Small Firm Growth in Lima, Peru: A Multiple Case Study

Crecimiento empresarial en las pequeñas empresas de Lima, Perú: un estudio de casos múltiple

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The main goal of this article is to identify factors associated with the growth of micro and small enterprises (MSEs) in Lima, Peru from the perception of the entrepreneurs themselves based on a qualitative multiple case study under a holistic approach. Therefore, the study analyzes 18 MSE cases in Lima divided into two groups: companies experiencing continuous growth and companies that do not experience continuous growth. The results showed that one of the factors that seem to be characteristic of the first group is the constant motivation to take advantage of business opportunities. On the contrary, one of the factors present in the second group is the motivation to meet temporary needs. This article contributes to the understanding of MSEs in Lima and expands the existing knowledge on the factors associated with growth and market consolidation by studying the entrepreneurs’ perceptions.

Palabras clave: firm growth, small enterprise, MSE, microenterprise, Peru

El objetivo principal de este artículo es identificar los factores asociados con el crecimiento de las micro y pequeñas empresas (mypes) en Lima, Perú a partir de la percepción de los propios emprendedores con base en un estudio cualitativo de casos múltiple bajo un enfoque holístico. Por eso, el estudio analiza 18 casos de mypes en Lima divididos en dos grupos: empresas que experimentan un crecimiento continuo y empresas que no están creciendo. Los resultados mostraron que uno de los factores que parecen caracterizar al primer grupo es la constante motivación por aprovechar oportunidades de negocio. Por el contrario, uno de los factores presentes en el segundo grupo es la motivación por satisfacer necesidades temporales. El presente artículo contribuye a la comprensión de las mypes en Lima y amplía el conocimiento existente de los factores asociados a su crecimiento y consolidación en el mercado mediante el estudio de la percepción de los emprendedores.

Keywords: crecimiento empresarial, pequeña empresa, mype, microempresa, Perú
1. Introduction

In both developing and developed countries the majority of firms are MSEs. In developing countries MSEs are responsible for the economic growth because of their contribution to the GDP, which could be underestimated, and for job creation as well (Nichter & Goldmark, 2009; Okpara & Wynn, 2007). In many Latin American countries, micro and small enterprises employ more than 50% of the working population, and this is one of the main factors by which the public policies that support these enterprises are defined (Nichter & Goldmark, 2009; Dini & Stumpo, 2018). Nevertheless, MSEs face challenges they need to overcome in order to achieve a continuous growth (Molina et al., 2014; Sánchez, 2014).

In Peru, MSEs have an important role because of their contribution to job creation and their participation in the socio-economic development of where they are located (Avolio et al., 2011). However, these firms are generally not formally incorporated and face many competitive disadvantages such as the impossibility to sign contracts with multinational companies or governments and the difficulties to obtain formal credits and aid from law enforcement agencies (Nichter & Goldmark, 2009). It should be noted that the vast majority of MSEs are located in Lima (COMEXPERU, 2019).

Given the role of MSEs in economic growth, their contribution to job creation and their participation in the nation’s economic development, it is relevant to study the factors associated with these enterprises’ growth. This research can help entrepreneurs, governments and academia to advocate actions that encourage business competitiveness and sustainability. Nowadays, there are some studies that show that social networks, inter-firm cooperation and innovation in products and processes are related to great levels of MSE growth (Nichter & Goldmark, 2009; García-Pérez de Lema et al., 2016).

Consequently, the study of MSE growth could help to have a better understanding of their competitiveness and sustainability. For that reason, the main goal of this article is to analyze, from the perception of the entrepreneurs themselves, the factors associated with small firm growth in Lima.

Furthermore, this study is relevant because there is a lack of knowledge of MSE growth in Peru (Seclén, 2016a). Research in this area is important because the vast majority of firms in Peru are MSEs and they have shown a significant increase in growth in recent years (COMEXPERU, 2019).

This paper is organized as follows. First, section 2 presents the state of work done in the area of enterprise growth based on the literature reviewed for this study. Section 3 explains the research methodology used in this research. Section 4 discusses the key findings for two types of factors: internal and external. Finally, this article concludes by drawing some recommendations for development practitioners.

2. Literature review

The topic of firm growth has been studied from different perspectives because of its complexity and heterogenous nature (Seclén, 2016a; Gupta et al., 2013). In addition, many theories and models have contributed to develop more knowledge about this topic.
The contingency theory aims to study the relationship between the company, its resources and the business environment in order to define organizational designs and leadership styles for different kinds of situations. According to this theory, firm growth is influenced by the business environment (Seclén, 2016a).

