

DYNAMIC ASSISTANCE TO SMALL BUSINESSES FROM THE GOVERNMENT OF EL SALVADOR

John Theodore, JDT Management Consultants

ABSTRACT

The purpose of this article was to indicate the dynamic and systematic assistance small Salvadoran businesses receive from the Government of the Republic of El Salvador, expose the discrepancies that still exist among small business organizations, and demonstrate the corrective and developmental actions such enterprises receive from their national government in order to reduce and eliminate such discrepancies.

JEL: M16, M20

KEYWORDS: Central American Common Market, CONAPYME, DICA, Large Businesses, Medium-Size Businesses, Micro and Small Business Enterprises (MYPES) Ministry of Economics, Republic of El Salvador, Universidad Centroamericana

INTRODUCTION

The present author in this article presented the dynamic and systematic assistance provided by the Government of the Republic of El Salvador to small business enterprises, exposed the discrepancies that still exist among small business organizations in that Central American nation, and demonstrated the corrective and developmental support these private firms receive from the Salvadoran Government in order to reduce and eliminate such discrepancies.

The Republic of El Salvador is located on the Pacific coast of Central America and is the smallest Spanish-speaking nation in the American Hemisphere with a population of slightly over 8,000,000 inhabitants. It was a part of the Spanish Empire in the Americas and won its independence in 1821 with the rest of the Central American nations. The country has gone through difficult times in its history, including a civil war in the second part of the previous century that caused heavy socioeconomic damages.

The economy of El Salvador started with the exportation of coffee and remained an agricultural exporter for a long time until the 1960s during which time industrialization started to gain ground in order for the country to enter into the Central American Common Market. A very important element in the economy are the relatively large sums of remittances Salvadoran expatriates send to their families and friends at home (Castillo-Ponce, Torres -Preciado and Manzanares-Rivera, 2009). El Salvador has gone through three economic models which are the exportation of agricultural products and natural resources, industrialization for replacing imports for domestic consumption, and during the last thirty years the intensive exportation of products manufactured domestically. The latter economic model is also depicted by the element of transnationalization of the economy (Bull, 2013). The same model has also been based on the privatization of government organizations, deregulations, and the control of protectionism (Moodie, 2010).

Practically all the Salvadoran literature commensurate to the topic of this article is based on valid and accurate government publications. Academic national and international publications are dedicated to macroeconomics with emphasis on how the Salvadoran Government assists the overall economic development of the country with strong international subsidies mainly in the financial sector, indirect

imports to El Salvador and direct exports to advanced nations in North America and the European Union (Nudelsman, 2013). Many of those publications pivot around the constant problems the Salvadoran Government faces in order to reach an acceptable level of macroeconomic development (Housmann and Rodrik, 2005).

This peer-reviewed academic article has provided information pertinent to the government assistance small business enterprises receive in El Salvador from their government and will strengthen the limited academic literature that is available today. It will also encourage Latin Americanist and non-Latin Americanist authors to conduct similar research in El Salvador, the rest of the Central American states, and in South America with emphasis on government assistance to small businesses.

In 2015 10% of the small business enterprises used new processes, methodologies and instruments in their production system and for 2019 the Government of El Salvador projects that the percentage will be increased to 80% (Plan Estratégico De Conapyme: 2015-2019, 2015). In reference to management development, the same source indicated that it had a 50% success factor in 2015 and expects a 100% goal in 2019 (Política Nacional para el Desarrollo de la Micro y Pequeña Empresa, 2015).

The subsequent sections of this work include the Literature Review that described, analyzed and evaluated the current literature in the field; Data and Methodology dedicated to primary and secondary data collected and the methodology used; Results and Discussion that exposed the results of the research and provided a brief discussion about them; Concluding Statements; and References in English and Spanish.

LITERATURE REVIEW

Micro and Small Business Enterprises (MYPES)

The Ministry of Economics of El Salvador classifies the private enterprises in the country as large (*grandes*) with approximately 420 enterprises; medium sized (*medianas*) that include 2000 commercial and 570 industrial firms; micro businesses (*microempresas*) that are composed of 2,300 industrial and 7,000 commercial firms; and small businesses (*pequeñas empreses*) which includes 2,000 industrial and 6,000 commercial enterprises (Ley de Fomento, Protección y Desarrollo, 2014).

