

Chapter 2

Organizational Components That Explain Profitability as a Key Factor of Competitiveness: Colombian SMEs' Case

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ABSTRACT

This chapter explains one of the hypotheses of the results of a basic research of the Ramírez-Garzón doctoral thesis entitled, “Organizational components that explain the profitability of Colombian SMEs,” which focused on the application of the Model of Modernization for organizational Management (MMOM) and the Return on Assets (ROA) in 144 Colombian SMEs. The chapter affirms there are organizational components that explain profitability in Colombian SMEs as a key factor for business competitiveness. The multiple regression analysis was used as a statistical method to correlate the organizational components of the MOMM and the ROA of those SMEs. It was found that the components that explain preferentially between 20% and 23% the profitability of the companies analyzed in light of the ROA are: strategic direction, production management, human management, logistics, and innovation and knowledge.

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INTRODUCTION

As mentioned by Ortiz and Pérez-Uribe (2010), a profitable entrepreneurial activity is not necessarily given by the administration efforts but also by the investments made or the competitive advantages the company has in the market or with respect to its competition. There are several causes that affect the profitability of an organization, one of which is the managerial process adopted by the entrepreneur, in a formal or implicit manner, who will expect to obtain the desired profitability and competitiveness through the implementation and follow-up of an action plan (Ortiz y Pérez-Uribe, 2010).

There are certain organizational components that explain profitability in Colombian SMEs as a key factor for entrepreneurial competitiveness. Such components are: human resources management, production management, logistics, strategic addressing, and innovation and knowledge. Ramírez-Garzón (2018) and Pérez-Uribe (2019), found that the above-mentioned components explain between 20% and 23% the profitability of the SMEs analyzed in the light of the Return on Assets ROA indicator, thus contributing to their competitiveness. Such study was carried out taking into account 144 Colombian SMEs to which the Modernization Model for Organizations Management (MMOM) was applied.

Besides the above-mentioned findings, Ramírez-Garzón (2018) and Ramírez-Garzón and Pérez-Uribe (2019) discovered that the five components that best explain profitability of SMEs in the light of the ROA, do not have the same statistical calculation, which is deemed to be “a specific estimate, the purpose of which is to determine a concrete value (that is, a point) for the parameter. The value chosen to say, “the value of the parameter of our concern is X” is that given by a concrete statistic” (Manzano 2014, p.1). This means in this research that the statistical estimate of each component was (see methodology item I n this chapter): Human resources: 0.45; production management: 0.38; Logistics: 0.39; Strategic addressing: 0.35; Innovation and knowledge: 0.25.

Regarding competitiveness, it can be assured from the organization stand point that it is related to the capacity of the company to strategically manage the company, to answer in an assertive manner to the challenges posed by globalization, to enter unexplored markets and to respond in a competitive way to current and potential competitors. In this sense, Pérez-Uribe (2012a) states that in order to achieve such competitiveness¹, the company must be able to obtain results of its management such as: profitability, efficiency, effectiveness, and socially responsibility. Therefore, those organizations that show results in their management from these perspectives, will be recognized in their sector as the most competitive.

Taking into account the foregoing, this chapter will focus on how the above-mentioned components (human resources management, production management, logistics, strategic addressing and innovation and knowledge) not only contribute to the profitability of SMEs in the light of the ROA, but also to their competitiveness.

MODERNIZATION MODEL FOR ORGANIZATIONS MANAGEMENT (MMOM)

The MMOM (Modernization Model for Organizations Management) is a management tool that allows to systematically carry out a situational analysis on how SMEs are with respect to the enforcement of modern management practices and on how close or far they are of being innovative and world-class companies (Pérez-Uribe, *et al.*, 2013). It was designed by modules in accordance with the stages a typical company must surmount to cross the path that leads the organization to be modern and competitive, with the best management practices that helps it to achieve its entrepreneurial results.

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