Moreover, based on a study by Greiner (1998) about the theory of enterprise development, Churchill and Lewis (1983) suggested a model which considers five stages of small business growth: existence, survival, success, take off and resource maturity. In addition, based on the dynamic state approach that recognizes that firms encounter continuous changes (Levie & Lichtenstein, 2010), Brown and Mawson (2013) stated that firm growth is an unstable process and that there are inflection points that help firms grow rapidly and move from one dynamic stage to another.

Gupta et al. (2013) state that there are two models of firm growth: predictable and unpredictable. The first one defines that the growth path is linear and sequential from the existence to the decline stage of the company. The other model suggests that there can be changes in the growth path by intervening factors such as knowledge and technology.

A number of researchers have classified firm growth factors into two categories: internal and external. Internal factors include individual characteristics of entrepreneurs such as motivation, education, management experience, number of founders, gender, and functional skills; and firm characteristics like age and size, legal form, strategy, and functional and technical capabilities. In relation to external factors, the main determinant of business growth is the demand for the company’s products, followed by the actions of competitors, the supply of production factors, the features of the local business environment, and the promotion of new forms of partnership (Davidsson, 2010; Gupta et al., 2013; Sansores & Navarrete, 2018).

Nichter and Goldmark (2009) identified four types of factors related to firm growth in developing countries: individual entrepreneur characteristics (education, work experience and gender), firm characteristics (firm age, formality and access to finance), relational factors (social networks and value chains) and contextual factors (such as the business environment).

Despite the coincidence of several authors to highlight different levels of firm growth factors, there is no consistency among them. Nevertheless, multidimensional models which include factors related to the business owners, firm characteristics and business environment are highly recommended (Seclén, 2016a).

Consequently, factors considered in this study can be classified into two categories: internal and external. The first ones are related to individual characteristics of entrepreneurs (motivation, level of education, previous experience in the industry and number of founders); to the company (enterprise legal form); and to the firm strategy (innovation, technological sophistication and market positioning). External factors are related to the regulatory system, the tax system, the forms of partnerships, and the sectorial policies. These factors have been examined in this study since they are the main aspects in the literature on MSE growth in developing countries.

In this research, innovation has been defined as a process through which an enterprise improves or launches new products, processes, ways to sell its products and
new ways to do organizational changes, in order to adapt to the external environment of a business (Seclén, 2016b).

Although there are several measures used in organizational growth studies (Delmar et al., 2003), Penrose (1959) proposed a theory in which two connotations of growth are distinguished. The first one implies an increase in amount, such as in sales, exports, jobs, etc.; and the second one an increase in size as a result of a process of evolution (Davidsson, 2010). Furthermore, we can distinguish between two types of capabilities: ordinary capabilities, that permit firms to earn a living in the present; and dynamic capabilities, that continuously allow firms to have a competitive advantage (Cepeda-Carrión & Barbosa Trueba, 2016). In this way, Penrose argues that firm growth depends on how managers use their ordinary capabilities; nevertheless, they are insufficient to face external environmental changes (Ambrosini & Bowman, 2009).

The majority of studies on small firm growth employ the increase of the number of employees as a unit of measure, while some scholars use other metrics such as instance revenue or asset growth. This article defines firm growth as an increase in the number of employees and as an increase in revenue over time. Furthermore, it is important to distinguish between new businesses and established businesses (Serida et al., 2020). This research considers only the latter.

3. Methodology

The research conducted has used a qualitative approach to the multiple case studies under a holistic approach since 18 MSE cases were identified and each case was analyzed as a whole unit. The multiple case study methodology examines each MSE as a single case study before arriving at findings that are constant across the entire investigation (Yin, 2018). Moreover, this study has used a deductive approach based on multidimensional models of firm growth.

