 percent, not at all.

GEOGRAPHICAL PERCENTAGE DISTRIBUTION OF SALES*

Area	Percentage
Within the province	31.5%
Cagayan Valley Region	9.2%
Other regions including Metro Manila Exports	46.7%

Note: *Based on figures given by top twelve shops in sales. The others who gave sales figures did not indicate sales breakdown per area.

3. Competition

There seems to be overcrowding of firms in one place, resulting in stiff competition. The reason for crowding is the preference of these shops to be near the source of supply and the market. One hundred seventy—four or 55 percent firms feel that competition is stiff while ninety—five or 30 percent believe that it is manageable; forty—eight or 15 percent shops are so confident that competition is light that they are not so much worried, considering their size and capability. In handling competition, one hundred forty—one or 44.6 percent bank on quality while one hundred twenty—one or 38.3 percent have resorted to price cutting which others feel to be unfair but have accepted it as a motive of survival. Forty—eight or 15 percent sometimes give free promotional extras (like a simple chair for an order of a furniture set) to attract buyers.

4. Product substitutes

As regards the entry of product substitutes, the respondents opine that only the rattan and the steel-welded furniture pose a threat. However, they discount steel-welded furniture because these are utilized only for the garden or terrace and only a few can afford to have it as extra furniture. At this point, they are not so much

worried about rattan furniture because, according to two hundred shops or 63.3 percent wood furniture has a distinct market due to its durability. There are one hundred thirty-seven or 43.3 percent who feel that customers prefer wood furniture and consider rattan only when they have extra money for additional home furnishing. Still, fifty-three or 16.8 percent think that rattan furniture's are not pronounced, the fact that the basic raw materials for this furniture is found more in Vizcaya, Quirino and Cagayan provinces. On the other hand, forty-two or 13.3 percent believe that rattan furniture is a threat. Of these, thirty-two believe that the competition posed by it is not so significant as to regard it seriously. Only ten consider the possibilities of rattan that they have actually started going into it in addition to their wood furniture's. Among them are the two corporations which target the rattan furniture -for the Metro Manila area and for export.

5. Sales Force

Only eighty-four or 26.6 percent have a sales force averaging three per shop who are paid on commission basis. On further inquiring, it was found that these salesmen maintain other regular jobs elsewhere but sell furniture, on a part-time basis. All they do is to establish contacts with possible customers. However, sales are not made only by these sales agents; theft efforts however increase sales. Those who do not have a sales force number two hundred thirty-four or 73.4 percent. Sales are generated when customers order with two hundred eleven or 66.8 percent; referrals with eighty-four or 26.6 percent; and walk-in customers with fifty-three or 16.8 percent. These shops reason out that a sales force only entails additional expense for one hundred sixty-eight or 53.2 percent. Besides, they could not get qualified sales personnel for fifty-three or 16.8 percent.

6. Display and outlets

One hundred fifty-three or 48.4 percent of the respondents have displays in front of their production shops mostly located along the national highway. Twenty or 13.1 percent others have displays in the commercial centers of these towns with five even displaying as far as Manila.

Those who do not have a display one hundred sixty-three or 51.6 percent, think that there is no need for it, while seventy-four or 45.4 percent said that maintaining a display only adds to expenses. Sixty-four or 20 percent have sales outlets. However, except for the two corporations, these outlets are actually furniture stores where their products are consigned. These are in Metro Manila, Baguio, Cavite, Nueva Ecija, Batangas, Pangasinan and one of the corporations even claim having one in the United States. Of two hundred fifty-three or 80 percent who do not have outlets, two hundred thirty-seven or 75 percent sell their products direct to customers; eighty-four or 26.6 percent through middlemen; and dealers, one hundred thirty-seven or 43.4 percent. Selling through middlemen and dealers or consignees results in these channels getting better profits than the shop owners themselves since the former jack up prices. The owners, however, are satisfied with the arrangements because, in addition to better sales figures, they can also price their products higher than selling direct to customers in the provinces.

7. Advertisements

Only two corporations regularly advertise; thirty others occasionally over the radio especially during Christmas season; while fifteen others have put up billboards. Of two hundred eighty-four or 89.9 percent who do not advertise, ninety-two or 32.4 percent reason out that advertisement will only increase expenses and two hundred eight or 73.2 percent consider word of mouth their best advertisement.

