

INDUSTRIAL BACKGROUND AND ENTREPRENEURIAL PERFORMANCE

by

JOHN J. CARROLL, S.J.*

In an article published early last year I reported some preliminary findings from my study of social origins and career histories of Filipino manufacturing entrepreneurs.¹ Briefly, the most significant findings came down to the facts that these entrepreneurs had been raised in Manila or in places having ready communication with Manila, that they are remarkably well educated, that they came from all levels of society and included the sons of tenant farmers and calesa drivers as well as sons of large businessowners of the previous generation, and that they tended to have family and personal backgrounds in commerce or in manufacturing. It was pointed out also that conditions during the period of import and exchange controls had attracted into manufacturing a considerable number of well-established merchants; and that these had supplanted the craftsmen—men such as Toribio Teodoro and Gonzalo Puyat, who had founded small shops with little capital and then gradually built them up—who were prominent among the earlier generation of entrepreneurs. I should mention also that my study was confined to Filipinos who had founded manufacturing enterprises which in late 1960 had 100 or more employees; that I for either practical or theoretical reasons excluded a few manufacturing industries such as sugar milling and newspaper publishing from my study; and that the 92 entrepreneurs who were included in it comprise almost the entire universe of those qualified for inclusion. In the present paper I propose to examine the relationship, as far as it can be seen in my data, between the previous industry of a man and his actual performance as an entrepreneur.

But first, by way of background, let me present some data not included in my article last year, on the industrial origins

*Dept. of Sociology and Anthropology, Ateneo de Manila University.

¹"Filipino Entrepreneurship in Manufacturing," *Philippine Studies*, X, 1 (Jan., 1962), pp. 100-26.

**INDUSTRIAL BACKGROUND
AND ENTREPRENEURIAL PERFORMANCE**

of the original capital with which these 92 enterprises were established (Table 1). Commerce, as would be expected from

**TABLE I
AMOUNT OF ORIGINAL PAID-UP CAPITAL
BY INDUSTRIAL ORIGINS OF CAPITAL
(Percentages)**

Enterprises Founded in Whole or Part on:	Amount of Original Capital				Total (92)
	Under P100,000 (32)	P100,000- P499,999 (25)	P500,000- and over (27)	No Answer (8)	
Profit from:					
Commerce	41	60	85	88	63
Manufacturing	34	40	26	38	34
Agriculture	6	12	15	13	11
Other business	9	24	34	—	20
Salary and Professional Inheritance					
Salary and Professional	47	8	—	25	21
Inheritance	—	12	4	—	4
Total	137	156	164	164	153

what has been said, was the most frequent source of capital overall; and the larger the original capital, the more likely was it to have been composed, at least in part, of trading profits. Manufacturing profits were likewise a significant source of entrepreneurial capital at all levels, but are mentioned less frequently among firms which began with P500,000 of capital or more, than among those which began with less. Despite the large share of the national income which is derived from agriculture and the—at least apparent—concentration of wealth therein, agriculture provided entrepreneurial capital for only 11% of the enterprises studied. However, agriculture and “other business” (logging, transportation etc.) are mentioned more frequently among enterprises which “began big” than among those which began with less than P100,000. It is perhaps also noteworthy, although hardly surprising, that the larger the original enterprise the more likely was it that more than one industrial source of capital be mentioned; this can be seen in the larger column totals for the enterprises with more capital. Salary and professional income provided entrepreneurial capital only for enterprise which began quite small; this, again, is as we should expect.

The "Trader's Mentality"

Writers on industrialization not infrequently make mention of the "trader's mentality", by which they mean an alleged unwillingness of merchants to tie up their capital in long-term and fixed investments, or to become involved with large numbers of employees. The merchant is said to desire liquidity of capital and flexibility of operation above all; and these are lost once he has saddled himself with a large and expensive factory—on which he must pay taxes and perhaps interest, whether business be good or bad—and a large and skilled labor force. For this reason the merchant class is said not to provide good entrepreneurial timber for industry.

On the face of it, this hypothesis appears to be refuted by the Philippine experience. Nevertheless, it can still be asked whether the typical Filipino merchant-entrepreneur of the 1950's would not be found in the light processing, assembling, and packaging industries which require relatively little fixed capital and most closely resemble simple importing. Actually, the reality is considerably more complex than this, and the hypothesis of the "trader's mentality" finds only indirect and relatively minor support in the data. In the first place, identification of packaging, assembling and processing industries is difficult, except in a few cases, without detailed analysis of the production processes employed in each plant. Secondly, there were often quite obvious connections which had little to do with willingness to tie up capital, between the entrepreneur's former business and the type of manufacturing enterprise which he established—as when a merchant began to manufacture a product which he formerly imported and the market for which he understood, or a logging concessionaire turned to plywood manufacture.

