

# The SGV Review

Volume 2, Number 3  
Entrepreneurship Issue 2004

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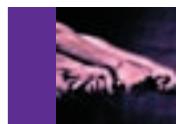
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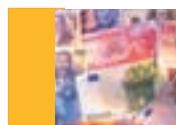


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# In this issue

We are constantly looking for heroes.

Heroes are those who inspire us, do what we think can't be done, show us that things aren't that bad, give us a model worthy of emulation, and triumph in the face of adversity. Nowadays, we are constantly barraged by negative sentiments – rising prices, mounting problems, a growing debt problem, and an unfavorable public image. It is easy to feel sorry for ourselves – people may think it's not even a matter of the glass being half full or half empty. Die-hard pessimists may even say, "Hey, many don't even have a proverbial 'glass' to fill." Many are resigned that things are not going to get any better and feel helpless. The feeling of helplessness breeds inaction, and nothing does get better. It is a vicious cycle.

The larger crisis, however, is a crisis in confidence. True – it may be hard to maintain a positive, optimistic attitude given the realities and scandals of today. But who has a better chance of success – someone who is pessimistic and fatalistic or one who is positive and sees opportunities for change? It's all about perspective and, let's not forget, taking action. There are those who will complain endlessly about how bad things are and do nothing but complain (or even worse, resign themselves to "Well, that's the way things are done so might as well do things that way myself" – and thus contribute to the negative spiral even more). However, there are those who, knowing that the odds are stacked against them, push on and succeed. Which brings us back to the need for heroes – we need them and we need to celebrate them. We need to celebrate their successes, feel good about them, and be proud.

Heroes go by many names. One type of modern-day hero is the entrepreneur. These are the people who have dreams and go out and turn those dreams into a reality. These are the people who are not satisfied with the status quo and look for a better way of doing things. This special issue of *The SGV Review* focuses on entrepreneurs and entrepreneurship.

Many Filipinos may not recognize the names of Tony Tan Caktiong or Dado Banatao but they should. What do these two people have in common besides being Filipino and engineering graduates? Both are Master Entrepreneur Of The Year winners – an award given by Ernst & Young. Tony won the award in the Philippines in 2004 and later on, in a worldwide competition in Monaco, emerged as the Ernst & Young World Entrepreneur Of The Year, selected among other winners from 31 countries. Dado won his award in the United States in 1997. If anything, these two individuals show that Filipinos can compete globally and win.

Both of their stories are highly inspirational. As a young boy, Tony used to wash dishes, bus tables, and clean the restroom in his father's restaurant in Davao. Later on, in 1978, he and his siblings would incorporate what would become one of the most well-known

Filipino brands today – Jollibee. Dado was born in Cagayan, a son of a simple farmer and a housekeeper, and went to a public elementary school. Back then, his barrio did not even have running water or electricity. Years later, he would find himself studying, working and living in the United States where today, he is known as the most famous Filipino-American Silicon Valley inventor and entrepreneur (read more about Dado's amazing accomplishments on page 102). Thanks to his several contributions to the industry, computers have become more powerful, faster, and easier to network.

Now the pessimists may say, “Okay, but these guys are just one out of a hundred! How many more are out there?” Well, it turns out that there are a lot more people out there who share a passion for their work and a drive to excel. These are the people who act to change things for the better. Others may also say “Well, these guys got lucky!” Luck may play a big part of the success of many entrepreneurs, but as Dado puts it “You have to create your own luck. You have to get lucky by working at it.”

Good words to live by.

We hope you enjoy this issue and, as always, we welcome your comments and suggestions.



Francis L. Huang  
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# What's Luck

## Got to Do with It?



**Gregory K. Erickson**

Entrepreneurs have a vision; they believe in it completely; and they pursue it wholeheartedly. They are global in outlook, at the cutting edge of technology, responsive to change, and focused on building, on moving ahead, on becoming both bigger and better, and on emphasizing teamwork.

**Olympians win Gold Medals.** Actors and actresses are honored at Cannes or the Academy Awards. Scientists vie for the Nobel Prize. But for business achievement, the pinnacle is Ernst & Young's Entrepreneur Of The Year award.

Ernst & Young presented the first Entrepreneur Of The Year award in 1986 in a single Midwestern city in the United States. Since then, the Entrepreneur Of The Year awards has expanded across six continents, to more than 150 cities, and in over 35 nations around the world.

The award honors the contributions of entrepreneurial leadership to the world economy and serves to:

- Identify the best entrepreneurial role models for the next generation of business leaders
- Inspire today's successful entrepreneurs to reach even greater heights
- Foster new entrepreneurial activity and economic growth in participating countries

Close up, every successful entrepreneur is a dramatic, inspirational case in point and also representative of the spirit that creates successful businesses by turning visions into profitable realities. Collectively, entrepreneurs create millions of jobs and serve millions of more customers. Individually, they make millions of dollars in profits and create long-lasting growing businesses based on wise planning and strategic thinking. But in the end, the bottom line becomes a way of keeping score, not the story of what they accomplish. Entrepreneurial leaders are business champions who have mastered an intricate combination of many different skills and strengths, and – when they are tested in the fire of entrepreneurship – they perform these skills consistently and superbly over long stretches of time.

They are engaged in a process that economist Joseph Schumpeter describes as “creative destruction”— breaking down old ways to provide new responses to the wants and needs of the marketplace. They push forward to change things for the better. They are congenital builders. Once they start, they keep going. They may start, as Jim McCann did, with a flower shop on the side and end up with 1-800-FLOWERS, the world’s largest florist.

The story of each successful entrepreneur is a microcosm of the whole, with variations on an underlying theme: they have a vision; they believe in it completely; and they pursue it wholeheartedly. Today’s entrepreneurs demonstrate that the new economy is based on innovation and that success comes to those who provide breakthrough solutions. In responding to opportunities, they know how to change strategic direction when necessary, and they keep looking for what’s new and better.

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**Today's entrepreneurs demonstrate that the new economy is based on innovation and that success comes to those who provide breakthrough solutions.**

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Entrepreneurs embody creativity and originality throughout their organization. Innovation applies not only at the beginning of a venture, but during the company’s continued survival and growth. Ted Turner, the founder of CNN, was an Entrepreneur Of The Year winner in the late 1980s. At the time, people laughed at the idea of a 24-hour news network. The competition

referred to CNN as the Chicken Noodle Network. Today CNN is the most recognizable media brand in the world.

Innovation demands the ability to inspire, to adapt, to diversify, to change, to be flexible, and to overcome adversity. This unbound culture has an underlying purpose: to establish an environment that unleashes people's limitless creativity, enthusiasm, and energy, and thus to create and shape the company's future.

In establishing the values that their companies live by, entrepreneurs lead the way for the people in their organizations who look to the person at the top and what he or she believes in. In particular, they believe in team-based networks rather than traditional hierarchies of command and control. As self-directed as they are, they understand the necessity of surrounding themselves with talented, creative people if they want their companies to continue to succeed. All entrepreneurs reach a time when they realize they cannot carry the full load of their new business by themselves – they need help to turn their vision into a thriving business. They also believe in sharing the rewards of their success with the people who helped them succeed. As one successful Entrepreneur Of The Year winner believes "What I've learned over the years is that in creating your own business, the biggest challenge is making its culture special and treating people well. And it is the greatest reward." Each entrepreneur has a unique way of taking care of people – an appreciation to put People First! The great entrepreneurs love people and people love them!

Successful entrepreneurs know that to make a difference they must dare to be different themselves. Entrepreneurs are always looking ahead for the next new thing or way of serving customers. A lifelong entrepreneur – after successful enterprises in textiles, wine, and golf clubs – refuses to stop having **fun**, saying with emphasis and confidence, "Wait till you see what's coming up next!" Michael Dell, an Entrepreneur Of The Year winner was only 25 years old when he won the award more than 10 years ago. He was considered a Don Quixote, slashing away at the mighty IBM windmill. Very few people thought he would make it, but Dell's direct to the consumer model was the way of the future. Dell Computers continues to grow and develop—and its founder is not even 40 years old yet!

Persistence is essential for the reason that entrepreneurship is not an event. It takes time. It's a learning process, and part of that process is the ability to fail, to learn from failure, and then to seek the next opportunity. You can even call it the ability to *fail fast* and then to move on.

Quality also counts. The founder of a micro-brewery that's been at the forefront of the microbrewery boom credits his success to getting down to the basics. He started the company with a family recipe, a dream of making a great beer, and the realization that there are only two ways to survive: Either your product is better than your competitor's or it's cheaper. He chose "better" and it's paying off!

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**Persistence is essential** for the reason that entrepreneurship is not an event. It takes time. It's a learning process, and **part of that process is the ability to fail, to learn from failure, and then to seek the next opportunity.**

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Looking ahead, entrepreneurs are the business leaders for the 21st century. An Ernst & Young study showed that eight of ten influential people believe that the defining trend in this century will be entrepreneurship – The Defining Trend! Global in outlook; at the cutting edge of technology; responsive to change; focused on building, on moving ahead, on becoming both bigger and better; and emphasizing teamwork. All these traits in today's entrepreneurs preview the future, which will no doubt usher in surprises.

I used to think entrepreneurship was just about business, but after 17 years of observing entrepreneurs close up, meeting the people, hearing their stories, and watching their dreams materialize, I now understand it's about how people think, how the best decisions come from intuition, and how intuition often beats rational analysis. The great entrepreneurs are truly unique – in the way they think, the way they see the future, and the way they play the game.

Entrepreneurs are the lifeblood of the global economy. They are the visionaries whose skills and leadership create new and exciting business opportunities. They positively impact their local communities and enhance

the quality of life for people all over the world. Their outstanding achievements deserve recognition on an international stage. Ernst & Young created the World Entrepreneur Of The Year to recognize the global impact of entrepreneurs and to honor their exceptional achievements in turning dreams into reality. It's an award for entrepreneurs who drive the world economy. 

**Gregory K. Erickson** <Gregory.K.Erickson@ey.com> is the Global Director of Entrepreneur Of The Year for Ernst & Young. He is also Global Vice Chair for Ernst & Young's Emerging and Growth Markets. He has authored a number of books, among them, *The Ernst & Young Entrepreneur Of The Year Award Insights from the Winners' Circle*, *Women Entrepreneurs Only*, and *Net Entrepreneurs Only*.

# Priming the **Filipino Youth for Entrepreneurship**



Zorayda Amelia C. Alonzo

Financial and other forms of assistance to entrepreneurs can boost diversification of industries and the equitable distribution of wealth.

**U**ntil recently, many of the business management courses in our schools prepared students to be managers in large businesses or multinational corporations. The time has come, however, to prepare our youth, not only for employment, but also for entrepreneurship, which will provide even more employment.

The Department of Trade and Industry (DTI), for its part, has taken steps to encourage students to take the road to entrepreneurship. In 2003, DTI linked up with various universities and colleges nationwide to bring the idea of entrepreneurship to our youth through the Career Youth Camp 2003: The Campus Tour – Entrepreneurship Series. This was a project of the Philippine Trade Training Center (PTTC), and it coached the participants on the basics of entrepreneurship.

This year, again through the PTTC, the DTI has embarked on a project with the Department of Education (DepEd)'s Youth Entrepreneurship and Cooperativism in School. A module on entrepreneurship has already been included in the curriculum of primary and secondary schools to give students income options at an early stage. The module covers skills development in home economics, agri-fishing, industrial arts, and computer education, but not much emphasis is given to business management, business planning, work values and attitudes.

The DTI-DepEd joint project hopes to address this gap through the training of teachers, principals, and division heads on work values and attitude, business planning and management. The pilot phase of the project was completed in May 2004. It covered 23 high schools in the National Capital Region. The participants are expected to pass on their learnings to their students under the existing class module on entrepreneurship, with periodic monitoring by the PTTC. Based on the results of the pilot phase, and when funds permit, succeeding batches will be conducted in selected areas in Luzon, Visayas, and Mindanao. Hopefully, the DTI can partner with the University of the Philippines (UP) System on an entrepreneurship education project for students in all levels.

### Why be an entrepreneur?

Why are we focusing on entrepreneurship? Why would anyone refuse or leave a job that guarantees a regular paycheck and permanent tenure, for a venture that holds no sure promise of success? And why face the risk of failure, the unpredictability of the business environment, the long hours of work, and the responsibility?

Entrepreneurship, like most things that are worth our time and energy, entails risks and gives rewards. However, an entrepreneur, by definition, is a risk-taker, and perhaps one of the rewards of entrepreneurship is the “high” that one gets from facing these risks and challenges, and the sense of fulfillment one gets from overcoming them. But there are other rewards:

- More opportunity to earn more money, limited only by the time and effort one is willing and able to devote to the business

- Being one's own boss: being in control of one's own time and life, and being able to take full responsibility for one's decisions
- Being as creative as one wants to be and expressing the creative spirit through innovative products and processes

### Do you have it in you?

Once a person has decided that the rewards of running a business are worth the risks, the next step is to look into oneself, identify strengths that can be drawn on to full advantage, as well as weaknesses that need to be worked on. Innate traits, as well as skills, training, education, and experience must be considered. Here are some questions to ask yourself:

- Do I seek and spot opportunities faster than others? Do I act on them?
- Am I persistent in the face of obstacles, opposition, or disappointments?
- Do I take full responsibility for problems I encounter?
- Do I take calculated risks?
- Do I aim for excellence at all times?
- Do I set clear and specific objectives and goals? Can I visualize them vividly?
- Do I have a clear plan on how to achieve my goals? Do I have alternative plans in case the first does not work out?
- Do I believe in myself?

### What kind of business should you go into?

“Find your passion”— that’s the answer given by business consultants to this question. It may sound strange, at first, to give this advice to people who aspire to be businesspeople, who have earned the reputation of being cold-blooded and profit-oriented.

But our experience has shown us that most successful businesses started as hobbies, or resulted from a fascination with or concern for something. One of our outstanding small and medium enterprises (SME) graduates last year was once an officer in a logging company in Quirino Province. In

the performance of his job, he saw many pieces of good wood being wasted. So with initial capital of only PhP15,000, he set up his own furniture business, the FOB Wood Tiles Center, and started to make things of beauty and value out of all the wood that the logging industry had no use for.

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**Our experience has shown us that most successful businesses started as hobbies, or resulted from a fascination with or concern for something.**

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Another outstanding SME is Alsong Potteries. It was started as a hobby by a couple who are both architects and sculptors. Their creations are jars, plates, candleholders, indoor fountains, and garden accessories. At first, these were meant mainly for display at their place. But when they started accommodating orders from friends and other buyers, the hobby became not only a viable business that drew nationwide attention, but also a pride of their home province, Nueva Vizcaya.

### **The global knowledge economy**

Now, technology and knowledge are the key factors of production. They are replacing capital and energy as the primary wealth-creating assets, in the same way that capital and energy replaced land and labor two centuries ago. Groundbreaking business ideas, therefore, are those that derive value from information.

One dynamic entrepreneur who has done this is Myla Villanueva.<sup>1</sup> She heads the MDI Group of Companies, and last year, she was cited as Woman Entrepreneur Of The Year by Ernst & Young for her pioneering work in information technology. Her newest idea, the NetCast Corporate Messaging Suite, a full-featured web-based system that allows for the automatic and simultaneous delivery of messages in volume to 500 or more recipients. With this mechanism, companies can provide prompt replies to concerns, inquiries, or even feedback and suggestions sent by their customers through the Text Helpdesk facility.

<sup>1</sup> To read more about Myla Villanueva, see "Inspired by the Magic of Silicon Valley," pp.38-39.

But one of our favorite success stories is that of Teodulo Bergado, owner of an enterprise called ATM Ber-Aqua – a business name that is not only attention-getting, but also delightfully misleading. ATM stands for, not automatic teller machines, but automatic *tubig* (water) machines. They are self-service, coin-operated water dispensing machines that provide safe drinking water for only PhP5.00 per gallon. So, although Mr. Bergado's ATMs pour out water, not cash, they help his customers, the Class B and C market, to save money.

Mr. Bergado was an overseas Filipino worker who returned to the Philippines not only with savings to start a business, but also with an innovative idea that caught fire and is now benefiting many communities. He acquired his water treatment skills while working at Arrowhead Water Company in California. Within a few months after he returned to the Philippines in 1999, he invented the technology that led to the establishment of ATM Ber-Aqua. He started with only three water stations in his community, in Taguig, Metro Manila.

In early 2003 he was ready for expansion. He sought financial assistance from the DTI through the SB Corporation, after the SME Forum in Muntinlupa where President Gloria Macapagal Arroyo herself briefed the entrepreneurs. After a month, Mr. Bergado received his check from no less than President Arroyo in Malacañang. Barely four months later, with five more water stations, ATM Ber-Aqua had graduated from a microenterprise to small enterprise. Mr. Bergado was among the 16 Outstanding SME Graduates honored in Malacañang in July 2003. Now, just a little over a year since he approached DTI for help, his water stations have multiplied, from the initial three to 73, and can be found in Luzon, Visayas, and Mindanao.

### **SMEs' role in economic growth**

These entrepreneurs' successes have benefited not only their families and their communities, but the SME sector and the country's economy as well. Their stories illustrate why SMEs are considered engines of

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**SMEs make up 99.6% of all the firms in the country and employ 69.9% of the labor force.**

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growth. Collectively, they pack more economic strength than corporate giants: they make up 99.6% of all the firms in the country and employ 69.9% of the labor force.

SME development is so important to President Arroyo that in her 10-Point Agenda for the next six years, she envisions three million entrepreneurs receiving financial and other forms of assistance to enable them to contribute to the generation of six to ten million jobs. This shall give a tremendous boost to the diversification of industries and the equitable distribution of wealth.

### **The national SME Agenda**

Those who choose to take the path to entrepreneurship will find the government squarely behind them. The National SME Agenda aims to create a more vibrant SME sector through the integrated efforts of key agencies on its various elements: human resource development and entrepreneurship training, market development, product development and technology intervention, advocacy for enabling environment, and financing.

Through the collaborative efforts of these agencies, our SMEs from all regions have availed of opportunities to participate in national and international trade fairs and also in buying and selling missions. They undergo training on entrepreneurship, various facets of business management, and international marketing. They get assistance in product design, development and technology. Some of them are already selling products on-line like cut flowers and native delicacies.

Under the program's finance component, government financial institutions (GFIs) banded together to create the SME Unified Lending Opportunities for National Growth (SULONG). SMEs can avail of financing to expand, meet increased demands for their products, and buy more advanced equipment to enable

**Since the SULONG Program was launched in February last year, over PhP39.6 billion has been released to more than 438,000 micro, small, and medium enterprises nationwide.**

## Lending to SMEs and Micro Enterprises through the SULONG Program

January to June 2004

Government Financial Institutions	Recipients	Releases in million PhP
<b>SMEs</b>		
Land Bank	19,028	16,998
Development Bank of the Philippines	2,675	13,017
SB Corporation	2,937	3,825
Philippine Export-Import Credit Agency (PhilEXIM)	109	724
<b>Subtotal</b>	<b>24,749</b>	<b>34,564</b>
<b>Micro Enterprises</b>		
Quedan Credit Corporation (Quedancor)	376,624	4,710
National Livelihood Support Fund (NLSF)	37,259	370
<b>Subtotal</b>	<b>413,883</b>	<b>5,080</b>
<b>Grand Total</b>	<b>438,632</b>	<b>39,644</b>

them to manufacture better quality products and compete in the world market. Since the SULONG Program was launched in February last year, over PhP39.6 billion has been released to more than 438,000 micro, small, and medium enterprises nationwide.<sup>2</sup>

Running a business brings not only financial rewards. It also has a positive impact on the country's social structure. With the help of educators, especially entrepreneurship educators, we hope to make entrepreneurship a more popular option for the youth who are planning their future and will be shaping our country's future as well. 

*Note: This article is based on a speech delivered by Ms. Alonzo at the University of the Philippines in the Visayas on July 19, 2004.*

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<sup>2</sup> Figures updated as of June 2004

# Business Class: **Entrepreneurship Degree Programs in the Philippines**



Marie Adeline C. Kalalo  
and Maritza A. David

Given the impact of small and medium enterprises on the economy, educational institutions have developed entrepreneurship courses to help equip would-be entrepreneurs with skills and knowledge to establish successful business ventures.

