

Model for developing strategies specific to sme business growth*

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ABSTRACT

This paper will propose a model for formulating strategies that is aimed at business growth for small and medium sized enterprises (SMEs), and considers two complementary theoretical approaches: strategic planning and business growth. This article will provide SMEs with a methodological tool that enables them to adapt to external and internal factors that impacts them when formulating their growth strategies.

KEYWORDS

Model, strategies formulation, business growth, SMEs

JEL CLASSIFICATION

M10, L21, L25

Modelo para la formulación de estrategias orientado al crecimiento empresarial de las pymes

RESUMEN

El presente artículo propone un modelo para la formulación de estrategias orientadas al crecimiento empresarial de las pymes, que considera dos corrientes teóricas que se complementan: la planeación estratégica y el crecimiento empresarial. El objetivo de este artículo es presentar a las Pymes una herramienta metodológica que les permita adecuarse a los factores externos e internos que impactan a la organización al momento de formular sus estrategias de crecimiento.

PALABRAS CLAVE

Modelo, formulación de estrategias, crecimiento empresarial, Pymes.

CÓDIGOS JEL

M10, L21, L25

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Modelo para a elaboração de estratégias PME orientadas crescimento do negócio

R E S U M O

Este artigo propõe um modelo para o desenvolvimento de estratégias de crescimento das PME orientadas para o negócio, que considera duas correntes teóricas que são complementares: planejamento estratégico e crescimento do negócio. O objetivo deste artigo é introduzir as PME um instrumento metodológico que lhes permite adaptar-se a factores externos e internos que impactam a organização na formulação de suas estratégias de crescimento.

PALAVRAS-CHAVE

Modelo, formulação da estratégia, crescimento do negócio, PME

CLASSIFICAÇÕES JEL

M10, L21, L25

Introduction

Strategic planning promotes forward-thinking, reduces the attention to operative details, and provides meaning for identifying and evaluating strategic alternatives that improve the performance of organizations (Lopez, 2005, p. 158).

The process of strategic planning is as important for big companies as it is for small and medium size companies, since it enables them to establish, in a comprehensive way, the necessary actions to achieve their goals. According to David (2003 p. 185), since the historical creation of organizations, the strategic direction process, even if performed in an informal way or carried out by the businessman or the owner, significantly improves the growth and prosperity of firms.

One of the main tasks of chief executive officers (CEOs) is to achieve an adequate articulation between the goals of organizations, the organization's internal characteristics and its external environment in which it operates. This is achieved by implementing strategies that allow them to stay in the market and grow.

For the strategy formulation, David (1997) considers four main topics: the business mission, the external evaluation, the internal evaluation, and the analysis and choice of the strategy. David (2003) indicates that the strategy formulation is based upon the evaluation of the way an enterprise operates and the identification of the mechanisms that allow it to be more efficient in its tasks, the reason for which strategies must evolve before they become obsolete.

Within the theory relating to strategic direction, there are many different tools and concepts for strategy formulation which contribute to significant improvements in the quality of strategic decisions organizations make, and by integrating with a practical scheme, they can identify alternative potential strategies. The above demonstrates that strategy formu-

lation is a systematic action which allows organizations to project into the future (Aguilera, 2010; Blank, 2002; David, 2003; Frances, 2006; Hax and Majluf, 1996; Wheelen and Hunger, 2007). Therefore, strategies should arise from the identification of current strategic directions of companies, which enables them to grow and consolidate; preserve and maintain; or harvest and alienate; particularly, considering that a company without a sense of direction or a coherent strategy, is directed towards its own demise. (David, 2003).

I. Theoretical Aspects

The general environment of organizations is very dynamic and can cause periods of imbalance; this is particularly important for SMEs, because a drastic change in their environment can be responsible for their disappearance.

In the current environment, it is necessary to develop a model for strategy formulation oriented at business growth focused on SMEs. The model proposed integrates two thematic, which for their conceptual and methodological development constitute significant support for strengthening the elements that sustain the competitive scheme of organizations by enabling them to face that dynamic environment accurately, and effectively position them in the market; these thematic are Business Growth and Strategic Planning.