8. Delivery services

Thirty-eight or 12 percent have delivery vehicles while two hundred seventy-eight or 88 percent have none. Those who do not have indicated problems in delivery such as: high freight charges one hundred thirty-nine or 50 percent; products not properly handled by carriers for seventy or 25 percent; products damaged in transit for one hundred sixty-two or 58.3 percent. Only twenty-three or 8.3 percent do not encounter any delivery problem. Depending on arrangements, products may either be delivered by the shops or are picked up by the customers.

9. Prices and terms of sales

As gathered from interviews and observations, the pricing of the products depend on the following factors:

- a) The design of the product, if it has carvings or simply plain ordinary furniture;
- b) In furniture sets, price depends on the capacity of the set, if it is six or eight seater;
- c) For other furniture, price may be dictated by the desired size, as in the case of office tables, whether junior or executive type;
- d) Delivery arrangements, whether it will be FOB destination or picked-up from the shops; and
- e) Geographical market whereby products sold in Metro Manila or outside the province are priced higher than those within the province.

While the above are considerations in pricing, responses to the question as to how products are priced reveal that there seems to be no systematic pricing method. The most common practice given by one hundred thirty-seven or 43.4 percent is to follow the competitive prevailing prices. Outside each province, however, this is not necessarily so, as the owners have more leeway to set relatively higher prices since customers are not privy to provincial prices. The competitive pricing technique used may be explained by the fact that, as in the ease of

Ilagan where shops are numerous and side by side, a shop owner can not afford to offer much higher prices than the neighbors for fear of losing business. One hundred five or 33.2 percent estimate prices by rough mental calculation. Only seventy-four or 23.4 percent employ the cost-plus method of pricing but even with them, there is no assurance that all cost are included because, as earlier mentioned, the absence of proper records and the non-observance of appropriate management practices leave doubt if the cost-plus method of pricing is really used. Nevertheless, for those who use cost-plus, the mark-up usually fall between 20-30 percent. For Metro Manila sales, mark-up may even be higher because according to many, Manila prices of furniture are really high. The terms of sales are a combination of cash-basis and credit terms. One hundred ninety-five or 61.7 percent sell under this arrangement. In some instances, they demand COD while at other times, they allow credit. Forty-seven or 14.9 percent sell on cash basis only and these are the smaller shops who sell the individual customers and can not afford to have their limited working capital tied up in receivables. Seventy-four or 23.4 percent sell on credit.

The usual credit term is 50 percent down payment and the balance in thirty to ninety days; some at 50 percent down upon, ordering and the balance upon delivery.

10. Marketing Problems

Among the problems enumerated, pricing is the most prevalent, as disclosed by two hundred forty-two or 76.6 percent of the respondents. One hundred ninety or 60 percent lack sufficient market information while one hundred seventy-four or 55 percent are concerned with stiff competition. The lack of sufficient market information is a consequence of the deep involvement of the owners/managers in other aspects of operations aside from managing, leaving them no time to gather information and study market demand. Besides, they may not exactly know what market information to seek.

MARKETING PROBLEMS OF RESPONDENTS FIRMS

Problem	No.*	% N=316	Rank
Stiff competition	174	55.1	3
Lack of sufficient market information	190	60.0	2
Pricing	242	76.6	1
Poor quality of products	69	21.8	5
Lack of distribution facilities	42	13.3	6
High or increasing cost of delivery	121	38.3	4

Note: *Multiple responses

The problem of quality can also be attributed to the inability of most firms to effectively penetrate the urban and export markets where quality is strictly observed and emphasized. The DTI Office said that this is one problem besieging the shop owners in the Region. The Department of Trade and Industry, through the BDTP, BETP and the CITEM, had already tried to assist the firms get volume orders from the urban centers but this has not been sustained because of quality problems and the capacity of each shop to meet large orders. The DTI has likewise assisted the shops to participate in market encounters, trade missions and trade exhibits but this only resulted in some animosities because each participant tried to outdo the other by price-cutting instead of respecting their agreement on uniform pricing.