**W**orldwide, entrepreneurs are seen as key drivers of the world economy. Whether they be motivated by necessity or by a desire to seize business opportunities, entrepreneurs provide employment to millions of people. The Global Entrepreneurship Monitor (GEM) estimates that in 2002, over 460 million adults worldwide were engaged in entrepreneurial activity.<sup>1</sup> In the Philippines alone, small and medium enterprises (SMEs) employ about 70% of the country's labor force and contribute to the growth of the economy. Numerous success stories have been told of individuals who have started small businesses and are today, leaders in their specific industry.<sup>2</sup>

<sup>1</sup> Paul D. Reynolds et al., 2002 *Global Entrepreneurship Monitor*. (USA: Ewing Marion Kauffman Foundation, Babson College, and London Business School, 2002).

<sup>2</sup> See "Profiles: Celebrating Success—Entrepreneur Of The Year Philippines 2003 Winners and Finalists" *SGV Review 2004*, pp. 25-65.

However, not all entrepreneurial ventures succeed. A person may have perseverance, the willingness to take risks, creativity, and innovation, and still fail in business. Consequently, many businesses may fail because of mismanagement of finances or marketing problems than of sheer bad luck or low propensity for innovation and creativity.<sup>3</sup> But to a true entrepreneur, failure is not a reason to give up. Starting one's own business is both an art and science, and while entrepreneurial instincts may not always be acquired, the technical knowledge of how to manage one's business may be imparted. This notion, coupled with the desire to start one's own business has brought about the interest in entrepreneurship and self-employment.

In recent years, there has been heightened interest in entrepreneurship programs or related business courses. In the Philippines, the number of enrollees in entrepreneurship undergraduate degree programs increased from 7,166 in 2001 to 9,466 students in 2003 (see Exhibit 1).<sup>4</sup> The National Capital Region (NCR) accounts for the majority representing nearly 20% of the total number of enrollees (see Exhibit 2).

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Many businesses may often fail because of **mismanagement of finances or marketing problems** than of sheer bad luck or low propensity for innovation and creativity.

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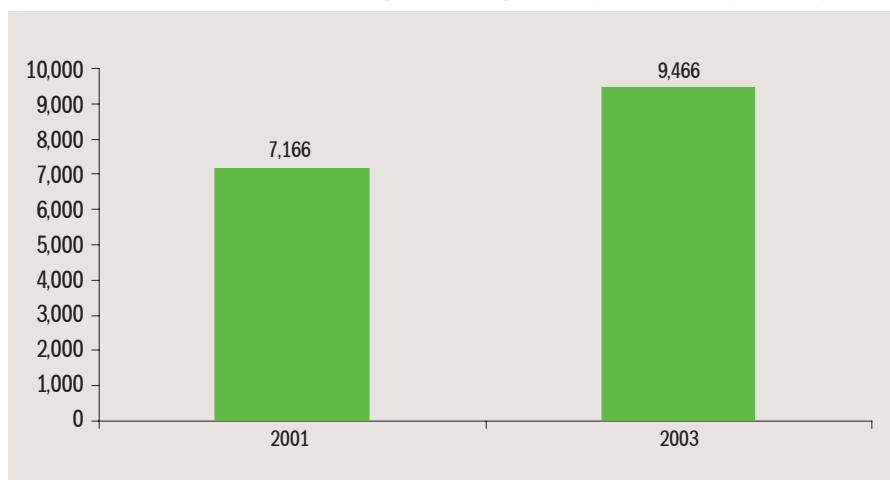
### **Majoring in entrepreneurship**

Following this growth in interest, schools have taken a closer look at the curriculum of business-related courses. From general courses on corporate management, the curriculum incorporated subject offerings on entrepreneurship. Today, depending on the school, a student is able to take entrepreneurship as a specialization under a degree in business management or business administration.

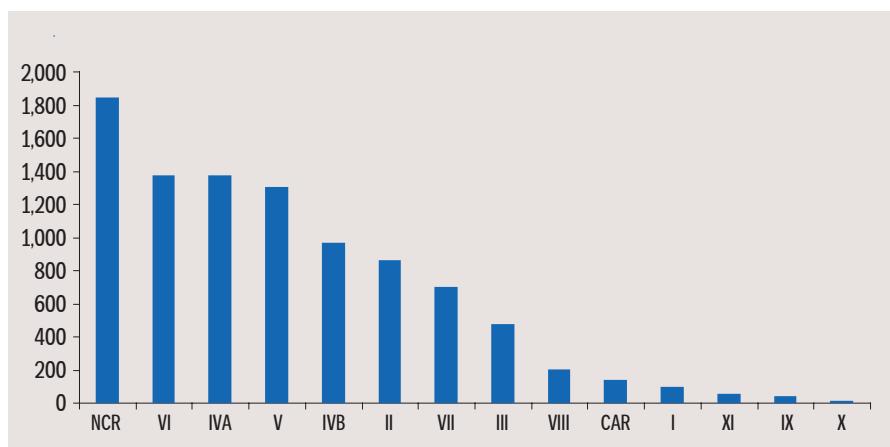
Institutions with full curricular and subject offerings for a specialization in entrepreneurship include the De La Salle University, Philippine School of Business Administration, Colegio de San Juan de Letran, Philippine

<sup>3</sup> Center for International Trade Expositions and Missions

<sup>4</sup> Source: Commission on Higher Education (CHED). Includes degree programs in Entrepreneurial Management, Home Arts Entrepreneurship, and Business Entrepreneurship.

**Exhibit 1****Total Number of Enrollees in Entrepreneurship Undergraduate Degree Programs**

Source: Commission on Higher Education. Includes undergraduate degree programs in Entrepreneurial Management, Home Arts Entrepreneurship, and Business Entrepreneurship.

**Exhibit 2****Number of Entrepreneurship Undergraduate Degree Enrollees by Region, 2003**

Source: Commission on Higher Education. Includes undergraduate degree programs in Entrepreneurial Management, Home Arts Entrepreneurship, and Business Entrepreneurship.

Christian University, Technological University of the Philippines,<sup>5</sup> Assumption College, and St. Scholastica's College.

In these colleges and universities, the curriculum for a degree with a major in entrepreneurship has subjects that extensively train students in the nuances of starting up a business. However, a student must first decide what enterprise he or she wants to enter into. Each industry is different, and the would-be entrepreneur must be sensitive to the market characteristics of each industry. Dr. Christina B. Banastao, Chairperson of Assumption College's Entrepreneurial Management program, affirms this thought. "To define these characteristics," she says, "schools with a specialization in entrepreneurship carry courses such as agri-business entrepreneurship, entrepreneurship in services, and entrepreneurship in the processing industry. These subjects differentiate one entrepreneurial venture from the other and are considered the foundations of entrepreneurial study."

Knowing what industry to specialize in, however, does not spare the aspiring entrepreneur from start-up difficulties. There is no formula to guarantee the success of all business ventures, as each business encounters unique challenges. There are, however, fundamental principles for starting up a business. Such fundamentals are beneficial to would-be entrepreneurs in anticipating and addressing these difficulties they might come across. Dr. Banastao further states that entrepreneurs are most concerned about the difficulties in capital sourcing, business plan development, and marketing strategies. Entrepreneurship programs address these difficulties with courses on production and operation management for SMEs, fund sourcing, product development, industry research, risk management, and marketing management. These courses are designed with the assumption that the individual is responsible primarily for getting the business off the ground and making sure that the business grows.

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There is no formula to guarantee the success of all business ventures, as **each business encounters unique challenges.**

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<sup>5</sup> N.A. Orcullo Jr., *Contemporary Entrepreneurship*. Manila: Academic Publishing Corporation, 2000.

While there is general agreement that the core management courses offered in traditional business programs are essential for success in any business career, there are fundamental differences between business principles applied to new ventures and those applied to large corporations.<sup>6</sup> For students specializing in entrepreneurship, corporate-based courses are also discussed, but not as extensively as in a Business Administration degree, which presupposes that a company is already established. Entrepreneurship programs instead choose to focus on subjects that will aid students in acquiring the resources that they will manage later on. Business entry is fundamentally different from business management. Thus, courses and programs in entrepreneurship education focus on early lifecycle development challenges; particularly those related to a start-up such as opportunity recognition, market entry, protecting intellectual property, the legal requirements of new businesses, and severe resource constraints.<sup>7</sup>

Dr. Delfin Mauricio, head of the Entrepreneurship Department of St. Scholastica's College, explains that corporate-based subjects are still included in their school's curriculum for students majoring in entrepreneurship, as he believes that small-scale businesses would later grow into larger companies.

Aside from offering specialized subjects, the entrepreneurial program requires students to establish and operate a business for a few months. Prior to the pilot business operation, the students must conduct extensive market research. During the course of business operations, these students document their business transactions and submit a complete financial report. At the end of six months, students report on the growth of their company, and discuss the factors that contributed to their business' success or failure. Some students, having seen the benefits of being self-employed, opt to continue their business.

### The entrepreneurship degree program

Given the advantages of business programs that offer a major in entrepreneurship, the government encourages colleges and universities to

<sup>6</sup> George T. Solomon, Susan Duffy, and Ayman Tarabishy, *The State of Entrepreneurship Education in the United States: A Nationwide Survey and Analysis*. International Journal of Entrepreneurship Education: Senate Hall Academic Publishing, 2002.

<sup>7</sup> Ibid.

formulate entrepreneurship programs, citing the possibilities of maximizing the potential of entrepreneurial education. With this, certain schools have designed degree programs for students with a strong entrepreneurial inclination and who possess excellent leadership skills. Entrepreneurs and chief executives supported this initiative by expressing the country's need for a program that genuinely addressed entrepreneurial formation and education. This led to the creation of the Bachelor of Science degree in Entrepreneurship (or Entrepreneurial Management).<sup>8</sup> The Commission on Higher Education estimates that there are nearly 70 colleges and universities offering degree programs in entrepreneurship management.

These colleges and universities have developed the bachelor's degree in entrepreneurship that emphasizes small and medium scale enterprise development. Students are trained in the different stages of business development, from identifying market opportunities to setting up, operating, and sustaining a business. The curriculum includes core subjects, as well as those in management, business administration, entrepreneurship, and personal formation. Each student is challenged to integrate these key points as they complete their course requirements.

This entrepreneurship degree carries a curriculum focused on experiential learning. Most faculty adopt the case study and problem-oriented teaching approach in introducing students to actual business situations. Aside from classroom learning, students are exposed to various business organizations by observing company operations.

Miriam College, for instance, has ensured a support program for the practical training aspect of the degree in entrepreneurship by partnering with various professional organizations such as the Center for Culinary Arts (CCA), Philippine Trade and Training Center (PTTC), Production Development and Design Center of the Philippines (PDDCP), the Bureau of Domestic Trade and Promotion (BDTP), and the Center for International Trade Expositions and Missions (CITEM). Miriam has also partnered with Delaware University to offer their students a summer program in New Jersey, USA that presents a global perspective on entrepreneurship, and

<sup>8</sup> University of Asia and the Pacific

exposure to American companies and how they operate.

### Mastering entrepreneurship

As the students go on to become entrepreneurs, many seek to enhance the services they offer to their clientele. Even more established businesses explore new ways to be cost-efficient, increase productivity, and maximize capital. In 1999, the Asian Center for Entrepreneurship (ACE) of the Asian Institute of Management launched an 18-month graduate program – the Master in Entrepreneurship (ME).

ACE requires an applicant for ME to have a registered business operating for at least one year. Entrepreneurs are tasked to apply the theories learned in class in their existing businesses. ACE evaluates its students by gauging the success of each implemented theory and of the enterprise as a whole.

The ME program is the highest degree currently available in the Philippines for aspiring and established entrepreneurs.

Aside from formal degree programs, short courses or seminars on starting up SMEs are given by the Technical Education and Skills Development Authority (TESDA), Philippine Trade and Training Center (PTTC), and other government and nongovernment organizations. These courses have a time frame of anywhere between three days to six months, and are categorized to fit specific industry concerns of various entrepreneurs. With these programs in place, budding entrepreneurs are able to obtain needed training to help their businesses thrive and flourish.

**This entrepreneurship degree carries a curriculum focused on experiential learning.**

**Aside from classroom learning, students are exposed to various business organizations by observing company operations.**

**Education and training continue to be important areas that need to be addressed to strengthen the entrepreneurial framework of the country.**

## Conclusion

With the incorporation of entrepreneurship in the educational system, entrepreneurship has evolved into a more recognized and professional specialization. Education and training continue to be important areas that need to be addressed to strengthen the entrepreneurial framework of the country.<sup>9</sup> By offering entrepreneurship training programs, schools give would-be entrepreneurs the tools that will enable them to avoid failure and improve their potential for success as they start up and run their business ventures. ■

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<sup>9</sup> See Cesar V. Purisima, "Entrepreneurship in the Era of Globalization: Opportunities for the ASEAN Youth," *The SGV Review* 2004, Volume 1 Number 4, pp. 16-28.

## Profiles: Celebrating Success

# Entrepreneur Of The Year Philippines 2003 Winners and Finalists

**I**n the Philippines, there are currently 800,000 small and medium enterprises (SMEs). The challenge lies in ensuring that each of these SMEs grows and hires at least one employee every year, producing 800,000 new jobs annually. If each of these SMEs were to hire two new employees a year, 1.6 million new jobs would be created, enough to absorb the 1.5 million Filipinos entering the workforce yearly.

The success of these SMEs can be attributed to entrepreneurs – men and women who have seized opportunities, realized their vision, and have inspired others to build dynamic business ventures themselves. To honor these business visionaries, Ernst & Young created the Entrepreneur Of The Year award, which recognizes the achievements of the world's finest businessmen. Launched in 1986, the Entrepreneur Of The Year program has 35 participating countries to date. The annual program culminates in Monte Carlo, Monaco, where the winners from each participating country vie for the coveted World Entrepreneur Of The Year award.

The Entrepreneur Of The Year program in the Philippines was launched in 2003. From a harvest of about 50 nominations, 18 entrepreneurs made the cut as finalists in the program's maiden year. Tony Tan Caktiong, President and CEO of Jollibee Foods Corporation, was named Master Entrepreneur and the first Entrepreneur Of The Year Philippines. Two months later, he was voted the World Entrepreneur Of The Year 2004.

Tony's story and the stories of his fellow finalists that follow serve as shining examples of how the Filipino can excel, compete, and succeed on a global basis. As Tony said, "I realized that this award goes beyond recognition for operational excellence. It has touched the hearts of many people, and has become a symbol of hope."



**Tony Tan Caktiong**  
**President**  
**and Chief Executive Officer**  
**Jollibee Foods Corporation**

- Master Entrepreneur Of The Year 2003
- Entrepreneur Of The Year Philippines 2003
- World Entrepreneur Of The Year 2004



## Good Food, Family, and Happiness

Food and family are two essential elements behind the success of both Tony Tan Caktiong and his company, Jollibee Foods Inc. While growing up in Davao, Tan Caktiong and his brothers worked in their family restaurant where their father was also the chef. From their parents, they learned two basic ingredients that led to the Jollibee phenomenon – good food and humility.

After high school, Tan Caktiong moved to Manila to pursue an engineering course at the University of Santo Tomas. Upon graduating from the university, he and his brothers applied for a franchise of Magnolia Ice Cream House. The business was already doing well but they noticed that the customers were looking for something besides ice cream. This gave them the idea to serve sandwiches and spaghetti. Pretty soon, the hot meals were outselling the frozen delights. Tan Caktiong decided to convert their two ice cream parlors into dine-in fast-food restaurants called “Jollibee.”

The story behind the name is as interesting as the company's. When Tan Caktiong and his family were brainstorming on a symbol for their business, they thought of a bee because it is known for its hard work. A bee also produces honey that represents the sweet things in life. In addition, they also wanted the name to connote happiness and prefixed “jolly” because people should be happy with their work to enjoy it.

With Jollibee, the Tan Caktiong team decided to focus on the Filipino taste. They made sure – as their father had taught them – that all the food that Jollibee serves must taste good. When they learned that the Number One fastfood chain in the world was making an entry in the Philippines, Tan Caktiong knew that they had only two choices: to be a franchise of the global brand or to stand on their own.

Today, it is a known fact that Jollibee is the undisputed leader in the local fastfood industry. Jollibee commands 65% of the market, leading in three major segments – Jollibee in chicken and burgers; Chowking in oriental fast food; and Greenwich in pizza and pasta.

Moreover, Jollibee is one of the largest franchising networks in the Philippines. From two stores in 1975, Jollibee can be found in around 900 locations in the country and 29 overseas. This phenomenon is due mainly to Tan Caktiong's persistent drive to innovate, to look ahead, and to learn from other companies' successes and mistakes. He is the toughest quality controller of Jollibee's products and services.

At the moment, Tan Caktiong is upbeat about doing business in China and Indonesia. Jollibee will explore opportunities in the Japanese dining segment through the US California-based Tomi's Teriyaki Japanese Restaurant. He is not afraid to fail despite an unsuccessful venture in the Middle East. From a business standpoint, he considers the episode successful because of the valuable lessons he learned from it.

For his tremendous success, Tan Caktiong was recognized Management Man of the Year in 2002. He has also been presented an Agora Award for Outstanding Marketing Achievement, a Triple A Alumni Award from the Asian Institute of Management, a Golden Scroll Award, a Ten Outstanding Young Men (TOYM) Award for Entrepreneurship, a Star of Asia Award from *BusinessWeek* and a Lifetime Achievement Award from the Asian Chain Restaurant Operators and Suppliers Series.

Tan Caktiong credits his parents for cultivating his entrepreneurial spirit and instilling in him the values of respect and humility, which are now ingrained in the corporate culture of Jollibee. Everyone in Jollibee – from the CEO to a store's kitchen crew – respectfully address each other as "Sir" or "Ma'am."

"If you take care of your people, they will take care of you," Tan Caktiong puts simply. By people, he refers not only to employees but also to Jollibee's numerous suppliers, franchisees, shareholders and the public at large.

After all that has been said and done in the past 25 years since Jollibee metamorphosed from an ice cream parlor, Tan Caktiong returns again and again to the one basic question his parents would ask often of him: *Have you made people happy?*

Only when he is certain that he has made people happy can Tan Caktiong say that he is truly successful.

# Good People and the Right Values are Crucial Ingredients for Success



Tony Tan Caktiong poses with James Turley, Ernst & Young Chairman, and Howard Stevenson, Judging Panel Chairman of the World Entrepreneur Of The Year 2004.

*An interview with Tony Tan Caktiong, President of Jollibee Foods from the Philippines, recently named World Entrepreneur Of The Year® (WEOY) 2004 at a ceremony in Monte Carlo, Monaco by Ernst & Young*

**Ernst & Young (E&Y):** Firstly, what is your reaction to being named Ernst & Young's World Entrepreneur Of The Year?

**Tan Caktiong:** It came to me as a pleasant surprise. I was shocked hearing my name called to be the World Entrepreneur Of the Year. Immediately I thought of all the people who worked for Jollibee. I knew then that the award was not just for me but for everyone who has helped build Jollibee to be the number one brand in the Philippines.

**E&Y: Would you give me an indication of the latest turnover/profits of the Jollibee Foods Corporation (JFC) and the geographic spread of the business?**

**Tan Caktiong:** The first two quarters of 2004 were very strong. In the first 3 months, JFC posted a net income of 382 million pesos (US\$6.8 million approximately) or an increase of 41.6% versus the same period last year. Systemwide retail sales rose 16.6% to P7.8 billion (\$140 million approximately) from P6.7 billion last year. We saw an even stronger performance in Q2 due to increased disposable income, increased sales during the election (from March to May 2004) on things such as campaign food, and Jollibee's ongoing product development and introduction of new products.

**E&Y: You started as a two-branch ice-cream parlour in 1975 and now have a multinational business. To what do you attribute the outstanding success of Jollibee?**

**Tan Caktiong:** Success did not come at the snap of a finger. It was a long process. Jollibee became what it has become now because of the hard work and determination of people working towards the achievement of our vision. Jollibee is an organization of people who have imbibed our values of integrity, honesty, humility and frugality.

**E&Y: What are your plans for expansion over the next 5 years?**

**Tan Caktiong:** We normally open around 80–100 stores every year across all brands.

JFC will work towards expanding its business presence more significantly in selected markets as it strives to enhance its strong presence in the Philippines.