I.1. Business Growth

In the Harvard Business Review (1999, p. 57-58) it is expressed that the foundation of a company's growth is built upon the way in which their executives focus the strategies. Chiavenato (2006, p. 15) notes that: growth is an unavoidable consequence of organizational success. For Álvarez (2001, p. 104) knowing the strengths and weaknesses of an organization allows wise decision-making derived from the company's growth. Hodge, Anthony and Gales (1998, p. 174),

point out that growth can be achieved through strategies oriented to increasing production and sales, entering new markets, mergers, acquisitions and other binding strategies. According to Correa (1997, p. 88) for business growth to exist, organizations should strive for an internal competitiveness directly related to efficiency and organizational structure and an external competitiveness oriented to the organization's elaboration of achievements within the market's context, or the field to which they belong. Blázquez, Dorta y Verona (2006b) claim that business growth is conditioned by both internal and external factors, which may explain the adoption of growth as the intended strategy by the direction of the organization, to achieve a higher competitiveness and a better positioning in the markets in which it operates.

According to the above, it is evident that some authors suggest that business growth derives from adequate management of resources within organizations, and other authors see it as a conscious decision of the direction of the organization, which can establish strategies to achieve growth. The aim of this paper is to present a model for strategy formulation, in which the enterprise clearly shows signs of its conscious decision to move toward business growth. For this, management must establish formal strategies that direct the organization towards the fulfillment of this goal.

1.2. Strategic Planning for SMEs

SMEs in Colombia are positioned as a fundamental set of enterprises for job creation and economic growth. The Colombian Ministry of Trade, Industry and Tourism (2011), reports that small enterprises represent 3% of business establishments, and medium size enterprises represent 0.5%; however, small enterprises account for 17.6% of employed personnel and medium size enterprises 12.9%.

The size of an enterprise is a contingent variable which must be considered in the study of strategic planning (Hofer, 1975 quoted by Lopez, 2005), particularly as there is a wide variety of ideas for and against the convenience of carrying out formal planning in SMEs, so long as they are advantageously positioned as a flexible organizational structure (Lopez, 2005; Estrada, Garcia and Sanchez, 2009).

The analysis of the relationship between strategic planning and organizational performance within SMEs suggest that in many cases, enterprises carrying out strategic planning as a directive tool experience better performance than those that do not. Therefore, Estrada et al. (2009, p. 3) point out that according to Kraus et al. (2007) and Glaister et al. (2008), a positive and significant relationship exists between planning and performance. Likewise, the authors point out that Peel and Bridge (1998) highlight the importance of

sophisticated planning, when finding that profitability and goal achievement had a positive association with thorough planning.

In contrast to these approaches, Lopez (2005) claims that there are still doubts regarding the impact of strategic planning in the financial performance of organizations. Estrada (2009, cites Lumpkin et al. 1998 and Mintzberg, 1994), points out that there is a higher probability of performance improvement when applying informal strategic decisions than there is through formal planning practices.

From the preceding paragraphs, it is clear that there is a lack of unified approach to operationalize strategic planning. This is how applying diverse planning processes, which are not applicable to small and medium size enterprises, has the consequence of lacking clarity regarding the impact of strategic planning applied to SMEs (Lopez, 2005).

Strategic planning in SMEs must be considered seriously by the executives, regardless of the planning horizon or the degree of formality with which the strategies are carried out (Lopez, 2005). Estrada et al., (2009, p. 12) therefore suggest that companies go through several development stages and as they mature and become more complex, they need to formalize their planning processes in order to achieve their goals in an efficient way; it is possible that flexibility and informality can be useful in the beginning, but growth may require more formality in the planning and control aspects.

These authors also highlight the need that CEOs plan to develop a vision of the future which allows them to glimpse beyond the day-to-day, if considering that the absence of planning may result in an excess of unforeseen circumstances, devoid of any measure to control the success or failure of the management, lack of a clear vision and lack of control.

Furthermore, Estrada et al. (2009, p. 13), suggest that the probability of improving SMEs' performance through the application of a formal planning process might be higher than through an emerging and informal process; as long as planning is flexible, adapts quickly to the evolving environment and that there is a real commitment to the process of elaboration and strategy control by those directing the SMEs.

