

**ORIGINAL**  
**Review article**

## **Business sustainability in Colombia\***

### **Sostenibilidad empresarial en Colombia**

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#### **Abstract**

This review research analyzes corporate sustainability in Colombia and its behavior and the survival of business organizations as a strategy for competitiveness. The study has a qualitative and descriptive approach, which consists of a bibliographic review of the literature related to the topic of study. The results reveal that business sustainability is seen as a great alternative for the creation of value, the generation of employment and the economic dynamization of the country; through economic, social and environmental criteria, however, the environmental conditions are not being provided and do not guarantee the sustainability of the new companies created, reflected in a high mortality rate in our country. For this reason, it is concluded that for the development of sustainable companies, external and internal variables in the business ecosystem must be taken into account. In the Colombian case, companies face the following external obstacles: inadequate infrastructure to compete in global scenarios, political instability, social conflict, legal regulations, informality, social inequalities, corruption, financing of productive projects, pandemic, economic factors and tax evasion, among others.

**Keywords:** Business Sustainability, Value Creation, Business Continuity, Entrepreneurship and Competitive Strategies

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\* Original article. Research and innovation article. Review article. Work linked to the project, Leadership and financial performance in the Colombian clay sector.

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## Resumen

En la presente investigación de revisión analiza la sostenibilidad empresarial en Colombia y su comportamiento y la supervivencia de las organizaciones empresariales como estrategia de competitividad. El estudio tiene un enfoque cualitativo y de tipo descriptivo, que consiste en una revisión bibliográfica de la literatura relacionado con el tema de estudio. Los resultados revelan que la sostenibilidad empresarial se visualiza como una gran alternativa para la creación de valor, la generación de empleo y la dinamización económica del país; a través de criterios económicos, sociales y ambientales, sin embargo, las condiciones del entorno no se están brindando y no garantizan la sostenibilidad de las nuevas empresas creadas, reflejado en una tasa de mortalidad elevada en nuestro país. Por tal motivo, se concluye que para el desarrollo de las empresas sostenibles se deben tener en cuenta variables externas e internas en el ecosistema empresarial, en el caso colombiano las empresas afrontan los siguientes obstáculos externos: infraestructura inadecuada para competir en escenarios globales, inestabilidad política, conflicto social, normatividad jurídica, informalidad, desigualdades sociales, corrupción, financiación de proyectos productivos, pandemia, factores económicos y evasión tributaria, entre otros.

**Palabras Clave:** Sostenibilidad Empresarial, Creación de Valor, Continuidad Empresarial, Emprendimiento y Estrategias Competitivas

## SUMMARY

INTRODUCTION. - RESOLUTION SCHEME. - I. Research problem. - II. Methodology. - III. Writing plan. - 1. Obstacles to business sustainability. - 2. Impact of the pandemic on the Colombian economy and the state of the Crisis. - 3. Economic policy challenges 2021. - IV. Research results. - 1. Sustainability alternatives in Colombia. - CONCLUSIONS. - REFERENCES.

## Introduction

In Colombia, sustainable development in companies is of great importance since many efforts have been made at a global level in order to maintain programs that suit people and can have the ability to carry out activities through the creation of sustainable businesses, taking into account social, economic and environmental criteria and thus can last long enough business. Likewise, all this should be preponderant for the entrepreneurs since it is a variable that positively affects the image of the companies. Sustainability brings immersed in its essence the responsibility for future generations; it is necessary to promote good human relations and conserve natural resources, especially the non-renewable ones. In other words, sustainability must be guaranteed among all the actors of society caring for and protecting the environment to guarantee society's future.

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## **Resolution scheme**

### **1. Research problema**

What is the sustainability of companies in Colombia?

### **2. Methodology**

This research was conducted under a qualitative, descriptive, non-experimental approach, which allowed the collection of information through the review of bibliographic sources, databases and the analysis of the current Colombian reality about the variable of business sustainability in order to determine a series of relevant aspects to achieve business objectives, and thus counteract the mortality or desertion of Colombian companies.

