

# Chapter 16

## The Economics Sustainability in Medium and Small Companies in Colombia (SMEs)

**Fabio Fernando Moscoso Duran**  
*EAN University, Colombia*

**Tomás Mancha-Navarro**  
*Universidad de Alcalá de Henares, Spain*

### ABSTRACT

*The purpose of this chapter is to explain the importance of SMEs for Colombian economic growth and how business sustainability can generate value, innovation, and respect for the environment. The chapter analyzes how SMEs could create economic sustainability based on the study carried out by Avellaneda et al. for the Colombian case. It is structured with the main objective of explaining the most important barriers to sustainable practices of SMEs in developing countries. Some theoretical elements that allow SMEs to create sustainable value in companies and the main stylized fact of SMEs at world level are introduced. Finally, the chapter analyzes how to integrate sustainability into business practices based on the study carried out by the EAN University in a sample of SMEs between 2000 and 2009.*

### INTRODUCTION

The purpose of this chapter is to explain the importance of SMEs for Colombian economic growth and how through business sustainability can generate value, innovate and respect the environment.

The chapter analyzes how SMEs could create economic sustainability based on the study carried out by Avellaneda, Nieto, Ortiz & Camargo (2012) for the Colombian case. It is structured with the main objective of explaining the most important barriers to sustainable practices of SMEs in developing countries. Previously, it is introduced some theoretical elements that allow SMEs the creation of sustainable value in companies and the main stylized fact of SMEs at world level. Finally, the document analyzes how to integrate sustainability into business practices based on the study carried out by the EAN University, in a sample of SMEs, successful and sustainable between 2000 and 2009.

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## CREATING ECONOMIC SUSTAINABILITY IN SMEs

“Although many people around the world have lived through decades of benefits unemployment, poverty and inequality remain the major obstacles to sustainable development and global stability”. (International Labour Organization ILO, 2015, pp. 2-3). In this sense, large multinational companies have created sophisticated production systems at the expense of the quality and remuneration of work. At present, a second social problem arises from production at scale and low salaries: income inequality. This phenomenon is more tangible in countries where products of the primary sector are exploited intensely.

According to the ILO report (2014), more and better jobs are needed in most countries to maintain social cohesion, achieve general welfare and reduce poverty. And these must be the jobs of the future: productive jobs of good quality, which also conserve the environment and generate innovation and development within the organizations. In fact, corporate sustainability depends on the future development of nations and peoples as ILO (2014) points out: “in most countries it is private enterprises that create the largest number of jobs, especially in developing countries, where more than 90% of jobs are in the private sector. People who have overcome poverty identify “finding paid employment” or “starting a business” as the two most important reasons.” (ILO, 2014, pp. 4-5).

According to the World Trade Report (2016) elaborated by the World Trade Organization (WTO) the main stylized facts on SMES at world level can be summarized as follows: micro firms constitute the bulk of MSMEs in all countries. On average, 83 per cent of the more than 12 million firms covered by the MSME-CI are micro firms. Table 1 suggests that there might be a “missing middle” phenomenon for least-developed countries (LDCs), with very few firms classified as “medium-sized” in the population of MSMEs. Criscuolo (2014) shows that micro firms and SMEs account for over 95 per cent of all enterprises in 17 Organization for Economic Co-operation and Development (OECD) countries plus Brazil (as cited in WTO, 2016).

According to WTO (2016), most MSMEs (85 per cent of micro firms and 72 per cent of SMEs) operate in the trade and services sectors. Eleven per cent of micro firms and 20 per cent of SMEs are in manufacturing; five per cent of micro firms and eight per cent of SMEs are in agriculture/other. SMEs are, therefore, over-represented in labour-intensive sectors characterized by a combination of relatively low entry barriers and relatively low fixed costs of production.

Usually, most SMEs in the developing countries are in the primary sector, mainly in agriculture. This could be due to higher labour-intensity of agriculture in developing countries (especially in LDCs) as opposed to developed countries, coupled with the fact that small firms tend to be more labour-intensive

*Table 1. Share of micro, small and medium sized firms in total number of MSMEs (%).*

	% of Micro Firms	% of Small Firms	% of Medium-Sized Firms
Developed	87.1	10.7	2.2
Developing	80.5	15.6	3.9
G20 developing	82.1	13.2	4.7
Other developing	80.5	14.9	4.5
LCD's	78.6	20.7	0.6
<b>Total</b>	<b>82.9</b>	<b>13.8</b>	<b>3.3</b>

Source: WTO, 2016.

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