

# Analysis of the main problems in small and medium enterprises in Bogotá

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## Abstract

At the end of 2022, Bogota businessmen pointed out as the main problems for the normal development of their activities: 1. High cost of the inputs used, 2. High competition, 3. Lack of demand, 4. The exchange rate, 5. Difficulties in supplying raw materials and 6. Tax burden. The persistence of these problems over time can negatively impact the financial results of companies, leading them to eventual business insolvency. This article describes these problems in small and medium-sized enterprises (SMEs) in Bogota consulting different related expert sources to then suggest some useful strategies for decision-making by SME managers.

**Keywords:** *SMEs; enterprise surveys; bankruptcy; Bogota; Project management.*

## Introduction

The SMEs (small and medium-sized enterprise) plays a leading role in many economies, especially in developing countries. Indeed, authors Kersten, Harms, Liket and Maas found a significant and positive impact on performance and employment in this type of companies worldwide [1].

However, only about 33.1% of Colombian SMEs survive in their first five years of creation according to a study by Confecámaras [2]. This study defines the survival rate as the percentage of companies that renewed their commercial registration and remained active until the close of each reference period. Authors such as Espinosa FR, Molina ZAM, Vera-Colina MA [3] expand the definition of survival by distinguishing business failure between the financial (difficulty in meeting obligations) and the legal (business insolvency).

This is how the financial difficulty of SMEs is one of the causes of business insolvency. By definition, business insolvency is defined as the impossibility of paying debts and fulfilling obligations within the established deadlines, therefore, the company can be declared in voluntary or mandatory liquidation according to the insolvency regime of the “Superintendencia de Sociedades” [4].

Financial information of SMEs allows it to evaluate their performance and warn about their possible financial difficulties prior to insolvency. In the country, a very common way to establish the status of a certain company is the one used by financial entities when studying your credit application. According to the Association of Banking and Financial Entities of Colombia (Asobancaria), it is key to evaluate the credit history before risk centers - such as Datacrédito or CIFIN (now Transunion) -. Any negative report in these may lead to the rejection of the application.

In addition to negative reports in central risk, credit institutions require that the financial information provided in the application form be true and verifiable [5] and they evaluate if the company has good debt capacity and an adequate debt-income ratio. To do this, they suggest the application of the following formula commonly used by banks affiliated with Asobancaria [5]:

Debt capacity=Income\*40%-Expenses (monthly averages) (1)

The result of this equation is a guide to determine how much debt can be incurred and what availability the company has to do so. The credit line above this value will cause the application to be denied.

Another tool used for credit approval in financial institutions is scoring, an automatic system to help make credit decisions established through a statistical model [6].

This model generates different scores. A good rating, defined by the main information centers, indicates lower risk when granting credit. Datacrédito and Cifin have established scores that serve as a reference [5]: For example, the Datacrédito entity gives a score between 150 to 950 [7]. It is worth mentioning that this score can be consulted by anyone at banking entities or at risk center service points.

Entrepreneurs can use the information services of risk centers to their advantage. For example, the Datacrédito risk center provides the “Credit Profile Plan” service under subscription to help the businessman control and improve credit life. The service that includes consulting credit history, improving scores, creating savings and spending plans, and controlling credit information through alerts [8].

Just as external entities such as risk centers analyze financial information, SME managers must do the same to make decisions that avoid business insolvency processes. Atkinson A. [9] lists the following financial education topics that should be included in training entrepreneurs to obtain financing and improve their money management skills:

- General financial education
- Know where to look for help in financial aspects.
- Recognize the interaction between personal finances and business finances.
- Understand the economic, financial and business panorama of the business.
- Plan and manage business finances.
- Manage financial records.
- Be aware of financing opportunities.
- Know how to interact with investors and lenders and how to comply with their requirements.
- Be aware of financial risks and opportunities to manage them effectively.

## Methodology

First of all, the regulation around the classification of companies in Colombia must be understood. These are classified between micro, small, medium and large companies. The first three are regulated by the following laws, 590 of 2000 [9], known as the Mypime law, and law 905 of 2004, “through which Law 590 of 2000 on the promotion of the development of micro, small and medium enterprises is modified. Colombian company and other provisions are made”.

However, MinCIT Decree No. 957 of June 5, 2019 gave greater detail to the classification by distinguishing manufacturing, service and commerce companies, in addition to establishing income from ordinary activities as the exclusive classification criterion [10]. Table 2 shows this classification with an estimate in US dollars with the exchange rate as of December 31, 2022.

Table 1 Classification of SMEs in Colombia by Revenue

Maximum Revenue Cap			
Company type	Manufacture	Services	Commerce
Micro	USD 207.757	USD 290.858	USD 394.733
Small	USD 1.807.461	USD 1.163.425	USD 3.801.897
Medium	USD 15.311.462	USD 4.258.958	USD 19.051.031
Large	Mayor a USD 15.311.462	Mayor a USD 4.258.958	Mayor a USD 19.051.031

Source: Adapted from MinCIT Decree No. 957 of June 5, 2019. Exchange rate as of December 31, 2022 of 4810.2 COP/USD [10].