Micro and small businesses (MYPES) constitute the majority of the private enterprises and perform most of the economic activities in the nation's economy (Medina, W., Manager, Mypes Industriales, Ministry of Economics. Personal interview in San Salvador, El Salvador, July 5, 2016). Microbusinesses have from one to ten persons and annual sales up to \$482.00; small businesses have from 11 to 50 persons and annual sales from \$482.00 to \$4,817.00 (Plan Estratégico De Conapyme: 2015-2019, 2015).

Similar criteria for classifying small business enterprises exist in all countries in Latin America (Hausmann and Rodrik, 2005). The large number of small enterprises is one of the major causes for the slow economic development in El Salvador and all Latin America due to their diseconomies of scale (Theodore, 2015). Underemployment is a strong characteristic in Salvadoran economy; from 2007 to 2015 underemployment fluctuated from 4.9% to 5.8%; unemployment ranged from 5.7% to 5.8% during the same period (*Estudio económico de América Latina y Carible, 2015. Anexos Estadísticos, 2016*)

The Government Act 598 of 2012 clearly specifies the responsibility of the Salvadoran Government in assisting the private sector in the areas needed through the Ministry of Economics which has been making every effort to provide support to the MYPES and to monitor the process of such support by coordinating, consulting, and assisting the implementation of correct management practices in production, marketing and sales, finance and accounting and human resources in the organizations under discussion (Política Nacional de Fomento, Diversificación y Transformación Productiva en El Salvador, 2014). The present author,

through his interviews with officials of the Ministry of Economics, detected that such officials responsible for interacting and assisting the MYPES have adequate and commensurate education, are knowledgeable of their tasks, and have the required experience.

The Dirección de Innovación y Calidad (DICA) is an agency of the Ministry of Economics whose function is to assist not only the MYPES but all small and medium sized businesses (PYMES) in developing themselves and attaining economies of scale (Esquema de Programas y Proyectos de la Dirección de Innovación y Calidad, 2014). Emphasis has been placed upon the development of small and medium industrial enterprises without neglecting the non-industrial ones (Política Industrial: 2011-2015, 2010).

In reference to the MYPES, the government established another important agency, the Comisión Nacional de Micro y Pequeña Empresa or CONAMYPE --the Commission of Micro and Small Businesses (Ley de Fomento Protección y Desarrollo, 2015). CONAMYPE is focusing upon the following areas of development of the MYPES: Customers, marketing and sales; planning, organizing, directing, and controlling; the development of the human resources; leadership; the effective, efficient and timely use of the business resources; aiding MYPES in receiving financing; the creation of a legal status for the MYPES; responsibility and obligation to pay taxes; necessity to participate in marketing activities and meetings; and assistance in overall entrepreneurial and organizational development (Producción Mas Limpia, 2015).

A highly important publication provides detailed information for PYMES in the areas of finance, taxation and accounting. It demonstrates step by step all the activities owners of such enterprises have to execute in the areas of accounting, finance, and taxation (Elias, 2013).

Finally, CONAMYPE is instilling upon the owners, managers, and employees of the MYPES the elements of integrity, innovation, solidarity, cooperation, excellence, equity, and responsibility (Programa De Apoyo A Inversión Productiva, 2014). Emphasis is also placed upon the elevation of the status of women in businesses and the practices of competition, innovation, and technology (Política Nacional para el Desarrollo de la Micro y Pequeña Empresa, 2015).

The Ministry of Economics has contracted with universities in the country to provide education and training to the owners, managers, and employees of the MYPES and to all small and medium sized private enterprises in general.

Most of the educational and training assistance comes from the well-known Universidad Centroamericana (UCA), Department of Business Administration. The present writer conducted interviews with administrators and professors in UCA who are responsible for educating and training the human element of the MYPES and all PYMES. Such persons are well-educated, have the necessary experience and responsibility, and are dedicated to the developmental process of the enterprises they are assisting. Assistance is given in the commensurate and related areas of education and training in human and non-human areas, such as production, marketing and sales, finance and accounting and human resources that include the ownership, management, and employees of small business organizations in the country (Campos, E., Head, Department of Small Businesses, Universidad Centroamericana, San Salvador, El Salvador. Personal Interview on July 2, 2016).