Financial Aspects

1. Financial performance

The financial performance of the respondents for the past three years can not be presented in straight-forward manner because not all disclosed their net income. Moreover, net profits given may not exactly be the correct figures because of the absence of systematic recording and are, at best, estimates. Likewise, many failed to account for funds taken for personal use because of the non-segregation of business from personal funds. Nonetheless, seventy-four or 23.4 percent stated their net incomes in 1988 to total P897,700 or an annual average of P12,131. In 1989, ninety-five or 30 percent reported a total net income of P1,244,370 or an average of P13,098.60. For 1990, ninety-seven or 30.7 percent firms stated total net profits of P1,078,800 or an average of P11,121.65. The two corporations who reported the highest sales did not reveal their net income figures. Except for 1988 when the average was more or less reflective of the profit of each shop, majority realized net incomes below the average in 1989 and 1990.

DISTPIBUTION OF NET INCOME BRACKETS OF FIRMS

Income Bracket	1988 (47 Firms)		1989 (95 Firms)		1990 (97 Firms)	
	No.	%	No.	%	No.	%
P10,000 and below	48	64.9	42	44.2	50	51.6
10,001- P20,000	16	21.6	37	39.0	32	33.0
20,000 - 30, 000	10	13.5	10	10.5	15	15.4
30,001 - 40,000	-	-	6	6.3	-	-
Total	74	100%	95	100%	97	100%

Some of those who reported net incomes intimated that the size of their profit depends on the area where sales are made. For sales in the provinces and within the region, they estimate their net to be around 20-25 percent of sales figures. However, for outside the region especially Metro Manila, they said they could realize from 50-60 percent of the sales.

2. Working Capital

Only one hundred twenty—one or 38.3 percent of the respondents reported their working capital figures. The total was 14,776,000 or an average of ₱39,223.15. Again, the Average is misleading if one were to take the distribution because some 6 firms accounted for 67.4 percent of the total with figures at ₱5300,000 and 11 million, respectively. Majority of those who gave figures therefore had working capital below the average.

DISTRIBUTION OF WORKING CAPITAL OF FIRMS

Amount	No.	% to Total No. of Firm	Amount	% to Total Working
P510,000 and below	72	59.5	P440,000	9.3
10,001 — P20,000	20	16.5	400,000	8.4
20,001 — 30,000	12	9.9	324,000	6.8
30,001 — 40,000	8	6.6	256,000	5.4
40,001 — 50,000	3	2.5	126,000	2.7
300, 000	4	3.3	1,200,000	25.3
1,000,000	2	1.7	2, 000,000	42.1
Total	121	100%	4,746,000	100%

Given the present situation wherein, to be competitive, a shop needs to allow credit terms to customers while buying on cash basis from suppliers, the DTI business consultants estimate through their evaluation that a favorable amount of working capital would be in the range of P50,000 to P150,000 depending on size of operations.

Most of the firms, two hundred forty—seven or 78.2 percent, depend on cash sales for working capital. Because owners equity has been largely used to buy equipment and raw materials for starting operations and leaving no amount or little, if any, for working capital, only twenty—six or 8.2 percent said that their working capital from their equity. The ten shops that had earlier borrowed to start business have provided for working capital from their loans. There are twenty—eight or 8.9 percent who resorted to short—term borrowing from friends and, relatives and even usurers for working capital while twenty or 6.3 percent made use of their own savings.

3. Loans

Other than the ten shops that earlier secured loans, there are twenty more who borrowed in the course of their operations, utilizing the government financial assistance program like the TLRC/DBP and MEDP. Of those who borrowed, twelve said they encountered difficulties in obtaining the loan, citing too many requirements, long processing, collateral problems, complicated procedures and red tape. Further, they initiated that they are now having repayment problems. Of the two hundred ninety or 91.8 percent who have not borrowed, forty-two or 13.3 percent intend to secure leans; one hundred sixty-eight or 53.2 percent will not borrow; and one hundred five or 33.2 percent are uncertain. The reasons given by those who do not like to borrow and those' who are not sure are: too many requirements for one hundred eighty-seven or 67.3 percent; complicated procedures for ninety-nine or 35.6 percent; long processing for one hundred thirty-four or 48.2 percent; collateral problems for eighty-five or 30.6 percent; read tape for sixty or 21.6 percent; afraid of high interest rates for seventy-five or 26.9 percent and "might not be able to pay" for sixty-four or 23.0 percent.

4. Present capital

The present capital of respondents is on the average P25,884 for a total of P6,859,300 as disclosed by two hundred sixty-five shops. This is an improvement over the initial capitalization with a growth rate of 66.0 percent. However, majority of two hundred thirty-seven or 75 percent have capitalization below the average with the corporations accounting for 51.36 percent of the total. The highest is \$449,800 while the lowest is P4,000 for two shops.

