

# The Organizational Profile of SMEs (Micro, Small, and Medium Enterprises) in the Manufacturing Sector: A Comprehensive Analysis

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Original article in Spanish published <sup>IV</sup>: December 2004

Translated into English <sup>V</sup>: August 2024

## Abstract

The SMEs (micro, smalls and mediums enterprises) in the manufacture sector are represented by differences organization configuration: the organization as open system, the organization as auto regulate system with entrance and departure, the organization as a representation of the two systems: the formal and the social, the organization seeing for enterprise organization. The representation of the SMEs lets identification as familiar's enterprises, with financial save, with concentrate the most economics resources in the premium matter, and the orientation is a locals o concentrates niches. Wherever the SMEs are in formals organizations, that tendency is the disorder in hers functioned, in the direction there is a triple role of the entrepreneur, of: family member, proprietary, and director, in the operation a double role of: family member and worker. For all the characteristics found in the SMEs by Organization Theory, is more adequate identifies as a SMOs (micro, smalls and mediums organizations).

**Keywords:** SMEs, Familiar Enterprise, SMOs, Informal Organization.

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<sup>IV</sup> Original article: <https://rayo.xoc.uam.mx/index.php/Rayo/article/view/263>

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## INTRODUCTION

Upon reviewing the characteristics (profile) of SMEs in the manufacturing sector, through surveys: INEGI-NAFIN (1992), National Microbusiness Survey (INEGI, 1996), and Small Business Survey (Ruiz, 2002), we identify them as companies financed through family savings, small-scale (limited production) and aimed at focused markets (local niches). This information clearly assesses the economic characteristics (financing, distribution of economic resources in operation, and market access) of this type of companies and, because of their economic profile, the characteristics of mechanization (machinery and equipment) of these companies are deduced.

The objective of this work is to identify the profile of SMEs in the manufacturing sector of our country, which means reflecting and analyzing to specify their main characteristics. The fulfillment of this purpose will allow us to lay the foundations for subsequently undertaking the construction of a diagnostic model of the management, structure, and operation of this type of companies. The research methodology to achieve our objective corresponds to a descriptive investigation, integrated both by a longitudinal or historical research design, which incorporates the information from surveys on small business, and by a content or theoretical analysis design.

We consider that the Theory of Organization, Organizational Analysis, and Strategic Management allow us to describe these companies as organizations with a specific form of management and operation that distinguishes them from large companies. In order to better understand their characteristics, the conceptual search for a management style unique to SMEs, led us to consider them as organizations that perform within a context or environment whose influence is considerable, but not determining to prevent them from making decisions that guide them towards states of well-being. Within this perspective, the SME is placed as a unit in relation to its context, that is, within a general environment largely determined by the socio-economic processes of Globalization.

The peculiarities found in the management of SMEs allow us to describe them as small companies with different functionalities from those of large corporations. In general, we can assert that the management of SMEs is characterized by an apparent disorder. If we focus on the study of family-owned SMEs, whose number is considerable in relation to the total number of SMEs in our country, it is possible to find that the entrepreneur, business owner, or company executive simultaneously performs different roles or functions within the organization. They can be at the same time: a family member, owner, and manager.

This performance of juxtaposed roles in management also occurs in the operational area, where the roles of the participants overlap, who, on most occasions, play a dual role: as a family member and as a worker. Contributing to the description of the management style carried out by SMEs within the context of Globalization is a step forward towards understanding the manifestations of disorder and incipient structuring in which these types of companies operate. This description allows us a first approach to the design of their profile, with the aim of making transparent the black box that represents the way small and medium-sized enterprises function. For this reason, it becomes necessary to specify the conceptual framework that allows us to identify the management of this type of companies, whose



nature is different from the management of large corporations. The results of this conceptual design will also contribute to the project of formulating a diagnostic model for the clarification of the problems faced by small and medium-sized companies in the manufacturing sector.

## **SMEs within a Globalized context**

Globalization is a comprehensive category, of an ideological nature, defined at the end of the 20th century and the beginning of the 21st century. Within it, the most visible aspect is the economic one, represented by what is known as the "neoliberalism", whose foundation is the deregulation of the economic organization of the market, which means simplifying its operation in such a way as to facilitate the free movement of investment, goods, and individuals. However, the economic implications have an impact on the ideological, that is, the culture and politics of society. Thus, an integration between the economic and ideological realms is formed. To the liberation of the economy, a global culture is integrated, constituted by the signs (practices) the culture of the importing (external) and the signs of local culture (internal), forming through the sum of the two, a hybrid culture, a characteristic of contemporary modernization.

On the other hand, the State largely yields the leadership of the market to transnational corporations, which control it through strategies such as productive flexibility and diversification of demand. In this way, the hegemony in the market corresponds to the transnational corporation, the State dilutes its leading role in the market, and it only becomes the legal guardian of it.

Today, we speak of an integrated world as a village (Globality), where there apparently exists only a global society without borders, both in the economic and ideological spheres, where individuals circulate freely, conducting economic transactions and transferring their cultural symbols to the global village. There are no restrictions; transactions are carried out freely, within a global economy and culture. Integration, seen as an economic and ideological phenomenon, has achieved its objective: a monolithic society in which the virtues of market freedom dominate, free enterprise prevails, and the State simply provides the conditions of infrastructure, macroeconomic stability, and legal order for the operability of economic transactions carried out, mainly, by global or transnational companies.

The participation of large companies in the market is carried through two different strategies:

1. Diversification and/or variability of product demand in response to the global market and the different customers that make it up.
2. Productive flexibility or strategic alliance with other companies, organizational networks, which allow transnational companies to decentralize costs or minimize them to be more competitive and respond to the variability of demand.

In this way, we have described, albeit in a simplified manner, the ways of operating of the three main actors that structure global society: the State, the market, and the Transnational

Corporation. It is within this framework that the various interrelations between individuals or members of global society occur.

Globalization is interpreted, within the same frame and in an integral manner, by Beck (1998), who speaks of three concepts: globalization, globality, and globalism. He characterizes the first as the liberation of the economic relations of the market. Globality is understood as the existence of a global village with economic, cultural, and political relations not integrated into the Nation-State that reproduce the model of Western society. And he defines globalism as the global culture that integrates with the economic and transnationalizes the customs and practices of global society.