### **3. Resolution scheme**

#### **3.1. Obstacles to corporate sustainability**

According to the ILO, business sustainability faces obstacles ranging from external and internal variables that affect the business ecosystem. The external variables are insufficient infrastructure, lack of access to financing, legal regulations, availability of skilled workers, and the country under development. As for the internal variables, management competence, market knowledge, finance, and obsolete technology stand out.

For this reason, analyzing the elements that integrate the external variable, it is evident that the companies constituted in emerging countries have an inadequate infrastructure, which becomes an input for labor informality and unemployment, bringing as a consequence that the lifetime of the companies is very small and of little association as evidenced by the composition of companies in Colombia, where 76.00% corresponds to legal entities and 24.00% to natural persons (ILO, 2014). Other factors that affect business sustainability in Colombia are Political instability, Social conflicts, Pandemic, Informality, Corruption, Economic factors, and Tax evasion.

According to DANE, e-commerce in the first quarter of 2021, compared to the same period of 2020, had a positive variation in sales of approximately 127.00%. Additionally, the entity reported that only in March, there was an expansion in internet sales of 70.00%, boosting retail and automotive trade by approximately 20.00%. The textile sector had the best performance, increasing sales by about 88% compared to March 2020. The vehicle sector followed as trade in cars and motorcycles increased by 86.00%. In third place is the paint and maintenance goods trade, registering an increase in sales of approximately 76.00%; household goods and footwear showed fluctuations of approximately 64.00%. Likewise, the National Administrative Department of Statistics recorded that the food and liquor consumption sector for March 2021 presented a positive variation of 44.00% in its revenues. Finally, other services, including entertainment, registered an increase of 38.00% in their income only in March 2021 (ACTUALICESE, 2021).

### **3.2. Impact of the pandemic on the Colombian economy and status of the crisis**

#### **Exodus of multinationals and individuals from an uncompetitive country**

In 2013, Michelin (French multinational) left Colombia after 7 decades of being founded in the country; ICOLLANTAS ceased its activities in Colombia, dismissing more than 460 workers, as a result of negative results suffered during the previous years, suffering losses equivalent to 300,000 million pesos (Portfolio, 2013). In 2014, Mazda Corporation, owner of the assembly plant in Colombia, closed its assembly operation, causing the loss of about 500 direct jobs. It causes commercial difficulties with neighboring markets -Venezuela and Ecuador (Rodríguez, 2014).

In 2015, the multinational Mondelēz International, a company that produces Adams Chiclets in Colombia, closed its plant in Cali due to technological lags and unsustainability of the business, affecting about 540 workers (ACOSTA, 2015). In the last 20 years, more than 15,000 natural persons changed their tax residence to other countries to lower their tax burden and reduce their contribution to taxes in this country (Pardo, 2019). All this leads us to rethink the conditions on which the structure of our tax system is based and what influences or scares away capital investment in the country or the low sustainability of the business fabric faced by our productive apparatus.

#### **Deficit, GDP, unemployment, poverty and level of public debt.**

In addition to the diaspora of capital, the country faced one of its worst crises, as revealed by its main economic indicators. GDP suffered a historic drop of 6.80%, the worst contraction since the 1999 crisis when it reached 4.50%. Another worrying indicator, which shows no improvement, is the high unemployment and poverty rate plaguing Colombians. As reported by DANE, in March 2021, the number of unemployed people was 3.4 million, representing 14.00%. In addition, approximately 21 million Colombians were in poverty, and more than 7 million were in extreme poverty (Salazar Sierra, 2021). Analyzing the Latin American region, we find countries such as Mexico, Peru, and Argentina that contracted their Gross Domestic Product (GDP) below that of Colombia.