Therefore, and taking growth as a starting point of one of an organization's main goals, the present article introduces a model for strategy formulation which is oriented towards the generation of business growth policies that enable the formalizing of SME planning processes, through facilitating the process of understanding the external environment; and that since the beginning of its application, orientates the adequate planning process according to the size of organizations.

2. Methodology

In order to accomplish the goal of proposing a model for strategy formulation oriented to business growth, two research projects were conducted.

The first project, entitled strategic direction model for generating business growth policies aimed to establish a general model for formulating strategies to generate business growth policies, requiring the use of the inductive method, that allow formulating generalizations from specific theoretical approaches. Starting from the theoretical positions of recognized authors in the Organizational Strategy and Business Growth fields, variables that allowed establishing a primary model were identified.

The second project conducted, entitled Application of a model for strategy formulation for generating business growth policies in small and medium size enterprises in Santiago de Cali, set out to validate and apply a strategy formulation model aimed at generating business growth policies in small and medium size enterprises in Santiago de Cali. With this work, additional elements that allow redefining the model arise, according to the results generated with its application in SMEs in Santiago de Cali - Colombia.

The second research project developed was based upon the approaches made by Bernal (2000), who identified five big steps to divide the research method, as observed in the Figure 1.

For information gathering, different methods were employed, such as the content analysis of documents and a thorough literature review. According to Aktouf (2001, p. 113) the content analysis is a detailed study technique of document contents. Its aim is to extract from them the meaning, associations and intentions, not directly perceivable by simply reading them. Content analysis of documents is a method that seeks to discover the meaning of the studied message. For Aktouf (2001, p. 114), broadly, content analysis is a research technique for objective, systematic and quantitative description of the communications' unambiguous content, in which its aim is to interpret them. This is a classifying or codifying method of the elements of the analyzed document under diverse categories, highlighting the aspects of highest relevance, for the purpose of understanding the exact and precise meaning of the message. However, a detailed literature review was performed on the authors who have made significant contributions to the two studied thematic in order to establish a general strategy formulation model for SMEs that contributes to generating business growth policies.