The global culture seen as an integration of an imported culture (external) and a local one (internal) is a way of inserting both cultures into daily praxis, not understood as a replacement of the transcultural in local culture (the own or internal folklore), but as a renewal in language, design, forms of civility, and youth practices (García Canclini, 1990). This integration of cultures is identified as a hybrid culture, where the elites integrate a global project, and Latin American countries are currently the result of: the juxtaposition and interweaving of indigenous traditions and the customs of the elites, generating hybrid formations in all social strata. In this way, there is a coexistence of indigenous crafts, multilingual libraries, cable television, and satellite dishes with colonial furniture (García Canclini, 1990), because of their dependency on metropolises.

In this context of globalization, the Welfare State that regulated the course of the economy no longer exists; the State shrinks and therefore the budget for social benefits, the pension system, and social spending in general is also minimized. The bargaining power of unions is reduced in the face of the elimination of the Welfare State. The direction is, then, towards a Transnational Economy (Beck, 1998), where obstacles to investment are eliminated; that is, the elimination of ecological, union, welfare, and fiscal regulations, which means destroying work and further increasing production and profits.

The virtuous circle that territories or countries bet on consists of the sum of transnational capital + taxes + jobs that will "supposedly" trickle down to the entire economy, which is false, since these companies will grow along with their suppliers, their employees, and workers; these will trickle down to the formal and informal trade sector, and the employees of these sectors will trickle down to formal and informal retailers, but if the chain is interrupted, many sectors of the population will be left out, not only in the urban sector but also in the rural sector.

Specifically in Mexico, the economic policy of import substitution (Tello, 1980), after the Second World War and until the 1970s, was based on three guiding axes: tariff barriers based on high taxes, restrictive quotas on imported products of up to 100%, and the denial of import permits for goods due to national interest. The effects on industrial capacity were: technological stagnation, no investment in Research and Development, low product quality, non-competitive costs against the foreign market, and minimal organizational development. The State supported the development of industrial capital, guaranteeing an oligopolistic captive market, which was not governed by competition in costs and quality, but by a high rate of profit, resulting from low wages for labor, agricultural resources



restricted at low costs, tariffs for electricity and gasoline services without increases; in addition, infrastructure was provided to urban centers, with the aim of promoting industrial growth. All these privileges gave capital its competitive advantage.

The shift towards a new model of an open market to the outside world produced structural changes in economic policy (León, Samuel, 1992), with their respective effects; these were: strict control of public finances, deregulation of FDI (Foreign Direct Investment), deregulation of public companies, trade liberalization, and economic pacts. Their corresponding effects were: restriction of social spending, increase in FDI, slimming down of the State, disappearance of SMEs in the face of new competitive conditions, strengthening of the TNC (transnational company), and control of inflation. The lack of competitiveness of the national business sector was a result, given the trade liberalization and deregulation of FDI, of participation in the market with low-quality products and high price compared to competition from foreign products with quality and low price.

Within this dominant capitalist ideological conception, which is Globalization, there are also economic actors different from those already mentioned, where many members of Mexican society participate and work. Among the actors not considered so far, Micro, Small, and Medium Enterprises<sup>107</sup> (MSMEs) stand out for their importance in the economy as job creators. The positioning of MSMEs occurs fundamentally within local and concentrated markets that are relatively integrated into Globalization, and which, probably upon integrating these spaces, will be occupied by Transnational companies, condemning MSMEs to disappearance.

Within this context, it is the MSMEs that appear as losers within Globality, as they are not predominantly integrated into productive linkages and export circuits and are not competitive in price and product quality. The challenge, then, is to build a diagnostic model of the problems of MSMEs, which considers the signs or management characteristics of this type of companies, in order to contribute to the effort these companies make to compete and sustain themselves in the market.

## The Organizational Profile of MSMEs: An Integral Analysis.

### A. Quantitative Analysis of MSMEs.

MSMEs: are the micro, small, and medium-sized enterprises that have the following number of employees according to a decree (March 15, 2001) from the Secretariat of Economy:

CLASSIFICATION BY NUMBER OF EMPLOYEES			
Size	Industry	Commerce	Services
Microenterprise	0 - 30	0 - 5	0 - 20
Small enterprise	31 - 100	6 - 20	21 - 50
Medium enterprise	101 - 500	21 - 100	51 - 100

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<sup>107</sup> Micro, Small, and Medium Enterprises generate 50% of employment in the Manufacturing Sector, according to the 1994 and 1999 Economic Censuses by INEGI.

Source: Official Gazette, March 15, 2001, Decree of the Secretariat of Economy, on the Operation of the Fund for the Promotion of the Integration of Productive Chains for the Fiscal Year 2001.

Another different classification of MSMEs is by number of workers and sales, defined according to NAFIN (March 1994) as follows:

INDUSTRIAL SECTOR CLASSIFICATION		
Size	Number of Workers	Net Sales
Microenterprise	0 - 15	<= \$900,000.00
Small enterprise	16 - 100	\$900,000.00 - \$9,000,000.00
Medium enterprise	101 - 250	\$9,000,000.00 - \$20,000,000.00

Source: The micro, small and medium enterprise facing NAFTA, El Mercado de Valores NAFIN, March 1994, p. 29

Another different classification by number of workers and in the industrial sector is given by Cerda and Núñez (1998), with the following ranges:

INDUSTRIAL SECTOR CLASSIFICATION	
Size	Number of Workers
Microenterprise	0 - 15
Small enterprise	16 - 50
Medium enterprise	51 - 250

Source: Cerda Gastelúm José (de la) and Nuñez Peña (de la) Francisco, (1998), Quality of Working Life in Mexico, p.236, in Cerda Gastelúm José (de la) and Nuñez Peña (de la) Francisco (Coordinators), Administration in Development. Towards a New Administrative Management in Mexico and Latin America, Mexico, Diana.

From this quantitative approach, the size of companies is explained based on economic magnitude or sales and the number of workers employed by the company. They are differentiated under these quantitative criteria that do not describe the specific management style of the micro, small, and medium-sized enterprise. From these criteria, it has simply been deduced that a company, by having a greater number of workers and sales, can be considered larger in size.