The fiscal deficit is another important factor in business sustainability. If it exceeds the established goals, governments must plan fiscal reforms to cover it, generally through initiatives that increase companies' contribution. The problem for sustainability in Colombia is centered on how the fiscal deficit is covered, which is through debt service, which is what has been happening in our country; for this reason, future commitments are increased, and it is only a temporary measure that reverses its effect on the fiscal deficit, as well as the sale of productive assets, which generate resources today, but the deficit will continue to grow with the inconvenience that the income that the asset produced in future periods will no longer be available.

The deficit of the Central National Government for 2020 stood at 7.80% of the Gross Domestic Product (GDP), although Law 1473 of 2011, in search of orderly state finances, established a goal for the closing of 2022 of 1.00% of the GDP. However, the pandemic changed the rules of the game. It will be a goal that cannot be met. Hence, the new initiative presented by the government on July 20 contemplates reformulating this rule, anchoring it to the debt limit but giving it escape valves.

The budget for 2021 was approved at 313 billion. The government requires \$132 billion (12.10% of GDP) to cover this financing need, of which 90 billion will be new debt.

Meanwhile, debt service will occupy 24.17% of public spending (75.8 trillion) with a debt target of 55.00%.

The taxes administered by the DIAN corresponded to 93.00% of the total revenues of the Treasury; the collection target initially set for the fiscal year 2020 would be equivalent to approximately 168 billion pesos; however, due to the COVID-19 pandemic, this value had to be adjusted in the fiscal framework to 144 billion pesos, representing 14.00% less than the initially set target. In turn, the gross collection target for all of 2021, according to the Financial Plan launched in March by the Ministry of Finance, is \$161.2 billion (DIAN, 2020).

The unemployment rate at the national level for June 2021 was at approximately 14.00%, representing an increase in the unemployment rate, compared to the immediately preceding taxable year, of 4.00%, pre-pandemic period. In addition, it presented an increase of 5.4 percentage points in the unemployment rate as of June 2020, but with a recovery of 1.5 percentage points about the closing of 2020 when unemployment was at 15.90%.

The high rate of unemployment and informality through which the country is going impacts consumption, which is the main input of dynamics and sustainability of companies, suffocates any initiative and subjects it to a straitjacket that prioritizes household spending (Reports, 2021) in items such as health and food and less in durable or sumptuous expenses such as movies and nightclubs. The 2019 Economic Census specified that the average longevity of businesses in Mexico is 7.8 years (INEGI, 2019); in Colombia, only 22.40% exceed 10 years of life (COMPITE, 2021).

The city of Cúcuta and its Metropolitan Area ranked third, presenting an unemployment rate of 20.50% at the end of June 2021. This situation has been adjusting to the national average after suffering its greatest increase in the middle of the quarantine period, reaching 34.40% in March 2020. Commerce vehicle repair captured 28.90% of the employed population, followed by manufacturing industries with 13.30% for the 2021 analysis period (Economic Observatory, Cúcuta Chamber of Commerce, 2021). For the November-January 2021 period, of the 23 cities and metropolitan areas, those with the highest proportion of informality were Cúcuta A. M. (72.50%), Santa Marta (65.30%) and Sincelejo (64.80%). The cities with the lowest proportion of informality were Manizales A. M. (40.70%), Tunja (41.40%), and Medellín A. M. (42.70%).

### 3.3. Economic policy challenges 2021

Undoubtedly, the solution is not in the hands of the state alone. However, it is in its hands to provide the economic conditions for companies to survive, and that is where the experts agree on the challenges that the administration faces to create an environment of trust and a good wind that blows in favor of business initiatives that generate economic development. Among the most important are:

- High unemployment, precarious wages, and labor flexibility. Undoubtedly, it is one of the short-term's most difficult and slowest challenges. One year since we reached the highest level of unemployment since records have been kept, 19.8% of its occupation. Aggravating the labor situation, the migrant population (which since 2010 has grown unprecedentedly due to Venezuelans fleeing the regime their country is going through), the pandemic, the sectorized closures of activities, and the economic crisis have become a breeding ground for labor flexibilization; it is presumed that 3 out of 4 Venezuelans work in Cucuta without a labor contract and those who are preferred accept wages

below the minimum wage and hours that exceed the maximum allowed, this hitting hard the labor formality.

