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YOU CAN'T ALWAYS GET WHAT YOU WANT... OR WHAT YOU NEED

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"A business must manage skills, resources, and capabilities to prosper."

Over the last ten years, Mexican competitiveness and income inequality have remained at a long impasse. Currently, the nation ranks number 51 among 138 indexed nations.

Competitiveness refers to a nation's ability to compete for resources, increase investment and productivity, and generate growth and prosperity to improve quality of life. However, a better standard of living can only be achieved when domestic businesses can compete equally against businesses from other countries, sustaining themselves while increasing income and production efficiency. In other words, a business must manage skills, resources, and capabilities to prosper. Thus a nation's competitiveness depends on the collective competitiveness of its firms.

Mexican MSMEs Relative Reality - Mexico's prosperity is largely dependent on MSMEs, which account for 72% of total employment and 52% of GDP. According to Mexico's National Statistics Institute (INEGI) there are almost 4.2 million enterprises in Mexico, where microenterprises account for 94.4% of total economic units (4 million); small enterprises are 4.4% (174,800); medium size businesses 0.83% (34,960); and large corporations represent 0.19% (8,030).



The only way to make progress in advancing small business is to provide the necessary conditions to support entrepreneurship and the generation of new venture capital. Progress toward full employment and job creation are always at the forefront of political agendas. Over the last three decades, Mexican governments have struggled to create new jobs and nurture business development. In the current administration, several public initiatives, like the National Entrepreneurship Institute (INADEM), which has offered grants and support to new business ventures and SME startups since it was established in 2012, were implemented to promote MSMEs creation and reduce the unemployment rate.

Absolute numbers so far show a positive effect on new enterprises and job creation, but in relative terms, productivity and competitiveness are not as promising. World Bank figures show that the number of newly registered businesses between 2012 and 2016 went from 31,028 to 45,256; an impressive 45.8% increase, but similar to the 45,321 that were registered in 2010. According to INEGI, the annual growth in the number of newly employed persons in Mexico over the last ten years increased by almost 18% from 4.5 to 5.3 million new jobs (2008-2018), and almost 40% from a low point of 3.8 million in 2000.



"Mexican MSMEs life expectancy has a weighted average of 7.7 years, ranging from 6.9 years for micro enterprises to 22.0 years for medium companies. This survival rate is almost 22% lower than the global MSMEs life expectancy average of 9.8 years."

Although it is expected that for the first half of 2018, between 550 and 600 thousand new formal jobs will be created under a 12% annual growth, we must consider the kind of jobs that are being lost and created. During 2017, 1.1 million low-paying jobs were created with an estimated average salary of \$7.39 US dollars per day, while 1.6 million high-paying jobs were lost (average daily pay of \$21.54 US dollars). This means a 31% reduction on best paying jobs against a 15% increase in low salary jobs.

OECD Policy Briefs states that among OECD countries, Mexico has the widest labor productivity gap between large firms and MSMEs. While the number of MSMEs has been increasing in recent years as well as the number of new jobs, these jobs are non-technical and low-quality, and will eventually reduce overall productivity and the nation's competitiveness.

MSMEs Future Challenges - Organizational competitiveness is the result of a virtuous cycle, where customers push companies to seek innovative and efficient ways to meet their demands. This cycle requires new sophisticated, technical, operational, and managerial skills to improve, re-engineering current processes and deliverables. Eventually, new offerings will result in new consumer preferences that will transform into new knowledge, new social behaviors and again, over time, into new customer demands. Thus to be competitive regardless of circumstance, organizations need to strategically transform key resources into new advantageous capabilities and value propositions. But lacking these vital resources impinges on their capacity to react and satisfy customers' demands and reduces their potential productivity.

A 2014 publication by McKinsey Global Institute, "A Tale of Two Mexicos," explains how the country's economy moves at two different competitive speeds; between a small highly productive modern sector comprised by large and medium enterprises and a vast, less competitive, less dynamic, and less productive traditional economy led by small and micro, and most often informal enterprises. This dual asymmetry also appears in the geographical distribution of both large and MSMEs, where the Central and Northern states, most of which share borders with the U.S., contribute 41.7% of the nation's GDP, almost double that of the Southern states, which represent 21.5%. The disparity is explained by the fact that most of the large and

excluding mining and oil extraction, are located either in highly competitive hubs and logistics corridors along Central and Northern regions of Mexico, or tourism centers and infrastructure developments in the Southeast, while traditional commerce and service MSMEs are located in the south of the country.

Business Culture and Finance Access - If we analyze Mexico using Hofstede's national cultural dimensions, we find high levels of uncertainty avoidance (82/100), which equals risk aversion, along with high marks for power distance (81/100) and indulgence (97/100), meaning that Mexicans tend to be overly optimistic and respectful of the status quo and differences among social classes. This probably explains why MSMEs owners tend to be more conservative in their decision making, favoring business ventures that are apparently less risky even if they show worse future revenue prospects with no scalability.



"Collective Support is Needed - There are too many things that Mexican MSMEs are lacking; financial support, technical training, strategic management skills, executive competency, market sense and quality certifications."

This narrow mindset also affects how MSMEs are financed. A recent study by Konfio Bank on MSMEs access to credit shows that in 2017, only 19.9% of small and medium businesses had access to a bank loan or microcredit. Importantly, more than 50% of all Mexican MSMEs don't have access to any type of finance. Specifically, 89.4% of micro businesses, 72.2% of small, and 60.2% of medium enterprises can't get financing and don't know where to look for it.

Collective Support is Needed - There are too many things that Mexican MSMEs are lacking; financial support, technical training, strategic management skills, executive competency, market sense and quality certifications. They also lack access to highly-productive value chains and clusters. These needs must be met for Mexico's future growth and the survival of its small businesses.

Small business owners must also develop an entrepreneurial and innovative mindset, which is impeded by traditions that outnumber new paradigms, with deeply embedded social values dictating business behaviors and strategy.

It is imperative for the Mexican government to align itself with private investors, banks, financial companies, business associations, and academic institutions to try to find ways to promote and articulate not only new MSME creation, but also to help existing MSMEs be more productive, competitive, and sustainable. We must do this as a nation if we want to prevail.

Frustration abounds when people can't get what they want. But frustration turns desperate when they can't get what they need.



About ICSB Gazette:

The ICSB Gazette is a weekly edition of a key topic that ICSB will showcase. The content is varied from research, practice, policy, and education. The editor of the ICSB Gazette is Ms. Jordyn Murphy, ICSB Operational Manager. She will be soliciting ideas and articles from ICSB members world-wide.

ICSB Executive Director Comment:

Ricardo Alvarez hit the nail on the head when he said that in order for Mexico to prevail, it is imperative for the Mexican government to align itself with private investors, banks, financial companies, business associations, and academic institutions to try to find ways to promote and articulate not only new MSME creation, but also to help existing MSMEs be more productive, competitive, and sustainable

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Contribute:

Have a topic you would like to see or an article to share? Please submit for consideration to jordyn@icsb.org