The differences observed in the number of workers, a criterion used to determine the size of MSMEs by the authors reviewed, guided us to the search, albeit only statistical, to conclude on the size of MSMEs in the manufacturing sector according to the number of workers. The procedure is as follows from the following synthesis table:

INDUSTRIAL SECTOR CLASSIFICATION			
Size	Number of Workers (1st Table)	Number of Workers (2nd Table)	Number of Workers (3rd Table)
Micro	0-30	0-15	0-15
Small	31-100	16-100	16-50
Medium	101-500	101-250	51-250

Averaging the upper limits of the ranges<sup>1082</sup> from the previous classifications, we will obtain ranges that give us a more balanced classification:

INDUSTRIAL SECTOR CLASSIFICATION	
Size	Number of Workers
Microenterprise	0 - 23
Small enterprise	24 - 75
Medium enterprise	76 - 375

Conducting a mode analysis on the ranges of the three previous classifications and considering the lower and upper limit of each range, we will obtain a more representative classification of the micro, small, and medium enterprise:

INDUSTRIAL SECTOR CLASSIFICATION	
Size	Number of Workers
Microenterprise	0 - 15
Small enterprise	16 - 100
Medium enterprise	101 - 250

The result obtained leads us to agree with the criterion of the number of workers proposed by NAFIN. Which, according to this statistical analysis criterion, gives it greater validity.

Conducting an analysis that goes beyond magnitudes to more precisely describe the management style of SMEs led us to consider the relevance of incorporating some contributions from the fields known as organizational theory and strategic management. From this perspective, and with the aim of describing their management style, we consider SMEs as small organizations.

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<sup>108</sup> In calculating the average of the upper limits, only differentiated values were considered. For example, in the case of the microenterprise range, the values considered were 30 and 15, which average to 22.5, resulting in a rounded range of 0-23.



SMEs are explained, in a first orthodox or traditional organizational conception from a Taylorist perspective or Scientific Management (Taylor, 1986), as an organization of an individual and hierarchical nature that develops within a closed system. From this system, the optimal form of management or work organization is found; management is directed towards a division of labor where planning and execution are separated, with planning occurring at the apex of the pyramid, based on objectives and programs to be developed, and therefore where the important decisions for the organization are made. The middle part corresponds to middle management who oversee the operational work. At the base of the pyramid, the operational work is carried out, characterized by routine processes, and designed in a fragmented manner into very simple tasks based on mechanization through standardized and rigid machinery that produces in series. The organization is primarily differentiated by a division of labor between planning and decision-making, and operational or executive work, within a system characterized by the mechanization of work and thus properly closed.

Making a theoretical and general approximation of the Scientific Organization of Work to micro and small enterprises, we were led to consider the relevance of incorporating some of the contributions from the fields known as organizational theory and strategic management. From this perspective, and with the purpose of describing their management style, we consider SMEs as small organizations in the organization, the apex of the pyramid identifies an owner-director who makes most of the decisions in the organization, acting as a one-man band, who does not seek to plan, make income and expenditure estimates, calculate units to produce or personnel to hire, nor establish work procedures. It is this owner-director who personally controls all the activities of the organization, holds all the information, directly supervises the operational work, and thus the organization functions with him; without him, it does not function.

A second interpretation of the management of SMEs that contributes to describing the structure and functioning of the organization in relation to its environment is to locate SMEs within a competitive market, through the organizational vision of Contingency Theory (Pugh, 1997). This theory proposes the dependence of the organization's structure on its context or environment; that is, the structure of the organization is determined by its context. The operating logic of Contingency Theory is one of dependence of the organization on the context or competitive market, with the context or environment being the "central actor" that determines the functioning of the organization. Contingency Theory associates or correlates the environment and the organization, and more specifically, it is a deterministic relationship of the environment towards the organization and its functioning. Pugh (1997) conducts a study of six organizations in England and defines the context as: Size, understood based on the number of workers; Technology, understood as the adequacy of machinery to production volumes; and the Market, specified as the relationship with the degree of competition. These variables determine the structure of the organization; that is, the degree of specialization with which tasks are performed; Standardization, or the extent to which operational procedures are uniform; and Standardization of Employment Practices, or the degree to which the organization has standardized employment practices.



From this conception, the organization is perceived as an open system in relation to its environment, where the functioning of the organization depends on the context. Thus, the Size of the organization, Technology, and Market (external variables) determine the structure (internal variable) of the organization, and how flexible it behaves in terms of work roles, uniformity of operational procedures, and uniformity of employment practices. Pugh (1997), under this approach, in his six studies of organizations in England, reaches specific conclusions such as the following: it is a large manufacturing company (6,500 workers) if standardization and rigid specialization prevail. If the company is related to a competitive market, specialization and standardization decrease their ratings and become more flexible. And if Technology or Machinery produces on a large scale, rigid specialization and standardization prevail.

Within the same approach of Contingency Theory, Hall (1987: 75) explains the functioning of the organization based on the environment or external conditions; here, Technology and the Size of the organization are understood as variables that, in the same terms as Pugh (1997), determine the functioning of the structure or organizational form defined as: Horizontal Differentiation or division of the operational process into different roles or tasks; Vertical Differentiation or depth of the hierarchy or levels of authority in the organization; and Spatial Dispersion, which is a form of horizontal and vertical differentiation in space; that is, roles or tasks and authority are geographically dispersed.

Hall's (1987) proposal is clear in describing the functioning of the organization; the structure is determined by its environment, and specifically, he tells us: the organizational form or structure is described by three variables: Horizontal Differentiation, Vertical Differentiation, and Spatial Dispersion. Contingency Theory theoretically brings us closer to the functioning of the medium-sized organization, in such a way that it begins with a decentralization of decision-making towards an area of technostructure, where there is control of economic resources, operational work, and units produced. The director or manager oversees relations or transactions with suppliers and customers, in addition to monitoring the competition.