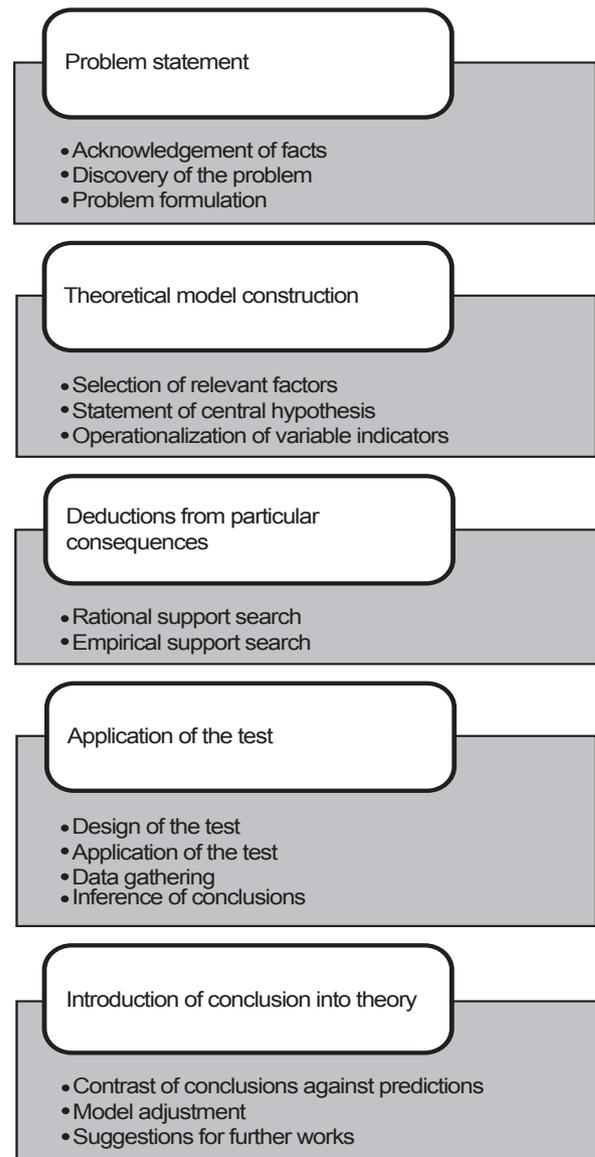


Figure 1. Applied research method

Source: Own elaboration based on Bernal 2000

To validate the model, an analysis of a group of elements was required, from which a set of relevant growth strategies could be determined for the segment of studied enterprises, considering their internal and environmental analyses. The model was further refined and a diagnostics and evaluation tool was developed and used for analyzing growth strategies undertaken by SMEs in Santiago de Cali – Colombia. This enabled the tool to be adapted for research needs and ensure the fulfillment of the project's objectives, as well as some advantages such as defining the mission and both the internal and external analyses of SMEs, whilst simultaneously achieving the identification of growth strategies that CEOs and businessmen are currently implement-

ting. This information could also be contrasted against those strategies that they should select and implement, according to the literature related to those fields of study.

3. Results

3.1. Model for Strategy Formulation Oriented to SME Growth

The main goal of the proposed model is to build strategic plans for organizations, focused on business growth, and in which external and internal factors affecting organizations are considered.

The construction of this model involves the integration of two central thematic: Strategic Planning and Business Growth, which, given the conceptual and methodological development achieved by these fields, constitutes an important support for strengthening the elements that sustain the competitive scheme of organizations. Starting from the conceptual foundations of these two thematic, it is possible to integrate internal and external diagnostics adequately, to make a sound choice and application of strategies and thus align organizations toward business growth.

The developed model is the result of the valuation and integration of three fundamental stages in strategy formulation:

internal diagnostics, external diagnostics and selection and application of strategies. The proposed model is presented in Figure 2.

This model identifies three stages which can be followed to consolidate one of the three perspectives from which business growth can be approached. These perspectives are defined by the Business Administration literature: motivation-based perspective, resource-based perspective and life cycle based perspective.

The first stage is internal diagnostics; within this stage, missional and organizational characteristics required for undertaking the process of planning business growth are established. This stage exposes the subsequent stages, considering that for all organizations it is essential to perform the recognition and valuation of their internal situation, in order to face threats and take advantage of opportunities.

The second stage is the external diagnostics. This identifies environmental factors affecting the organization and separates those which favor from those which hinder the organization's growth. External environment is made up of a set of factors and conditions existing outside the organization and that impact upon business growth (David, 2003). For the external analysis, organizations must perform the recognition and valuation of both the general and specific external environments.

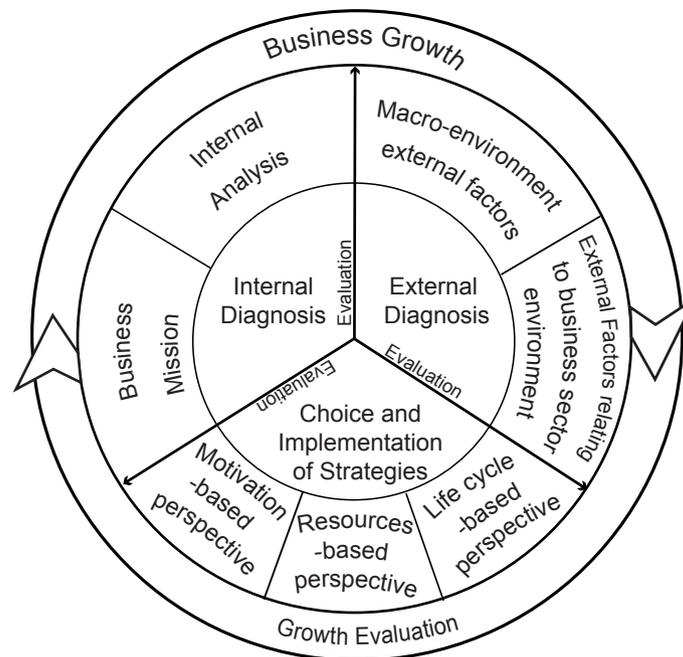


Figure 2. Strategy Formulation Model for Growth Generation of SMEs.
Source: Own Elaboration

The third stage constitutes the choice and application of the strategy. It concerns the appropriation of the strategies that better suit the characteristics of enterprises and their environment; considering the information obtained from the previous stages, the procedure for choice and application of those strategies best fitting the characteristics of the organization and promoting their growth is determined. Below, each one of the stages proposed in the model is developed, mentioning the necessary steps to carry them out, and associating the objective and the activities that must be performed in each of the stages.