**E&Y: China in particular has been cited as an area of expansion for your company. You recently spent US\$22.5 million acquiring China's leading fast-food chain Yonghe King, which has an 80-store network. What are your plans in this country and what do you foresee as the main impediment to successful growth there?**

**Tan Caktiong:** Our plan is to grow the Yonghe business in China. While this year will be primarily concentrated on store renovations and improving the product, menu, and operations of Yonghe, store expansion will be a major objective in succeeding years.

**E&Y: What has been your greatest asset as a businessman?**

**Tan Caktiong:** Every businessman has his own strengths and for me, people say that I listen a lot. For others, they may not consider it as strength but for me I realized how I learn so many things just by listening to the thoughts, ideas, and feelings of other people. By listening, I have established good relations with people and I have learned to value them.

**E&Y: What would you describe as your worst business mistake and what did you learn from it?**

**Tan Caktiong:** We build resources to support future growth. This includes hiring people and building infrastructure to support future businesses. In some cases, this strategy has worked for us while in some other cases, the growth that we were expecting was not realized so we have had to scale back and undo what we had built. This process is very painful and costly. This is part of the life of an entrepreneur. You take big risks and there are times when you are wrong about your calls.

Today, we want to reduce those mistakes by relying more and more on research and studies by our professional managers to validate our entrepreneurial perceptions.

**E&Y: If you had one single piece of advice to give entrepreneurs seeking to develop their company what would it be?**

**Tan Caktiong:** Always dream big and do your best to achieve your dreams. Develop the right people and instill in them the right values so that they can serve your customers better. In every business, it is important that your customers are satisfied with your products, your service, your environment, and your price.

**E&Y: Who do you most admire and why?**

**Tan Caktiong:** I look up to my parents for cultivating the entrepreneurial spirit in me and instilling in me the value of respect and humility. My father particularly taught me the values of hard work and to always put the customer first before ourselves.

**E&Y: How would you like to be remembered?**

**Tan Caktiong:** Jollibee employees would probably describe me as someone who can be trusted, someone they can grow with, someone who will take care of them and share with them, and someone who respects them. I'd like to keep it that way.



Source: [http://www.ey.com/GLOBAL/content.nsf/International/EGC\\_-\\_Events\\_-\\_WEoY\\_-\\_2004\\_-\\_Q&A\\_with\\_EY\\_World\\_Entrepreneur\\_of\\_the\\_Year](http://www.ey.com/GLOBAL/content.nsf/International/EGC_-_Events_-_WEoY_-_2004_-_Q&A_with_EY_World_Entrepreneur_of_the_Year)



**Ernest L. Cu**  
President and  
Chief Executive Officer  
SPI Technologies Inc.

**Information and  
Communications Technology  
Entrepreneur Of The Year 2003**

**spi** technologies

## In the Business of Creating Value

Ernest Cu is credited for transforming an entrepreneurial “mom and pop” business into one of the continent’s largest outsourcing service providers. How he steered the business into its current market leadership has been phenomenal.

In 1980, SPI Technologies Inc. (SPI) started as a simple data entry service company. By 1991, the company was listed on the Philippine Stock Exchange and has consistently outperformed other stocks in the past 10 years. However, SPI’s core business depended on contracts that were basically project-based, making revenues not quite consistent.

In 1997, Cu joined SPI as president and chief operating officer. He resettled in the Philippines, giving up his post as vice president and chief financial officer of Crestec Los Angeles, Inc. – a US-based document-engineering firm.

At SPI, his initial accomplishment was the acquisition of an American operation that was effectively SPI’s first direct sales and marketing organization in the US. Cu then paved the way for SPI to render a suite of other services in business process outsourcing (BPO), customer relationship management (CRM), and information technology (IT). The company’s services expanded to content conversion, litigation support, book and journal publishing, software maintenance and development, and healthcare documentation. “As an entrepreneur, I started creating businesses for SPI that have not been done before and I had been willing to take the risks in order to create something of more value to the business and its customers,” recalls Cu on the shift of SPI’s services.

In late 1999, SPI launched eTelecare International, the first call center in the Philippines focused on US outsourcing. The call center provides a wide range of voice and web-based CRM services such as inbound customer service, technical help desk, sales, and market research. eTelecare is recognized as having superior quality in the outsourcing industry compared with US and other offshore competitors.

Today, SPI is a market leader as Asia's largest independent BPO provider, with sales and marketing offices in Europe and the US, and production facilities in the Philippines, India, China, and Vietnam. SPI caters to the Global 1000 companies and leading government and academic institutions in the US and Europe. SPI achieved its leadership position in the market because of its top-quality processes. It is the first company of its kind to be awarded an ISO 9001:2000 quality management certification.

Cu places greatest value on his people as the primary resource and asset of the company. He follows Alan Fraser's people care initiatives – the lasting legacy of SPI's founder. "It can be in the simple things like giving them a nice, decent office that could help give them the feeling of working in a world-class environment," he said. He added that the biggest social responsibility is being aware that 6,000 people and their families make a living as part of the SPI team.

In sum, Cu credits his successful strategy for transforming SPI to a business model that focuses on aggressive marketing outside the Philippines, diversifying its portfolio to attain recurring revenue streams, and placing emphasis on quality as the main driver of SPI's business. Under his leadership, SPI has differentiated its position, carved its niche and is now acknowledged as a dependable global provider that Cu says, "just happens to be a Filipino company."



**Doris Magsaysay-Ho**  
President and  
Chief Executive Officer  
Magsaysay Maritime  
Corporation

**Socially Responsible  
Entrepreneur Of The Year  
2003**



## **Making Waves in the Maritime Industry**

Because of her father's business, Doris Magsaysay Ho and her family were always on the move. While growing up, she was never afraid of relocating to a new place. She has always had the "can do" attitude she acquired from her father, who also taught her to be observant and optimistic all her life.

Although exposed to the family business, Ho never imagined that she would, in the future, be on top of it. She earned a degree in Industrial Design and resettled in the country only after marrying an American banker who was assigned to Manila.

In 1979, she joined Magsaysay Maritime Corporation, a company that owned and managed ships. She recalls that at that time, many local banks knew very little about shipping. On several occasions, she had to sit down with the presidents of certain banks to explain what the industry was all about.

Ho assumed the position of Chief Executive Officer in 1981. With her at the helm, the company found its niche in ship manning. Ho believed that the quality of seafarers is paramount to the protection of vessel and cargo and, ultimately, to the ability of a ship owner to compete. Back in the early 1980s, Filipino seafarers were not recognized as excellent workers as they are today. To upgrade the quality of seafarers, Ho invested heavily in training and worked closely with government to establish a regulatory framework.

Today, Magsaysay Maritime is the largest manning company in the country with 18,000 men and women trained to work in its own vessels and those of other shipping lines.

When domestic shipping was deregulated in 1986, Ho led her company to further diversify. Magsaysay Maritime acquired the National Maritime Corporation to engage in interisland and near-sea trades for both dry and liquid cargoes. The company also organized Batangas Bay Carriers, Inc. to operate a fleet of tanker barges on long-term charter to Shell.

In the 1990s, Magsaysay Maritime ventured into domestic tourism and further expanded its training capabilities. The Magsaysay Institute of Shipping was established in Dasmariñas, Cavite to offer free skills training and upgrading. Courses include cooks and pastry chef training, machine shop training, simulator training, management and leadership training, and values formation. Additionally, the Magsaysay Training Center offers safety courses, navigation, and communication training, English proficiency, and other language courses. The company also runs a training vessel called the T.S. Hoho.

Under Ho's leadership, Magsaysay Maritime has become known as a company that cares for its people and clients. The company has created family centers in Manila, Cebu, and Davao. These centers enable seafarers and their dependents to stay only connected with each other and to be informed of their benefits and other concerns. Magsaysay Maritime has also implemented other projects such as the Seafarers' Savings Program, Educational Assistance Program, and the Oasis Guest House that provides temporary lodging in Manila for seafarers returning to their home provinces.

Ho's vision extends to the entire local maritime industry. As president of the Philippine Interisland Shipowners Association, she has been actively pursuing the industry's unification. In 2001, she worked on establishing the Philippine Seafarers Promotions Council with the goal of maintaining the industry's position as the preferred provider of seafarers for the entire world.

Ho may not have pursued a full-time career in industrial design but she considers business to be just as creative because an entrepreneur creates opportunities does meaningful work. In sum, she says, "Whatever we do should encompass the greater good of all, because if more people become prosperous, in the end it is also our interest being served."



**Pacita U. Juan**  
Chief Executive Officer  
Figaro Coffee Inc.

**Small Business Entrepreneur Of  
The Year 2003**



## Passionate About Barako

Pacita "Chit" Juan learned the skills of entrepreneurship from her father early in life. She was the youngest in a brood of eight—each was taught the value of earning one's keep. In grade school, she would sell chocolates to her classmates. During summers, she worked at her father's used car business. After earning a Hotel & Restaurant Management degree, she organized and participated in bazaars to sell bags she made.

Chit was never afraid to try new ventures. Her willingness to take risks, coupled with her passion for coffee, led her to create Figaro. Together with friends, Chit opened the first Figaro coffee shop in 1993, before Starbucks and Seattle's Best were introduced to the country.

At first, Chit and her friends were just satisfying a craving. They simply wanted a place where they could enjoy good coffee with the ambiance of a typical European café. At the same time, Chit and her friends wanted to showcase Filipino coffee to be at par with foreign blends. Going against the advice of well-meaning friends, Chit invested in very expensive equipment that allows consistency in coffee blends.

Her investment in top-of-the-line equipment, among others, has been well worth it. Figaro is now the second largest coffee shop chain in the country, grabbing a 30% market share. It is, in fact, often mistaken to be a foreign brand. From its first store in

Makati, Figaro now has more than 30 in Metro Manila and an outlet in Hong Kong. Chit is now keen on setting up shops in Vietnam, Singapore, and China.

While growing the business, Chit saw firsthand the dismal state of local coffee planters. She felt strongly that something had to be done to improve the situation. The result is a program to save and promote the Philippine Barako.

Through the Figaro Foundation, she invites her employees and customers to contribute time, effort, and resources to projects that support the local coffee industry such as the Save the Barako tree-planting activities and the Adopt-a-Coffee-farm project. Through Adopt-a-Coffee-farm, Figaro taps idle or underutilized farmlands for the cultivation of coffee beans, which the company buys for its coffee blends. The project was first implemented in Amadeo, Cavite and is now being undertaken in some of the remotest and depressed areas in Mindanao.

Chit also co-chairs the National Coffee Development Board—a government organization composed of coffee retailers, traders, farmers, roasters, and other coffee experts from the agricultural, business, and academic sectors.

Chit credits much of her success to her people and encourages aspiring entrepreneurs to discover the wealth that is within the Philippines. “There are so many opportunities yet to be tapped in this country. All it needs is for us to look at the positive side,” she says. These are wise words from a person who has found her passion — and business — in our homegrown coffee beans.



**Myla C. Villanueva**  
Managing Director  
MDI Group of Companies

**Woman Entrepreneur Of  
The Year 2003**



## **Inspired by the Magic of Silicon Valley**

Myla Villanueva has always been fascinated with technology. She was first exposed to information technology as a working student in Santa Clara University in California, USA. Santa Clara Valley was then rapidly being touted as "Silicon Valley"—the center of the high-tech boom in the mid 1980s. IT companies were sprouting all around Villanueva: Apple Computers of Steve Wozniak, Novell of Raymond Noorda, and Seagate of Alan Shugart. She was intrigued by how the young entrepreneurs were introducing technologies that eventually changed the way of life and business.

After graduation in 1988, Villanueva decided that the "magic" she saw in Silicon Valley can be brought to the Philippines. That same year, she left her family in the United States and resettled in the Philippines where she discovered that only multinational companies offered data network services. Wasting no time, she incorporated MDI to be the first local network systems integrator in the country.

MDI first focused on connecting computers into a network, which was not yet popular in the Philippines. But Villanueva was convinced that IP, now known as the language of the Internet, was the technology to bet on. Within a year of its founding, MDI clinched the first major IP infrastructure project in the country—the Social Security Service (SSS) data network. Soon, other clients followed such as ABS-CBN and Meralco. She was on a roll.

In 1995, Villanueva co-founded Microwarehouse, the exclusive distributor of networking and digital lifestyle products such as iPods and Palm PDAs. Three years later, she co-founded Meridian Telekoms, one of the country's first IP broadband wireless carriers. Choosing wireless as a means of delivering high-speed Internet, Meridian is now competing with very large and established companies.

In 2000, she transformed Wolfpac, a network security company, into the largest independent mobile applications and content developer. Wolfpac was the first to come up with cellphone ringtones, logos, picture messages, and text gaming. Villanueva is proud to point out that the middleware used for Wolfpac products that deliver their content and software, convert and then connect them to the cellular network, is Filipino-made. The GSM Association, a worldwide group of 600 cellular operators, has twice commended Wolfpac as world-class.

To would-be entrepreneurs, Villanueva says, "The success of our group of IT companies, lies not only in our choice of people but by the technology choices that our people make. We have never been afraid to spot an emerging technology, apply it to real world needs, and take it to mainstream daily corporate or personal use."

The magic of Silicon Valley inspired Villanueva to create her own niche in the Philippine IT industry. Moving forward, she now aspires for more international recognition of Filipino talent. She attributes most of her success to the Filipinos' ingenuity in animation and software programming. She believes that it is in the mobile arena that the Philippines has another shot at promoting itself as a software powerhouse, with huge advantages when pitted against India and China.



**Amable R. Aguiluz V**  
**Chairman**  
**AMA Educational**  
**Systems Holdings, Inc.**



## **Entrepreneurship in Education**

Dr. Amable R. Aguiluz V started his flagship business by recognizing a unique opportunity in a moment of difficulty. While he was able to obtain an exclusive computer distributorship in 1980, it took him six months to sell just one computer unit. Very few people then knew how to use computers. Realizing this, Aguiluz pondered, "Why not educate the market?" This thought led him to establish the AMA Computer Institute.

The AMA Computer Institute was not Aguiluz's first business venture. As a young man in 1964, and a business administration student in the University of the Philippines, he decided to go into the taxicab business. From an initial two units, his operations expanded to over 100 units plying routes in Davao. Aguiluz would turn over the business to his brother to move on to rice packaging, fertilizers dealership, calculator distributorship, and finally, computers.

Aguiluz named AMA Computer Institute after his late father and mentor Amable M. Aguiluz. It was his father's dream of setting up an educational institution that would serve as his legacy to the youth. AMA originally offered short courses in electronic data processing, basic programming and technology career courses. Within a year of operations, AMA was accredited to offer a four-year degree course in computer science.

Through aggressive advertising and franchising, the AMA education system has grown to more than 200 locations. AMA has successfully established presence in Bahrain, Bangladesh, Hong Kong, Thailand, Singapore, Pakistan, Saudi Arabia, Guam and Los Angeles, USA. It's now considering other locations in China, Laos, Cambodia, and the United Kingdom.

AMA's market orientation also guided its diversification into disciplines demanded by the Filipino public. AMA has expanded its course offerings to nursing, medicine, business, and maritime studies. It has also started a professional caregiver course to heed the market's growing demand. The expansion was largely achieved through partnerships with leading institutions like Microsoft, the Harvard Medical School, and Carnegie Mellon University.

From 13 students in 1980, AMA now has a student population of more than 150,000. AMA was named top computer school in 1991 by the Consumer Union of the Philippines. AMA is also building in Cavite a globally competitive university town called the Telepolis.

For his work in AMA, Aguiluz received the Agora Award for Entrepreneurship in 1995, the Golden Scroll Award in 1996, and the Canadian Business Award in 1995. He was conferred with the Medallion of Bahrain in 2002. President Gloria Macapagal-Arroyo named Aguiluz special envoy to the Gulf Cooperation Council in 2003.

Because 24 years ago it took him six months to sell one computer unit, Aguiluz was challenged to shift from selling the technology to learning how to use it. Information technology has radically changed almost every aspect of human life, including education. Today, Aguiluz finds fulfillment in knowing that he has contributed much to nation-building by providing a responsive and world-class IT education accessible to the Filipino youth.



**Jonathan Jay P. Aldeguer**  
Founder and President  
Islands Souvenirs, Inc.



## Bringing the Islands to the World

When Jay discovered he had a knack for drawing back in grade school, he never thought of making money out of it. But when a classmate offered to buy one of his drawings, he knew he was in business.

Born into an entrepreneurial family in Cebu, 33-year-old Jay displays the same passion and flair for business as his father who is his inspiration.

In college, together with some friends, Jay thought of organizing an exhibition game between the Philippine Basketball Association (PBA) All-Stars and Cebu's very own All-Stars. Without personally knowing basketball star Jojo Lastimosa, Jay went to his house with nothing but a concept paper. He knocked on Lastimosa's door, asked for an audience, and made his pitch for the exhibition game. Before he knew it, Lastimosa agreed and even offered to convince his co-PBA players. To this date, the exhibition game still holds the record for the single best-attended event in the Cebu Coliseum.

The concept for Islands Souvenirs came to Jay during his domestic and foreign trips. "I had been collecting souvenir shirts from the places I visited. At that time, I noticed that even in the best cities abroad, the design and quality of the shirts were substandard. That's when I decided to introduce premium souvenirs notches higher in terms of branding, creativity, innovation and quality."

In 1992, Jay launched his first souvenir line in Cebu. Deviating from the traditional ethnic look and going for the fresh tropical concept, Islands Souvenirs put up a cart for its merchandise in one of Cebu's major department stores. At the end of its first year, Islands Souvenirs multiplied into more than a dozen outlets located in malls, beach resorts, and tourist spots. The following year, sales more than tripled. Branches also mushroomed throughout the archipelago until the Asian economic crisis hit in 1997.

With the uncertainty in local tourism at that time, Islands Souvenirs fast tracked its international expansion plan and opened outlets in Japan, Singapore, and San Francisco. The key to Islands Souvenirs' success is that each store captures the uniqueness and dynamism of its location as seen in the products and store's environment.

With the renewed efforts to revive Philippine tourism, Islands Souvenirs embarked on a program for its domestic franchise expansion entitled "Big Business in Tourism." Negotiations for franchises in Guam, Hawaii, and Australia are also underway. Islands Souvenirs is an Outstanding Filipino Retailer Hall of Fame of the Philippine Retailers Association and the Department of Trade and Industry. In 1997, at the age of 27, Jay was the youngest person to receive The Outstanding Young Men. Last year, he made it to *Entrepreneur* magazine's Top 10 Outstanding Filipino Entrepreneurs and also received the Agora Award for Outstanding Achievement in Business Entrepreneurship.

Jay encourages aspiring entrepreneurs to be open to all possibilities and not be confined to one path. After all, he has himself brought the Philippines to the rest of the world.



**Steve D. Benitez**  
**President and Chief**  
**Executive Officer**  
**Coffee Centrale The Bean**  
**Co., Inc. or Bo's Coffee Club**



## Conquests of the Coffee Lover

Steve Benitez has an entrepreneurial story containing ingredients and the mix of a good brew.

His passion for coffee served as the grain for his business. He wanted to share with his fellow Cebuanos the coffee experiences he enjoyed in his travels abroad. Aware that he would be pioneering the specialty coffee shop concept in Cebu, he wanted to cover all his bases before serving his first cup.

Steve believed that the only way to articulate the total coffee experience is to immerse himself in the coffee culture. He visited different coffee shops in the US, Europe, and Singapore. He attended seminars, conferences, exhibitions and specialty shows on coffee education. The passion resulted in Steve mastering the flavorful nuances of coffee and the intricate art of making it. It took him two years to absorb all this.

In 1996, Steve finally felt ready to serve the perfect cup of coffee to what he described as the "finicky" Cebuano market. He started with a cart and 6 tables. The beginning of Coffee Centrale was challenging. He recalls, "The market proved true to its reputation.

The market found the coffee that we served overpriced." There were times when they would give coffee for free.

Instead of giving up, Steve took the situation as an opportunity to learn more about the coffee industry. Soon, the market perked up and business improved. Now, he has conquered not only Cebu but has also opened outlets in Manila. Coffee Centrale now has 15 stores and counting. Because of his company's success, Steve was named one of *Entrepreneur* magazine's Top 10 Outstanding Filipino Entrepreneurs.