The functioning of SMEs is clearer and more transparent through organizational analysis; we know that management is differentiated through internal variables, which are determined by external variables or the environment, characterizing management by differentiated roles or tasks, which are performed in accordance with rules and procedures, defining responsibilities through levels of authority or power centers that come to form a structure with a geometric or organizational pyramid shape.

## **B. Qualitative Analysis of SMEs in the Manufacturing Sector**

Describing the functioning of SMEs as organizations within a Globalization context, and understanding them beyond their size, enables their analysis within a Systems Approach<sup>1093</sup>, organizations situated in an Open System, which maintain and adapt to the

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<sup>109</sup> The General Systems Theory and its basic concepts were established by the biologist Ludwig von Bertalanffy in the general study, "The Theory of Open Systems in Physics and Biology," published in \*Science\* on January 13, 1950, pp. 23-29.

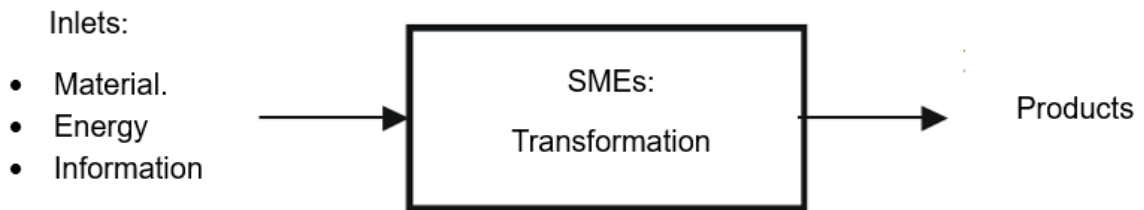
environment, within a process of dynamic equilibrium. This means that in response to competitive changes, they must adapt a strategy to compete through low costs and product quality.

The System is understood as a unitary-organized whole, composed of two or more parts, components, or interdependent subsystems and delineated by identifiable boundaries with its environment or supersystem (Kast and Rosenzweig, 1979). The relationship between the subsystems is understood from Functionalism, which is understood as: "[...] Systems of interrelations and the integration of the parts or subsystems into a functional whole" (Kast and Rosenzweig, 1979: 110). The purpose or objective of the General Systems Theory is the understanding and integration of knowledge. The general principles that explain all fields of knowledge (Kast and Rosenzweig, 1979) are as follows:

1. The System is defined as an "open system" or self-structured, in motion, as a simple dynamic system, which is self-regulating through a control mechanism or cybernetic system.
2. Physical and mechanical systems can be considered closed in terms of their relationship with their environment.
3. Biological and social systems are not closed but are in constant interaction with their environment.
4. The system is more than the sum of its components.
5. Holism considers that all systems—physical, biological, and social—are composed of interrelated subsystems. The whole is not just the sum of its parts, but the system itself can only be explained as a whole. Therefore, Holism is the opposite of Elementarism.
6. Entropy is a term from Thermodynamics but applicable to all physical systems. The disorder, disorganization, lack of structure, or random organization of a system is known as its Entropy; a closed system tends to increase its Entropy over time.
7. Social organizations are not natural systems, like mechanical or biological ones; they are artificial systems with identifiable boundaries that separate them from the environment.
8. All systems—physical, biological, and social—can be considered in a hierarchical sense. In complex organizations, there is a hierarchy of processes and structure.
9. In an open system—biological and social—Entropy can be reduced and can even be transformed into negative entropy.
10. Homeostasis applies to the stable state of the organism. In social organizations, there is no absolute stable state, but rather a dynamic equilibrium, in constant adjustment between internal forces and the environment.

In this perspective of the systemic approach, we will locate the small enterprise as an organization situated within an open system, which will allow us to find its characteristics.

From the perspective of a cybernetic or self-regulated system with inputs and outputs, we will approach its identity. The graphic that represents the small enterprise is:



Source: Based on Kast and Rosenzweig (1979).

Today, there is a widespread consensus on the importance of SMEs within the country's economic activity, but they should not be considered with the characteristics of large enterprises; rather, they should be treated as small enterprises with objectives and characteristics distinct from large enterprises.

Some data that speak to the economic importance of SMEs are: in quantity, they represent around 90% of the companies established in the country. The figure is even higher within the manufacturing sector, representing 99% of manufacturing establishments. And of that 99%, 82.19% are microenterprises, which generate 13.22% of the employed personnel. The small enterprise comprises 13.69% of the establishments and originates 20.80% of the employment. The medium-sized enterprise corresponds to 2.39% of the establishments, creating 15.39% of the employed personnel. With this information, SMEs correspond to 98.27% of the establishments with a job generation of 49.41% (Economic censuses 1994, 1999, National accounts system INEGI, IMSS, Sectoral Information Bank of the Secretariat of Economy).

In general, we can start from the conception of SMEs as any small-scale organization that leads to a qualitatively different management from those commonly discussed in texts normally associated with large companies (Suárez, 2001). This is intended not to exclude microenterprises, as they are mostly self-employment, where entrepreneurs are evidently found using alternative management forms to sustain their organizations in the market, different from administrative rationality or maximum profitability; that is, management oriented towards creativity to stretch limited economic resources.

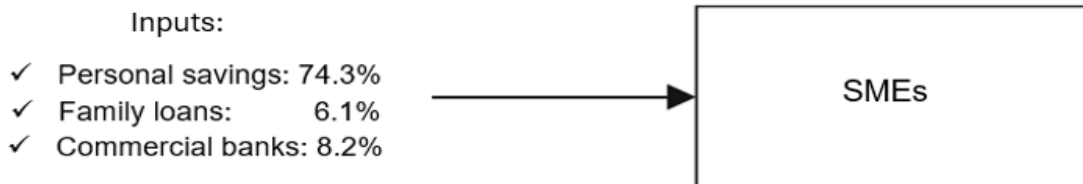
SMEs, according to this conceptual proposal and under qualitative criteria (Suárez, 2001), supported by Penrose's theory of firm growth (1995), can be classified differently from the quantitative parameters of income level or sales, and number of workers, which simply describe the size of the organization. The descriptive characteristics that distinguish SMEs according to small business surveys are:

1. SMEs are financed through non-conventional financial channels, through family savings and credit from suppliers, given their economic insolvency to access formal financing circuits; this is supported by the National Microbusiness Survey (INEGI, 1996) and the survey (1999) conducted by Ruiz (2002), where the main sources of

financing for the start-up of small businesses are: savings - 74.3% - and family loans - 6.1% -, while banks had a participation of only 8.2%. It should be clarified that commercial banks are an available option, but seldom used. Ruiz (2002) points out that according to data from the Bank of Mexico, from 1998, 1999, and 2000, the main external financing for small and medium-sized enterprises are suppliers - on average 53.18% -; as for financing from commercial banks, it is only 22.3% on average.

