

Small and Medium Size Private Business Enterprises in the Economic Structure of Honduras

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Abstract: *The purpose of this article was to expose the status quo of the small and medium size private enterprises in Honduras as they operate within the national economy of the country and to make proposals for the creation of larger and stronger small and medium size business through mergers in order for them to operate under economies of scale. Although small and medium size enterprises receive government and private assistance in the areas of production, marketing, human resources, and finance, due to their limited organizational size they operate under diseconomies of scale and many of them fail every year.*

Key Words: *Microempresas, pequeñas empresas, medianas empresas , pymes, mergers, industrialization, economic development, productivity, production, factors of production, organization development, organization size, organizational structure, organizational levels, departmentalization, delegation, span of control, chain and line of command, managerial education, mergers.*

1. Introduction

Honduras has an agricultural economy and exports most of the agricultural products to developed nations. Bananas, coffee, sugar, and palm oil are the major agricultural products for exportation. The largest percentage of the total labor force is employed in agriculture and the exportation of agricultural products (Soluri, 2005). This nation also

produces high quality timber which is both exported and used domestically for artifacts, furniture, and construction. Industrial production is limited and employs a small percentage of the labor force. Service-producing organizations are also limited because of the low demand for services due to the low income of the majority of the population.

2. The Role of the Government In the Economy and Business

The Constitution of the Republic of Honduras allows the formation and existence of private enterprises but also permits the government to strongly interfere into the private sector to protect the rights of the citizens in order to assure efficient production, social justice in the distribution of wealth, and the harmonious coexistence in the factors of production (Kerssen, 2013). On the other hand, the private sector consists of individuals and organizations that contribute all the factors of production for the creation and distributions of goods and services (Castro-Valle, 2013)). In other words, Honduras has a mixed economy in which the government overshadows the private sector.

3. The Private Sector

Most of private enterprises in Honduras are small organizations owned and operated by one person and his/her family members. The large business organizations are controlled by the government (Schneider, 2014). The absence of economic development and industrialization in the past did not allow the formation of large private enterprises in sufficient numbers and the development of the existing small enterprises into medium and eventually large size firms. Lack of leadership, economic geography, and lack of industrial development have contributed to the underdevelopment of private business organizations (Sanchez-Sanchez, 2009).

4. Nature and Characteristics of Small and Medium Size Enterprises (Pymes)

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Small business enterprises in Honduras are classified as *microempresas* (microbusiness) that have one to four employees, and *pequeñas empresas* (small businesses) with five to 10 employees. *Medianas empresas* (medium size businesses) have 11 to 50 employees. These three classifications are known as *Pequeñas y Medianas Empresas* (Small and Medium Size Businesses) or *pymes*. In this article, the term **pymes** will be used. Micro businesses and small businesses meet their costs of operation in most cases—including the salaries of the owners-- but do not provide any business profits, whereas medium size businesses make profits small portions of which are turned into investments most of the time.

There are 412,000 pymes that employ 1,851,091 employees. The percentage of those pymes, according to the function they perform, are 14.6% agricultural; 6.4% industrial/manufacturing; 68% wholesale and retail; and 11% service (Banco Interamericano de Desarrollo, 2013). Traditionally, the pymes have been fragile organizations. Even before the 2009 economic crisis, they were not adequately prepared for survival and confronted the possibility of failing in most cases (Funes & Zelaya, 2007). The economic crisis that followed caused the failure of several micro and small business. Medium size businesses were less negatively affected.

The pymes operate with the funds generated by the owners and their relatives. Credit assistance has been declined to micro businesses at the rate of 51%; to small business at the rate of 35%; and to medium size business at the rate of 29%. Eighty five percent of the micro businesses, 76% of the small, and 61% of the medium size ones do not have regular and repetitive customers. Three percent of the micro business, four percent of the small ones, and 17% of the medium size businesses have been exporting their products to other nations within and outside Central America. The average life of the microbusinesses is 11 years, that of small businesses is 13 years and that of the medium size is 16 years. Micro businesses have the corporate form by 7%, small business by 21%, and medium size by 41% (Banco Centroamericano de Integración Económica, 2010).

In reference to ownership and control of the pymes, 75% of the owners manage and control the micro businesses and have 11 years of education; 16% manage and control the small businesses and have 12 years of education; and 8% manage and control the medium size businesses and have 14 years of education. In all three classifications above, most of the owners are between 36 to 50 years of age (Centro De Desarrollo Empresarial, 2014).

5. Assistance Provided to Pymes

In 2000 the National Commission for Pymes (CONAMIPYME) and in 2006 the Agency of Pymes were established. Both are under the jurisdiction of the Secretary of Industry and Commerce. In 2008 the Law of Financing and Developing Competitiveness for Pymes was enacted. Today, there are government and private agencies in the country that provide all types of assistance, as well as international organizations that assist the pymes in Honduras. Ten percent of the micro business, 14% of the small ones, and 20% of the medium size business has received assistance.