Current Problems Among the Mypes

There are several problems that still prevail among the MYPES, such as strong limitations in managerial knowledge; ability and skills; education; and experience among the owners and managers. Additionally, there is limited innovation and technological knowledge, as well as limited responsibility toward customers. Finally, the responsibility to pay taxes does not exist (Lima, F., Director, Desarrollo Productivo, CONAMYPE. Personal interview in San Salvador, El Salvador July 3, 2016).

Identical comments were expressed by high officials in the Ministry of Economics who also added the absence of civic and business responsibility on the part of the owners and managers. In other words, there is limited customer and market orientation (Nostas, E., Director, Mypes Industriales, Ministry of Economics. Personal interview in San Salvador, El Salvador, July 1, 2016).

Similar concerns were expressed by professors who are providing commensurate and related education and training to MYPES; they indicated that there is also a strong absence of long term planning, responsibility, and accountability toward the consumer (Pocasangre, G., Professor, Small Businesses, Universidad Centroamericana, San Salvador, El Salvador. Personal Interview on July 6, 2016).

The original precipitants of the above-cited deficiencies in small business enterprises in El Salvador which are presented in this work exist because El Salvador did not inherit an industrial economy from Spain during the colonial period and has not developed a full-scale industrial economy to this date in which small business organizations are forced by necessity to develop themselves in order to be competitive domestically and internationally (Desarrollo de Mercados, 2015). The culture of small businesses still remains backward as is the case in all PYMES in all Latin America. The owners and managers of MYPES, and MYPES in general, have not shown serious interest for the development of their enterprises, but consider them as a source of income for daily and short-term revenues (Theodore, 2009).

Areas of Urgent Concentration of Assistance

The areas where MYPES need urgent attention are the provision of incentives for development, formalization of operations, development of human resources, long term planning/strategy, social and business responsibility, payments of taxes, making PYMES a legal entity, and the creation of the feeling of business security (Lima, F., Director, Desarrollo Productivo, CONAMYPE. Personal interview in San Salvador, El Salvador, July 3, 2016).

It was also noted that deficiencies exist in the areas of product information, management and marketing training, and the knowledge and ability to borrow money under correct and acceptable conditions (Ruano. E., Manager, Mypes Industriales, Ministry of Economics. Personal interview in San Salvador, El Salvador, July 1, 2016). Similar opinions were also expressed on the part of UCA professors who added that there are problems with the absence of the ability, courtesy, and gesture of accepting the exchange and/or return of purchased products by the customers (Melara, C., Assistant Director, Small Businesses, Universidad Centroamericana, San Salvador, El Salvador. Personal Interview on July 2, 2016).

According to the opinion of the present author, it is imperative that the Ministry of Economics, with the assistance of UCA and the other educational institutions that participate in the teaching and training of the human element of the MYPES, and the PYMES in general, make every effort to change the backward culture of the ownership, management, and employees to a modern and dynamic one in order for such enterprises to attain a continuous organizational development modus operandi and to operate under long-term strategies (Theodore, 2011). The present author discussed with the above-cited government officials, professors, and administrators the possibility of creating mergers of capable small business organizations under discussion in order to create large ones with higher and stronger factors of production (Theodore, 2009).

DATA AND METHODOLOGY

For the purpose of this article, the author collected secondary materials published by Salvadoran and foreign sources on government assistance to small business enterprises in the Republic of El Salvador. The primary

data were collected through a number of lengthy personal interviews with key persons in the Salvadoran Government and UCA who have been clearly acknowledged in this article.

RESULTS AND DISCUSSIONS

Private enterprises in the Republic of El Salvador are classified as large (*grandes*) with approximately 420 enterprises; medium sized (*medianas*) that include 2000 commercial and 570 industrial firms; micro businesses (*microempresas*) that are composed of 2,300 industrial and 7,000 commercial firms; and small businesses (*pequeñas empresas*) which includes 2,000 industrial and 6,000 commercial enterprises. Micro and small businesses (*MYPES*) constitute the majority of the private enterprises and perform most of the economic activities in the nation's economy

Small and medium-sized private enterprises have been chronically underdeveloped. For this reason, dynamic and systematic assistance to such organizations is received from the Government of the Republic of El Salvador in the areas of technology, information and communication, human resources, management, marketing, finance, production, and strategy and development (Hausman, 2005). The above-cited assistance is moving slowly, mainly due to the culture of the owners, managers, and employees of the enterprises, but visible progress is being made.