A distinction must also be made between companies and economic units. In fact, when analyzing the Economic Census carried out by DANE, there are 2,548,896 economic units in Colombia (between natural and legal persons) dedicated to the sectors of commerce, services, industry, transportation and construction. 23% of these units (586,246) are grouped in Bogotá and Cundinamarca. [12].

In contrast, only about 4.6% of the total economic units in Bogotá and Cundinamarca are legal entities classified as SMEs. In fact, according to the “Camara de Comercio de Bogotá”, there are 311,605 micro, small and medium-sized companies active in Bogotá but only 27,232 of these are classified as SMEs [13]. Additionally, there are alternative methods to measure the activity or survival of a company, as pointed out by Bank of the Republic.

This is how, there are different methods of key statistics measure for Colombian SMEs for different entities. Analyzing different sources of information related to SMEs, multiple populations studied in different periods can be found, making comparability difficult. However, this study compiled a compilation of the main reports or studies on SMEs by specialized entities in the country.

Then, these studies were classified by date, business population studied and by their focus. We sought to identify the most significant problems of SMEs and which of them focused on aspects related to more general economic statistics. With this, a curated list of information sources was formed, which is summarized in Table 1:

Table 1 Sources of business information used

Author	Source Name	Year	Population	Main Focus
Departamento Administrativo	Counting Units [12]	Economic 2021	Sample 1,352 people identified, listed and classified into economic units, covering	Economic statistics with national scope

Nacional de Estadística – DANE			1,102 municipal seats in the 32 departments of the country.	
Confederación Colombiana de Cámaras de Comercio (Confecámaras)	Tissue Strength of Colombian business Post-pandemic recovery [13]	2021	Total population of companies in the RUES	Economic statistics with national scope
Banco de la República.	Historical rates of company creation and destruction in Colombia [14]	2021	Total Population available in the Integrated Contribution Settlement Form (PILA) of the Ministry of Health and Social Protection	Economic statistics with national scope
Cámara de Comercio de Bogotá	Active Companies in the “Camara de Comercio de Bogotá” Observatory [15]	2022	Total Population of active companies in the RUES	Economic statistics with Bogotá scope
Cámara de Comercio de Bogotá	Great Business Survey of the “Camara de Comercio de Bogotá” of Bogota Second application [16]	2022	Simple Random Sample of 1386 companies with commercial registration and 886 without commercial registration with margin of error of 2.6% and 3.3% respectively.	Economic statistics with Bogotá scope
Asociación Nacional de Instituciones Financieras- ANIF, Bancóldex, el Banco de la República, el Fondo Nacional de Garantías y Confecámaras	The Great Regional Reading SME Survey [17]	2019	Stratified sample by sector, company size and region, with random selection from the sampling frame of the DANE Statistical Directory. 4,150 companies surveyed with a margin of error of less than 5% per sector..	Problems in companies with National and Bogotá scope
ANIF, el Banco de la República, Bancóldex, Bancolombia, BID Invest, Cámara de Comercio Aburrá sur y el Fondo Nacional de Garantías	ANIF MiPyme Survey (EMP) at the National level [18]	2021	Stratified sample by economic sector following the DANE statistical directory. 4,580 companies surveyed with a margin of error less than 5%.	Problems in companies with national scopel
Asociación Colombiana de Micro, Pequeñas y Medianas Empresas (Acopi)	Survey Results Report 4th Quarter 2022 [19]	2022	Total population of Micro, Small and Medium-sized companies associated with ACOPI Nacional, belonging to the macro sectors of manufacturing, services and commerce, a margin of error of 5%.	Problems in companies with national scopel
Cámara de Comercio de Bogotá	Business Rhythm Survey Results for Bogotá [20]	2022	Simple Random Sample of 412 companies with a Margin of error of 4.7%	Problems in companies with scope in the city of Bogotá
Cámara de Comercio de Bogotá	The business climate in Bogotá 2022 [21]	2022	Stratified probabilistic sampling for 1831 companies in Bogotá with active	Problems in companies with

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commercial registration as of March 31, 2022 in the RUES Databases in two stages, by type of company (Micro, Small, Medium and Large) and by sector (Industries, Commerce and Services), with simple random selection with a margin of error of 2.3%. scope in the city of Bogotá

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Source: Own elaboration based on [12,13,14,15,16,17,18,19,20 and 21]

## Results

Next, the main findings of the studies consulted from the economic statistics found will be explained and then the identification of problems in Bogotá SMEs will be further explored.

When commenting on the creation and destruction of companies, there are mixed data according to the study consulted. Confecámaras calculates business survival as the percentage of companies that survive for a cohort of companies with similar market conditions. For example, for the 2016 cohort of 294,885 companies, 50.6% survived to 2019, three years later. [13]. Alternative analyzes such as that carried out by the Bank of the Republic with data from the Integrated Contribution Settlement Form (PILA) indicate a rate of creation of SMEs of 14.6% and destruction of 8.1% (that is, 91.9% survive). [14].