DISTRIBUTION OF PRESENT CAPITAL OF FIRMS

Amount	No.	% to Total No. of Firms	Amount	% to Total Present Capital
P10,000 and below	185	69.8	P1,257,500	18.3
10,001 - P20,000	40	15.1	685,000	10.0
20,001 - 30,000	5	1.9	150,000	2.2
30,001 - 40,000	6	2.3	240,000	3.5
40,001 - 50,000	15	5.6	750,000	10.9
50,001 - 100,000	4	1.5	300,000	4.4
100,001 - 200,000	-	-	-	-
200,001 - 300,000	6	2.3	1,800,000	26.2
300,001 above	4	1.5	1,676,800	24.4
Total	265	100%	6,859,300	100%

5. Credit and collection

Since majority of the firms sell on credit, collection is a major concern of the respondents. Two hundred six or 65.2 percent encounter difficulties in credit collection while sixty-four or 20 percent do not. The common complaint is that thirty day credit is extended up to ninety days; 90-120 days to one year or more; and portions of their collectibles even end up as bad debts. These have restricted their working capital and, in the face of its insufficiency, adversely affect the business. Problems are more felt by those who sell on consignment to dealers who make no down payment at all or minimal if ever.

6. Financial Problems

Expectedly, insufficiency of working capital constitute the dominant financial problem of the firms. This was pointed out by two hundred twenty—one or 70 percent of the shops. Credit collection and the cash flow management problem compound the situation.

FINANCIAL PROBLEMS ENCOUNTERED BY FIRMS

Problem	No.	% n=316	Rank
Insufficient working capital	221	70.0	1
Cash flow management	178	56.3	3
Credit collection	185	58.5	2
Budgeting	121	38.3	4
Insufficient recording system	74	23.4	6
Decreasing profit margin	105	33.2	5

Note: Multiple responses

Government Assistance and Regulations

Realizing the importance of small and medium—scale industries, the researcher asked the respondents their impressions and perceptions of the assistance as well as regulations that affect their business.

1. Concerned agencies

There are several government agencies which have programs geared towards the development of this sector. Among these are the Bureau of Small and Medium Business Development (BSMBD), the BDTP, and the BETP.

2. Perception of government assistance programs

Two hundred eleven or 66.8 percent have heard or are aware of the government assistance programs while one hundred five or 33.2 percent are not. Interestingly, only one hundred sixteen or 56.7 percent claim having availed of such assistance. The assistance came in the form of seminars/ trainings sponsored by the DTI. Two hundred or 63.3 percent of those who have not availed of the assistance programs, ninety or 28.5 percent think that the programs are not sustaining. Twenty-six or 8.2 percent could not understand the program while sixty-three or 20 percent are not convinced by the programs. Eighty-five or 26.9 percent feel that the assistance is not useful to their operations. One of the biggest complaints aired by many of the shop owners is the granting of loans especially the MEDP. The gripe centers on political favoritism, is granting this financial assistance.

3. Government regulations

On government regulations, two hundred seventy-four or 86.7 percent are affected unfavorably by certain government regulations while forty-two or 13.3 percent do not feel any effect. Emphasis centered on log cutting and transport of logs which were cited by all the firms. The apprehension over this regulations has also caused the failure or the inability of the firms to make use of a kiln drier which some shops put up through the help of the DTI and a loan from DBP/TLRC. Another restricting regulation is the transport of wood products which was cited by two hundred eighty-five or 90.2 percent of the firms. The restriction on wood product transport, they said, has spawned corruption among law-enforcement personnel who extort money in almost all checkpoints on their deliveries to Metro Manila and other regions. One hundred seventy-nine or 56.60 percent believe that the government is really doing something to help the industry while one hundred thirty-seven or 43.40 percent are

not convinced or are cynical about government assistance. Among the reasons given for their pessimism are: programs are not sustaining and some even believe that these are just "ningas cogon"; and "palakasan" as in the case of the TLRC and MEDP-CDF loans. Further, there is apparent difficulty understanding the assistance programs in their fullest context, as may be expected from those with low educational attainment. Despite such skepticism, however, majority of the respondents are hopeful that the government could really help the industry and suggested certain measures which the government could consider.