One of the most important organizations that provides assistance to the industrial pymes is the Asociación Nacional de Industriales de Honduras (the National Association of Honduran Industrialists) commonly known as ANDI. It provides strategic assistance in production, marketing, human resources, strategy and, through government assistance, in the finance area. Such assistance is in the form of strategic planning, managing, financing, starting a new business, improving entrepreneurial performance and competence, human resources, production, and marketing (Teilemans, C, Regional Executive Director, Asociación Nacional de Industriales de Honduras. Personal interview in San Pedro Sula, Honduras, November 27, 2014).

Another important organization is the Instituto Nacional De Formación Profesional (National Institute of Professional Development) known as INFOP that trains personnel in agriculture, industry, retail and wholesale, and services in the areas of management, marketing, human resources, and technology. The Centro De Desarrollo Empresarial (Center of

Entrepreneurial Development), also known as CDE, of the Sula Valley Region which is assisted by the dynamic guidance and consulting services of the Universidad Tecnológica de Honduras (Technological University of Honduras), one of the finest institutions of higher learning in Honduras and the entire area of Central America. The purpose of CDE is to improve the competitive position of the pymes through the cooperation of the private business organizations, academics, and the government resulting to the economic and social growth and productivity of the pymes in the Sula Valley Region.

6. Limitations and Problems that confront the Pymes

There are several problems and limitations that have been perennially identified with the pymes. These limitations are: Lack of steady and continuous provision of guidance and assistance in strategy and in the functional areas of production and operation; marketing and sales; human resources; and finance and accounting (Murillo, R, Director, Centro de Desarrollo Empresarial. Personal interview in San Pedro Sula, Honduras, November 28, 2014).

One important limitation that has been continuously overlooked is the inability of pymes to internally grow and develop themselves into larger organizations. The pymes cannot reach organizational development with such small sizes and whatever assistance they receive reaches the law of diminishing returns rapidly, which means that improvement is in limited form and cannot be expanded because it is encapsulated in the restricted size of such enterprises. In other words, assistance can only maintain the status quo of the pymes (Banegas, D., Director & Solorzano, J., Assistant Director, Instituto Nacional de Formación Profesional. Personal interviews in San Pedro Sula, Honduras on November 29, 2014).

One can easily detect in the existing condition of the pymes the importance of their size from the data provided in a previous section above: The medium size pymes have fewer credit declines; have profits

that turn to investments; are affected less by economic downturns; have a higher percentage of repetitive and regular customers; have a much higher rate of exporting their goods and services; have a much higher percentage of corporations; the educational level of their owners and managers is higher; have the longest lifespan, and more government and private assistance is provided to them than to micro and small pymes.

Pymes do not have adequate factors of production to attain growth in their organizational size on a short and intermediate time basis. No noticeable internal growth has taken place during the last thirty years. For this reason, the author of this work proposed the selective merging of pymes in order to attain larger factors of production leading to the increase of productivity, production, and profits (Enamorado, E., MBA Director, Universidad Technological de Honduras. Personal interview in San Pedro Sula, Honduras, November 28, 2014). Pymes in Honduras have been characterized by stagnation and excessively slow growth at the time rapid developments are taking place around the world. A large number of pymes are moribund today and fail at high rates (Banco Interamericano De Desarrollo, 2013).

7. Mergers of Pymes

Under the competent and expert auspices of persons (like the ones interviewed personally by the author) involved in the assistance of pymes and supported by their respective organizations, a number of such enterprises can be selected for merging purposes in order to create larger organizational sizes leading to the acquisition of bigger factors of production and economies of scale. Large organizations tend to have more specialization, departmentalization, centralization, and rules and regulations that do small organizations (Robins & Coulter, 2005).

The creation of larger organizational sizes and structures will create specialized organizational levels and departments within which the respective managers and employees will form the span of control; chain and unity of command; and delegation. The function units of production, marketing and sales, finance, and human resources will distinctly emerge

and the tasks of planning, organizing, staffing, directing and controlling will become stronger and formalized (Theodore, 2014).

The leadership and management of the pre-merged selected pymes can attain the same roles in the merged organizations on a rotational basis. The “control egos” of the pre-merger owners must be eliminated for the benefit of having better organizations through mergers. The goal is not to eliminate pymes in Honduras but to make them larger, stronger, more productive, more competitive, and more profitable than the existing ones and to prepare them to operate under economies of scale under selective mergers.

The government and the private sector need to provide as much assistance as possible in all areas in order for the mergers to succeed and be followed and imitated on a continuous basis. The number of merging pymes and the size of the new ones will have to be determined by the experts undertaking such challenging project. If the pymes do not acquired large sizes, they and the national economy will become less and less competitive. In the European Union, for example, continuous pressure has been exerted by the Central Government upon the traditional macro-economies of the European South (Cyprus, Greece, Italy, Spain, and Portugal) in order for them to create pymes with strong factors of production and economies of scale.

8. Conclusions and Recommendations

Small and medium size private business organizations in Honduras have very small organization sizes, a condition that impedes them from having sufficient factors of production and economies of scale. The author of this work proposed that by creating mergers selectively, small and medium size organizations can attain large organizational sizes and, therefore, acquire larger factors of production and attain economies of scale.

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