The Government of El Salvador, through the agencies it has established for assisting small business enterprises, supports the overall development of small industrial and non-industrial business enterprises in coordinating and providing consulting services in the areas of production and operations, marketing and sales, finance, accounting and taxation, and human resources in order for such enterprises to attain the necessary economies of scale.

Additional areas of government support in small business enterprises are in organizational and managerial innovation; integrity; solidarity and cooperation; excellence; equity, and responsibility; planning, organizing, staffing, leading and controlling the organizational activities; the effective, efficient and timely use of business resources; aiding in receiving financial assistance and attaining legal status, such as the corporate form of business; the responsibility and obligation to pay taxes; participate in overall business activities; and assisting the continuous entrepreneurial development.

Emphasis is also placed upon the elevation of the status of women in businesses and the elements of competition, innovation, and technology. Finally, the Ministry of Economics has contracted institutions of higher learning to provide commensurate and related education and training to owners, managers and employees of the enterprises under discussion.

The problems that still remain extant are strong limitations in managerial knowledge, ability and skills, and education and experience among the owners and managers. There is limited innovation and technological knowledge, as well as limited responsibility toward customers, the lack of accountability and responsibility to pay taxes and the strong absence of long term planning.

The areas where the enterprises under discussion need urgent attention are the provision of incentives for development, formalization of operations, development of human resources, long term planning/strategy, social and business responsibility, payments of taxes, making small businesses a legal entity, and the creation of the feeling of business security

It was also noted that deficiencies exist in the areas of product information, management and marketing training, and the knowledge and ability to borrow money under correct and acceptable conditions. There are also problems with the absence of the ability, courtesy, and gesture of accepting the exchange and/or return of purchased products by the customers.

CONCLUDING COMMENTS

The author presented the dynamic and systematic assistance provided by the Government of the Republic of El Salvador to small business enterprises, exposed the existing discrepancies that still exist among small business organizations in the country, and demonstrated the corrective and developmental actions such private firms receive from their national government in order to reduce and eliminate such discrepancies.

The primary findings depict the continuous efforts of the Salvadoran Government in providing assistance in all the functional units (production, marketing/sales, finance and human resources) of small business operations, the progress that has been taking place, and the problems/difficulties that are still extant in the small business enterprises in that nation.

The author had a number of lengthy personal interactions in form of interviews with government officials in the Ministry of Economics and educators for the purpose of collecting primary data. Medina, W., Manager, Mypes Industriales, Ministry of Economics, made a lengthy presentation to the author about the nature and operations of small business enterprises in the country. Lima, F., Director, Desarrollo Productivo, CONAMYPE, in his long conversation with the author indicated that small enterprises almost totally avoid paying taxes, have no accounting systems, and no customer and social responsibility and the assistance such organizations receive in correcting such discrepancies. Nostas, E., Director, Mypes Industriales, Ministry of Economics presented the fact that small businesses have no market orientation, short and long-term planning, and customer responsibility and also emphasized the commensurate and related education and training their owners and managers receive to correct such problems. Ruano, E., Manager, Mypes Industriales, Ministry of Economics, spoke about the deficiencies that exist in the areas of product information, management and marketing training, and the knowledge and ability to borrow money under correct and acceptable conditions. He strongly emphasized the support such enterprises receive from the government in order to correct such discrepancies.

Pocasangre, G., Professor of Small Businesses, Universidad Centroamericana, presented the various commensurate and related educational and training programs offered in management, organization, marketing, finance, accounting and human resources for the benefit of owners, managers and employees of small businesses. Melara, C., Director, Small Businesses, Universidad Centroamericana, spoke about the absence of the ability, courtesy, and gesture of accepting the exchange and/or return of purchased products by the customers among small business enterprises and the courses they offer in marketing, sales and customer relations to correct such deficiencies.

The most evident limitation in this work is the absence of academic literature on the government assistance to small business organizations by the Government of El Salvador because national and international research has been pivoting around the macroeconomic development of El Salvador that starts with mainly financial foreign assistance received by the Salvadoran Government. Such assistance is allocated into areas selected by the leadership of that nation which usually centers around the additional development of exports (mainly agricultural and to a lesser degree industrial) and around large enterprises that are owned and operated by influential and wealthy persons in the country.