We can then deduce that the inputs with which the small enterprise starts are: savings -74.3%- and family loans -6.1%-, while banks had a participation of only 8.2%. From this information, and using the systems approach, we can define the graphic:

**GRAPH: INPUTS OF THE SMEs (MANUFACTURING SECTOR)**

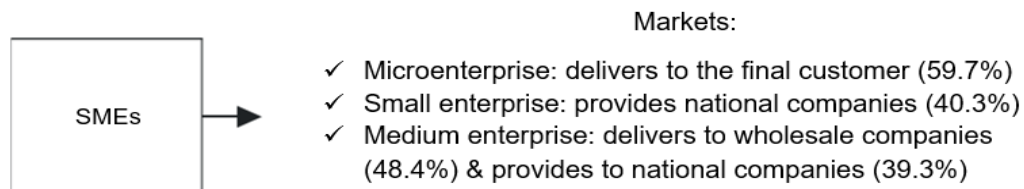


Source: National Micro Business Survey (INEGI, 1996) and Survey (1999) conducted by Ruiz (2002).

2. The market they have access to consists of local or concentrated niches, that is, the entrepreneur locates niches or interstices where they can position themselves. According to the INEGI-NAFIN survey (1992), microenterprises primarily serve the final consumer (59.7%), while small enterprises integrate with national companies (40.3%) and in the case of medium-sized enterprises, they participate both with wholesalers (48.4%), and with national companies (39.3%).

Based on this information from the INEGI-NAFIN survey, small enterprises supply the market, depending on their size, in the following manner: microenterprises supply or distribute to the final consumer, small enterprises provide to national companies, and medium-sized enterprises supply to wholesalers or provide to national companies. The above is clearly established in our following graphic:

**GRAPHIC: MARKETS THAT DELIVER AND PROVIDE THE SMEs (MANUFACTURING SECTOR).**

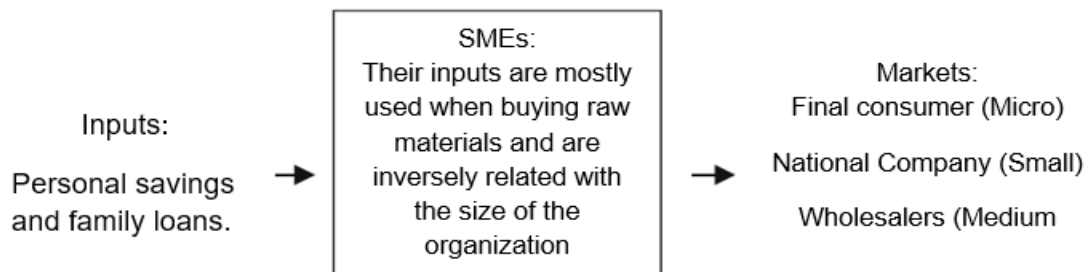


Source: INEGI-NAFIN Survey (1992)

3. The financial limitation that characterizes these companies means that the management initiatives represented in micro and small enterprises must be explained largely by the entrepreneurial talent of the owners, who creatively use scarce financial resources, allowing for the economic operation of the company. In this sense, the INEGI-NAFIN survey (1992) tells us that most of the financial resources of these companies are allocated to raw materials, showing an inverse relationship between the size of the company and its proportion of expenditure on raw materials; that is, the microenterprise spends 47.8% of its expenses on raw materials, and the small enterprise allocates 33.5% of its expenses to the purchase of raw materials. This means that the cost of raw materials occupies the greatest weight in setting the price of their products. In medium-sized enterprises, the expenditure on raw materials is lower, being 29.1%. Expenditure on competition or technology is insignificant in micro, small, and medium-sized enterprises, being respectively: 11.6%, 17.9%, and 18.2%.

We can then deduce that the financing of SMEs is used or applied mainly for the purchase of raw materials. In this way, we have our complete graphic, or seen from another perspective, we have the small enterprise as an open system with inputs and outputs.

**GRAPH: SMEs IN THE MANUFACTURING SECTOR: OPEN SYSTEM MODEL**

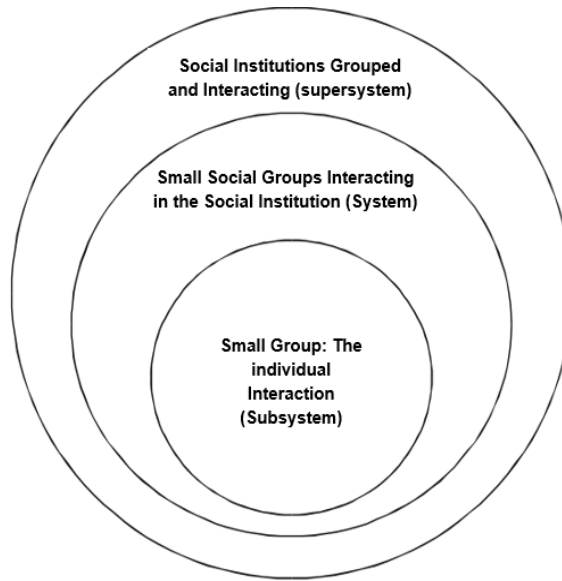


**Source:** Own elaboration from INEGI-NAFIN(1992) surveys, National Survey of Microbusinesses(INEGI, 1996), and Small Companies Survey (Ruiz, 2002)

From census information and surveys of small businesses, we can identify SMEs in the manufacturing sector as small and family-owned companies, which directs our focus towards the field or discipline of sociology or the social, to find signs or characteristics that describe the family business.

