

## 1. INTRODUCTION

Small and medium sized enterprises form the backbone of a country's economy; they allow the big conglomerates to optimize their production by performing outsourced activities, they provide for crucial innovations, employ the majority of people and contribute by their mere existence significantly to economic and thus often societal stability of a country. Advances in technology that allow for reduced communication, coordination and transportation cost, deepened political cooperation such as free trade agreements like NAFTA and improving education of the employees – managers and workers alike - open new growth possibilities for those SMEs that have their view aligned to future.

A growing and striving SME sector with its ability to increase a population's share in economic growth is vital to any country as a prosperous SME sector helps distributing market economy's benefits more evenly amongst the population. Particularly for Mexico, a nation wedged between and with access to an affluent market to the north and promising markets to the south, a prosperous SME sector could be part of the answer to the question of how to bring some of the benefits of today's world to all its people

In their quest for a more efficient operation, improved products and services and sustainable profit increases SMEs frequently turn to improving their internal processes, leaving behind improvisation and embracing a consistent structure. However, managers that search to establish a more consistent, a more formal mode of doing things often, while easily seeing the consistency's benefits, struggle to identify whether or not their organizations are ready for making the step from improvisation to organization; books with titles like "How to survive ERP", "ERP – making it happen" speak for themselves in this respect. To give the SME manager a tool to assess her or his organization's readiness for a more consistent, a more formal structure is the purpose of this research study.

### 1.1 Goal & Scope of the Paper

The present paper describes the intentions of mSMEs in formalizing their processes. It helps to better understand when a SME should consider PF of certain processes by describing the case of a Mexican mSME implementing an ERP and a SCHEDUL system. Putting the systems implementation in the bigger context of PF, the study identifies under which circumstances the systems were implemented, to which ends they were implemented – i.e. what are the drivers and stoppers of PF – and what did or didn't contribute to the success of the implementation – i.e. the KSFs of PF. The aim of the paper is to improve understanding on whether or not to formalize which processes under which conditions. Put in other words, the paper seeks to illustrate if mSMEs can benefit from formalizing certain processes and if yes, how they can benefit.

The document is an exploratory study with a deliberate focus on describing an issue that has not found sufficient development in the relevant literature – formalization of processes in SMEs – and suggesting a classification of the phenomena involved. It is thus an inductive study, designed towards describing a phenomenon and suggesting a model for classification of the different facets of the phenomenon under study, thus augmenting the understanding of how SMEs should organize.

### 1.2 Outline of the Problem

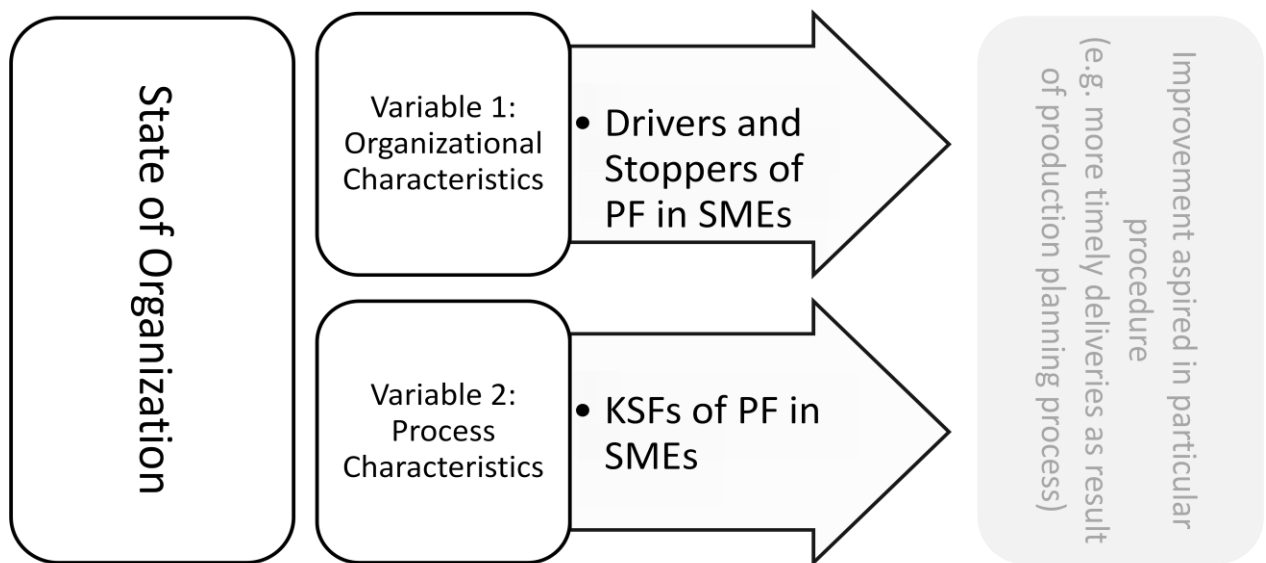
A formalized process – particularly with the advent and widespread recognition of certifications such as ISO90001 etc. – is commonly considered a 'good' process. Given that SMEs emphasize on their flexibility, an ever-more important asset particularly in maturing and ever-more volatile markets, it is important to understand if that flexibility would be limited to an undesirable degree by the formalized process. In other words, it has to be assessed whether or not the formalization of the process is worthwhile or not.

Whether formalization is worthwhile depends on the goals aspired and on the "cost" associated with the formalization. As the goals aspired can vary widely, a SME manager needs a tool to assess the "cost" associated with formalizing the process.

The “cost” or in other words, whether the procedure is worth being formalized is determined by two variables:

- a) The organization’s characteristics
- b) The procedures’ characteristics

For the present study, a framework is proposed that allows the manager to assess whether or not the organization’s and the procedure’s characteristics facilitate ‘walking the trail’ (cf. Figure Problem Structure 1). By assessing and conceptualizing the variables, the manager holds a powerful tool in her hands to influence the variables.



*Figure 1.* Problem Structure. Own elaboration

To answer the research question: ‘When should a SME formalize its processes?’ two sub-research questions were developed:

1. How does a successfully formalizing SME look like (i.e. drivers and impediments of PF)?
2. How does a successful formalization of a process / procedure look like (i.e. KSFs of PF)?

After accounting for the problem and its relevance, the structure of the paper will be described in the next section.

### 1.3 Structure of the Paper

In order to identify the Drivers, Stoppers and KSFs of PF in SMEs, the study drew from the existing literature on deployment of formalizing systems such as ERP implementation in SMEs prior to presenting its empirical data.

Empirical data consisted of a single-case study backed by semi-structured in-depth expert interviews with persons related to the case as well as independent 3<sup>rd</sup> party experts.

The paper concludes with suggesting that the existing factors influencing PF in SMEs could be grouped in a new, more meaningful manner, allowing the practitioner to evaluate the capabilities of her organization to achieve the aspired improvements by formalizing a given procedure. The paper proposes a new categorization with higher practical relevance than the existing ones.