Steve's business inclination showed early on. He was always selling something, from shirts to ladies' shoes. He pushes future entrepreneurs to turn their passion into a business. Indeed, his passion for coffee has propelled Bo's Coffee Centrale to an emerging market leader.

Steve's ultimate vision for Coffee Centrale is for it to be the premier homegrown specialty coffee shop in the country, offering world-class standard coffee and tea known for its excellent customer service in a cozy and friendly ambiance. In sum, he would like each and every customer to experience that perfect cup of coffee.



**Juan G. Chua**  
**President**  
**Nexus Technologies, Inc.**



## What Makes a Technopreneur?

Juan Chua grew up helping his father in the family-owned grocery store. He was doing different odd jobs, from carrying stocks to manning the cash register. When he turned 19, Chua bought his first microcomputer – a Radioshack TRS-80 – and has been hooked on computers ever since.

Obtaining an electronic engineering degree in 1983, Chua joined Compex as its first employee in its computer division. He decided early in his career to join a small company to gain exposure to different functions and learn how a business is run.

After only a few months, Chua moved to Phil-Data. He put in equity and initially handled marketing. He was later promoted to vice president for sales, marketing and software and helped the company grow into a major IT player. Demonstrating his leadership skills in the industry, Chua co-founded in 1986 the Computer Manufacturers, Distributors, and Dealers Association of the Philippines (COMDDAP), the largest IT hardware organization in the country. COMDDAP holds an IT exhibit every year.

In 1994, after more than a decade with Phil-Data, Chua left the company to put up his company, Nexus, with a number of investors. Chua knew that for them to attract clients, Nexus had to be different. At that time, Novell was the only network operating system. The “technopreneur” and his partners decided to train on two less-popular technologies:

Windows NT and Unix. They then hired and trained people on these programs then went out to sell their services, helping companies build their IT infrastructure. By 1995, Nexus has made its name in the market.

As CEO of Nexus Technologies, Inc., Chua built the company from a 10-person start-up to one of the top five systems integrators in the country. Under his leadership, Nexus received various awards from Hewlett-Packard and Microsoft.

Chua and his team were further able to grow different companies specializing in systems integration, distribution, software development, and education/training. All these companies are now under the iVantage group, which Chua oversees. The other companies in the iVantage group are:

- Wordtext Systems – major distributor of Dell, HP, IBM, Microsoft, Adobe, Macromedia
- Jupiter Systems – one of the oldest software houses in the Philippines. When Chua took over, the company introduced the software, ERIC (Enterprise Resource Information and Control). This Filipino-made software has been successfully implemented in Indonesia, Hong Kong, and Thailand. Jupiter Systems has offices in China and Vietnam.
- Yehey! Corporation – operator of one of the few remaining active portals in the Philippines. In 2002, the company received the Microsoft.Net Application Solution of the Year award for Yehey's Pay Plus, an online payment gateway utilizing BancNet's ATM system.

Nexus also plans to come up with a system that will monitor and track post-dated checks since it's only in the Philippines where a significant volume of post-dated checks are accepted in the trade.

And, just like when he started Nexus, Chua is now setting his sights on a place with so much potential – Vietnam. He sees Vietnam as the most exciting IT market in the world. Nexus is positioning itself to enter the Vietnamese market in the next two years.

This technopreneur who built his success on computers regards the value of people as irreplaceable. Chua's philosophy is that if he can grow his company and provide quality employment opportunity, then it is certainly good business.



**Cliff M. Eala**  
President and Chief  
Executive Officer  
Sequel Solutions Inc.



## Directing Sequel's Solutions

For as long as he can remember, Cliff Eala has always thought of himself as an entrepreneur. His first entrepreneurial venture was selling real estate and insurance. When he was 24 years old, he formed Christanelle International, a company engaged in importing and distributing consumer products. He managed Christanelle for eight years before making the leap to information technology (IT). In 1998, Eala founded Sequel Solutions to provide IT consulting and software development services.

With very limited capital, Sequel started with three employees working out of a 60-square meter studio. Since it had no track record to speak of, Sequel had difficulty building its clientele. Eala decided to invest in proof-of-concept projects or prototypes, assuring customers that they were not obliged to purchase. He had to personally handle many of the sales promotions and product demonstrations.

Eala also made an effort to learn the core technologies to aid him in establishing the right direction for his business and to mitigate the risk of over dependence on key personnel. In the process, Eala earned a certification as a Microsoft Solution Developer. He has also been awarded the Microsoft Asia Most Valuable Professional award, and has been Regional Director of the Microsoft Developer Network and a member of the Redmond-based Microsoft Regional Director Content Council.

In the last five years, Sequel has grown to some 40 employees serving local and multinational companies. These employees visit about 20 to 25 companies in a week. One major project that Sequel is proud of is establishing a high traffic SMS messaging platform for Philippine telecommunications operators.

Sequel primarily provides consulting services with four core offerings: Business Intelligence and Data Warehousing, Enterprise Application Integration, Wireless and Web Enabling of Enterprise Systems, and Application Design and Development on Microsoft.NET, Java and Oracle. Certified Microsoft.NET or Sun Java consultants undertake these services.

Eala advises emerging entrepreneurs to always find their competitive advantage. For Sequel, Eala claims that the advantage is speed – in service offering development, pre-sales, project delivery, and support. Sequel recognizes the customers' needs for quick service response and delivery especially since competition is stiff.

Eala further emphasizes that Sequel focuses more on its customers rather than its competitors. He makes sure that his people understand customer needs and can creatively craft technology solutions to address them. He has established procedures to document experiences and best practices, and follows them through with a strong training program to continuously build internal competency.

By 2005, Eala hopes to have expanded to other countries in Asia. To him, it is clear that this is the direction that Sequel will take. "Hard work is good, but hard work in the right direction is even more important," he quips.



**Lisa Gokongwei-Cheng**  
Publisher and  
General Manager  
Summit Media



## Following Her Bliss

Although Lisa Gokongwei-Cheng comes from a very entrepreneurial family, becoming an entrepreneur herself was not her original career choice. She only discovered later on that entrepreneurship did run in her blood and that she was born to be one.

Her life motto is one that she takes to heart: "Follow your bliss." It is a quote borrowed from author Joseph Campbell.

In college, she felt that her bliss was to become a film producer, which was why she pursued Communication Arts at the Ateneo de Manila University. However, she realized that filmmaking was not her cup of tea. Gokongwei-Cheng then followed another bliss – and one that she thoroughly enjoyed – writing.

She worked as a lifestyle writer for *The Manila Times*, where she nurtured her love for journalism. This inspired her to pursue her Masters in Journalism at the Columbia University in New York and further studies at the Poynter Institute in Florida.

When Gokongwei-Cheng returned to Manila, she observed that the Philippine magazine industry was underdeveloped. The locally published magazines then were of poor standard both in editorial and print quality. And since there was increasing demand for foreign consumer products, Gokongwei-Cheng also thought retailers would need a credible and presentable vehicle for advertising their products.

With a capital of one million pesos and her passion for writing and publishing, Gokongwei-Cheng established Summit Media in 1995. Summit's first magazine was *Preview a fashion magazine*.

An avid reader of foreign magazines, Gokongwei-Cheng spotted yet another opportunity. To make foreign brands more affordable and relevant to Filipinos, she struck license partnerships with leading global publishers like Hearst (*Cosmopolitan*, *Good Housekeeping*), Emap (*FHM*), Disney (*W.I.T.C.H* and *Disney Princess*) and Entrepreneur Media (*Entrepreneur* magazine). She also expanded her in-house titles with *Yes*, *Candy*, *Real Living*, and *Smart Parenting*. Summit treats each of its titles as a unique brand, appealing to a specific reader segment, which in turn attracts a specific set of advertisers.

Through the years, Summit has continuously developed long-standing relationships with their distributors and printers. This enables them to achieve the broadest possible distribution at the lowest cost. In less than 10 years, Summit Media now accounts for more than 60% of all local consumer magazine revenues nationwide. It is the leading magazine publisher, not only in number of titles but also in circulation per category.

Gokongwei-Cheng's team is composed of individuals united by three passions: a love for magazines and books; the drive to create products they themselves would spend their hard-earned money on; and a belief that the free flow of ideas serves society.

Gokongwei-Cheng also maintains good relations with dealers by releasing their products earlier than Summit's competitors. By sustaining its lead in circulation, Summit also satisfies its advertisers with more exposure for their money. But on top of it all, pleasing the public is her measure of success. "We never compromise quality content for the sake of the advertiser," she says.

Summit Media is currently building auxiliary businesses in billboards, websites, and is focusing on developing its book and institutional publishing business. The company also manages the country's leading Internet job portal, *Jobstreet.com*.

Gokongwei-Cheng's dynamism reaches beyond publishing. Summit Media supports advocacies that she and her team strongly believe in. In 2002, Summit ran the *Womanity* program to support women's rights. In 2003 through early 2004, they have been educating voters through the *Election* series published in all Summit titles. Summit also publishes a free magazine called *Star Teacher* to help public school teachers improve their methods of teaching, and supports literacy initiatives through *Sa Aklat Sisikat*. Gokongwei-Cheng also sits on the board of The Children's Hour Foundation.

In creating publications that are relevant and of world-class standards, Gokongwei-Cheng hopes to disprove the notion that Filipinos will not pay for books and magazines. "I simply want to be a great publisher of great material so I can make people want to read more," she muses as she follows her bliss.



**Lolita O. Hizon**  
**President**  
**Pampanga's Best Inc.**



## One of Pampanga's Best Entrepreneurs

It was during her grade school days at Cabalantian, Bacolor, Pampanga, that Lolita started as an entrepreneur – selling kakanin (rice cakes) and vegetables in their neighborhood. Later, with her husband, Angelo, she would run a trucking and gasoline business until the late 1960s when the business unexpectedly took a downturn.

With a dozen children to feed, Lolita looked for another source of income. She helped a friend sell excess dressed pork or pigie by marinating it in a sugar, salt, and pineapple juice solution. The ingredients are basically the same as those for pork tapa except that Lolita put more sugar and marinated the meat for a longer period of time. She preferred to call it tocino.

Receiving favorable feedback, Lolita and her husband pawned one of her treasured rings to use as capital. Soon, Lolita's special tocino gained popularity in other nearby towns in Pampanga. In 1972, the couple decided to formalize their business as Pampanga's Best. By then, they were also involved in the processing of other meat products such as ham, longganisa, and hotdogs. Lolita handled the operations and finance while, Angelo concentrated on the technical requirements of the business.

In 1994, with the increasing demand for their products, the business moved from the family's "extended kitchen" processing area to a modern plant in Magliman, Bacolor, Pampanga. However, barely three months in operation, the plant suffered extensive damage from lahar floods. Undaunted, the couple immediately purchased a safer lot in Magalang, Pampanga for another new plant.

Because of the continued increasing demand, the Hizons built yet another multimillion-peso plant in Dela Paz, San Fernando, Pampanga with state-of-the-art technology. Adjacent to the plant is another 20.5 hectares of company property, of which seven hectares have been subdivided for the housing of the company's workers.

Lolita takes pride in the countless ways Pampanga's Best tocino has boosted the economy – supporting hog raisers and plastic manufacturers who provide their packaging needs. Moreover, many have augmented their income by selling Pampanga's Best products. In 1999, she received the Agora Award as Medium Scale Entrepreneur of The Year.

When Mount Pinatubo erupted in 1991, Lolita's native barangay, Cabalantian, was devastated. She offered to provide free housing for residents who were willing to stay in Cabalantian. Lolita also put up the IBACA Foundation to provide the residents financial assistance and medical help. Her Ambulatory Clinic provides free consultations and checkups. She is also building a school with eight classrooms for Cabalantian's underprivileged children. While it was predicted that it would take 10 years for the area to be rebuilt, Lolita helped the community become productive in just seven years.

Looking into the future, Lolita envisions Pampanga's Best to be distributed throughout the country and to begin selling in other parts of Asia beginning with Korea. Looking back, she shares that she finds fulfillment as an entrepreneur in being able to raise her children but more importantly, in being able to help others in need.



**Joaquin T. Lu**  
**Proprietor**  
**Mommy Gina Tuna Resources**



## For Tuna Processor, It's All in a Day's Catch

For nearly half his life, Joaquin "Jake" Lu has been involved in fishing. He started out working for a fish exporting company where he noticed that non-export parts of fish were being wasted. He decided to buy these discarded parts at a very low price, process and package, and then sell them. He used his earnings to buy a boat that could take him far into the sea where he could catch sushi-grade tuna.

By 1988, Jake decided to go into serious business with Mommy Gina Tuna Resources – an export company named after his wife. From being a catcher and supplier to tuna exporters, Mommy Gina evolved into the largest exporter of fresh tuna within the next five years.

Mommy Gina products are exported to the USA, Japan, Korea, and Canada. The Company is equipped to operate the end-to-end processes of tuna and other marine products from catching, processing, packaging, freezing, and finally, to exporting. In General Santos City, Mommy Gina maintains refrigeration equipment capable of freezing tuna up to minus 60°C. This lengthens the freshness of tuna for export.

Aside from expensive equipment, Jake also invests his time and effort to meet his key customers and anticipate their potential marine product requirements. Jake also hires American and Japanese consultants to ensure that Mommy Gina maintains high standards of quality.

While the company's current major business is still for export, Mommy Gina is exploring the domestic market having opened five additional retail outlets nationwide. Jake's newest venture, Citra Mina, offers packaged quality fish products to the Philippine market. He is now looking into the cultivation of other key marine life for a more consistent supply.

For Jake, it's never too late to start on something – or to do something all over again. He is starting a similar business in Puerto Princesa, Palawan. He believes that a similar opportunity in a different location will provide different challenges and benefit other communities.

Opportunities are all in a day's catch for Jake Lu. Due to the rapid and continued growth of his tuna export business, Jake has also been the number one withholding agent and individual taxpayer in General Santos City for the past three years.

To budding entrepreneurs, Jake advises to always honor commitments in order to establish a good track record. He says, "Your integrity is of paramount importance. Do what you say... keep your word." He adds that with integrity, you can build valuable and quality relationships with your customers.



**Yolanda V. Ong**  
Group Chairperson  
Campaigns & Grey



## Advocacy in Advertising

Yolanda Villanueva Ong aspired to become an investigative reporter, which prompted her to pursue a journalism degree in the University of the Philippines. However, she graduated when the country was still under martial rule and media censorship was in full force. She decided to shift her focus to advertising, rationalizing that it might be more fulfilling than writing news reports that could be censored.

Like a fish takes to water, so did Ong take to advertising. Her skills at handling people, predicting the way they behave and knowing what makes them tick, all came into play. "Advertising is very people-oriented. The best advertising can only come from the best, highly motivated people," she says.

After 10 years of working for advertising agencies in Manila and Hong Kong, Ong decided to put up her own. In 1986, she established Campaigns & Grey, now one of the busiest advertising agencies in the country with accounts like Procter & Gamble, Del Monte Phils., Universal Robina Corporation, and San Miguel Purefoods Corporation.

Over the years, Campaigns & Grey has created satellite companies to cater to specific markets. *Camp Apple* specializes in niche communication and offers expertise in direct marketing and graphic design. *Campaigns Advocacy and Public Relations Inc. (CAPRI)* was incorporated in 1995 to focus on promoting worthy causes, values, and practices

for corporations and institutions. *Campaigns Advertising Marketing Promotions (CAMP) Cebu* was launched to help spur the growth of marketing and advertising in the southern region.

Early in the business, Ong already decided to pursue social marketing and advocacy as a distinct marketing tool. The agency's early advocacy work involved the production of successful programs for family planning communications and the AIDS information campaign.

Other advocacy communications work followed suit such as the *Young People's Project/ Dial-A-Friend*, a youth-oriented TV program that encouraged troubled teenagers to use a hotline to share their problems. The campaign elicited 150 calls during its first day. *Hotline for Battered Wives* promoted awareness for domestic violence while offering the hotline as an initial step towards seeking for help and emotional support from trained psychologists.

Ong also served as the Advocacy Director of AHON (National Conference on Social Welfare and Development), a poverty alleviation program. Campaigns & Grey provided pro bono all communications requirements of the program including the conceptualization and graphic rendition of the conference theme *Ahon sa Hirap, Oras na Ngayon*.

Strong-willed and highly principled, Ong has graciously declined clients and projects with causes or objectives that are contrary to her core beliefs. She has never compromised what she believes in, even if it meant giving up opportunities.

Ong is very optimistic about the acceptability of advocacy and social marketing in the Philippine advertising industry. As companies adopt this approach, their target audience becomes more aware of current and relevant issues. "Anyway you look at it, the Filipino public wins," she asserts.



**Cecilio Kwok Pedro**  
**Chief Executive Officer**  
**Lamoiyan Corporation**



## When a Loss Becomes an Opportunity

Cecilio Pedro's business training started early in life when he sold ballpoint pens to classmates at St. Mary's School. But he only considered himself a "real entrepreneur" after college when he went into hardware and copper selling.

By 1977, a friend broached the idea of selling aluminum collapsible toothpaste tubes. He was convinced that it had potential and decided to create Aluminum Container, Inc., becoming a major supplier of Colgate-Palmolive and the Philippine Refining Company (PRC). Due to an increasing demand from the toothpaste manufacturers, the company had to double its monthly production from an initial one million tubes per month. Manpower likewise increased from 20 people to more than 200 in six years.

However, in 1985, Colgate-Palmolive and PRC decided to switch from aluminum to plastic laminated tubes. Pedro was forced to close down his factory. But the closure was short-lived because Pedro realized that he could make use of the idle equipment in his plant. In December 1987, he started Lamoiyan Corporation to produce his own brand of toothpaste called Hapee.

Competing with the multinationals, Hapee seemed to have a slim chance of survival. But Pedro persevered, making sure that his product was of comparable quality. He also

invested in advertising and sold his product at a price 30% lower than the leading brand. Hapee rose to become the third leading toothpaste brand, cornering 15% of the local market.

Pedro's ultimate goal is to make Hapee the preferred brand in Asia. Some of his immediate plans are to establish international branches in China, Vietnam, and Indonesia and to set up offices in Canada and the US. He also has plans for Lamoiyan to go public to help fund further expansion.

Over the years, Lamoiyan has also diversified its product line to include Dazz Dishwashing pastes and liquids, Tenderly fabric enhancer, Lacteena feminine wash and FASH liquid detergent. Just like Hapee, these quality products are sold at a lower price.

Entrepreneurship has also provided Pedro the opportunity and resources to serve others. Pedro is now the Chairman of the Deaf Evangelistic Alliance Foundation Inc. (DEAF). DEAF operates a school in Cavinti, Laguna, where about 200 hearing-impaired individuals are given free college education, food, and accommodation until such time that they can integrate with society. Pedro aims to build 10 more schools in the next 10 years.

In line with his advocacy, Lamoiyan employs 30 hearing-impaired people, who are also provided with free housing.

In 1993, Lamoiyan received the Apolinario Mabini Award for the Employer of the Year. Prior to that, Pedro received the Ten Outstanding Young Men (TOYM) Award for Business Entrepreneurship.

For the past half century, multinationals have dominated the toothpaste industry in the Philippines. Pedro is the first Filipino to have successfully penetrated the market. It all began when the multinationals decided they no longer had use for his services. From a client-dependent supplier, Pedro turned his company into a competitor. His loss has become his own gain.



**Alexandra Prieto-Romualdez**  
**President and Chief**  
**Executive Officer**  
**Philippine Daily Inquirer**



## **From Reluctant to Fearless**

Knowing her place in the sun had once been a gnawing conflict for Alexandra Prieto-Romualdez. An immersion program in high school brought her face to face with poverty, squalor, and social injustice. She lived in what she calls a "dichotomous existence," torn between a sheltered life and the despair around her. She went to the US to study sociology, aspiring to become a social worker to have direct contact with the poor. She went as far as living in Kenya for six months in her quest to transform society.

Prieto-Romualdez came back to the Philippines, filled with optimism that could ignite volunteerism in others. She taught in her alma mater, Assumption College. But an unexpected challenge arose in the mid-1990s. Her eldest brother, who was being groomed to assume the leadership of the family-owned *Philippine Daily Inquirer*, died in a tragic accident. With a lot of "heart" but not much business experience, Prieto-Romualdez found herself the reluctant successor.