3.1.1. First Stage: Internal Diagnostics

Step 1: Identification of business missional factors

Objective: To determine the required mechanisms for the establishment, adaptation and diffusion of the business's mission.

Activities.

Activity 1: formation of the promoting group consisting of the organization's directives, the supporting staff and the advisory group, called to continue and enforce the application of the model. Consolidate key inputs for the process of applying the model, such as age and size of organization, motivation, ownership structure, and knowledge management.

Activity 2: determine from the members of the organization: a) the existence of any mission, b) knowledge of the mission, c) clarity of target market and product as stated in the mission, d) existence of any procedures to achieve the goals as stated in the mission, e) existence of any principles or organization values clearly defined, f) existence of any mission by areas or departments, g) concordance between the mission and the reality of the enterprise and h) review of the mission's evaluation frequency.

Step 2: Internal Analysis

Objective: to perform the evaluation of each functional area within the organization with the support of the promoting group and to determine the internal factors impacting growth.

Activities.

Activity 1: the internal evaluation consists of identifying and evaluating the strengths and weaknesses of a given enterprise, regarding its administrative, marketing, accountability, financial, production, research and development, and information systems functions, among others (Serna, 1997); which, depending upon the size of organizations, could be organized by functional areas or be in charge of selected personnel.

Activity 2: when implementing this step of the model, it is important to consider which aspects are going to be analyzed for each functional area, as shown below (Table 1)

3.1.2. Second Stage: External Diagnostics

Step 1: Identification and valuation of external factors of the macro-environment

Objective: to identify and quantify the external factors that impact the organization's growth, originating in the response capacity of organizations to environmental changes; the economic, socio-cultural, demographic and environmental, governmental and legal, technological, and competitive opportunities and threats.

Table 1. Aspects to consider in the internal analysis

ORGANIZATIONAL	Organizational chart
	Planning and decision-making capacity
	Capacity to motivate staff
	Communication capacity
	Existence of control mechanisms
COMMERCIAL	Quality of the products or services
	Exclusivity of products or services
	Variety of products or services
	Participation of the enterprise in the market
INNOVATION	Price competitiveness
	Capacity of creating or improving products
	Mechanisms for protecting innovations
FINANCIAL	Investment in new technology
	Ease to finance the organization
	Future borrowing capacity
	Enterprise profitability
	Available cash
TECNICAL	Recovery frequency of accounts receivable
	Cost stability
	Enterprise machinery and equipment
	Employed software
HUMAN RESOURCES	Production flexibility
	Intensive use of labor
	Employee remuneration levels
	Workers' attitude towards learning
	Workers' experience
	Workers' education level
	Workers continuity in the enterprise
	Level of absenteeism

Source: Own Elaboration

Activities.

Activity 1: external forces affect the types of products developed; the nature of positioning and market segmentation strategies; the types of services offered; and the choice of enterprises that are going to be acquired or sold (Blazquez, *et al.* 2006b). When implementing this stage of the model, external forces will interrelate with external factors from the macro-environment that impact business growth.

Activity 2: in this stage, the promoting group must be questioned about the opportunities and threats affecting the organization according to the following aspects and some others that could be relevant for enterprises (see Table 2).

Table 2.
Relevant aspects in external analysis.

ECONOMIC ENVIRONMENT	Current possibilities of accessing bank loans
	Tax incentives
	Minimum wage value
SOCIO-CULTURAL ENVIRONMENT	Appearance of new neighborhoods
	Lifestyle, habits and customs
	Interest in health preservation
GOVERNMENTAL AND LEGAL ENVIRONMENT	Ecological awareness
	Programs for economic development
	Programs for international trade development
	State control of smuggling
	Regional security
	Commercial and working legislation
TECNOLOGICAL ENVIRONMENT	Financial incapacity regulation
	Cost of acceding technologies
	New programs or software and their use in the organization
	Availability of technological centers
	Wide access to computers
	Enterprise relationships with educational institutions

Source: Own Elaboration

Step 2: Identification and valuation of external factors relating to the business sector

Activities.