Based on a paper by Avolio et al. (2011), this study has considered the following five criteria for identifying MSEs. A MSE is a company that 1) is formally incorporated at the time of the study, separating formal from informal MSEs; 2) has between one and two hundred employees, distancing the study from cases of self-employment; 3) has two years or more of formal operation, distinguishing short-term opportunities from long-term business commitments; 4) more than 51 % of its ownership is local, allowing the study to focus on Peruvian companies; and 5) belongs to commerce, service and manufacturing sectors to include a wide range of firm growth perspectives. Information from the top 10,000 companies of Peru (PTP, 2019) was used in the compilation of the data set. There are 55 MSEs in Lima which met the selection criteria mentioned before, but only 18 accepted to be interviewed for this study. These interviews were effectively conducted and they were sufficient to answer research questions considering theoretical saturation (Eisenhardt, 2007), which was reached when no additional data were found from the interviews to generate new information. The unit of analysis in this study is the entrepreneur: by analyzing the perceptions of the entrepreneurs about firm growth, it is possible to find factors that could help governments make appropriate public policies.
Two study groups were also defined: companies that showed continuous growth over the past five years, and companies without this behavior. In order to operationalize the concept of growth in MSEs, two criteria were considered: 1) average volume of sales over the past five years; and 2) average number of employees in the last five years. Accordingly, in the interviews carried out to entrepreneurs, we included one question about the evolution of their level of sales and the number of employees on average over the past five years. If they responded that both their sales and the number of their employees increased or that their sales grew and the number of employees remained constant, it was classified as a growing company; if they responded that both their sales and the number of their employees declined, or that their sales declined and the number of employees remained constant, it was classified as a company that does not grow.

In-depth interviews were the source of evidence used in this study. Data were collected through the semi-structured in-depth interviews with business owners that were conducted during the second quarter of 2019. Before starting the interview, we had a small conversation of about 10 minutes about their personal life in order to make the interviewees feel comfortable. The interviews were recorded and transcribed. We used a general question guide that was previously validated by scholars and experts on the subject who reviewed the questions and provided advice. The classification of qualitative questions (six types) used by Mertens (2005), and the recommendations and order of formulation used by Hernández et al. (2014) were used. The questions used for this part can be read at the appendix of this paper.

For individual analysis of cases, three phases were followed with the aim of finding common elements. The first phase consisted of uploading the transcripts of the interviews in the Atlas software, which is useful for the process of analyzing qualitative studies. This activity allowed us to generate codes. The second phase included the reduction of information by creating marks in the main paragraphs of the transcript of each case. Finally, the third phase consisted of the allocation of codes, which allowed to identify categories of analysis of each one of the identified factors. The process of codification was reviewed by one senior researcher in order to demonstrate the reliability of the process and to reduce bias.

The data of the informants (which have been modified for reasons of confidentiality) are presented in Table 1, and their main characteristics in Table 2. According to the Global Entrepreneurship Monitor (Serida et al., 2020), almost 50 % of entrepreneurs in Peru are younger than thirty-four years old and 25 % of them have studied in universities in this country. Consequently, the firm characteristics presented in this study are typical of MSEs in some cases, while others are atypical.

Table 1. List of informants

<table>
<thead>
<tr>
<th>Firm code</th>
<th>Entrepreneur age</th>
<th>Educational level</th>
<th>Professional career</th>
<th>Type of business</th>
<th>Employees</th>
<th>Position</th>
<th>Firm age</th>
<th>Equity (dollars in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1</td>
<td>46</td>
<td>University</td>
<td>Engineering</td>
<td>Services</td>
<td>65</td>
<td>General manager</td>
<td>8</td>
<td>61</td>
</tr>
<tr>
<td>P2</td>
<td>34</td>
<td>Secondary</td>
<td>Services</td>
<td>2</td>
<td>Owner</td>
<td>8</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Respondents per age</td>
<td>Entrepreneurs</td>
<td>Percentage</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 to 33</td>
<td>7</td>
<td>39 %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>34 to 42</td>
<td>6</td>
<td>33 %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Older than 43</td>
<td>5</td>
<td>28 %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100 %</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Respondents per education level</th>
<th>Entrepreneurs</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secondary</td>
<td>3</td>
<td>17 %</td>
</tr>
<tr>
<td>University</td>
<td>13</td>
<td>72 %</td>
</tr>
<tr>
<td>Vocational and technical</td>
<td>2</td>
<td>11 %</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
<td>100 %</td>
</tr>
</tbody>
</table>

Source: own elaboration.
Respondents per type of business

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>2</td>
<td>11 %</td>
</tr>
<tr>
<td>Commerce</td>
<td>6</td>
<td>33 %</td>
</tr>
<tr>
<td>Services</td>
<td>10</td>
<td>56 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Respondents per firm age

<table>
<thead>
<tr>
<th>Firm age</th>
<th>Companies</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 6 years of age</td>
<td>8</td>
<td>44 %</td>
</tr>
<tr>
<td>7 to 12 years of age</td>
<td>4</td>
<td>22 %</td>
</tr>
<tr>
<td>More than 13 years of age</td>
<td>6</td>
<td>33 %</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>100 %</strong></td>
</tr>
</tbody>
</table>

Source: own elaboration.