In the *Philippine Daily Inquirer*, she again experienced a dichotomy. This time it was between the editorial and business units; between being socially responsible and running an enterprise. She manages to bridge the gap by applying what she calls an "and proposition." That in most instances, it does not necessarily have to be a choice between "this or that" but rather, it can be "this and that." She believes that running a newspaper is a business with a social responsibility.

Prieto-Romualdez has instituted groundbreaking processes in the *Philippine Daily Inquirer* such as a complete manual of editorial policies, quantifiable performance measures, and a regular dialogue between management and the editorial team.

At the start, respect from the team seemed elusive to Prieto-Romualdez. Her changes were met with apprehension. The turning point, she claims, was the six-month boycott of pro-Erap advertisers that drastically affected the company's profits. In keeping her stand, the business may have lost money but Prieto-Romualdez gained the support of her people, cementing her leadership in the organization. She then felt very much in control of the business, being able to look anyone in the eye and say, "Yes, that story came out in the *Inquirer* and we stand by it."

Cognizant of fierce competition from other media, Prieto-Romualdez is leading the *Inquirer* through brand extensions such as *Libre* (a free newspaper aimed to empower the masses who cannot afford a regular subscription), *Inq7.net* and the newly launched *InqTV*.

Beyond the news organization, Prieto-Romualdez has also spearheaded innovations such as a youth readership program, a positive news policy, publication of stories of the needy to encourage donations, a scholarship program for newsboys, and regular support of the Worldwide Fund for Nature Philippines and Habitat for Humanity. She was also primarily responsible for the use of nontoxic soy-based ink, the resizing of the paper that has resulted in saving seven trees a day, and the recycling campaign called the *New Paper Drive*.

As an individual, Prieto-Romualdez helped establish *Tabang Mindanaw* and the local run of *The Children's Hour*. She is also among the founders of *Hands-On Manila*, a group that provides volunteer opportunities and training for concerned citizens. She allocates a sizeable percentage of her income to scholarships.

Prieto-Romualdez continues to strive to meld together journalistic excellence, smart business, and social commitment. By combining her business sense and social responsibility, it seems she may have finally found her mission in society.



**Feliciano L. Torres**  
**President and**  
**General Manager**  
**Yazaki-Torres Manufacturing,**  
**Inc.**



## Placing Values at the Heart of Business

As a 10-year-old boy in Tanauan, Batangas, Feliciano Torres already had what he calls the “entrepreneurial itch.” He collected and sold iron and copper scraps. He even shined shoes. In high school, he worked at his father’s auto supply and repair shops. When his father developed a heart problem, Torres inherited the responsibility of running the family’s business.

By the age of 23, Torres put up his own Unique Distributing Company, which became the exclusive distributor of spare parts of Japanese Original Equipment Manufacturers (OEMs). For 12 years, he established excellent business relationships between his company and the local market as well as his foreign suppliers. This synergy led to a joint venture with Yazaki Corporation of Japan. Yazaki-Torres Manufacturing Inc. (YTMI) was established in 1973.

The company’s first products were PVC electrical tapes, instruments for the local automotive market, and snowmobile instruments for export to North America. However, when the oil crisis hit in 1974, YTMI’s export market diminished. For the next two years, the company operated at reduced capacity and dwindling resources.

In 1976, YTMI was offered to be a supplier of wiring harness for export to Australia’s OEMs. Torres quickly realized the opportunity and convinced his Japanese partners

to diversify YTMI's product lines. The problem was that they needed additional floor space. If they waited until a new facility is erected, the order would be given to another supplier. Torres decided to convert their gymnasium into a temporary manufacturing facility. The customer was satisfied with their delivery and the rest is history. Today, YTMI also supplies to North America and Japan. It is the 72<sup>nd</sup> largest revenue earner in the Philippines.

YTMI has been a trendsetter for the automotive wiring harness industry. The company veered away from traditional manufacturing processes and adopted various productivity tools and techniques. Its one-floor plan system of production – doing all process in the same location – resulted in reducing the wiring harness assembly time from 16 days to six hours.

From the one company that he started, Torres now runs 13 corporations. By 2006, Torres' vision for YTMI is to be the "model and preferred supplier of automotive wiring harness" in the Yazaki group of companies. He plans to build four additional companies producing automotive wiring harnesses for the global community.

Over the years, YTMI's workforce has grown from 150 to 8,000 and has remained strike-free. This could be attributed to Torres's fervent belief that business is not just a series of transactions. The company has built strong relationships among its management staff, employees, and immediate community in Calamba, Laguna.

Torres recruits workers from the community. He has also initiated several projects for his hometown of Tanauan and neighboring areas such as the St. Frances Cabrini Medical Center which provides quality health care services to the poor. *Kabalikat sa Hanapbuhay* is a project that provides livelihood opportunities to unemployed individuals such as dressmaking, candle making and others. The project has benefited more than 800 families from five neighboring towns in Batangas. The *Acies Ingenii Movement* aims to instill among the youth of Tanauan, Batangas values that will in turn help them become responsible and productive citizens. The youth beneficiaries are provided livelihood and employment opportunities, skills building, talent development, and education. Torres has also put up a program that will train and prepare employees for another source of livelihood after they retire from YTMI.

Asked what he would advice young entrepreneurs, Torres says that values determine the competitive advantage of a business. "And the best values that serve a company are those that are person-centered, values that put man and his welfare at the core," he concludes.



**Myrna Tang Yao**  
**Chief Operating Officer**  
**Richwell Trading Corporation**



## **Breaking Barriers**

Myrna Tang Yao spent her growing up years overcoming barriers brought about by her gender and ancestry. She was the second daughter in a large Chinese family from Bicol. At seven, she and her elder sister were sent off to a private school in Manila where they learned to fend for themselves. Never did she wallow in self-pity. Instead, she found solace in ambition and religion.

Early on, Yao set her sights on nothing less than being Number One. In the early 1970s, she became the first woman copra trader. She then tried her hand at sourcing yarn for women's blouses with zero capital. Ordering an initial truckload of yarn valued then at P17,000, she was able to sell the stock within 60 days and used the profit as capital for other ventures.

Together with her husband, Yao founded Richwell in 1979 as a distributor of Goodyear Tires. But feeling that trade practices were stifling the company's growth, Yao diverted her efforts to an entirely different product line – toys – Barbie dolls in particular.

In the early 1980s, toys were considered seasonal and luxury items. Yao persisted in introducing branded, quality, and educational toys to the Philippine market. She took this

market resistance as a challenge and redefined Richwell's marketing approach through sales presentations, innovative merchandising displays, and product demonstrations. Besides Mattel, she accepted other distribution offers from Fisher Price, Hotwheels, Vtech Electronics, Pigeon baby products, Safety 1st, Shelcore, Sesame St., Warner Bros. Looney Tunes, Megabloks, Chicco, and Cosco. At present, Richwell accounts for 35% of the branded toy market in the country.

*“From the very beginning, I have done things differently. The key is sustaining this so I have to keep coming up with new ideas,” Yao reflects on her success.*

Over the years, Richwell has diversified into manufacturing, licensing, advertising, and other allied services. Richwell originated the Filipina Barbie – a first for Mattel. It has expanded to infant and girls' apparel and has also entered into a joint venture with Sta. Lucia and Megaworld Properties for real estate development. Currently, there is serious talk about a joint venture with Indonesia's largest retailer.

When she turned 50 in 2001, Yao made good on her promise to devote 50% of her time to help others, particularly women, improve their lives through entrepreneurial pursuits.

She holds leadership positions in women's organizations such as the National Commission on the Role of Filipino Women of which she is commissioner, the National Council of Women in the Philippines, and the ASEAN Confederation of Women Organizations. She is national president the Filipino-Chinese Federation of Business and Professional Women of the Philippines, which paved the way for the Philippine Livelihood Marketing Corporation that served as an intermediary marketing organization for grassroots-based women entrepreneurs. Yao also sits on the board of the Technical Education and Skills Development Authority.

Using her own life story to inspire others, Yao has bravely taken on the crusade to persuade poor, disenfranchised women that entrepreneurship will reverse their situation in life.

# A Helping Hand: Support Environment for SMEs



Gwendolyn R. Tecson, Ph.D.

In an increasingly integrated world, SMEs will have to compete with firms from other nations in order to survive and grow. To be able to do this, they need a new, world-class support environment.

**S**mall and medium enterprises (SMEs) without doubt play an integral role in the economic development of nations. The development process, however, is currently being played out in an increasingly dynamic and globalizing world. Whether a nation's SMEs will continue being relevant to a nation's development process depends on whether they are able to contribute significantly in keeping alive the internal dynamism of the economy. In an increasingly integrating world, this would require SMEs to push forward the growth frontier by achieving higher levels of growth and productivity, driven by dynamic linkages with international markets through the route of exports and foreign direct investments (FDIs).

Such continuing integration with the world necessarily exposes SMEs to competition. Undoubtedly, not all SMEs will be subject to the same degree of competitive challenge offered by globalization. In a typical developing economy like the Philippines, small (and often micro-sized) firms that either produce indigenous goods (e.g., ethnic textiles; household utensils) or nontraded services (such as restaurants, variety stores) will remain unaffected by what is happening in international markets. Potentially, import-substituting SMEs are the most vulnerable to the competition offered by imports. Under the pressure of import competition, these SMEs will have to win the fight for their share of the domestic market or else suffer a contraction. For a minority of SMEs with actual or potential linkages with the world economy through direct and indirect exports (including subcontracting with sellers in international markets) as well as through FDIs (both inward and outward), globalization offers both a challenge and a promise.

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**What is needed to make the country's import-competing SMEs survive the **onslaught of imports as trade barriers fall?****

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What is needed to make the country's import-competing SMEs survive the onslaught of imports as trade barriers fall? What will ensure that incipient linkages are not aborted nor linkages severed by an environment hostile to the nurturing of bonds in global markets? What kind of support environment do SMEs need to ensure their survival and continued growth in the era of globalization?

This article explores the terrain in which SMEs operate in the Philippines, specifically to determine whether the environment is supportive of their global activities. In the process, we scan the environments in which successful SMEs in other countries operate. Our ultimate goal is to be able to offer policy recommendations that will help create the kind of support environment in the country conducive to the nurturing of global SMEs.

### How outward-oriented are Philippine SMEs?

The relative size of the SME sector that will not be directly affected by the integration of the Philippines with the rest of the world is largely unknown.

One can only surmise that the firms in this sector are mainly the smallest, i.e., those employing less than 10 workers, and which make up the so-called 'cottage-industry' sector. Their weak linkage with foreign markets can be deduced from the fact that in 1994, firms in the 1–9 employee category exported less than half of one percent (or 0.44%) of their total output. In contrast, firms in the 10–99 and 100–199 worker category exported some 18% of their output, faring almost as well as the average firm in the entire manufacturing sector in 1994 in terms of export orientation (19%). It would then be safe to assume that most of the SMEs that would be directly affected by the growing integration of the country with the rest of the world can be found in the 10–99 and 100–199 employee category.<sup>1</sup>

Such firms have, however, different degrees of exposure to global markets. Exhibit 1 shows the export orientation (export-to-output ratio) of 3-digit PSIC manufacturing industries<sup>2</sup> in 1993. Among manufacturing industries,

#### Exhibit 1

#### Share of SME Exports in Industry Output and Exports, 1993

In percent

PSIC	Industry Description	Export Orientation: Share of Exports in SME Output	Share of SMEs in Industry Exports	Share of SME Exports in Industry Output
3	Manufacturing	19.11	23.74	4.54
311	Food	22.37	48.77	10.91
322	Wearing apparel	54.38	40.39	21.96
323	Leather and leather products	42.17	13.03	5.49
324	Footwear	36.36	4.72	1.72
331	Wood and cork products	25.33	56.91	14.42
332	Furniture and fixtures	35.39	69.27	24.51
361	Pottery, china, earthenware	40.70	6.64	2.7
382	Machinery excluding electrical	53.25	3.09	1.65
383	Electrical machinery	64.54	2.76	1.78
385	Prof'l and scient. equipment	70.61	35.72	25.22
386	Furniture, metal	56.70	0	0
390	Other manufacturers	51.33	36.03	18.49

Source: National Statistics Office (special tabulation of the Annual Survey of Manufacturers, 1994)

<sup>1</sup> Philippine firms classified as SMEs are all enterprises with total assets of PhP15 million and below. However, in the present article, SMEs are defined by employment size: small: 10–99 employees; medium: 100–200 employees. However, data tabulation made by the National Statistics Office in 1994 classified enterprises into 20–99 employees and 100 or more employees.

<sup>2</sup> Classification of industries at the Philippine Standard Industrial Classification, which is based on the International Standard Industrial Classification (ISIC) of all economic activities.

food, wearing apparel, wood and cork products, furniture/fixtures, professional and scientific equipment, and other manufactures are the industries where SMEs account for a fairly large share of industry output and total exports. In other industries, such as leather and leather products, footwear, pottery and china, machinery both electrical and nonelectrical, metal furniture, small enterprises (10–99 workers) show a rather high degree of export orientation (measured in terms of share of exports in industry output), but since the industry itself may not be export-oriented or the industry's exports are dominated by larger firms (100+ workers), the share of SME exports in industry output turns out to be unremarkable.

In recent years, given the country's drive to attract foreign capital to its industrial sector and coupled with the government's trade liberalization program, a number of foreign firms have been attracted to the country. Their loss of comparative advantage in labor-intensive product lines has made these foreign firms look to developing countries, including the Philippines, to serve as possible export bases to both developed and developing country markets. A special tabulation of Annual Survey of Establishments (ASE) data from the National Statistics Office (NSO) shows that 53% of output in the manufacturing sector originated from purely domestic firms, that is, firms without foreign equity. These wholly domestic enterprises exported about 34% of total manufactured exports while enterprises with foreign equity accounted for about 66% of total exports. Among purely domestic firms, 64% of manufacturing output and 44% of manufactured exports originated from SMEs. On the other hand, among manufacturing sector firms with foreign equity, 34% of total output and 66% of manufactured exports were produced by SMEs. The data implies that a rather important segment of SMEs in the manufacturing sector is able to compete successfully in export markets and even to attract foreign capital.

**Among purely domestic firms, 64% of manufacturing output and 44% of manufactured exports originated from SMEs. On the other hand, among manufacturing sector firms with foreign equity, 34% of total output and 66% of manufactured exports were produced by SMEs.**

**Exhibit 2**

**Export Orientation of Small and Medium Enterprises and Large Enterprises  
With and without Foreign Equity, 1994**  
In percent

3-Digit PSIC Industry	Head count	Share of Direct Exports in Output	
		Without Foreign Equity	With Foreign Equity
311- Food			
	20-99	23.44%	18.67%
	100+	19.24%	54.21%
322- Wearing apparel			
	20-99	16.31%	32.37%
	100+	18.57%	20.27%
323 – Leather and leather products			
	20-99	20.59%	-
	100+	4.49%	50.29%
331- Wood and cork products			
	20-99	15.68%	43.53%
	100+	3.44%	100.64%
332 – Furniture and fixtures			
	20-99	37.33%	100%
	100+	45.22%	25.16%
341 – Paper and paper products			
	20-99	9.68%	52.14%
	100+	34.62%	24.38%
342 – Printing and publishing			
	20-99	19.23%	85.60%
	100+	2.66%	55.86%
371 – Iron and steel basic products			
	20-99	6.48%	51.11%
	100+	4.81%	2.27%
372 – Non-ferrous metal			
	20-99	4.91%	99.48%
	100+	S*	0.85%
383- Electrical machinery			
	20-99	35.17%	80.60%
	100+	9.65%	22.92%
385 – Prof'l and scientific equipment			
	20-99	-	63.74%
	100+	S*	96.77%
390 – Other manufactures			
	20-99	16.78%	36.67%
	100+	24.64%	32.07%

\*Suppressed data (NSO practice when only one firm represents the industry)

Source: NSO (special tabulation of ASE data)

That such export-oriented SMEs tend to attract FDIs can be verified from the fact that in 1994 firms in the 20-99 employment category *with foreign equity* had a significantly higher degree of export orientation (direct exports to output ratio) than those SMEs *without foreign equity*<sup>3</sup> (Exhibit 2). These export-oriented industries were: wearing apparel (32%), wood and cork products (43%), furniture and fixtures (100%), paper and paper products (52%), printing and publishing (85%), iron and steel products (51%), non-ferrous metal products (99%), electrical machinery (80%), professional and scientific equipment (63%), and other manufactures (36%). But it should also be noted from Exhibit 2 that some industries with enterprises without foreign equity and employing 20–99 workers also showed a high degree of export orientation, such as food (23%), leather and leather products (20%), furniture and fixtures (37%), and electrical machinery (35%).

The upshot of the discussion is that Philippine SMEs are already participating—some more actively than others—in the global market, both as exporters and as hosts to foreign direct investments. The question that needs to be addressed then is what kind of support environment SMEs need to maximize their potentials in this rapidly globalizing world.

### Current and desired support environment for SMEs

**Philippine SMEs are already participating—some more actively than others—in the global market, both as exporters and as hosts to foreign direct investments.**

- **Macroeconomic growth and stability**

Undoubtedly, SMEs like all other sizes of enterprises will thrive best in an environment of stable, macroeconomic growth. During periods characterized by financial constraints, the first casualties are the SMEs which are the first ones to be rationed out of the credit market. Moreover, lacking the deep pockets of the large enterprises, they are even more vulnerable to economic slowdowns. In addition, mortality rates are believed to be high among SMEs. Hardly any systematic study on survival rates of Philippine

<sup>3</sup> Firms in the 100+ employment category and with foreign equity also have a significantly higher degree of export orientation than those without foreign equity.

firms, however, seems to have been undertaken due to data unavailability. In any case, a paper<sup>4</sup> read at the International Conference on SMEs in 2000 provides what may be the only recent evidence on survival rates of Philippine manufacturing establishments (see Exhibit 3). The data seem to indicate that indeed the mortality rate is highest among firms in the 10–99 employment category. For enterprises set up in 1990, only 19% are found to have “survived” five years later in 1995, compared with about 45% for manufacturing as a whole. There is reason to believe that these mortality rates are higher than normal, considering that 1990–1995 was characterized by an economic slowdown in the early part of the period and by rapidly changing economic policy. There is thus no way to foster the growth and survival of SMEs other than to jumpstart the economy and keep it on a steady keel.

- **A liberalized trade environment**

Liberalization of the trade environment can be either damaging (as in the case of Africa), or beneficial to SMEs. It could be damaging if the trade opening leads to a decimation of small firms that find themselves unable to compete with imports. However, it has been shown that in the Philippine case, protection policy in general created a bias against SMEs, so that the Trade Reform Program that sought both to dismantle progressively

**Exhibit 3**  
**Survival Rates of Establishments, 1990–1995**  
 Number, in percent

Employment Size	1990 (Number of Establishments)	1990 Year 0 (%)	1991 Year 1 (%)	1992 Year 2 (%)	1993 Year 3 (%)	1994 Year 4 (%)	1995 Year 5 (%)
1-9	4,892	100	85	67	61	51	48
10-99	385	100	80	51	38	28	19
100-199	30	100	65	60	43	33	23
200+	23	100	83	74	65	57	35
Total	5,330	100	85	65	60	49	46

Source: Table 4, Rodriguez (2000).

<sup>4</sup> Albert Berry and E. Rodriguez, “Productivity and Dynamics of Philippine Manufacturing SMEs in the New Economy.” Paper read at the International Conference on SMEs sponsored by the Asian Development Bank, July 2000.

quantitative restrictions to trade as well as to lower tariff barriers seemed generally to have worked in favor of SMEs.<sup>5</sup> During the period of strong application of protection-based import substitution policy, SMEs had a declining share in total employment and value added, but when the market was opened starting 1986, SMEs enjoyed a resurgence in share.<sup>6</sup> Moreover, industry level studies conducted midway during the trade liberalization process showed a distinct tendency for SMEs to be more efficient *after* greater trade opening than before.<sup>7</sup> Why this was so was clear: SMEs benefited directly from the rapid decline in the tariff and non-tariff barriers on their imported inputs. Many of them anyway were in industries with low tariffs on imports that directly competed with their outputs, so that the subsequent decline in trade barriers on their competing imports did not pose much of a problem.