- Recovery of the main economic indicators. An issue that is closely linked to the evolution of vaccination of the population since public health is the main indicator that has shown a direct and rapid impact on the economy, as in the case of the U.S.A., which has invested some \$6 trillion in health and recovery measures but which has represented a parallel rebound in its economy (Hamilton, 2021).
- The need to finance the budget deficit. With a deficit that reaches \$90 billion and an unattainable fiscal rule, the government needs to free its hands to implement new measures that will allow it to address the social and economic problems facing the country.

#### **4. Research results**

##### **4.1. Review of sustainability alternatives**

The tax reform, although withdrawn, is a good starting point; the presentation of the new tax reform was expected to be approved in record time. There was a consensus by the commission of experts that very few contribute unjustified preferential treatments, and the policies are not redistributive, measured by the GINI is very concentrated (markets should be regulated to avoid monopolies). However, the commission was not taken into account when proposing legislative alternatives since social pressures and the disturbances provoked by the marchers of the national strike forced them to take narrower but less interventionist routes, summarized in 35 articles (of which the congress has already registered more than 200 proposals by the collegiate members) of which only 8 modify the tax statute.

Companies faced a concentrated inequality, a Gini indicator that groups its business fabric in large companies in just 1.00% of the total number of companies, and the remaining 99.00% are SMEs that have been the most affected, among others because they do not have the mobility capacity that large companies have to leave the country and move their capital to jurisdictions with better tax, labor and business development conditions (Decree 1074 of 2015 Sector Commerce, Industry and Tourism, 2015). While Colombia, 17 months after having declared the pandemic, is still discussing a first ordered and planned set of legislative tools, recently filed just for the anniversary of our independence and whose approval is optimistically expected by the end of August, other legislations are in their second and third package of measures, such as the U.S. which on March 6 APPROVED a stimulus plan of 1.9 trillion to counteract the adverse effects of the pandemic.

Although our tool for emergencies of Article 215 of the Constitution is the legislative decree, more than 200 were issued to ward off the effects of the pandemic (Decreets, 2020); however, its limitation only allows, in terms of taxes, temporary measures, such as running deadlines, exempting interest, even exceeding its scope have decreased contributions from April and May 2020 to the SGSS from 16% to 3%, which the court declared unconstitutional. Now, employers must pay with creases (Amaya, 2020). However, only two laws have been promoted, and only one for creating the Formal Employment Support Program (PAEF). The PAEF (2020) has been a relief of great coverage that helped maintain the employment of more than 4 million workers, effectively benefiting the sustainability of more than 140,000 companies (18.80% of the total number of companies registered in the Chamber of Commerce) (COMPITE, 2021).

## Conclusions

In the Colombian case, companies face the following external obstacles: inadequate infrastructure to compete in global scenarios, political instability, social conflict, legal regulations, informality, social inequalities, corruption, financing of productive projects, pandemic, economic factors, and tax evasion, among others.

Companies' internal constraints are knowledge management, industry 4.0 market knowledge, technology, associativity and financial resources, and management competence. The pandemic has negatively impacted the Colombian economy regarding business sustainability, GDP, unemployment, poverty, debt levels, fiscal deficit, exodus of multinational companies and natural persons, and company closures.

It should be noted that companies face a concentrated inequality, a Gini indicator that groups their business fabric in Large Companies in only 1.00% of the total number of organizations, and the remaining 99% are SMEs that have been the most affected in the process of business sustainability, among others because they do not have the mobility capacity that large companies have to leave the country and move their capital to jurisdictions with better tax, labor, and business development conditions.

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