The Social, as a first theoretical approach to the concept of the family business, centers its analysis on the Small Group (subsystem), where individuals interact with each other, establishing norms that regulate the group's behavior. The small group interacts with other social groups within the scope of the Social Institution (System). These social groups belonging to or inhabiting the System construct habits or customs characteristic of the Social Institution. When Social Institutions group together, they form the Supersystem or more general System (Kast and Rosenzweig, 1979).

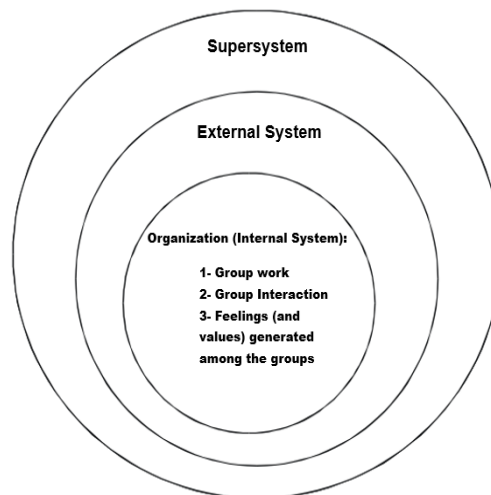
### GRAPH: SOCIAL INSTITUTIONS: OPEN SYSTEM MODEL



Source: Own elaboration based on Kast and Rosenzweig, 1979

A particular, yet interesting and fundamental view of the social, mentioned by Kast and Rosenzweig (1979), is developed by the sociologist George Homans, who uses systemic concepts as a basis for his empirical research on social groups. Homans develops a model of Social Systems to explain the functioning of small groups and social organizations, indicating that a social organization is composed of an internal system and an external system in a relationship of interdependence. Regarding the internal system, he indicates that it is constituted by three elements: The tasks that people carry out; the interactions that occur among people as they perform their tasks; and the feelings (and values) that develop among individuals. These elements are interdependent.

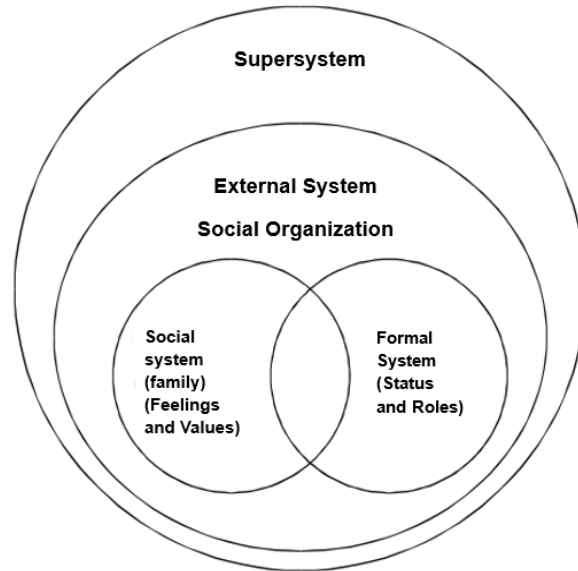
### GRAPH: SOCIAL ORGANIZATION MODEL



Source: Own elaboration based on Homans (1950)

SMEs, qualitatively characterized as small and family-owned organizations, are then social organizations where the social system (feelings and values) of the family interacts with the formal system (status and roles) of the company, shaping the social organization.

GRAPH: SMEs AND THEIR SOCIAL INTERACTIONS



Source: Own Elaboration.

This category<sup>110</sup> of Family Business, for its understanding, should be broken down into two subcategories: "family" and "business." The first subcategory, which is the family, from the perspective of social psychology, can be considered as a group formed by individuals whose main objective is to socialize its members. It is in this cell where a person acquires values, beliefs, and myths. Family members are provided with a way of understanding the world, "interaction patterns" (Minuchin and Fishman, 1989). This worldview can be contrasted with other visions from different groups, and then there is a confrontation between these visions, which can have various consequences. In addition to socializing its members, the family contributes to establishing defined rules and limits of family interaction, which will establish reciprocal relationships among its members. Any challenge to these rules will be automatically countered (Minuchin and Fishman, 1989).

But how is this group called family formed and developed? The family life cycle can be divided into six stages: detachment, coupling, children, adolescence, reunion, and old age (Estrada, 1990). Let's give a brief explanation of each of these stages:

1. Detachment: occurs when a couple of young people decide to seek their independence and separate from the parental home to form their own family.

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<sup>110</sup> Categories are the levels where the unit of analysis is characterized (Sampieri et al., 1998); in this case, the unit of analysis is SMEs, the category is Family Business, and the subcategories are Family and Business.



2. **Coupling:** comes with the first years of cohabitation within marriage, where behavioral patterns are established; and new roles are learned, with rights and obligations, through different forms of cohabitation with the spouse.
3. **Children:** from the new roles and cohabitation comes the arrival of children, who also require and need another change in the couple, as there is now a new person who requires affection, support, understanding, and care.
4. **Adolescence:** a crucial stage in every family, as children seek their own identity that defines them as individuals, which can bring conflicts with parents due to their particular vision of the world.
5. **Reunion:** here is presented what Estrada (1990), according to Mc Iver, calls the "empty nest phase," where the problems of upbringing have ended and adolescents and young people seek their independence from the parental home, the couple then seeks to reconnect.
6. **Old age:** the reunion serves to face the years of old age, where there are new changes oriented towards the role of grandparents of the next generation<sup>1115</sup>.

It should be mentioned that in this process of formation and development of the family, it is not a static cell, but a dynamic cell in constant change, not only in the biological realm but also social. Through its different stages, family members face temporary conflicts that must be overcome, or in the worst case, these conflicts are left unresolved (Minuchin and Fishman, 1989). While the main function of the family is the socialization of the individual, this cell is inserted into a global system that is society. Society assigns its members different roles and hierarchical levels or statuses. It is undeniable that these roles and statuses are also embedded in the cell, which is the family.

Let's define the variables of role and status for the family within its context, which is society, in order to describe the operating scheme of the family as a subcategory of the family business.