SUGGESTIONS BY RESPONDENTS TO ASSIST THE WOOD FURNITURE MAKING INDUSTRY IN REGION II

Suggestions	No.	% n=316
Conduct training on small enterprise management	221	70.0
Conduct training on production techniques and related areas like designs and quality control	200	63.3
Provide market information	211	66.8
Extend more financial assistance by liberalizing requirements and simplifying procedures	158	50.0
Relax strict regulations on logs and transport of wood products	242	76.6

Note: Multiple responses

4. The side of the government

The more aggressive government agency involved in helping the industry is the DTI. It has, in fact, chosen this sector as a priority area from among the other small industries because of its potentials. DTI has been doing its best to give all the possible assistance to the shops by way of technical advice viz—a—viz products and mode of production as well as coordinating with other agencies to the extent of assisting in the preparation of feasibility studies required for loans. The DTI has sponsored seminars/trainings on the industry and has initiated the organization of show owners into associations. It has arranged for the participation of local shops in trade exhibits and market encounters. However, the DTI has noted that many, if not most of the owners/managers insist on their own way of doing things. In fact, the agency observed that the firms conforming to its advice are now making good and, ironically, these shops are the bigger ones in terms of size and not the smaller ones which need the assistance more. The owners/managers of the latter are usually hard to convince according to the DTI. They trace this to be a question of attitude and orientation as likewise noted by this researcher.

Industry Environment

According to Michael Porter, a company in an industry must be aware of the various interacting forces that affect it and must, therefore, position itself or defense against these factors or influence them in its favor. These factors are: threat of new entrants, rivalry among existing competitors, pressure from substitute products and bargaining power of buyers and suppliers.

1. Threat of new entrants

New entrants to the industry must necessarily face the following entry barriers:

a) Product differentiation

Firms in the industry manufacture products that practically look the same. A new entrant must come out therefore with furniture with features distinctive from those in the present lines of existing firms. Some years back, a new firm successfully entered the business by introducing intricate carvings on the furniture. Now, almost all have carvings on their products.

b) Capital requirement

Unless a new entrant would produce furniture that may require only simple hand tools, he will be hard up to enter with only a few thousand pesos capital. To be competitive, a firm must have the basic equipment which require capital outlay not to mention the need for adequate operating capital. Industry sources say that, in order to enter competitively, an initial capital investment ranging from P500,000 to P1 million which includes operating capital, may be needed.

c) Access to distribution channels

With the competition posed by many shops, a new entrant can not depend on walk-in customers alone. Before he puts up his shop, he has to initiate and establish contacts first with dealers, outlets and other distribution channels. Or, he should know of persons who could make referrals for him to prospective customers.

d) Cost disadvantage independent of scale

Established shops in the industry have certain cost advantages which a new entrant may have to face. One is favorable access to, and relationship with, suppliers. In an industry where suppliers have bargaining power, this is one factor that a new entrant must seriously consider. Another is the learning or experience curve which established shops have developed especially in production resulting to cost reduction. Still another factor is favorable location, either near the source of supply or in a commercial center or both. Ilagan and Tuguegarao for instance are good sites as they have both, but many shops are already established in these towns. Despite such barriers to entry, however there were respondents who went into business equipped only with few thousand

pesos, some hand tools and the experience and skills they had acquired from working in other shops. They hoped to improve in the course of the business but found out that it is not easy as they had thought.

2. Bargaining power of suppliers and buyers Competition and government regulations have given better bargaining power to suppliers of raw materials who usually demand cash payment and arrange for better price. Except for a few who have established good relationships, many firms have no choice but to agree to the terms of the suppliers in order to ensure a continuous supply of raw materials to sustain their business. As regards the buyers, the shop owners have better options for sales outside the region. For sales in the region especially in the provinces, however, buyers have better bargaining power due to many sellers competing with each other.

3. Existing competition

The competition among existing firms is considered stiff. Quality, credit terms, product features, price and sufficient capital are factors that affect competition.

4. Exit barriers

Except for firms which have invested heavily on specialized equipment, exit of firms in the industry has been relatively easy especially for the small ones. They can either rent out or sell their ordinary mechanized equipment. In fact, it has been observed that some small shops have been on an "on-and-off" basis with the owners going back as production workers in the larger shops when they close.

5. Pressure from product substitutes

As earlier discussed, steel-welded furniture and rattan furniture are possible substitutes. However, only rattan furniture are considered threats but are perceived by the respondents as not so insignificant because Region II is better known for its wooden than rattan furniture which abound also in the provinces of Cagayan Valley Region.