It is likewise favorable to SMEs that a more open trading environment tends to attract foreign capital, particularly of the export-oriented type. This is because foreign firms from developed countries that have lost comparative advantage in labor-intensive and semi-skilled labor-intensive production activities are attracted to invest in countries that offer lower labor cost. An open trading environment that allows foreign firms to freely bring in inputs and freely export the finished product is thus more conducive to such types of FDIs. The data presented in Exhibit 2 shows that SMEs with foreign capital participation tend to have a higher export orientation than those without foreign equity, supporting the hypothesis that trade and FDIs tend to be complementary rather than substituting in a liberalizing environment. Moreover, an open trading environment facilitates greater linkages with foreign firms through international subcontracting.

Thus it is imperative that the remaining obstacles to trade liberalization be removed to create a more level playing field between large and small and medium-sized enterprises. It has been shown that a number of such

<sup>5</sup> Erlinda M. Medalla, G.R. Tecson, R.M. Bautista, J.H. Power and Associates. *Catching Up with Asia's Tigers. I & II*. Makati: Philippine Institute of Development Studies, 1995, 1996.

<sup>6</sup> Edgar Rodriguez and Gwendolyn Tecson. "Liberalization and Small Industry—Have Manufacturing SMEs in the Philippines Benefited?" in *Small Enterprise Development*, 9:4, December 1998.

<sup>7</sup> Medalla, Tecson et al., *Catching Up with Asia's Tigers*.

obstacles are still to be addressed<sup>8</sup> if the goal of a uniform tariff policy will be achieved by 2004.<sup>9</sup> These obstacles are agricultural protection and protection for some large-scale investments in the petrochemical industry. These protection schemes harm downstream industries, particularly the small and medium-sized ones, which bear the burden of higher input cost and possible loss of competitiveness in both domestic and export markets.

- **SME financing**

Philippine SMEs have been found to be heavily dependent on own sources of capital—mainly savings—for start-ups and for expansion purposes. From a sample of small enterprises, 54% were found to have turned to credit, but only about 14% did so mainly from informal channels. And yet, those that have found access to credit have shown a tendency to absorb more labor and to grow faster than those that did not, signifying that access to credit is important for growth.<sup>10</sup> It is well known, however, that banks and other financial institutions generally prefer to lend to larger rather than smaller borrowers due to the higher transaction cost associated with SME lending as well as due to the perception of higher risk of nonrepayment by smaller borrowers. The provision of credit guarantees might not be an effective way of breaking down resistance to greater SME lending.<sup>11</sup> Especially during periods of credit restraint, financial institutions have rationed out credit allocation to SMEs.

In the face of such lack of access to credit, the government has responded with lending programs for microenterprises and SMEs over the years, catering to different aspects of their business activities but with varying degrees of effectiveness. To rationalize such programs and avoid duplication of functions, the government passed a Magna Carta for SMEs, (subsequently amended by Republic Act (RA) No. 8289 in 1997) which created the Small Business Guarantee and Finance Corporation (SBGFC). RA No.

<sup>8</sup> Tecson, "Where Are We in Tariff Reform?" in *Public Policy III* : 3, July–September, Quezon City, University of the Philippines, 1999.

<sup>9</sup> The Trade Reform Program has been stalled. The issuance of Executive Order Nos. 241 and 264 in 2003 raised the tariffs on selected agricultural and manufactured products.

<sup>10</sup> Mario Lambarte, G. Llanto, "A Study of Financial Sector Policies: The Philippine Case," in S. Zahid ed. *Financial Sector Development in Asia: Country Studies*, 235–301, Manila: Asian Development Bank, 1995.

<sup>11</sup> Gilbert M. Llanto, "Contrarian Views on Credit Guarantees," Paper read at an International Symposium on SMEs sponsored by the Asian Development Bank, July 2000.

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**International subcontracting and linkaging with foreign direct investors demand liberal and ready access to working capital and long-term investment funds.**

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8289 required financial institutions to set aside a percentage of their loan portfolio to SMEs (at least 6% and 2% for small and medium enterprises, respectively). Since the nineties, microfinance too has grown, supported by a number of policy changes by the BSP. Although the data seems to indicate compliance with the mandatory allocation of

credit, the playing field has not really been leveled when it comes to access to credit. In particular, SMEs have been found to be overdependent on short-term credit, possibly indicative of their relative inability to raise funds for long-term financing of investments.

In a globalizing environment that the country's SMEs find themselves in, the lack of access to credit of different kinds of maturities will severely constrain their ability to compete effectively. Greater exposure to competing imports demands investments in both people and physical assets if the country's SMEs are to be able to stand their ground against outside competition. Growth into export markets requires adequate export credit, before, during, and after the activity. International subcontracting and linkaging with foreign direct investors demand liberal and ready access to working capital and long-term investment funds. Part of the solution will involve reform of the capital market, allowing SMEs greater access to long-term finance. The creation of a stock exchange catering mainly to SMEs seems to be a step in the right direction. On the other hand, more effort has to be undertaken at both public and private levels to upgrade SME financing capabilities, since sourcing via the capital market will normally require more sophisticated skills than borrowing from banks.

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**The lack of access to credit of different kinds of maturities will severely constrain the ability of SMEs to compete effectively.**

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- **Investment in human capital**

A severe constraint to growth of SMEs identified by previous studies is the lack of requisite skills, particularly in the face of the demands of global markets. Operating beyond the confines of narrow domestic markets necessarily demands managerial and technical skills that are radically different in depth, breadth, quality, and even in numbers. In most cases, the investment cost of training will have to be borne fully by the private SMEs themselves. However, additional benefits accrue from knowledge creation and therefore the government's intervention in skills formation is needed. Basic at this point is investment in high-quality basic education in the sciences and mathematics. A Japanese researcher on the ancillary industries in the automotive industry in the Philippines noted the lack of orientation of ordinary laborers in the basic requirements of factory work.

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**The highly successful Singaporean model deserves to be studied in detail. For instance, the development of the precision engineering industry cluster in Singapore was largely aided by a large number of training institutions for precision engineering skills.**

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With regard to training outside the formal educational system, the highly successful Singaporean model deserves to be studied in detail. For instance, the development of the precision engineering industry cluster in Singapore was largely aided by a large number of training institutions for precision engineering skills. A University of California Los Angeles report states that with the rise in the skill levels demanded by the industry over time came the

steady upgrading of training programs, with increasing emphasis on the training at the polytechnics,<sup>12</sup> and at both university undergraduate and postgraduate levels.<sup>13</sup> Discussed extensively elsewhere<sup>14</sup> is the observed lack of linkage between foreign firms and the domestic suppliers. This situation implied weak spillover effects of FDIs which severely constrained

<sup>12</sup> In Singapore, as in the British system, polytechnics are distinguished from universities. Polytechnics offer three-year diploma courses in subjects such as information technology, engineering subjects, and other vocational fields.

<sup>13</sup> Poh-Kam Wong. "The Dynamics of HDD Industry Development in Singapore," Report 99-03, The Information Storage Industry Center, UCLA at San Diego, July 1999.

<sup>14</sup> Tecson, "Where Are We in Tariff Reform?"

**Exhibit 4****The Local Industry Updating Program of Singapore**

The Local Industry Updating Program (LIUP) has evolved an innovative feature that seeks to leverage the competencies of the multinational corporations (MNCs) rather than develop a separate public agency to provide industrial extension services as is typical of many developing countries. Through the LIUP, the Economic Development Board (EDB) undertook to pay for the salaries of an experienced engineer who is an employee of a participating MNC.

Carrying the title of LIUP manager, the manager has the primary function of identifying local suppliers with potential to upgrade into globally competitive suppliers, and to use the resources available within the MNC to provide them with focused assistance. The assistance program usually starts with the LIUP manager performing a diagnosis of the operational problems and management weaknesses within the local supplier firms, drawing upon his experience at the MNFC and his knowledge of the benchmark standards of the MNC. Depending on the diagnosis, the LIUP manager then recommends to the local supplier firms to undertake various upgrading measures. Where possible, the LIUP manager would draw upon the resources of the MNC, e.g., inviting the suppliers to send workers to attend quality training programs that the MNC conducts for its own employees, or getting the MNC to design vendor development programs that best address the problems of suppliers. At the same time, being well-versed with the various public local assistance programs available from the government, this LIUP manager is well-placed to advise on the types of public assistance to apply for, and to facilitate the application process.

Finally the LIUP managers from the different MNCs are required to meet regularly at EDB to pool their knowledge concerning the key problems faced by the suppliers under their care, and to share MNC practices in assisting suppliers. Through such knowledge-sharing sessions, the LIUP managers were able to leverage resources and know-how beyond their own MNCs; at the same time, EDB senior officers were able to get a comprehensive picture of emerging industry problems and concerns, which may lead to fine-tuning of existing assistance programs or the development of new ones.

the transfer of technology and other skills from foreign multinationals (MNCs) to the rest of the economy. In Singapore where FDI is a dominant feature of the economy, the Local Industry Updating Program (LIUP) is a specially useful public program with a positive dent on the development of a local supporting industry facilitating upgrading of local industries that supply MNC manufacturers (see Exhibit 4).

- **Collective support system**

A number of collective support systems among SMEs have evolved in some developing countries. This is in response to a common need among SMEs to reduce the transaction costs associated with various activities. For instance, even under favorable market conditions, exports may not occur spontaneously if there are no institutions and exchanges involving ex-ante and ex-post transaction costs. Ex-ante transaction costs are incurred in the search of buyers and sellers of export goods, while ex-post transaction costs are incurred in case said buyers or sellers do not perform well. Moreover, such institutions and mechanisms reliably signal the reputation of suppliers to potential buyers or vice versa.<sup>15</sup> A study of the effectiveness of such technical and marketing support systems to SMEs in several industries in four countries (Japan, Korea, Indonesia, and Colombia) revealed the importance on the one hand of private production and trading networks (such as in Japan) over collective support, and on the other, of collective marketing support system for their export efforts (Colombia, Korea, Indonesia). In the three countries, trade fairs at home and abroad came out as an important means of penetrating export markets, and very limited value was ascribed to direct introduction by *official* export agencies, such as KOTRA. In Indonesia, industry associations were found to be exceedingly weak, although the Export Support Board which financed market support (such as export promotional material, participation in trade fairs abroad) and technical consultants from abroad was widely used and rated highly among surveyed Indonesian SMEs.<sup>16</sup>

In the case of sources of technological capability, private rather than collective mechanisms emerged as leading external sources for surveyed SMEs

<sup>15</sup> Brian Levy et al. "Technical and Marketing Support Systems for Successful Small and Medium Size Enterprises in Four Countries," Policy Research Working Paper 1400, Policy Research Department, The World Bank, 1994.

<sup>16</sup> Ibid, p.22.

in the four countries. Nevertheless, there are inter-country differences in mechanisms of technological acquisition found by the authors: in Japan strong vertical and horizontal interfirm relations; in Indonesia, international linkages both longstanding (extended Chinese community) and recent (in-flow of foreign buyers); in Korea, horizontal linkages within an industrial district.<sup>17</sup>

A number of analyses emerged in recent years on the benefits of business networks. Described as “groups of enterprises that cooperate in order to compete” they are presented as overcoming the problems faced by SMEs in developing countries.<sup>18</sup> SMEs are by their very nature constrained by limitations due to small size, that is, restrictions of access to capital, lack or absence of R&D, and inadequacy of management and marketing capabilities. Networks, by enabling SMEs to form groups, are able to realize economies of scale and scope. They improve their bargaining power and increase their efficiency through greater focus on core skills. By participating in service networks, SMEs are able to share costs of such required services as quality testing and certification, materials purchasing, market research, and financial management. Finally, SMEs can eventually cooperate in production networks and enhance competitiveness in markets.<sup>19</sup> More recently, the network approach has been tried in a developing country, with Chile’s Proyectos de Fomento (PROFO) launched in the late 1990s by the Chilean SME assistance agency, SERCOTEC.

However, the PROFO groups eventually encountered the problem of sustainability, as they failed to become self-supporting in the end.

More recent developments in networking are taking place in India, with seemingly good results. For instance, small entrepreneurs in Okhla are currently working on a plan for a modern telephone system to serve their entire complex, on the common

**Very little is known about the existence and efficacy of networks in the Philippine setting. The area of SME networking thus remains a field of research worth pursuing.**

<sup>17</sup> Ibid, p.29.

<sup>18</sup> Richard Hatch, “Development of SME Networks,” Paper read at an International Conference on SMEs by the Asian Development Bank, July 2000.

<sup>19</sup> Ibid.

purchase of fuel for electric generators, and on a group marketing program that has started with an electronic directory of Okhla manufacturing capabilities for motorcycle and auto makers. Unfortunately, very little is known about the existence and efficacy of networks in the Philippine setting. The area of SME networking thus remains a field of research worth pursuing.

- **Competitive cost of doing business**

In some respects, the cost of doing business in the country is said to be among the highest in the region. The Services Group of the World Bank<sup>20</sup> found that serviced industrial land (including utility connections) in major urban locations is priced higher in the Philippines than in Vietnam, Malaysia, Thailand, and Indonesia, though lower than that in Taiwan. Similarly, construction prices for standard factory buildings also tend to be at the high end of the pricing range for the region. In the case of power supply, peak rates for electricity remain among the highest in the region, higher than in Thailand or Vietnam and about double those in major industrial countries except Japan. Moreover, peak water charges are higher than those in Malaysia and Indonesia. Nevertheless, the Philippines seems to be generally at par with other neighboring countries in international telephone charges, sea freight rates, and air freight rates; indeed these are found to be at the low end of the price range for the region. However, the Manila port facilities are congested, leading to higher cost of distribution due to longer waiting time.<sup>21</sup>

- **Governance in the new economy**

In other words, to level the playing field between domestic SMEs and the foreign firms with which they compete, the government has its hands full to make available quality infrastructure at a competitive cost. However, more effort is required in putting in place a government bureaucracy that is up to the requirements of the rapidly globalizing world. Because globalization requires world-class competitiveness in the private sector, no less than a world-class government sector must be put in place. Definitely gone are the days when bureaucrats perceive industrial policy as a matter of dispensing

<sup>20</sup> World Bank, *Philippines: Managing Global Integration*, Vol. 2. November 1997.

<sup>21</sup> Ibid.

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**Because globalization requires world-class competitiveness in the private sector, no less than a world-class government sector must be put in place.**

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of incentives to favored industries, or their main job as protecting these same industries from “outside competition.” A clear-sighted vision that looks at the whole world *strategically as a market* for its industries, while being well aware of the strengths and weaknesses of

the same, is the starting point of a shift to a completely new paradigm of governance in this new economy. And such shift has to take place not only at the national (e.g., the Department of Trade and Industry and the Board of Investments) but also at the local levels of government. For instance, foreign investors located in Calabarzon had been airing complaints about abusive local government units whose pecuniary interests end up undermining the generally more efficient running of the industrial zones. Such a parochial stance is definitely inconsistent with the world-class governance that alone can guide these domestic industries, particularly the SMEs, through the rough and unsure waters of the global market.

## Conclusion

A world that is increasingly becoming integrated such as that in which we live today is undoubtedly posing a challenge, while holding a lot of promise, for the country’s SMEs. Whether they will live up to the challenge depends to a large extent on their ability to become and remain competitive vis-à-vis firms from other nations. While this achievement of competitive strength remains fundamentally a task for the individual firms, the environment – in so far as it can be influenced by policy decision–must at the very least not be a hindrance to their achievement of competitiveness. At best, an environment supportive of this drive towards international competitiveness must be created, given the role SMEs play in economic development. Although there are many elements that could characterize such a support environment, this article has attempted to outline those which the author deems most important. These are: macroeconomic growth and stability, a liberalized trade environment, access to financing, investment in human and physical capital, collective support systems, and a competitive cost of doing business for SMEs.

Although at the surface, there hardly seems to be anything new in these elements, upon deeper analysis, it becomes clear that what is new is the rapidly globalizing setting that SMEs find themselves in. To take full advantage of the promise that globalization offers, instead of being swallowed up in its train, a brand-new class of SMEs – competitive, export-oriented, open to foreign linkages—must be fostered. For this, a *new, world-class* support environment is needed. 

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# The Catalytic Role of Venture Capital

Francisco Sandejas, Ph.D.,  
David Earl Robles, and  
Randy Barsatan

Whether a country is developed or developing, the government plays a major role in jump-starting the venture capital industry through incentives and its willingness to participate in some way in venture capital.

To boost the country's chances to succeed in a globalized economy driven by high technology, the Philippines should invest more time, human resource training, funds, and planning in the serious development of a high-technology sector. Admittedly, the country's poverty level makes it difficult to set aside budgets and resources. But, as similarly situated countries like Taiwan, Ireland, Israel, and Korea had done in previous decades (when the Philippines was economically more advanced), it is time for the Philippines to decide that it will put even a small part of its national budget to diversifying the economy and investing in high-growth prospects. The best use for government investment is as venture capital<sup>1</sup> for high-technology companies.

<sup>1</sup> Funds made available for start-up firms and small businesses with exceptional growth potential.

In general, high-technology companies are the result of research, development and engineering activities, which arise from initial investments of time, money, and human resources in exploring existing or novel technologies and then engineering them to solve new market needs or to serve these needs in new and better ways. Most often in technology, the bases of successful new products or services are the intellectual property or IP generated in such activities. This intellectual capital is unique, often patented, and difficult to reproduce. Because of these characteristics, companies that own such IP are able to charge for their products with relatively large gross margins (anywhere from 40% to 80% as in the case of software companies like Microsoft).

The creation of IP, however, is not cheap – normally it requires very expensive brainpower and, in a number of cases, significant equipment. Moreover, the time it takes to inventor design the intellectual property is normally a couple of years of work with little or no revenue. Since start-ups have to prove themselves and selling and marketing their products is tough, normally losses are incurred for as long as two to four years. Venture capitalists or “angels” normally provide the high-risk equity investments that sustain the rate of innovation during these early stages.

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### Venture capital experiences

Venture capital (VC) has been responsible for the growth of technology industries in numerous countries. Countries such as the United States, Canada, the Netherlands, and Iceland have significant VC investment relative to gross domestic product (GDP). Between 1995 and 1999, VC investment

for early and expansion stages amounted to 0.21% of GDP in the United States and 0.16% of GDP in Canada and the Netherlands.<sup>2</sup>

As further evidence of the importance of VC in the fostering of high-technology investments, we would like to take a rather lengthy excerpt from the paper of Kenney entitled “The Globalization of Venture Capital: The Cases of Taiwan and Japan.”<sup>3</sup>

“The anecdotal evidence for the economic importance of venture capital is striking. On the US stock exchanges a number of highly valued firms including Intel, Cisco, and Federal Express were originally funded by venture capitalists.

As of 1999, the US venture capital firm Kleiner, Perkins, Caufield and Byers claimed that the portfolio firms that it had funded since its inception in 1973 had a total market capitalization of US\$657 billion, revenue of US\$93 billion, employed 252,000 persons, and had 7 invested in excess of US\$2 billion (KPCB 2001). Though extrapolation from KPCB, which is probably the most successful venture capital firm in the world, is risky, it is safe to say that the cumulative impact of the currently over 600 venture capital firms in the US has been substantial even for an economy as large as the US. In specific regions, especially Silicon Valley and Boston’s Route 128, venture capital has been a vital component of what Bahrami and Evans (2000) term the entire ecosystem (see also Lee et al. 2000).

The US General Accounting Office (1982: 10) studied the impact of the venture capital industry on the US economy. Extrapolating from 72 publicly listed, venture capital-funded firms in operation in 1979 (there were 1,332 venture capital-funded firms in existence at that time), the GAO concluded that employment would increase in 1989 to between 522,000 and 2.54 million employees depending upon the annualized growth assumption.

<sup>2</sup> OECD Scoreboard 2001.

<sup>3</sup> Martin Kenney, “The Globalization of Venture Capital: Cases of Taiwan and Japan,” (October 21, 2002) (paper read at the International Conference on Financial Systems, Corporate Investment in Innovation and Venture Capital, Brussels, November 2002), <http://www.intech.unu.edu/events/conferences/7nov2002/kenney.pdf> (August 18, 2003).

A recent study commissioned by the National Venture Capital Association (2001) and conducted by the consulting firm Wharton Econometric Forecasting Association estimated that the firms venture capitalists had invested in were cumulatively responsible for the creation of 4.3 million jobs and US\$736 billion in annual revenues in 2000.