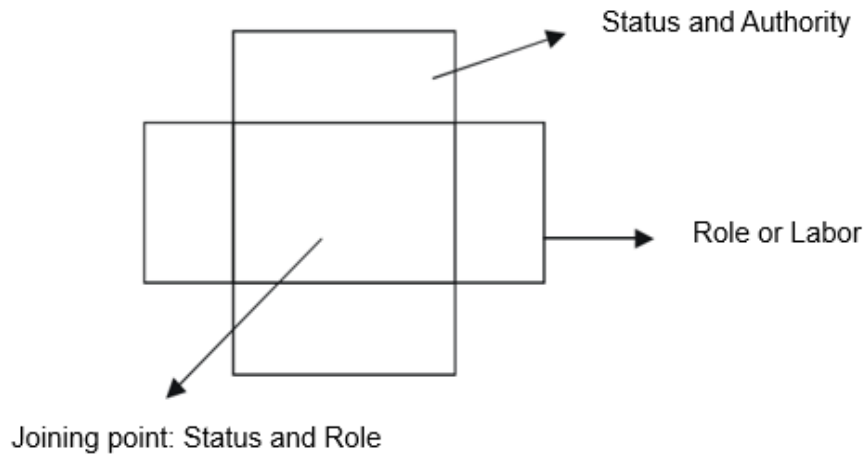
1. **Status:** is a position within the social structure. This means a level of authority, and its inseparable rights and obligations, which implies the exercise of power, interpreted as the individual's right to exercise it.
2. **Role:** are explicit and expected behavioral tasks. Tasks are interpreted as functions or obligations to be performed by the individual (Kando, 1977).

If we make an interaction between these two variables of family functioning, we will find a point where the family member has a status with their rights and a role with their obligations.

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<sup>111</sup> An important note about the family life cycle mentioned by Dr. Estrada is that this model is based on the middle-class American family model, and the conclusions drawn from it should be approached with caution. However, it ultimately helps explain the functioning and development of the family. Longitudinal family studies in Mexico are not readily available.

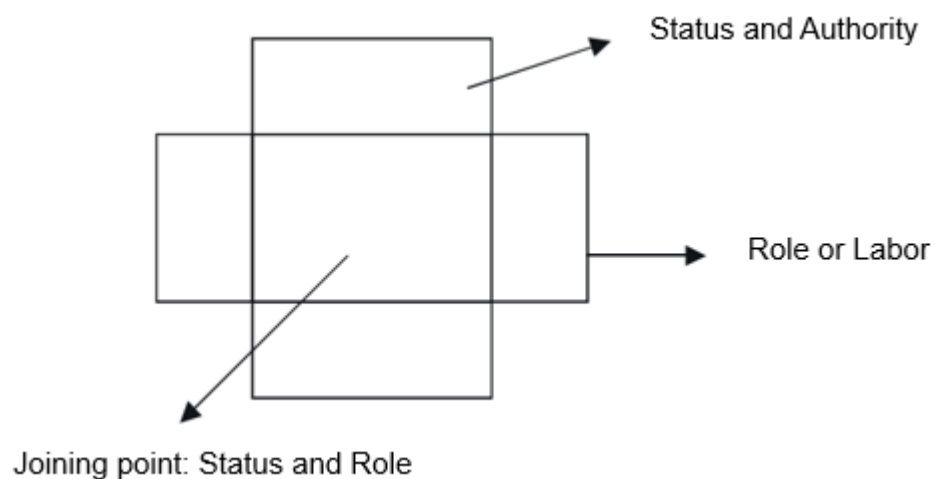
**GRAPH: FAMILY: STRUCTURE AND FUNCTIONALITY**



Source: Developed by Kando (1977)

It should be clarified that this is a simplified way of presenting the functioning of a family, as a single family member has, at the same time, different statuses and roles to play. The business is the other subcategory that forms the category of family business, and to explain it, it should not be detached from the family. The business is founded with the objective of generating wealth or income for the family. Its start as a family business comes from the personal savings of the entrepreneur or loans from the family itself. It also arises as a small organization, due to the lack of resources; this means that it tends to be simplified or not very complex with a simple hierarchical structure (Mintzberg, 1991<sup>a</sup>).

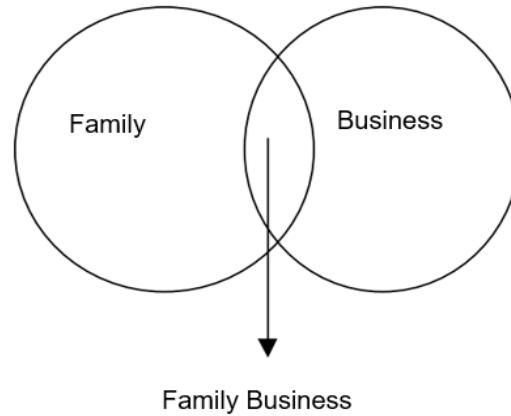
**GRAPH: FAMILY COMPANY: STRUCTURE AND FUNCTIONALITY (1)**



Source: Own Elaboration

Thus, we observe how the structure of the family and its functioning overlap on the same plane, and on the other hand, the structure of the business and its functioning. In a second theoretical and descriptive approach to the family business from a systemic perspective, already from the 60s and 70s, we find that the conceptual model actually consists of two interconnected subsystems: the family and the business (Gersick and Davis [et al.], 1997). Each of these subsystems apparently has its own norms: status and roles, but there is an area of interconnection where the roles of each of the subsystems becomes confusing.

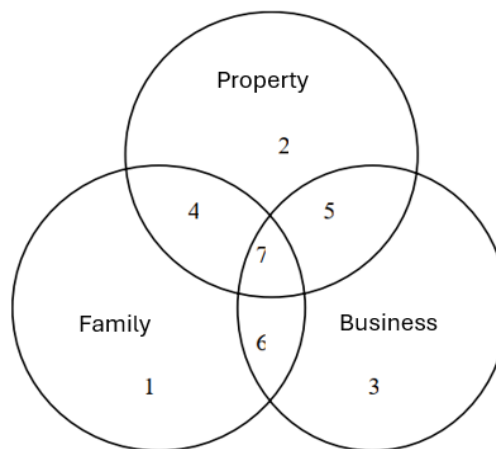
**GRAPH: FAMILY BUSINESS STRUCTURE AND FUNCTIONALITY (2)**



Source: Elaboration by Gersick and Davis [et al.], (1997).