In conformity with the above hypothesis, however, are the results of a comparison between the present levels of paid-up capital and the level of fixed investment—net book value of property, plant and equipment—of the enterprises established by former merchants, manufacturers and "others". In Table 2 it

**INDUSTRIAL BACKGROUND
AND ENTREPRENEURIAL PERFORMANCE**

TABLE 2

**ENTREPRENEURS OF DIFFERENT INDUSTRIAL
BACKGROUNDS, BY PAID—UP CAPITAL OF THEIR
ENTERPRISES AND BY NET BOOK VALUE OF PROPERTY**

Amount in P1,000's:	Industry Immediately Before Entrepreneurship					
	Commerce (37)		Manufacturing (25)		Other (21)	
	Capital	Net Book Value	Capital	Net Book Value	Capital	Net Book Value
2,000 & over	33	21	23	21	33	43
1,000-1,999	14	26	24	26	33	24
500-999	29	15	14	26	13	8
Under 500	24	38	39	27	21	25
Total	100	100	100	100	100	100

Note: Nine cases in which capital and/or net book value are unknown have been excluded. Entrepreneurs who were in more than one industry immediately prior to entrepreneurship have been distributed proportionately among the industries in which they were engaged.

can be seen that the enterprises established by merchants tended to have higher paid-up capital relative to net book value than other enterprises had. For example, 33% of the enterprises founded by merchants and the same percentage of those founded by the entrepreneurs from "others" industries such as transportation and agriculture, had paid-up capital of P2,000,000 or more; only 23% of those established by entrepreneurs from manufacturing fell in this category. Yet in terms of net book value, the former merchants and the former manufacturers each had 21% in the P2,000,000 bracket, while those from "other" industries had 43%. Conversely, 24% of the enterprises founded by merchants had less than P500,000 of paid-up capital as compared with 39% of those founded by the manufacturers; but in terms of net book value the relationship is almost reversed — 38% of those founded by merchants and only

27% of those founded by manufacturers are in the lowest category. Small but balanced proportions of the enterprises founded by entrepreneurs from "other" industries are in the two bottom categories—21% for capital and 25% for net book value.

The pattern of differences "makes sense" in terms of the hypothesis mentioned above. It could also be explained in terms of greater financial conservatism on the part of former merchants, a disinclination to use borrowed capital; but this seems unlikely *a priori*, and a check for the data indicates that former merchants were at least as inclined as others to use borrowed capital in establishing their enterprises. It should be noted, however, that the totals in the separate columns of Table 2 are relatively small, as are most of the percentage-differences which form the pattern; the differences do not approach an acceptable level of statistical significance. Reference back to the raw data indicates that the differences can be largely explained, on the one hand by a few former importers who are running light processing operations; and on the other, by a few entrepreneurs who owned substantial business in commercial agriculture, mining, logging, transportation or construction, and who have gone into industries requiring relatively heavy fixed investment such as cement, plywood, or chemicals.

Technological Level and Technological Change

That theories of the "trader's mentality" do not tell the whole story is indicated by replies to some other question which are intended to probe the entrepreneur's commitment to "true" manufacturing as opposed to disguised importing. The question had to do with the number of trained engineers (or other graduate technicians, such as chemists or pharmacists) employed in the enterprise, with whether or not the enterprise had men devoted to systematic research with a view to improving the product or production methods, with actual technological changes introduced, and with plans for either technological changes or expansion. The theory was that entrepreneurs who are not deeply committed to manufacturing, and are engaged

INDUSTRIAL BACKGROUND AND ENTREPRENEURIAL PERFORMANCE

in light processing, would tend to have relatively few engineers in proportion to their total labor force, would have no research, would not have introduced technological changes and would not be planning any for the future. It was recognized that no precise definition of technological change could be given which would be applicable over the wide range of industries studied, and that the answers to the question regarding change might therefore reveal attitudes directly rather than actual performance; but it was hoped that in the answers to the questions taken together some patterns may appear.

Patterns did, in fact, appear; but not expected ones. It was found, first of all, that there were rather striking differences between the pre-1950 and the 1950-1960 enterprises in their answers to all the questions touching on this matter, and in general the later enterprises appear as much more progressive technologically than the earlier ones. They have a higher proportion of engineers in their employ, tend to have more systematic research, and are more likely to be planning technological research and expansion. Only on the question of actual performance in having introduced technological change do the earlier enterprises appear more progressive; and here, of course, time itself would be an important factor controlling opportunities for change. Moreover, the differences do not appear to be simply gross overall quantities reflecting the different industrial backgrounds of the entrepreneurs. The same pattern of differences remains, item for item, when controls are introduced for the entrepreneur's former industry, and the early enterprises founded by merchants, manufacturers, and "others", are compared with later enterprises whose entrepreneurs had similar industrial origins. A summary measure of the difference between the earlier and later enterprises is had in fact that we have average percentage of affirmative replies on all five items from the later enterprises is 60%, while the earlier enterprises average only 44% affirmative (Table 3).