Activity 1: Blazquez, *et al.* (2006b) state that monopoly theory and perfect competition theory represent the extreme opposite reference points, upon which enterprise profitability obtained from its sector, revolves; hence many decisions directed towards growth strategies seek greater power in the market, deterring new competitors from entering, forcing negotiations with suppliers, or improving the position in respect to current and potential clients.

Activity 2: factors to be analyzed in this step are presented in Table 3, page 37.

3.1.3. Third Stage: Analysis of choice and application of strategies

Objective: to identify and quantify the choice and application of enterprise strategies which impact growth.

Activities:

Activity 1: Blazquez, *et al.* (2006a) claim that business growth may be approached from different perspectives, likewise, from each of these perspectives, integration, intensive or diversification strategies may be established, according to organizations' interests.

Activity 2: below (Table 4, page 38), factors are established that must be analyzed when determining the strategies enterprises are susceptible to apply, based on growth perspectives.

Step 2: Identification of the strategies implemented by the enterprises

Activities:

Activity 1: in this step, strategies applied by organizations are identified and contrasted against those strategies which have been identified as the most suitable for enterprises during the previous step.

Activity 2: the choice of the most suitable strategies for achieving the organization's growth takes place and the application and control plan is formulated.

Activity 3: inadequate strategies for organizations are eliminated and the implementation of the appropriate strategies is established.

Activity 4: as seen in Figure 2 (page 34), the model here proposed is cyclical and should be reviewed on an ongoing basis, particularly if changes originated in the environment

Table 3.
Relevant aspects in external analysis regarding the sector's environment

ENTERPRISE CLIENTS	Potential to increase clients in a significant manner
	It is expensive for clients to change supplier
	A significant percentage of sales is acquired by a single client
	Client's potential to acquire or control the enterprise
COMPETITORS	Control of distributors
	High competitor rivalry
	High number of competitors
	Competitors are increasing their installed capacity
	Potential of horizontal integration of competitors
	Competitors' potential to offer differentiated products
	Competitors offering better quality for the same price
	High availability of substitute products
	Participation of substitute products in market is high
	Competitors have advantages in materials acquisition
SUPPLIERS	Influence on competitors
	Influence of own pricing on competitors' pricing
	High number of suppliers
	Price level of main suppliers is high
	Main supplier is reliable
	Business sector is important to suppliers
	Costs associated with changing supplier are high
	Potential that suppliers integrate forward
	Influence of supplier on product price
	Availability of substitutes to suppliers' products
SECTOR'S COMPETITIVE ASPECTS	Current dependence upon suppliers
	Requirement of highly specialized equipment
	Requirement of economies of scale
	The economic activity requires a high capital investment
	Sector requires access to cutting edge technology
	High liquidation costs of enterprises in the sector
Presence of emotional barriers	

Source: Own Elaboration

are considered. That is how, once the perspective growth that best suits the organization has been determined, the mission might have to be re-formulated according to such perspective.

4. Conclusions

- The models for strategy formulation proposed in business administration literature do not integrate business growth aspects in an explicit way. This creates difficulties for establishing operative and strategic plans, based upon the establishment of growth policies.
- In the internal analysis from the enterprise capacities (directive, competitive, financial, technological, human resources), internal factors which impact upon business growth, such as age and size of organization, the motivation, the ownership structure and knowledge management should be integrated; and after their recognition and valuation, return to the establishment, adaptation and diffusion of the business mission, from the perspective of growth that is going to be applied by the organization. The internal diagnostics stage should then include the definition of the business mission and the internal analysis from the enterprise capacities, considering internal factors that impact upon business growth; this allows the enterprise to recognize its strengths and propose strategies to minimize its weaknesses.
- The identification of external factors of the macro-environment and those relating to the business sector environment reveals opportunities and threats to organizations; similarly, formulating strategies for taking advantage of opportunities and directing the enterprise towards growth, and reducing the consequences of threats, building upon the appropriate strategic approaches.
- The choice and implementation of strategies, considering the business growth perspectives, offers the potential for organizations to identify the most appropriate route, if they wish to establish their strategies oriented towards business growth policies.
- The integration of aspects related to business growth in the proposed model of strategy formulation allows organizations to identify theoretical perspectives which orientate the establishment of strategic plans (and thereby their policies) that drive them to business growth.