4. Discussion and results

Tables 3 and 4 present the patterns identified in companies that showed growth and no growth in relation to the factors associated with small firm growth from the perception of MSE entrepreneurs. These factors can be operationalized in many different ways, such as: 1) start-up motives and aspirations; 2) the highest degree or level of school completed; 3) number of years of work experience; 4) amount of business owners; 5) enterprise legal form; 6) number of new products or services launched in the last five years; 7) age of machinery; 8) number of competitors; 9) number of procedures to grant a license or certificate; 10) amount of taxes MSEs must pay; and 11) access to information provided by the State. Each one of the identified factors is explained below.

Table 3. Patterns identified in companies that showed growth

<table>
<thead>
<tr>
<th>Factor</th>
<th>Growing companies</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal: related to entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Motivation: taking advantage of business opportunities</td>
<td>P1 P4 P6 P7 P9 P10 P12 P15 P18</td>
<td>5</td>
</tr>
<tr>
<td>Internal: related to entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Education level: university</td>
<td>1 1 1 1 1 1</td>
<td>6</td>
</tr>
<tr>
<td>Internal: related to entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Industry experience: more than five years</td>
<td>1 1 1 1 1 1</td>
<td>8</td>
</tr>
<tr>
<td>Internal: related to entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Number of founders: two, but only one of them manages the firm</td>
<td>1 1 1 1 1 1</td>
<td>6</td>
</tr>
<tr>
<td>Internal: related to the company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Legal entity: S.A.C./E.I.R.L.</td>
<td>1 1 1 1 1 1</td>
<td>8</td>
</tr>
<tr>
<td>Internal: related to strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Innovation: new products and new process</td>
<td>1 1 1 1 1</td>
<td>6</td>
</tr>
</tbody>
</table>
It is noticeable in Table 3 that previous work experience in the industry and market positioning play an important role in companies that show growth.

Table 4. Patterns identified in companies that did not show growth

<table>
<thead>
<tr>
<th>Factor</th>
<th>Non-growing companies</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>P2</td>
<td>P3</td>
<td>P5</td>
</tr>
<tr>
<td>Internal: related to entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Motivation: short-term vision</td>
<td>1 1 1 1 1 1 1 7</td>
<td></td>
</tr>
<tr>
<td>Internal: related to entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Education level: university</td>
<td>1 1 1 1 1 1 1 7</td>
<td></td>
</tr>
<tr>
<td>Internal: related to entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Industry experience: more than five years in other industry or no relevant experience</td>
<td>1 1 1 1 1 1 1 5</td>
<td></td>
</tr>
<tr>
<td>Internal: related to entrepreneurs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Number of founders: two, but only one of them manages the firm</td>
<td>1 1 1 1 1 1 5</td>
<td></td>
</tr>
<tr>
<td>Internal: related to the company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Legal entity: S.A.C./E.I.R.L.</td>
<td>1 1 1 1 1 1 1 7</td>
<td></td>
</tr>
<tr>
<td>Internal: related to strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Innovation: they do not launch new products regularly</td>
<td>1 1 1 1 1 1 1 6</td>
<td></td>
</tr>
</tbody>
</table>
As shown by the data presented in Table 4, the entrepreneur’s short-term vision, the sporadic launch of new products and the use of an old and obsolete machinery are noteworthy factors.

4.1. Factors related to entrepreneurs (internal)

Among the internal factors related to entrepreneurs, the following were identified: the businessman’s motivation, the businessman’s level of education, the experience in the industry, and the number of founders.

Regarding the motivation of entrepreneurs, in the group of companies that experience a continuous growth, entrepreneurs seek to take advantage of business opportunities to generate incomes, are passionate about what they do, have plans for the future, celebrate their achievements, try to learn constantly, and communicate their vision to their employees. P1, from a company that grows, mentioned: “if you want to be a good employer, first you have to start chasing your dreams and then make your people, those who are around you, pursue that dream too”.