In a third theoretical approach to the family business, in studies conducted at Harvard University in the 80s by Tagiuri and Davis, Gersick and Davis [et al.] (1997) suggest that there is a confusion of roles between ownership and management within the business circle. In other words, some are owners but participate in the management of the business, others are managers but control the shares. From here arises the model of the three circles.

**GRAPH: FAMILY BUSINESS: STRUCTURE AND FUNCTIONALITY (3)**



Source: Elaboration by Gersick and Davis [et. al.], (1997)

From this model or graphic, we deduce that conflicts are created when there are mixed interests between the ownership and the management of the family business. Expressed in other terms, between the patrimony and the decision-making, conflicts between different interests of the family and the business can then be mixed or reflected. This model provides us with a conceptual richness of what the family business is, finding an interaction between the three subsystems, and specifically seven delimited areas of interaction that imply 7 different areas of behavior.

Upon a general review, the 7 specific areas of interaction are:

- Area 1 belongs to the family.
- Area 2 belongs to the ownership.
- Area 3 belongs to the business.
- Area 4 belongs to being a member of the family and owner.
- Area 5 belongs to being an owner and member of the business.
- Area 6 belongs to being a member of the family and member of the business.
- Area 7 belongs to being a common member of the three subsystems: family, ownership, and business.

The general conclusion that is obtained is that in the family business, the initiator of the business or entrepreneur belongs to the family, is the owner of it, and directs or makes the decisions, mixing the interests of the family, the ownership, and the business.

### **C. Analysis of SME Management from a Strategic Management Perspective**

Strategic Management identifies the SME as an organization and allows, through different organizational forms or configurations, to make findings about its management signs. From this organizational approach, SMEs can then be described as organizations, and therefore, it is pertinent or convenient to talk about MSMEs (Micro, Small, and Medium Organizations).

MSMEs are organizations that have boundaries in relation to their context; they self-regulate through inputs (supplies), are transformed through human and mechanical work, giving outputs (products) for a market. MSMEs are characterized as family organizations, which are described through the subcategories: organization and family, where the organization is a small group of individuals integrated into a social system, and the family is a grouping of individuals whose purpose is to socialize. The organization is formed by two systems: the social (feelings and values) and the formal (status and roles). The family is formed by two systems: Status (levels of authority) and Roles (explicit behavioral tasks).

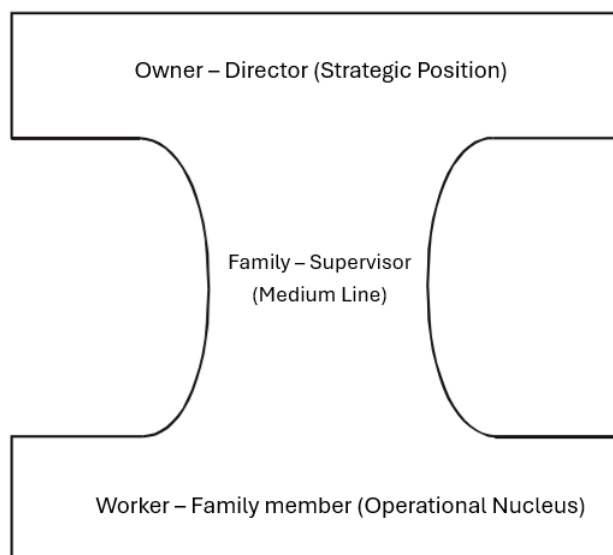
MSMEs are characterized as informal organizations, where roles overlap family and business, tending towards disorganization and disorder, within an open system, thus

oriented towards positive entropy, or total disorder (Kast and Rosenzweig, 1979); under these terms, many of them are doomed to disappear.

This informality of MSMEs is referred to by organizational theory as individual discretion, within its external environment, inversely related to preprogrammed behavior (Hall, 1987). Another recognized and prestigious representative in the field of Organizational Theory: Mintzberg (1991b) explains this type of family organizations, through the configuration: "Entrepreneurial Organization," which has the following characteristics:


1. Strategic Apex. Owner-Director: autocratic leader, power is centered on him and he exercises it, does not foster formal controls because it threatens his authority (ideology) and his technical knowledge. Often a visionary leader, as the entrepreneur of the business.
2. Structure: is simple, not elaborate, a small group of supervisors, and a slight division of labor. Activities and procedures are not formalized, there is no work planning. Work relationships are characterized as family relationships.
3. Organization: is characterized as new and adopts this type of configuration whatever the sector to which it belongs.

**GRAPH: SMOs: ENTERPRISE ORGANIZATION**



Source: Elaborated from Mintzberg (1991b)

## CONCLUSIONS

1. The identification of the profile of SMEs, belonging to the manufacturing sector where family businesses stand out for their importance, was possible through the analysis of contributions from different schools of thought in Organizational Theory, generating a set of characteristics related to different configurations presented in this work.
2. The findings on the characteristics of SMEs are made visible through the different organizational configurations designed as a contribution to the analysis of small and medium-sized enterprises.
3. SMEs are organizations that are financed through family savings, dedicate most of their economic resources to the purchase of raw materials, and are oriented towards local or concentrated niches.
4. SMEs are businesses that aim to generate income for the family through creative management that faces the inherent scarcity of resources.
5. SMEs have a simple hierarchical structure, where the formal line of authority between the manager and the workers is practically direct and is exercised, sometimes, through a supervisor or group of supervisors. However, their functioning becomes complex considering their characteristics as family businesses.
6. SMEs are characterized by a structure in which the roles of owner, manager, worker, and family member overlap.
7. SMEs are complex family organizations, whose characterization and management signs referred to in this work led us to consider the relevance of naming them as small and medium organizations (MSMEs). 



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How to cite:

Cabello Chávez, A., Reyes Avellaneda, R., & Solís Pérez, P. (2025) The Organizational Profile of SMEs (Micro, Small, and Medium Enterprises) in the Manufacturing Sector: A Comprehensive Analysis. *Administración y Organizaciones*, 27 (Special Issue 2024)

<https://doi.org/10.24275/TBWN4373>

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