Conflict of interests

The authors declare that they have no conflict of interest.

Table 4.

Relevant factors for analyzing choice and application of strategies

<p>Concentric diversification strategies from the life cycle perspective</p>	<p>Strong management team. Zero growth business sector. Offering new products or services similar to the current which promotes sales. Offering seasonal products or services to counteract existing peaks and valleys in the enterprise. A drop in sales has been experienced. Enterprise is characterized by the implementation of positioning strategies within the known market. Enterprise has growth due to its good performance without it being deliberate.</p>
<p>Horizontal diversification strategies from the life cycle perspective</p>	<p>Low profitability within the business sector. Low or zero growth within the sector. Offering new products or services different to the current would increase sales of current products. Distribution channels are adequate for selling new products. New products are sold in opposite cycles to current products. Implementation of positioning strategies within the known market. Enterprise has growth due to its good performance without it being deliberate.</p>
<p>Strategies of conglomerates diversification from the life cycle perspective</p>	<p>Difficulty producing the goods or services. Expected profitability is not reached. There is pressure for improving performance. An accelerated growth was experienced forcing the enterprise to reorganize. Low employee morale. The enterprise participation in the sector is low. Implementation of positioning strategies within the known market.</p>
<p>Market penetration strategies from a resource-based perspective</p>	<p>It is financed to achieve growth. Expensive marketing activities. Surpluses and resources are employed in a different business. New market segment search. Low product saturation in markets. Potential to increase the product usage rate of existing clients. Main competitor sales diminish whilst the whole industry sales increase. Enterprise implements strategies for introducing the goods and services in new markets.</p>
<p>Market development strategy from a resource-based perspective</p>	<p>Enterprise produces goods or services with ease. The enterprise obtains new clients with ease. The enterprise reaches the expected profitability. It is financed to achieve growth. There is resource availability for bigger operations. The enterprise has an excess of installed capacity. Low cost distribution channels. Distribution channels satisfy the enterprise needs. The basic industry of the enterprise quickly acquires a global reach. Enterprise strategy is to introduce current products or services into new geographical areas.</p>
<p>Product development strategy from a resource-based perspective</p>	<p>Sector requires access to cutting edge technology. Competitors offer better quality for the same price. Enterprise has successful products which are in the late stage of the product life cycle. Rapid growth of the business sector. Enterprise has research and development capacity. Attempts to increase sales by improving or modifying current products or by developing new products.</p>

**Forward integration strategy
from a motivation-based
perspective**

Enterprise has surpluses and resources to use them in a different business.
Rapid growth of the business sector.
Enterprise seeks to have a direct communication channel with the client.
There is resource availability for bigger operations.
Distribution channels are expensive.
Distribution channels do not satisfy the needs of the enterprise.
Owners are willing to face risks and invest in new businesses.
Advantages of stable production are high.
There is potential for integration with other enterprises.
Current distributors or retail suppliers have high profit margins.

**Backward integration strategy
from a motivation-based
perspective**

High number of competitors.
Low number of suppliers.
Price level of main suppliers is high and they obtain high profit margins.
Main supplier is unreliable.
Influence of supplier on product prices is high.
Suppliers do not satisfy the enterprise requirements.
Enterprise needs to acquire an essential resource quickly.
Suppliers' price stability is low.
Business sector grows quickly.
Keeping product prices stable generates important advantages.
There is potential to acquire or control suppliers.
Strategies to eliminate relationships with costly and delayed suppliers are implemented.
There is resource availability for bigger operations.
The business owner faces risks and invests in new businesses.

**Horizontal integration
strategy from a motivation-
based perspective**

Enterprise requires economies of scale to improve its advantage.
Wholesales in the market are high.
Business sector profitability is high.
Business sector growth is fast.
Enterprise acquires or controls competitors in specific regions.
There is resource availability for bigger operations.
Enterprise has monopolizing characteristics.
Faces risks and invests in new businesses according to the businessman's discretion
Competitors are weak.
There is a potential for integration with other enterprises.

Source: Own Elaboration

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