In the United Kingdom, a survey by the British Venture Capital Association (1999) found that private-equity financed firms grew at an annual compounded rate of 24%, or three times faster than firms in the Financial Times Stock Exchange Index (FTSE) 100 and 70% faster than the FTSE 250. By estimation, they concluded that 2 million Britons or 10% of the current private workforce were employed by venture capital-backed firms. This estimate seems somewhat high, but provides some indicator of how important private equity/venture capital has been to the growth of the British economy.

In the case of Taiwan, there has been little study of the benefits of the venture capital industry to the entire economy, but many of the most recent Taiwanese computer-related success stories received venture capital funding. The one study attempting to quantify the benefits was done by Wang (1995) who found that the tax deductions encouraged venture capital investments during 1990 to 1992 that were ten or more times greater than the tax dollars expended.

In 2000, the Israeli high-technology industry accounted for approximately 25% of the entire GDP, and venture capital investing has been an important support for this high-technology environment.

Another indicator of the significance of venture capital investment is its impact on the innovation process. Kortum and Lerner (2000) using a sample of firms and patent filings found that venture funding accounted for 8% of US industrial innovations in the decade ended in 1992 and predicted that this could have increased to as much as 14% by 1998. They also found that a dollar of venture capital was 3.1 times as likely to lead to a patent than was a general research and development (R&D) dollar. Given that venture capitalists, in general, do not invest in process innovations (and these are patented far less frequently),

these estimates are likely somewhat high, but they do indicate the importance of venture capital for US innovation. Also, this finding might be somewhat of an overestimate, because it is quite likely that some of the inventions venture capitalists are commercializing were actually made in corporate research laboratories; if this is true then the corporate research laboratories would appear to be less efficient than they actually are. However, their result confirmed the importance of venture capital in encouraging R&D investment, and complemented other R&D sources.

There is sufficient evidence to conclude that venture capital has made a significant contribution to the economies of the US, the United Kingdom, Israel, and Taiwan. Venture capital backing seems to be an efficient method for commercializing innovations. Though there has been only limited research on the macroeconomic impacts, there is ample evidence that it has had a significant impact in the US. It certainly has been the key financier of the US. “New Economy” firms become a part of the US, Israeli, and Taiwanese national system of innovation for commercializing R&D, and become a vital resource in regions such as Silicon Valley and Route 128.”

### **Government venture capital initiatives in various countries**

The significant contribution of VC in a number of countries would not have been possible without the formulation of effective policies that foster the emergence of VC industries.

**Taiwan.**<sup>4</sup> In Taiwan, a law was passed in 1983 providing tax incentives to individuals willing to invest in professional value VC firms. A valuable feature was the 10% tax deduction for Taiwanese individuals provided they fulfill the condition of maintaining their investment for two years. This law was further modified in 1991 to extend to corporate investors. This revision drastically increased the amount of VC available in Taiwan.

The Taiwanese government provided other benefits such as exempting 80% of the investment income if it falls within the grace period of one year during the fiscal year of investment. Those who chose to reinvest their

<sup>4</sup> Kenney, *Globalization*, 17.

earnings from VC investment were allowed to deduct the venture capital income from their tax return in that year. It was not only until the year 2000 when these incentives were lifted due to a mature VC industry.

Aside from the other measures that the Taiwanese government undertook for the growth of the VC industry, a good measure was the willingness to invest government funds in VC firms provided that they were matched by those from the private investors.

*Israel.*<sup>5</sup> Israel implemented its “Industrial R&D Fund” program in 1969. The fund provided financial resources for technology projects through the Office of the Chief Scientist.

This has led further to a series of effective programs in 1990s:

- Yozma (1992–97) – a US\$100 million government-owned VC company that invested in 10 funds that operated in Israel. Each fund had at least one major US investment bank/private equity investment company, at least one major local financial institution, and corporations/individuals (both domestic and foreign). Yozma, which triggered the emergence of a domestic VC industry, was privatized in 1997.
- Magnet Program (1992–present) – a US\$60/70 million-a-year horizontal program supporting cooperative, generic R&D involving two or more firms and at least one university. It is widely regarded as a successful program.
- Technological Incubators’ Program (1992–present) – a US\$20/30 million-a-year program supporting entrepreneurs during the seed phase of their project, for a period of three years. The incubators are privately owned and managed. Both they and the projects approved get financial support from the government. The program complements the

<sup>5</sup> Gil Avnimelech and Morris Teubal, “Israel’s Venture Capital (VC) Industry: Emergence, Operation And Impact,” <http://economics.huji.ac.il/faculty/teubal/VCPaper1%20-%20Dilekbook.pdf> (15 October 2004)

“Industrial R&D Fund” (projects could be submitted to either program). It contributed to the transformation of Israel’s high-tech cluster during the ’90s, particularly in the early years.

**Ireland.**<sup>6</sup> Enterprise Ireland (EI) is the Irish government institution responsible for the country’s economic miracle through technology. It encouraged the establishment of VC funds by providing access to government funds for the purpose of VC investments. For example, 150-plus million euros in “side-by-side” funds (government funds that match money from private sources for technology start-ups) have been made available. Alternately, EI can provide as much as 10% of a start-up company’s initial funding in return for a commensurate share in the company’s equity. At present the country has 12 active VC funds.

**India.**<sup>7</sup> The success of India’s software industry was reinforced by the establishment of a set of guidelines for the operation of VC. The guidelines allowed state-controlled banks to establish VC subsidiaries. India was supported by the World Bank through a US\$45-million loan to the government, which lent it at commercial rates to four public sector financial institutions for the purpose of permitting them to establish VC operations. This has led to the rapid growth of the availability of venture capital.

Clearly, whether a country is developed or developing, the government plays a major role in jump-starting the VC industry through VC incentives and its willingness to participate in some way in VC. Governments have helped provide the catalytic seed capital that unleashed even more private equity and spurred the creation of large and economically powerful high-technology clusters in various parts of the world. And, in many cases, the government R&D budgets (especially through the military) invested the “cheapest”<sup>8</sup> seed venture capital that was eventually spun off through the matured VC industry.

<sup>6</sup> Jerry Borrell, “Ireland: Turning Green Into Gold,” <http://www.idaireland.com/news/showRelease.asp?storyid=156#FUTURE>

<sup>7</sup> Gil Avnimelech and Morris Teubal. “Venture Capital Study in Israel: A Comparative Analysis And Lessons for other Countries,” September 2001, p 44. [www.intech.unu.edu/events/conferences/7nov2002/teubal.pdf](http://www.intech.unu.edu/events/conferences/7nov2002/teubal.pdf) (20 August 2003).

<sup>8</sup> “Cheapest” because the government often did not take ownership of the resultant intellectual property and allowed the inventors and their collaborators to take the technology from the laboratories and into commercial enterprises.

## Venture capital: Philippine scenario

Government and private technology industry partnerships normally occurred through a government fund set aside solely for VC investments. We recommend a similar setup in the Philippines.

The problems of the local original design manufacturing (ODM) industry, such as the inaccessibility of financial services, weak market linkages, and lack of qualified and experienced personnel, can be addressed by VC in the following manner:

**Provide capital for the incubation of technology businesses.** Investing in technology-based companies entails significant risks due to the longer gestation period and dependence on yet-to-be proven designs, technologies, and/or (at times) new markets. Traditional fund managers normally do not understand these dynamics and normally are not trained to evaluate new technologies. Furthermore, few tangible assets back new equity. Therefore, traditional financial investors are not likely to fund the incubation of a technology start-up even if rewards could be great.

**Provide access to data on the global market.** VC is always associated with the global market since venture capital fund managers normally invest in companies around the world and are forced to track developments worldwide. Therefore, partnership with venture capitalists serves as a link for domestic companies to the global marketplace. Venture capitals can also help forge important business partnerships with groups around the world.

**Provide opportunities for expatriates to return home.** Funds are made available to create a local technology industry. Foreign-based Filipino engineers and scientists with the badly needed business management experience and technology know-how will be attracted by potential partnerships with like-minded risk-taking investors. Beyond the attraction of coming home and helping create new jobs and industries, the expatriates will be lured by business opportunities, markets, and the ability to capitalize on the

presence of competitive local engineers. Also, VC helps ensure that returning expatriates can be offered jobs with challenges and compensation that are closer to their foreign counterparts, hence help solve the problem of brain drain.

### **The need for more VC funds**

To solve the lack of equity capital for technology companies, a Government High-Technology Development Fund should be formed. Through this Fund, the government, together with partners from the private sector VC community, will unlock investment opportunities and capital in the country's information and communication technology (ICT) and life science technologies.

The Fund will address the issue of job and company creation for our nation's engineers and scientists. And, of course, if properly managed, VC investing should be the most profitable investment of the government even on a return-on-investment basis.

The following are the reasons why the government should establish a government high-technology development fund.

- Supplement inadequate private sector risk or VC funding
  - The Philippines lacks a developed VC culture for the high-technology sector.
  - Even the oldest and most established VC fund managers in the Philippines have been scaling back their operations.
- Create advanced high-value industries
  - To participate in the world's highest growth industrial sector – high technology – the Philippines has to have companies that engineer and develop ICT and bio-technology products.
  - High-technology products by themselves are also essential tools for a modern and competitive economy. If our companies and workers are to perform more efficiently, ICT products should be available for their use.

- Attract greater investments into the Philippines
  - Government funds will supplement private funds to help form companies that will create an international name for Philippine technologists. This prestige will attract more investments into the Philippines.
- Produce additional revenue for the country
  - Foreign exchange can be generated through high-technology exports.
  - Government can generate revenue also from income tax and later from corporate tax.
- Achieve other side benefits
  - Income redistribution comes about in high-technology companies, whose knowledge workers are from the working class and not necessarily from the rich and landed. Furthermore, research, development and engineering (RD&E) companies are forced to base reward solely on skills; therefore, many lower and middle-class Filipinos will be given the opportunity to create and earn wealth.
  - There will be significant trickle-down effects in the form of support to small and medium-scale enterprises (SMEs) and even consumer services.

### Technology Development Program

The use of the Government High-Technology Development Fund should be governed by a set of guidelines embodied in a Technology Development Program. This program should be directed at areas that are important to the progress of the Philippine high-tech economy but are underserved by the VC and private equity community. The program should support projects with the following criteria:

- Significant net contribution to the economic and social welfare of the country.
- Responsiveness to the national objective of creating new and high-value industries, especially technology, generating employment for the country's knowledge workers, and providing multiplier effects in terms of foreign exchange generation through export sales, tax revenue

generation, income redistribution, and value-added creation that would trickle down to SMEs.

- Ability to help make the Philippines more self-sufficient in knowledge-based products and improve the national infrastructure for working and living.

Based on the foregoing criteria, areas that a government fund should support include advanced engineering-based industries like hardware or software RD&E for computer or communication systems, or enterprise software application, or biotechnology companies that are market-focused.

Other potential areas that might be considered are software engineering for the animation industry, as long as it involves design, and IP creation – both of which are underserved by the investor community. What can be put on a low priority are IT-enabled services and business process outsourcing, since they are already well-served. An investment should be made in an area only if it can be clearly proven that not enough companies exist in that area and the private sector investors cannot raise the required capital for them.

We believe, on the other hand, that not too much of government's money should be put at risk. Under proper management, PhP1 billion over three years (an amount lower than the government's budget for computerizing the COMELEC) would be enough to help spur the growth of worthwhile joint investments with private sector venture capitalists while at the same creating extra high return-on-investment instruments for the Treasury. Nevertheless, it is important that certain guidelines be followed in managing such a fund:

- Government equity participation should be as a minority with a maximum of 33% of project capitalization.

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**An investment should be made in an area only if it can be clearly proven that not enough companies exist in that area and the private sector investors cannot raise the required capital for them.**

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- To prevent graft and corruption, the project must be private sector-led. The lead investor(s) must be a reputable and established venture capital management firm with a proven track record and at least PhP300 million under management. They must have full-time staff dedicated to their technology investment or VC practice.
- In each deal or investment, there has to be at least two institutional VC investors, with at least one investing as much as the government. The funds from the professional private-sector investor groups put together should be at least twice that of government's.
- Projects should involve at least a group of three or more unrelated and unaffiliated proponents and/or investors.
- Pre-investment evaluation: Government, in consultation with at least two established private sector VC groups, should undertake an in-depth due diligence review of the project, comprising of technical, financial, market, production, management, economic, and regulatory risk analyses, including legal due diligence. Government fund managers should consult whenever possible with experts from the private sector group. The use of consultants will help the government keep its management costs down while still performing the required due diligence by leveraging off the private sector information.
- Exit mechanism: A clear and realistic exit mechanism for government should be set for projects requiring government equity participation, preferably within five years from fund release.

## Conclusion

At the time of exit from an investment, it is hoped that the government, together with private sector risk-takers, would not only have created world-class technology companies that employ and generously pay thousands of Filipino technopreneurs, but would also have returned significant profits to all their investors. The Philippines will by then be on the world map as an intellectual property contributor to the high-technology sector and hundreds more of the world's fastest growing companies will have made a home in the Philippines because of this. 

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# Are You Ready to IPO? Measures That Matter

By Joseph A. Muscat

IPO is a process, not an endgame. After the IPO, an organization must meet the operational requirements of a public company while delivering the value it has promised to stockholders.



**R**ecent Ernst & Young Measures That Matter<sup>SM</sup> research has shown that lead time and preparation, along with competitive position are common for highly successful public companies. Sarbanes-Oxley and investment banking reforms have dramatically changed the regulatory environment over the past year. IPO-bound companies face changed expectations among institutional investors and the investing public. By instituting the right strategies now, a CEO and management team can take an offensive rather than a defensive stance.

## Wanted: Solid IPO candidates

While bear markets come and go, the value of sold, well-managed companies remains constant. That was the message delivered to CEO-led teams from more than 50 high-growth private companies in May 2003's Ernst & Young's IPO Transformation – CEO Retreat held at the Ritz-Carlton Laguna Niguel in Dana Point, California. The conference's attendees, CEOs from technology, financial services, telecommunications, life sciences, healthcare, retail, and consumer product companies, accompanied by their

key team members, heard a clear message. Leaders of recent IPO success stories, investment bankers, and portfolio managers strongly believe that companies that focus on business fundamentals, deliver superior financial performance organized with a good corporate governance structure and an effective communications program, will always attract long-term investors.

There was a consensus among conference participants that companies have to “live” longer before they can tap into public funds. They’re going back to an investment environment last seen in the late 1980s. Maturity is creeping back into the market.

### **A process, not an endgame**

The IPO has too often been seen only in terms of an intense transaction that begins with the selection of investment bankers in a “bake-off” and the drafting of the prospectus, continues with the road show, and ends with the

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first day of trading. But it doesn’t stop there. After the IPO, the organization must meet the operational requirements of a public company while delivering the value it has promised to shareholders.

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**CEOs of the most successful companies began transforming their company strategically, operationally, and financially in a process that sometimes began years before they went public.**

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But it doesn’t start there either. Ernst & Young’s Measures That Matter<sup>SM</sup> research shows that the CEOs of the most successful companies (in terms of post-IPO performance) began transforming their company strategi-

cally, operationally, and financially in a process that sometimes began years before they went public. Improvement initiatives in the areas of strategic planning processes, accounting and reporting systems, investor relations, and employee incentive compensation, were identified as contributing the most to post-offering performance.

Ernst & Young calls this transformational process the IPO Value Journey, which includes planning, execution, and realization phases, each of which

is designed to position companies for maximum value at the IPO and beyond. The Value Journey is comprised of the following steps:

- **Define stakeholder success.** Make sure that stakeholder interests (corporate and personal, financial and nonfinancial) are aligned.
- **Chart your business strategy.** Prepare a thorough business plan that can serve as your own road map and can communicate your vision to potential investors and other stakeholders.
- **Accelerate your plan.** Find ways to realize your business plan faster or more cost effectively.
- **Chart your transaction strategy.** Consider accelerating your company's growth through one or more strategic transactions: acquisitions, alliances, divestitures, recapitalizations, or private financings, etc.
- **Create the winning team.** Assemble strong internal and external teams with the right combination of skills to lead the company through the IPO and many years beyond.
- **Complete your IPO platform.** Complete the strategic, operational, and financial improvements necessary to operate as a public company.
- **Be the public company.** Act like a public company before the IPO. Close the books on time, forecast financial results accurately, manage investor expectations, and benchmark against your public company comparables.
- **The IPO event.** Write and file your prospectus; then go on the road show.
- **Deliver the value.** Meet quarter after quarter the expectations of investors, analysts, employees, customers, and the board.
- **Renew and recreate.** Maintain your momentum, update your vision, create a new set of milestones, and remain innovative and fast-growing. (In other words, start the Value Journey all over again!)

## Why go public?

The first step in the IPO process is to articulate a compelling need for the capital of public investors. Executives surveyed at the 2003 IPO retreat were motivated by old-fashioned, basic business goals, including executing acquisitions, expanding internationally, and developing new content and platforms. In short, emphasized Robert Thomas, president and CEO of

NetScreen Technologies, at the IPO retreat, public companies have more credibility than private companies.

Ernst & Young's Measures That Matter<sup>SM</sup> research, based on a survey of executives who completed IPOs between 1996–2000, validates the conference attendees' perspectives. Completed with the Economist.com, this research shows that IPOs that experienced long-term success were motivated primarily by business needs such as funding product growth, market expansions or acquisition. Unsuccessful IPOs, on the other hand, were associated with motivations like corporate visibility, funding, marketing, attracting talent, and personal ambition.

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**Unsuccessful IPOs, on the other hand, were associated with motivations like corporate visibility, funding, marketing, attracting talent, and personal ambition.**

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### **Leveraging your transaction strategy**

This research also illustrates that many highly successful IPO companies completed acquisitions to obtain critical mass, broaden their product lines, and beef up their alliances and joint ventures to fill gaps in their business strategies in anticipation of the offering. A full 50% of the companies surveyed said they wished, in hindsight, that they had completed an alliance or joint venture to fill gaps in their business strategy.

### **Beyond financials**

As part of the same research, Ernst & Young surveyed portfolio managers to gain insight into the key financial and nonfinancial metrics they use when making a buy or sell decision, updating a survey completed in 1996. Not surprisingly, the research shows that superior financial performance measured against comparable companies is paramount. More surprisingly, though, the research showed that nonfinancial measures accounted for nearly 40% of a portfolio manager's decision making. The key metrics included quality of management, innovativeness, the ability to attract talented people, management credibility, and brand image.

These findings underscore that value is often found off the balance sheet. Which is why company executives who want to realize the greatest value at the IPO and in the public markets must understand, manage, and communicate the nonfinancial metrics for their industry.

### **The shock of the new**

The Sarbanes-Oxley Act brings new challenges for the executive leading a company through the IPO transformation process. It significantly raises the bar for operating as a public company. Panelists at the retreat agreed that new regulatory requirements under Sarbanes-Oxley are going to make it more expensive to go public. The risks of insufficient preparation are higher than ever. But the silver lining here is that, according to Katharine Martin, partner, Wilson Sonsini Goodrich & Rosati, “Good governance is typically equated with lower risk.”

To be prepared to operate as a public company under Sarbanes-Oxley, companies must have a board of directors with greater independence, financial expertise, and committee structure. They need the financial systems in place to allow management to certify internal controls and financial results to the US Securities and Exchange Commission (SEC).

The Sarbanes-Oxley Act also changes how companies work with their auditors. As a private company, executives may have depended on their auditors to provide a wide range of advisory services. Now, the auditor who attests to a public company’s financial statements is prohibited from providing a number of services. But Sarbanes-Oxley is not alone in calling for change in the business landscape. The US SEC, National Association of Securities Dealers, and New York Stock Exchange have all issued regulations that companies planning an IPO should begin addressing now.

### **Win the IPO waiting game: Get ready now**

Time is on your side. But you need to use it wisely, so when the IPO market returns, you’ll be ready. As John Kunze, president and CEO of Plumtree Software, said at the CEO retreat, “If you’re going public in the next six months or a year, then you have to start acting like a public company now.”