On the other hand, in the group of companies that do not experience growth, entrepreneurs seem to have a short-term vision and try to generate income only to meet their economic needs. P2, from a company that doesn’t grow, stated: “how do you see yourself in five years? I would like to grow... to start here in Lima and maybe... in provinces too. I’m thinking about it”.

Regarding the level of education, in the group of growing companies, most entrepreneurs have university studies and are constantly trained in business management issues. P9, who only finished high school and has a company that grows, mentioned that
he attended an intensive training taught by a business advisor in relation to those issues: “I have looked to a business consultant for guidance in business matters.”

Likewise, in the group of companies that do not experience growth, most entrepreneurs have university studies; however, they have not taken up refresher courses in business management in recent years because they have spent more time in the business. This was mentioned by P16, from a company that doesn’t grow: “when you’re in the field, you forget to bring yourself up to date because there’s a different demand.”

In terms of experience, in the group of growing companies, most entrepreneurs have more than five years of experience in their industry. Also, some of them have experience in administrative functions that allows them to manage their companies in a better way. In the group of companies without a continuous growth, most entrepreneurs have worked in industries different than those in which they are currently in and, in some cases, they have not had relevant work experience. P9, from a company that grows, stated: “I’ve had experience as a hairdresser and managing everything. Staff, money and payments. As the owner, I basically managed it.” On the other hand, P5, from a company that doesn’t grow, mentioned: “as a dependent employee, I worked eight years in banks.”

Regarding the number of founders, in most cases the ownership of both the companies experiencing a continuous growth and those that do not lies with two or more founders, so this would not appear to be a differential factor. It should be noted, however, that in the group of growing companies, three of them have two founders that carry out functions and have competencies that complement each other. It seems that while the number of founders does not determine the growth of the companies, it does contribute and facilitate their rapid growth. P4, from a company that grows, said on this topic: “my other partner provides support in the medical area and I take care of all the operations... he’s very active. He has a lot of information about medicine but also about businesses.”

4.2. Factors related to the company (internal)

Regarding the business aspects, most companies in both groups were constituted as legal entities: as a Single Member Limited Company (EIRL) or as a Closely Held Corporation (SAC). In general, when an entrepreneur starts a business activity, he or she starts as a natural person with a business. However, when his or her income increases and wants to continue to grow, the entrepreneur takes the next step and becomes a legal entity.

4.3. Factors related to strategy (internal)

Among the factors related to strategy, the most important are associated with innovation, technological sophistication and market positioning.

In terms of innovation, in the companies that experience continuous growth, the entrepreneurs lead a culture of continuous improvement. They consider innovation to be at the heart of their competitive advantage and a permanent activity in their companies. On the other hand, the companies that are not growing do not pay special attention to innovation. In some cases, they have not recently launched new products to the market and, in other cases, they have only carried out some actions like being present on social
media or remodeling their premises. P1, from a company that grows, stated: “we’ve been creative. For example, if up to now we were just doing this, we’ll try to figure out what’s the additional added value that we can give and present to the customer”. On the other hand, P8, from a company that doesn’t grow, mentioned: “in terms of innovation, I feel that we are just catching up with the market because we were not updated on social media”.

In relation to technology, growing companies constantly renew their machinery and try to give it proper maintenance. On the contrary, the companies that are not growing have been working with the same machines and equipment for more than five years. In some cases, the equipment is already obsolete. P18, from a growing company, stated: “I bought a modern machine a year and half ago to be used on the new production line”. P17, from a company that doesn’t grow, said: “we haven’t bought new machinery recently. We don’t have many customers, therefore we don’t need specialized equipment”.

Market positioning and competition are important factors to be considered in the development of MSEs. Growing companies know the needs of their customers, have defined their competitive advantage and have a portfolio of loyal clients. On this topic, P12, from a company that grows, mentioned: “the first thing we did was to see who were going to be our target clients and think about the service we were going to provide. It had to be something different and appealing to the clients so they would choose us”. Enterprises also follow closely the actions of their competitors, because they are affected by the entry of larger companies into the market, as well as by price issues and unfair competition from older firms. P4, from a growing company, said in this regard that “all that must be regulated by the State, because it can’t be possible that large companies enter and harm small companies”. In addition, most of the companies that don’t grow perceive competition as a factor limiting their development. P16, from a company that doesn’t grow, stated: “we didn’t expect the arrival of this competition that has hit us in a short time. As they are large companies, they can negotiate better margins.”