TABLE 3

ENTERPRISES FOUNDED BY ENTREPRENEURS OF
DIFFERENT TIME-PERIODS AND INDUSTRIAL
BACKGROUNDS, BY INDICATORS OF
TECHNOLOGICAL LEVEL IN 1961
(Percentages*)

	Industry Before Entrepreneurship			
	Commerce	Manufacturing	Other	Total
Enterprises founded before 1950	(13) %	(17) %	(9) %	(39) %
One or more graduate technicians per 40 employees	24	18	53	28
Systematic research	44	22	47	35
Technological change introduced	66	76	84	75
Technological change planned	36	27	23	29
Technological change or expansion planned	60	31	70	53
Average	46	35	55	44
Enterprises founded 1950-1960	(26) %	(12) %	(15) %	(53) %
One or more graduate technicians per 40 employees	59	55	73	62
Systematic research	51	37	52	47
Technological change introduced	56	40	52	51
Technological change planned	72	48	71	64
Technological or expansion planned	83	66	86	77
Average	64	49	67	60

*Number in parentheses at tops of columns are the total entrepreneurs in the various categories. Percentages are based on the number of entrepreneurs for whose enterprises the necessary information is available; for the various questions this ranged from 77% to 100% of all entrepreneurs and averaged over 90%. Entrepreneurs who were in more than one industry immediately prior to entrepreneurship have been distributed proportionately among the industries in which they were engaged.

INDUSTRIAL BACKGROUND AND ENTREPRENEURIAL PERFORMANCE

Let us now compare the enterprises founded by former merchants with those established by entrepreneurs from manufacturing and "other" industries. To my surprise, it was the enterprises established by entrepreneurs from manufacturing rather than those founded by merchants which turned out to be least progressive by most of the criteria employed—and, among the 1950-1960 group, by every criterion. In general, those founded by entrepreneurs from "other" industries such as agriculture, logging and transportation turned out to be the most progressive, while those founded by merchants fell in between. The differences hardly approach an acceptable level of statistical significance, but there does appear to be a pattern here which demands explanation.

My present explanation is admittedly *ad hoc*, although it has been confirmed in an impressionistic way by a recheck of the raw data. It has three elements. In the first place, it appears that a disproportionately large number of former manufacturers, craftsmen and other have entered craft-like industries which are relatively stable in their technology and have relatively little need for engineers or research. Shoemaking and printing are probably the best examples of this: of the eleven enterprises in these industries included in the study, eight were founded by entrepreneurs from manufacturing, none reported any research, and only one reported any engineer working for the enterprise. It should be remembered that relatively few cases of this type could produce the pattern found in the table, just as a few entrepreneurs from commerce engaged in packaging and processing could produce the pattern found in Table 2.

Secondly, there seems to have been considerable pressure on those who did begin with light processing, including many former merchants, for "backward integration" into more basic production; they were being forced, in other words, to make more of their own components. A case was noted above of the use of large profits from processing to finance a much more basic enterprise, and such cases appear to have been very common during the period of controls. The pressure was from two directions: the realization that controls would not last forever

and the consequent desire to build an enterprise which could survive decontrol; and the more immediate fear that a competitor would begin to make one's component locally, importing the "raw materials" in a somewhat less finished form, and thus divert to himself the dollar allocation previously provided for the semi-finished goods, and the built-in profit on exchange. Some attempted to retain their dollar allocation by loudly insisting that the raw materials could not be processed locally, and when someone began to do so by attempting to convince the Central Bank that the processing was of inferior quality and unsuited to their own very special needs; but a number were forced to integrate. On the original hypothesis, that former merchants were the most likely to go into processing and packaging, this would explain why former merchants have been the most active since 1950 both in introducing and in planning technological change. The questions, in that case, would have measured not personal commitment to manufacturing but systematic in economic pressure for technological improvement.

Finally, the pattern found among entrepreneurs from other industries appears to be attributable to the same few wealthy businessmen from agriculture, logging, etc., noted above, who have gone into plywood, chemical and cement manufacture; they began their enterprises at relatively sophisticated technological levels, and their main drive is for expansion rather than technological change.

Conclusion

In company with many another hypothesis in the social sciences, therefore, the hypothesis of the "trader's mentality" appears to have some truth in it but not to express the whole truth. Merchants have in fact invested in manufacturing and have provided much of the entrepreneurship for the recent expansion of the manufacturing sector. They appear to have

INDUSTRIAL BACKGROUND AND ENTREPRENEURIAL PERFORMANCE

been concentrated to a certain extent in branches of manufacturing which require low fixed investment; nevertheless, they have been relatively progressive, particularly in planning and introducing technological change. Craftsmen and others with manufacturing backgrounds are fewer in number than the merchants, particularly among the more recent entrepreneurs; they began with less capital and appear to have been less progressive in their technology, but they have been more willing than the merchants to tie up their capital in large fixed investments. Landlords in agriculture and businessmen in transportation and logging have provided little entrepreneurship in manufacturing; but what capital they have provided appears to have gone into capital-intensive and technologically sophisticated branches of industry.