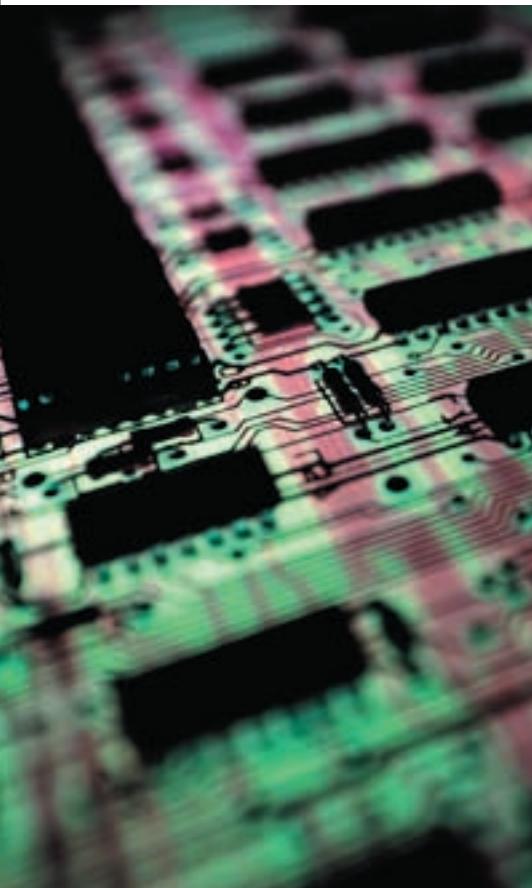
Consider doing the following:

- **Start your IPO preparations early.** If you envision an IPO within the next two years, now is the time to begin putting the pieces in place.
- **Think of the IPO as a “Value Journey.”** See the IPO as a transformational process, not a mere transaction. Begin implementing the strategic, operational, and financial improvement needed to perform as a public company and drive value after the IPO.
- **Get a jump on compliance.** Learn how Sarbanes-Oxley and other regulatory changes will impact your future transactions and find advisors who can work with you to integrate compliance into your business processes.
- **Leverage transactions strategically.** Begin working with your advisors on a transaction strategy and implementation plan early on.

Are you ready? 

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# From Cagayan Valley to Silicon Valley:



## An Interview with Dado Banatao

Francis L. Huang

Inventor, visionary, and venture capitalist, Dado Banatao, the most well-known Filipino-American entrepreneur in Silicon Valley, shares his insights on entrepreneurship, education, and engineering.

**Diosdado “Dado” Banatao is the most** well-known Filipino-American entrepreneur in Silicon Valley. He grew up in Barrio Malabbac, Iguig, Cagayan in the northern part of Luzon. In his youth, the place had no running water and electricity. His father was a farmer, and many of his friends never studied past grade school.

Today, Dado flies his own planes, drives a Porsche convertible, advises top business leaders and presidents, and gives generously to promote the education of engineers and scientists. Dado became a success not by inheriting a business, land, or a family fortune. Neither did he have the social or political connections. He did it through the use of his own intellectual capital and lots of hard work through which he invented high-tech products, and founded and funded numerous successful technology start-ups.

Dado is now regarded as a visionary scientist whose breakthroughs have helped shape the personal computer (PC) industry (see Exhibit 1). He is an engineer, inventor, innovator and a venture capitalist (VC). He holds several patents and is responsible for several “firsts” such as developing the industry’s first Windows graphical user interface (GUI) accelerator chip, pioneering the local bus concept for the PC, and putting the Ethernet controller on a single chip, among others. Put simply, his contributions have helped make PCs smaller, more powerful, and easier to network.

Dado is a three-time start-up veteran: he co-founded Mostron (focusing on PC motherboards), Chips & Technologies (C&T), and S3.<sup>1</sup> C&T, founded in 1995, went public after 22 months – one of the fastest IPO listings on record.<sup>2</sup> It was later bought by chip giant Intel in 1997 for a reported

### Exhibit 1

#### Dado Banatao's Contributions to the Computer Industry

- First single-chip, 16-bit microprocessor-based calculator (1976)
- First single-chip MicroVAX for digital equipment
- First 10-Mbit Ethernet CMOS with silicon coupler data-link control and transreceiver chip (1980s)
- First system logic chip set for the PC-XT and the PC-AT (1985)
- First enhanced graphics adapter chip set (1985)
- Pioneered the local bus concept for the PC (1989)
- First Windows graphical user-interface accelerator chip (1990)

Source: UPSIDE Today (December 1997)

<sup>1</sup> Silicon Valley folklore says that Dado chose the name S3 to mean ‘start-up number 3’.

<sup>2</sup> Source: <http://www.asiaweek.com/asiaweek/magazine/2000/0721/biz/ayala.html>

US\$ 430 million.<sup>3</sup> S3 (now known as SONICblue) had a US\$ 30 million IPO in 1993. Dado continues to invest in various cutting edge semiconductor-related companies through Tallwood Venture Capital (in Palo Alto, California), where he is Managing Partner.

For the past few years, he has been consistently in Forbes' Midas List<sup>4</sup> and has been praised for having "developed advanced chip designs that helped put Silicon Valley on the map."<sup>5</sup> In 1997, he received the prestigious Master Entrepreneur of the Year (in the US) award from Ernst & Young.

Dado, now 58, takes some time out of his still hectic workweek to share with the *SGV Review* his thoughts on entrepreneurship, engineering, and education.

### Starting out

**SGV Review:** How does a one-time airline pilot trainee transform himself into the most well known Filipino Silicon Valley entrepreneur?

**Dado Banatao:** I am an engineer, first and foremost. However, right after graduating with a B.S. in Electrical Engineering from the Mapua Institute of Technology, I actually joined Philippine Airlines as a pilot trainee. Later, I was hired by Boeing for an engineering job in the US and I finished my graduate studies at Stanford University in 1972. I've been in the Valley ever since. I realized that engineering was a lot more fun – I still fly my own jets though as a hobby. Engineering was and still is my first love. My love for engineering made me what I am today.

**SGV Review:** To what do you attribute your success – education, timing, luck, or guts?

**Dado Banatao:** All of those things! I grew up in Cagayan Valley, attended elementary school – 1<sup>st</sup> grade to 6<sup>th</sup> grade there. Later, I went to the Ateneo de Tuguegarao for High School. During my last year of high

<sup>3</sup> Source: <http://news.com.com/2100-1001-230019.html?part=business2-cnet>

<sup>4</sup> The Midas List of Forbes ranks the people who most successfully use venture capital to create wealth for their investors.

<sup>5</sup> Source: [http://www.stanfordalumni.org/erc/reunions/asian\\_alumni\\_hall.html](http://www.stanfordalumni.org/erc/reunions/asian_alumni_hall.html)

## Executive Profile

Diosdado "Dado" Banatao

**Born:** May 23, 1946

Dado is the Managing Partner of Tallwood Venture Capital, a venture capital firm focusing on semiconductors and semiconductor related technologies. Prior to that, he was a venture partner at the Mayfield Fund. Dado serves as Chairman for SiRF Technology and current Tallwood portfolio companies. He also served as Chairman and led investments in the Marvell Technology Group; Acclaim Communications, acquired by Level One; Newport Communications, acquired by Broadcom; Cyras Systems, acquired by Ciena; and Stream Machine, acquired by Cirrus Logic.\*



### Education:

- B.S. in Electrical Engineering (cum laude), Mapua Institute of Technology
- M.S. in Electrical Engineering and Computer Science, Stanford University

### Early work experience:

- Philippine Airlines
- Boeing
- National Semiconductor
- Seeq Technologies
- Intersil
- Commodore International

### Companies co-founded:

- Mostron
- Chips & Technologies
- S3

\* Source: <http://www.tallwoodvc.com/team/bios/dado.html>

school, my counselor at the Ateneo, after looking at my grades in math and science, suggested that I pursue engineering. I never thought of that—at that time, I was young and I just wanted to have fun. My father was a farmer and my mother was a simple housekeeper—there was no sophistication in terms of careers.

If there is one thing that I must credit the Ateneo for—first and foremost—is that they teach their students how to think. I totally believe that they challenged us and emphasized the thinking process. Lo and behold, when I went to Stanford, it was the same kind of institution as well! Stanford emphasized that they will train their students to think as part of the process—I was lucky that my high school and graduate school were thinking along the same lines! Basic training was important—the foundation of how to think

is critical. I can say this now looking back—discipline is good but teaching how to think is unique.

I was successful as an engineer and engineering is a difficult profession. I was lucky because I loved doing it—the math, science and the physics. I believe that when you like to do things, you usually are good at it. You have to be trained properly and be good at it. I think I'm a pretty decent engineer. I'm not the best engineer, but I can hold my own against others. You have to work hard. Scientist/inventor Thomas Edison once said, “Genius is one percent inspiration and ninety-nine percent perspiration.” I believe in that—“sweat equity” has to be put in. It’s the love of doing something that gets you over the hump in order to be successful. You really have to love something to wake up everyday and to have that passion for what you are doing.

You have to take risks—even if you have the proper education and are willing to put in time. Occasionally, you get lucky but I believe that you make your own luck. If you don’t do anything—you will never get lucky. You have to get lucky by working at it.

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You have to **take risks**—even if you have the proper education and are willing to put in time. I believe that you **make your own luck.**

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**SGV Review:** You are credited for co-founding Mostron, Chips & Technologies and S3 – what was life like for you back in those days?

**Dado Banatao:** In a start-up it is really difficult. Long hours are a well-known part of the equation. You really have to put in the time. Being inventive is not about being smart or being a genius but putting in the time—a lot of time. I thought that sleeping was a pain in the butt and that sleeping was overrated. If my body could sustain me by not sleeping—the better. I also drove my people the same way.

A start-up takes a lot of effort, a lot of smarts and time. I’ve described working at a start-up as scary, hard, and suicidal. Suicidal because there are a lot of failures—you know the chances to fail are high but you still do

**A start-up takes a lot of effort, a lot of smarts and time. I've described working at a start-up as scary, hard, and suicidal.**

to get a customer. Other times, nothing seems to work or you can't put together a business deal. That's why the passion, liking what you do, is so important. It's what gets you through the rough spots and it's what makes you wake up early. You really have to love what you are doing.

I used to be up for 21 hours continuously—I would have a hard time sleeping as I would think about a lot of issues when going to bed. Nowadays, I get a bit more sleep—now I average 5 hours a night.

You do a start-up because you love it. A lot of entrepreneurs want to do a start-up because they want to make a lot of money. As a venture capitalist today, that's a sign for me not to invest, because there is a 99% probability of failure in that type of a company.

As venture capitalists, we still work with our companies and we still act and feel like entrepreneurs. Our primary goal is to build companies—we invest not to make money but to build companies. If you can successfully build a company—the financial part will be taken care of.

it. One out of 10 companies succeeds—the other 9, you don't hear of. That's why there is risk taking.

You are always on the edge, there are highs and lows. Sometimes, something works or you were able

**As venture capitalists, our primary goal is to build companies—we invest not to make money but to build companies.**

### Life as a venture capitalist

**SGV Review:** What companies of yours are you most proud off?

**Dado Banatao:** From the perspective of a venture capitalist, the most financially rewarding was Marvell<sup>6</sup> (NASDAQ: MRVL), which today has

<sup>6</sup> The Marvell Technology Group designs, develops, and markets integrated circuits for communications-related markets, providing the interface between real world, analog signals, and the digital information used in computing and communications systems. Marvell listed on the Nasdaq at US\$15 a share—and closed over 300% higher on the first day of trading.

a market capitalization of over US\$7 billion.<sup>7</sup> Cyras Systems (acquired by Ciena) and Newport Communications (acquired by Broadcom) are successes as well.

In terms of companies with an impact on the industry, C&T and S3 were the most rewarding because these revolutionized the PC industry. They were also very financially rewarding. Today, another company I am involved with as Chairman of the Board is SiRF<sup>8</sup> which I feel has an impact equivalent to C&T's. We are bringing GPS<sup>9</sup> technology to the consumer market—for cell phones, cars, and other consumer products. We are building an industry. Interestingly also, early on, majority shareholders of SiRF were Filipinos such as the Ayala Group and First Philippine Holdings.

**SGV Review:** What has been your biggest mistake?

**Dado Banatao:** My biggest mistake was my first start-up Mostron, which focused on PC motherboards. We did not focus too much on the money part, and we literally ran out of money after the first year. However, that failure led to the creation of C&T where we created the very first chip set for the PC. Without Mostron there would have been no C&T.

We had funding at C&T as we received US\$1 million from an angel investor. You have to remember, in 1984, there was no PC industry to speak of. Our marketing guy came from Intel and they had no PCs as well. Venture capitalists did not believe there was going to be a PC market, and we even had to go to Japan to raise an additional US\$ 3 million (the guy we spoke to thought our products were cool). After our success with C&T, we had no problem at all raising funding for S3.

**SGV Review:** As a VC, what are the top three things you look for in the companies that you invest in?

**Dado Banatao:** Our number one focus is on the technology. We ask “how good is the technology?”, “how differentiated is it?” and “how tough

<sup>7</sup> As of 10/1/2004, Marvell had a market capitalization of US\$ 7.5 billion (source: Bloomberg). Dado was a former co-chairman of Marvell.

<sup>8</sup> SiRF Technology Holdings, Inc., headquartered in San Jose, California, is a supplier of Global Position System (GPS) semiconductor and software solutions designed to provide location awareness capabilities in high-volume mobile consumer and commercial systems. Ernst & Young LLP audits SiRF.

<sup>9</sup> Global positioning system (GPS) technology allows an object to be located or tracked anywhere in the world.

is it to do?" We don't look at easy-to-do technologies. Our second question is whether the product idea is addressing a large, growing market. If there are already other competitors present in a big market—all the more the technology must be superior. We tend to shy away from developing markets—it is hard waiting for the market to happen. Third, we look if the company has the right people to execute that technology. From there, the rest should follow.

Other VCs usually start with the third area, the people, and less on the hard-to-do technologies. With us, we don't care how good the people are, whether they have been successful in the past—they must be tied with a unique technology with a large growing market.

**SGV Review:** Do you miss those days when you were more involved in design and development?

**Dado Banatao:** Well, I am still around ideas and technology. I take product ideas and still scrutinize them and the companies. It took me a few years to get over not being that involved in design. I loved to design—it was like a drug for me and it was hard to get out of it. I eventually had to wean myself off it but I am still surrounded by technology anyway.

### Improving the Philippines

**SGV Review:** In the Philippines, what would be for you a good place to start in improving our country's competitiveness in the field of information and communication technology (ICT)?

**Dado Banatao:** Well, for starters, it's not just the ICT field that needs improvement. There is a need for a massive upheaval in the way we train our kids and the way we train our experts. There are a few areas where we are competitive in such as healthcare services (nurses and doctors). If you move to the technology field—there is a need to change the way we train our kids in the sciences. We have to

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There is a need for a massive upheaval in the way we train our kids and the way we train our experts.

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start at the beginning—from grade school, to high school, and so forth. We must train our people better. Even back then, I had to retrain myself as well when I moved abroad.

**SGV Review:** You once said in an interview “the Philippines – the government and private sector – has the money, but not enough entrepreneurs are willing to fund risky new ventures in technology.”<sup>10</sup> What do you think are the reasons behind that?

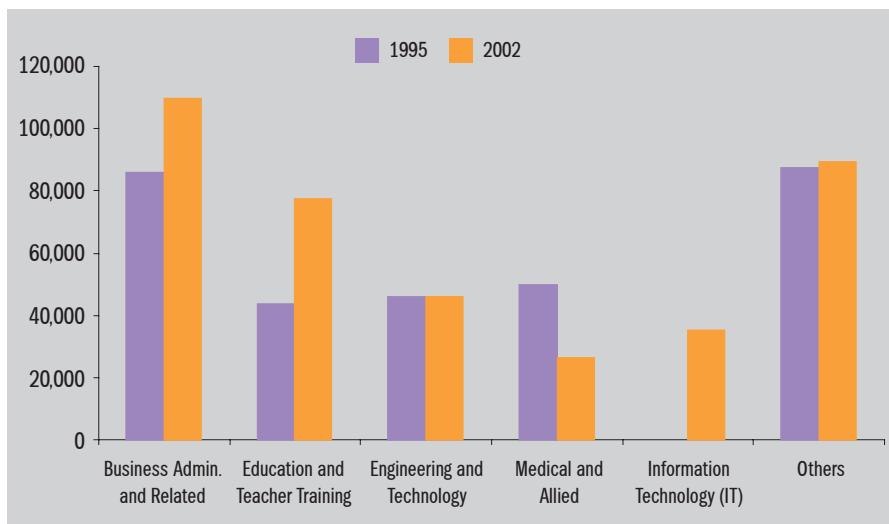
**Dado Banatao:** First, let me clarify this statement as this is tied to the previous question. The Philippines doesn’t have enough technical experts and entrepreneurs come from experts. Usually, people think of entrepreneurs as people who think of something interesting and go out to do it. That’s really not our definition in the Valley. You have to have some level of technical expertise—something that you can do very well and that you can use to compete with. The engineers are the ones that can create products, and they can create products with the right technical training. The Philippines needs more engineers and more technical experts.

There is very little venture capital in the Philippines to speak of. Many investors are risk averse and have a very short-term view when it comes to investing. They like to see returns right away—in technology it is not that easy. A new culture needs to be developed—one that emphasizes risk taking in technology for the long term.

**SGV Review:** In the Philippines, the most popular and growing discipline is business administration and related courses but not engineering which has stayed relatively flat (see Exhibit 2)—what do you think are the long-term effects of this?

**Dado Banatao:** This is a worrisome trend. If the country cannot create competitive products—the Philippines will always buy from the outside. Very simple things like PCs are sourced from abroad. No single local company in the Philippines, to my knowledge, can even design and produce a PC while being competitive. It pains my heart that endlessly the Philip-

<sup>10</sup> Source: <http://www.newsflash.org/2004/02/si/si001861.htm>

**Exhibit 2****Historical Graduates by Discipline Group, 1995 and 2002**

Source: Commission on Higher Education

pines still has to buy PCs from Taiwan. I don't understand it. If we are really good in engineering—we should be able to do that on our own.

**SGV Review:** How do we get more people in the Philippines interested in science and math?

**Dado Banatao:** We need to reward them properly. The reward system in the Philippines is screwed up. A few years ago, I spoke at a CEO conference at the AIM and I mentioned that managers are rewarded inordinately high versus everyone else in the organization. Engineers are not glorified in the Philippines. I said that if you want things to improve, if you want to move on to the next phase of development, you guys should go back to your companies and begin rewarding engineers better than any of your managers. Bright minds will go to other

If you want to move on to the next phase of development, you guys should go back to your companies and begin rewarding engineers better than any of your managers. Bright minds will go to other disciplines that are being rewarded.

disciplines that are being rewarded. That's why we have all these Filipinos going to the US for their MBAs—managers in the Philippines make the money. Engineers don't get the best rewards but, ironically, they are the ones who create the products.

After graduating from Mapua, I was offered a job at Meralco as an engineer. I turned it down because I thought, "I worked hard to become an engineer and this is all I will get?" My friends couldn't believe that I was turning down the offer as this was one of the top jobs as an engineer. As a pilot trainee though at PAL, I got a better salary—way higher than at Meralco. Frankly that's why I did not practice engineering in the Philippines.

The government, as well as industry, must uniformly promote technology. There has been talk about building a Silicon Valley in the Philippines—the desire is there but that has to be matched with reality. Bright minds will not go into technology if there is no reward, unless they love it. People who go into technology and succeed do so because they love it, first and foremost. They don't necessarily think of the eventual financial reward, but they do have to be rewarded both in terms of responsibility and financially. That's what I would like to see.

**SGV Review:** You've been known to have set up several charitable foundations—what is your number one cause?

**Dado Banatao:** My focus is on funding science and technology education. It's all about education—especially engineering. For example, for the 3<sup>rd</sup> year, I have been working with the University of the Philippines (UP) where I take a professor from UP and have that professor spend time doing research at the University of California at Berkeley. There, they begin to understand how another public institution can do engineering research and get exposed to the latest trends. Hopefully, what they learned will be brought back to the Philippines for the training of future

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I want the best and the brightest to go into the sciences and engineering. That is my number one objective for my foundations.

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experts. This is a minor, minuscule effort but regardless of how small—it can make an impact. I take a long-term view of this and I am funding this for the long term – there are no shortcuts. I want the best and the brightest to go into the sciences and engineering. That is my number one objective for my foundations. I truly care about the development of the country, and hopefully others can help in this effort. ■

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