4.4. Factors related to the regulatory system (external)

According to this research, the regulatory framework is considered a limiting factor for both the companies that experience a continuous growth and those that don’t. Both groups of companies suffer the consequences of an inefficient regulatory system that, in most public entities, involves the request of excessive documentation, delays in granting licenses and certificates, an inefficient bureaucracy, and corruption, as indicated by one of the informants. On this topic, P6, from a growing company, stated: “if I’m betting on my country and generating jobs, I think the State should be more flexible in the process of trying to get these documents out in the shortest possible time”.

4.5. Factors related to the tax system (external)

In both groups of companies there is a consensus that tax rates, especially the General Sales Tax (IGV) and the Income Tax (IR), are high. Most entrepreneurs are in the MSE tax regime, which is not adapted to their realities because the auditors are unaware of the special characteristics of the line of business of some companies. Likewise, some
entrepreneurs have seen their possibilities of accessing financing reduced due to their tax regime. What is more, they consider that there should be ranks in the payment of the IGV and highlight the sanctioning role of the tax administration instead of its preventive role. P1, from a growing company, said: “I would like to know what the criteria is... because no one understands our processes or our billing cycle.” P6, also from a growing company, added: “I regret being in the MSE tax regime because with the Special Income Regime (RER) it is much easier to access a loan.” P16, from a company that grows, suggested: “I think there could be scales on the IGV. It would be something that could help many companies to be formalized.” P18, from a growing company, stated: “SUNAT comes and audits you. There is no preventive party, only a sanctioning party.” P2, from a company that doesn’t grow, added: “I think tax rates are very high.”

4.6. Factors related to the forms of partnerships (external)

Regarding the existing various forms of business-to-business partnership, all the interviewed entrepreneurs indicated that they had not received any information from the State. A few of them only know some of these forms of partnership because of their academic background, but in practice they partnered only occasionally with other companies to generate cost-effectiveness or take advantage of business opportunities.

4.7. Factors related to the sectoral policies (external)

The lack of a proactive sectoral policy is also a factor that seems to affect the two groups of companies that were studied. Entrepreneurs perceive that the State has had a passive role toward the growth of their companies and do not know if there are incentives in their industry. On this topic, P1 said: “we have been in this business for eight years and we have never received an invitation from any ministry saying ‘we invite you to participate in a course on how to improve your business’.”

Another external factor associated with MSE growth is the access to funding. In fact, interviewees from both groups mentioned that banks grant them credits for their various investments, but at very high interest rates. In some cases, the credits were denied to them for reporting losses, even if they were generating income. P6, from a growing company, stated: “I knock on the door of the bank and say ‘look, I have this entrepreneurship project, but I’ve run out of capital and I need money’. I show them my financial statements and they tell me that they can’t give me a credit because my financial statements are negative.”

The study has made it possible to identify, from the point of view of entrepreneurs, the factors associated with MSE growth in Lima. The factors identified are related to the entrepreneurs’ motivation, their personal aspirations, and the reasons that led them to follow the path of entrepreneurship. In companies that do not experience growth, entrepreneurs have mainly economic motivations and seek to make a profit in the short term. In contrast, in companies that experience a continuous growth, entrepreneurs seem to have motivations that go beyond a short-term economic yield. They are passionate about what they do, talk about their plans and achievements frequently, and have long-term projects and
expectations, confirming the studies of Davidsson (2010), Gupta *et al.* (2013) and Sansores and Navarrete (2018).

Regarding the level of education, it looks like there is no relationship between this aspect and the growth of companies, contradicting the theories proposed by Nichter and Goldmark (2009), and Sansores and Navarrete (2018). However, entrepreneurs in growing companies seek to bring themselves up to date on business management issues on a permanent basis. In relation to the work experience, it looks like entrepreneurs with previous work experience in the MSE economic sector have more opportunities to achieve growth in their businesses (Nichter & Goldmark, 2009). Similarly, although the number of founders does not determine the growth of companies, it is a factor that facilitates and contributes to their development. Likewise, it seems that the way in which companies are constituted is not a determining factor in the growth of MSEs, establishing a distance with a study by Davidsson (2010).