General and specific government publications on government assistance to small business enterprises are helpful and can be used as an infrastructure for academic researchers to produce academic articles and books which will expose the element of small business enterprises in El Salvador, the problems such organizations face, the proposed solutions to eliminate such problems, and the dynamic assistance the national government provides to all small business organizations in the country.

REFERENCES

- Bull, B. (2013). Diversified Business Groups and the Transnationalisation of the Salvadorean Economy. *Journal of Latin American Studies*. Cambridge University Press
- Castillo-Ponce, R., Torres-Preciado, V.C., & Manzanares-Rivera, J.L. (2011). Macroeconomic determinants of remittances for a dollarized economy: the case of El Salvador. *Journal of Economic Studies*, Vol. 38, No.5.
- Desarrollo de Mercados (2015). Fondo De Desarrollo Productivo. *Ministerio de Economía de El Salvador*. San Salvador.
- Elias, A. (2013). *NIF Para PYMES*. San Salvador. Editorial Jurídica Salvadoreña.
- Estudio económico de América Latina y Caribe, 2015 (2016)*. Anexos Estadísticos. Mexico. CEPAL.
- Esquema De Programas Y Proyectos De La Dirección De Innovación Y Calidad (2014). Dirección De Innovación Y Calidad DICA). *Ministerio de Economía de El Salvador*. San Salvador.
- Hausmann, R., & Rodrik, D. (2005). Self-Discovery in a Development Strategy for El Salvador. *Brookings Institution Press*. *Economía*. Volume 6, Issue 1.
- Ley De Fomento Protección y Desarrollo Para La Micro Y Pequeña Empresa (2015). CONAPYME. *Ministerio de Economía de El Salvador*. San Salvador.
- Moodie, E. (2010). *El Salvador in the Aftermath of Peace: Crime, Uncertainty and the Transition to Democracy*. Philadelphia. University Of Pennsylvania Press
- Nudelsman, S.* (2013). Implicaciones de la crisis financiera y económica global en America Latina. *Revista Problems del Desarrollo*, Octubre-Diciembre, 2013.
- Plan Estratégico De Conapyme: 2015-2019 (2015). CONAPYME. *Ministerio de Economía de El Salvador*. San Salvador.
- Política Industrial: 2011-2015 (2010). *Secretaría Técnica de la Presidencia*. *Ministerio de Economía*. San Salvador.
- Política Nacional De Fomento, Diversificación Y Transformación Productiva de El Salvador (2014). *Ministerio de Economía de El Salvador*. San Salvador.
- Política Nacional Para El Desarrollo De La Micro y Pequeña Empresa (2015). CONAPYME. *Ministerio de Economía de El Salvador*. San Salvador.
- Producción Mas Limpia (2015). Fondo De Desarrollo Productivo. *Ministerio de Economía de El Salvador*. San Salvador.
- Programa De Apoyo A Inversión Productiva (2014). *Ministerio de Economía de El Salvador*. San Salvador.

Theodore, J. (2009, July). Organizational size: A key element in the development of private enterprises in the less developed countries. The case of Ecuador. *International Business & Economics Research Journal*, 8(7), 45-49.

Theodore, J. (2011). *Culture and the Development of Management: An International Example*. Richmond, CA: Lyseis Public Policy Publishing, an Imprint of Conrescent LLC

Theodore, J. (January/February 2015). The Process of Globalization in Latin America. *International Business & Economics Research Journal* (Volume 14, Number 1).

BIOGRAPHY

John Theodore is the holder of a Ph.D. degree in Administration and Latin American Studies from the University of Kansas; a Ph.D. in Management from the Aristotelian University in Greece, European Union; and a D.B.A. in International Business from the University of South Africa. He has been teaching and consulting for five decades, domestically and internationally. He is a visiting professor in various foreign universities and has consulted, taught and lectured in a number of Latin American universities, colleges and private organizations for several decades. He started his research on the economy and the private business organizations in El Salvador and the rest of the Central American and South American states in the 1970s and revisited Central and South America systematically to continue such studies to the present decade. John Theodore is the president of JDT Management Consultants in Clearwater, Florida, specializing in management, organization, strategy, international business, human resources, organizational development, and educational administration. He is a certified management consultant (CMC) certified by the Institute of Management Consultants in Washington, D.C. He has published three books and a large number of peer-reviewed articles in the areas of organization, management, and international business.