In the case of Bogotá companies, the “Camara de Comercio de Bogotá” confirms 27,232 active SMEs by 2022 [15]. This entity publishes the same year, its Great Entrepreneurship Survey where it confirms the following key financial statistics for companies with active commercial registration. 7% of the companies in the survey are small and medium-sized [16]:

- 57% currently have debts.
- 100% have debts of more than 10 million pesos.
- 44% have defaulted or stopped paying a debt in the last 12 months.
- 74% carry out accounting, the majority (61%) with specialized software.
- 42% have received training or attended courses on budgeting or other financial concepts.

There are several sources to obtain information on problems in SME companies in Colombia, including The Great ANIF Regional Reading SME Survey of 2019 [17], the ANIF MiPyme Survey (EMP) at the National level of 2021 [18] and the ACOPI 4th Quarter Survey Results Report of 2022 [19]. However, none of these studies manages to sufficiently detail the case of Bogotá SMEs given their national scope.

Fortunately, the same “Camara de Comercio de Bogotá” carried out the Business Rhythm Survey with Results for Bogotá in 2022 [20] listing there the main problems that companies have for the normal development of their activities as follows:

- High cost of the inputs used.
- High competition.
- Exchange rate.
- Difficulties in supplying raw materials.
- Tax burden.

All these problems seem to be of external origin to the SME and some of them will be related to relevant results found at the national level by ANIF [17,18] ACOPI [19]. However, given the differences in the business

populations studied, the periods analyzed and the specific objectives of each study, it was not considered practical to make any comparison between the studies.

It stands out from the ACOPI study [19] in relation to the high cost of inputs and the difficulties in supplying raw materials seem to be related. According to this entity, its affiliated businessmen list the delay in imports (31.7%) as the main reasons for the difficulties in supplying raw materials, followed by the high costs of inputs and raw materials to produce (30.5%).

Finally, when analyzing the external environment associated with the aforementioned problems, the survey on the business climate in Bogotá 2022, carried out by the Chamber of Commerce [21] to companies of all sizes, lists the most priority business decisions to implement. respondents to strengthen themselves in the market:

- Use technology such as digital platforms (33%).
- Marketing and Advertising (28%).
- Quality of products or services (20%).
- Costs reduce (19%).

### Discussion

The economic statistics of business survival can be measured as the continuity in the renewal of the commercial registry or the continuity in the registration of social security contributions of its employees, The first being a more acidic indicator due to the difference found between Confecámaras (50.6%) and the Banco de la República (91.9%).

Following the survey carried out by the CCB [20], the problems of SMEs can be grouped into:

- Supply problems: The high cost of the inputs used and the difficulties in supplying raw materials.
- Market and competitiveness problems: Lack of Demand and High competition.
- Financial risk problems: Exchange Rate and Tax Burden.

In all cases the problems can be associated with measurable indicators of the environment. In particular, within the financial education topics of Atkinson A. [9] to be included in the training of entrepreneurs, the following stand out:

- Understand the economic, financial and business panorama of the business.
- Manage financial records.
- Be aware of financial risks and opportunities to manage them effectively.

The survival of SMEs can improve with an adequate decision-making process based on indicators. Based on the analysis of Jiménez Sánchez JI, Rojas Restrepo FS [13], key activities to be carried out by SME entrepreneurs can be listed to make better decisions using key indicators to create value:

1. Use indicators as a support tool for decision making and strategy design.
2. Carry out a diagnosis based on the results of the indicators
3. Compare the indicators against the dynamics of the sector in which it operates.
4. Manage based on plans and goals based on indicators.

However, these activities must be incorporated into the SME's current processes to have the desired effect. For this reason, it makes sense for the SME to carry out a project with the support of external consultants. Parmenter D [14]

proposes a project for the implementation of key indicators in SMEs with 8 stages to be executed in a maximum of 6 weeks according to the number of employees of the SME.

In summary, the findings found in relation to SMEs and their problems could be taken to concrete action through a consulting project in order to reduce the risks associated with financial difficulties and, therefore, their business insolvency.

## Conclusions

It seems that more Colombian companies are tending towards continuity in the social security reporting of their workers and towards continuity in the renewal of the commercial registry. This is given the difference found between the two analogous indicators of business survival reported by Confecámaras and the Banco de la República.

The problems of Colombian SMEs by 2022 include supply problems due to high costs and shortages of inputs, market and competitiveness problems, and financial risk problems. The study of the business survey sample used allows us to infer the same problems for Bogotá SMEs.

The active use of indicators to analyze and act on environmental trends can help SMEs avoid financial problems and ultimately business insolvency. SMEs could benefit by carrying out projects to implement key indicators that take into account the particularities of each company.

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