In terms of strategy, it seems that there is a positive relationship between strategic decisions and growth in MSEs. This relationship has been analyzed in relation to four main variables. Regarding the first one, innovation, the launch of new products is constant in growing companies, as suggested by Davidsson (2010), while in companies that do not experience growth this is only related to the implementation of some operational improvements to keep up with the competition. Second, the access to technology and the development of technical capabilities, as part of the innovation and development process, appears to be fundamental in business growth as stated in a study by Gupta *et al.* (2013). Third, the awareness of the characteristics of its target audience is crucial for firm growth. Fourth, following the actions of its current and potential competitors appears to be important in MSEs that show growth (Davidsson, 2010).

Regarding the external factors, it seems that the role of the State has been insufficient due to the current inefficient regulatory system, the high tax rates, the lack of promotion of new forms of business-to-business partnership, and the lack of sectoral policies that encourage their growth. These findings confirm what is stated on a study by Nichter and Goldmark (2009).

One of the most relevant aspects found in this research has been the importance of strategic activities in growing companies (Demir *et al.*, 2016). As a matter of fact, entrepreneurs of these companies have a long-term vision and are focused on constantly innovating and participating in new markets. In companies that do not experience a continuous growth, entrepreneurs focus on operational activities such as remodeling their offices and implementing systems that automate their processes.

Besides, although there is one firm in this study that could not be classified as an established business (Serida *et al.*, 2020), it has been considered an MSE since it satisfies the selection criteria and presents growth patterns similar to those of established business.

### 5. Recommendations and limitations

Based on the results obtained in this research, the following recommendations are presented with the aim of defining national policies related to the growth of MSEs:
1. Promote an entrepreneurial attitude in primary and high school students at a national level through the implementation of various programs made to that end.
2. Ensure the diffusion of a variety of support services and programs for MSEs such as Kunan and Innovate Peru among entrepreneurs.
3. Ensure wider dissemination of tax incentives related to the promotion of scientific research, technological development and technological innovation.
4. Design programs with international cooperation agencies so that entrepreneurs can know about successful experiences in business innovation topics abroad.
5. Continue doing efforts to reduce the time of paying existing taxes\(^1\).
6. Develop a formalization strategy since the Government shifted from formalization to a competitiveness agenda in 2019 (World Bank, 2019).
7. Analyze the characteristics of companies from different economic sectors in order to assess possible labor and tax incentives for them. The community, governmental agencies, NGOs, and organizations representing the MSEs are responsible for implementing these recommendations.

This research has several limitations. First, while the goal of this study was to provide an understanding of the factors that affect MSE growth, the qualitative approach used does not allow to generalize the data. Second, the sample size was relatively small and only involved one country, therefore, the investigation could be improved with a greater sample size to ensure that the results will be accurate. In addition, the study was based on the respondent’s perceptions and it is assumed that they were accurate. It is possible, however, that this might not have been true in every case.

Future research may be aimed at:

1. Expanding the scope of the study to other Latin American countries.
2. Validate the results with a statistical sample that allows to generalize them.
3. Analyze the factors that have the most impact on the growth and development of MSEs.
4. analyze the correlation between the factors identified and the growth of MSEs.

6. Appendix: interview guide

**Introduction/contextual questions**

1. What is your age?
2. What is the highest degree or level of school you have completed?
3. What is your professional career?
4. What type of business do you have?
5. How many employees does your business have?
6. What is your position in the company?

\(^1\) The time available for paying taxes in Peru went down from 420 hours in 2004 to 260 hours in 2018 (PwC, 2020).
7. How old is your firm?
8. What is your business equity?

**Related to entrepreneurs**

1. How do you see yourself in five years?
2. Have you taken management courses in the last five years?
3. Have you had previous work experience? How many years?
4. How many founders does your company have? What are the functions of each one?

**Related to the company**

1. What is your legal entity? Why did you choose this kind of legal entity?

**Related to the strategy**

1. Has your company launched new products or services in the last five years?
   What kind of products and services?
2. How long ago did you buy new machinery for your business?
3. What is your market positioning? Who are your main competitors in the market?

**Related to the regulatory system**

1. What are the main procedures you have done with regulatory agencies? How was your experience?

**Related to the tax system**

1. Do you think tax rates adjust to your business situation?

**Related to the forms of partnerships**

1. Have you ever received any information about forms of partnerships from the State?

**Related to the sectoral policies**

1. Do you know if there are tax incentives in your industry?

**Additional questions**

1. Have your sales increased or decreased on average in the last five years?
2. Has your number of employees increased, decreased or remained constant on average in the last five years?


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