Key Success Factors

The situation in the industry points to the following factors that may be considered critical:

1. Funds. This involves adequate investments which enables the shop to acquire important equipment and sufficient working capital. It also entails proper cash flow management including sourcing and utilization.

2. Product. This includes quality, design and features which may differentiate it from others. It also requires the ability to identify and target a particular market and produce accordingly.

3. Marketing effort. The use of important sales tools like advertising, promotions, displays and others have become necessary because of strong competition in the industry.

4. Distribution. The need to expand the already saturated provincial market requires the ability to tap distribution channels like trading firms, dealers and furniture stores in the urban centers like Metro Manila.

5. Manufacturing cost advantage. Improved production techniques that cut down costs would enable the firm to have pricing advantage not just competitive pricing.

6. Management practices. The ability to properly manage the shop through the adoption of basic management practices and the use of important management tools is essential.

5. Conclusions

1. The educational attainment of majority of the respondents somehow affects their capacity to effectively manage their establishments. This is manifested in their understanding, perception, attitudes and application of management tools and practices as well as towards government assistance programs. It was observed that those with better education are the ones making relatively good in the business.

2. The common notion among the majority that their acquired experience and skills in other shops, mostly as production workers, could qualify them to successfully go in their own is illusory. Production experience is comparable to owning and managing a business which involve working knowledge of other things like marketing and finance, no matter how limited the knowledge may seem.

3. Majority of the establishments were not adequately organized in terms of sufficient investment and capital, needed equipment and other organizational requirements. This, the owners/managers, themselves, have realized as contributing to their operational problems. A few thousand pesos and a few hand tools are simply not enough to establish and manage a wood furniture making shop. Gone are the days when a few shops with such setup managed to survive because of high demand and less competition then.

4. While there seems to be a misleading aggregate growth in terms of percentages' but not in actual figures, most shops have remained in cottage industry status since their inception. These include those few firms which have been in existence for at least twenty years. Individual growth, if at all, is not significant to gloss over.

5. The conspicuous absence of important management tools and the non-observance of basic management practices make the owners/managers unable to analyze and evaluate their operations in-depth. Hence, it can be said that lack of effective management can be associated to the poor growth of the industry.

6. Stiff competition may become injurious to the industry itself which in the long run will phase out the smaller shops and make a "survival of the fittest" situation among the relatively bigger stable ones.

7. Operational problems in production, marketing and finance largely stem from inadequacy of investment and the insufficiency of capital, and lack of appreciation of the basic management functions.

8. Opportunities in terms of sourcing of raw materials still exist are significant but government impositions on logs and wood products transport, to an extent, affect the growth of the industry.
9. Attitudes play an important role in the introduction of better technology and improved production and marketing practices to develop the industry. Despite the organization of shop owners into associations to have a better bargaining power and to mutually protect the industry, the “kanya—kanya” system still prevails. No matter what assistance may be extended by the government will prove to no avail if the owners/managers are uncooperative and not receptive to changes.
10. On the whole, the industry is dominated numerically by small establishments but not necessarily in size and market share.

6. Recommendations

1. There is a need for the owners/managers to assess themselves and evaluate their operations; and to an extent, for the government to review the affectivity of the implementation of its assistance programs.
2. There is an urgency to strengthen the existing associations which seem to be organizations only in name. If the association is strong, it can have a better bargaining power and the members can mutually protect the industry. The association can also have a joint market information drive, a common promotion effort and display centers and outlets in key urban centers.
3. Small shops with less capability could merge and become partnerships. Pooling their resources together can make them more viable, profitable and competitive. As it is, even brothers and relatives have their own shops and adjoining each other at that. If merging is not acceptable, they can become parts producers rather than total or integrated manufacturers. The information given by the DTI about Metro Manila furniture makers and even bigger shops in the provinces for parts producers need further study,
4. It might be well for the shop owners to realize the importance of basic management processes and simple management practices so that they can direct their operations viably and profitably, and problems which could normally be immediately identified could be resolved at once. They can also have systematic and effective setting of prices with the adoption of records and good management practices.
5. There is a need for owner-managers to be receptive to changes and innovations. It is the experience of the DTI that whenever things are introduced or are suggested many accept but later insist on doing things their own way just the same.

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