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Par Paola Elena AYBAR JIMENEZ

**L'optimisation de l'accès au financement en Amérique latine :  
Le cas des microentreprises de la République dominicaine**

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Soutenue le 20 juin 2023

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**Optimizing the financing access in Latin America:  
the case of the Dominican Republic microenterprises**

# **Title: Optimizing the financing access in Latin America: the case of the Dominican Republic microenterprises**

## **Abstract:**

Small and medium-sized enterprises (SMEs) importance and significant contributions to countries' gross domestic product (GDP), employment, and value creation are widely acknowledged. However, few studies in SME research center on microstructures alone, despite being the most prominent business class in any country and being, by far, the best representation of SMEs (P. Cook 2001; Jaouen and Torrès 2008; J.S. Ramalho and da Silva 2009; St-Pierre, Julien, and Morin 2010; St-Pierre 2018). Furthermore, most SME academic studies concern higher-income countries, particularly the United States, the United Kingdom, the European Union, and a few others (see P. Cook 2001; Elyasiani and Goldberg 2004).

The literature shows that the classic finance theory is unsuited to the complexity and realities of SMEs, and they need their financial theory (Pettit and Singer 1985; P. Hutchinson 1999; Abdulsaleh and Worthington 2013). Moreover, most research in the nascent field of entrepreneurial finance is performed under positivist views of science and quantitative methodologies (St-Pierre and Fadil 2011; 2016; St-Pierre 2018).

This thesis aims to contribute to filling these knowledge gaps guided by a constructivist research paradigm and performing an exploratory naturalistic inquiry of ten (10) microenterprises in the Dominican Republic. The objective is to identify the key elements so that microenterprises can access finance, one of their main development obstacles. It uses a novel conceptual framework with a particular Latin American interest and mobilizes theories that have never been used before in the context studied: Norton's theory of managerial choice (1991) and the law of proximity by Moles and Rohmer (1978). Furthermore, seven (7) proximities are studied, which are an adaptation of the original proposition made by Torrès (2011). These are hierarchical, spacial, patrimonial, information systems, relational, temporal, and economic proximity.

The discussion and results allow us to make the following four main conclusions:

First, owner-managers play a central role in the microenterprises' management and financing decisions.

Second, microenterprise financing sources are limited. They mainly rely on self-financing from the owner-manager set of resources or the business cash generation capacity, proximity capital, and commercial banks' debt financing. Therefore, owner-managers are the creators of their financing opportunities, where they prioritize strategies to generate internal sources of funds first and continue, only if necessary, with the external ones. Furthermore, owner-manager financing sources and access strategies differ depending on the enterprise's objective. Evidence shows that owner-managers savings and proximity relationships are essential for creating the business. Building and keeping a good trajectory, being proactive, and having strict cash flow management control are critical when operating the business. Last, controlling liquidity, setting clear performance goals, and proximity capital are crucial for growth.

Third, noteworthy findings indicate that the mixture of proximities studied is vital to micro-business financing access. However, at the same time, owner-managers proximity preferences influence their financing decisions limiting their funding access and enterprise development and productivity. We call this the proximity vicious cycle of microfinancing. Overall, only hierarchical and relational proximity can do both: (1) unlock financing access and (2) be preferred highly by owner-managers when making financing decisions.

Last, additional elements worth considering to obtain funds are the business profitability, pitch, plan, team, formality, products, and services.

**Keywords:** Microenterprises, financing access, Latin America, Dominican Republic.

# **Titre : L'optimisation de l'accès au financement en Amérique latine : Le cas des microentreprises de la République dominicaine**

## **Résumé :**

L'importance des petites et moyennes entreprises (PME) et leur contribution significative au produit intérieur brut (PIB), à l'emploi et à la création de valeur des pays sont largement reconnues. Cependant, peu d'études sur les PME se concentrent sur les microstructures (P. Cook 2001; Jaouen and Torrès 2008; J.S. Ramalho and da Silva 2009; St-Pierre, Julien, and Morin 2010; St-Pierre 2018). En outre, la plupart des études académiques sur les PME concernent les pays à revenu élevé, notamment les États-Unis, le Royaume-Uni, et l'Union européenne (voir P. Cook 2001; Elyasiani and Goldberg 2004).

La littérature montre que la théorie financière classique est inadaptée à la complexité et aux réalités des PME, et que celles-ci ont besoin de leur propre théorie financière (Pettit and Singer 1985; P. Hutchinson 1999; Abdulsaleh and Worthington 2013). De plus, la plupart des recherches dans le domaine naissant de la finance entrepreneuriale sont effectuées selon une vision positiviste de la science et des méthodologies quantitatives (St-Pierre and Fadil 2011; 2016; St-Pierre 2018).

Cette thèse vise à combler ces lacunes guidées par un paradigme de recherche constructiviste et une recherche exploratoire de dix (10) microentreprises en République dominicaine. L'objectif est d'identifier les éléments clés pour que les microentreprises puissent accéder au financement. L'étude utilise un cadre conceptuel novateur présentant un intérêt particulier pour l'Amérique latine et mobilise des théories qui n'ont jamais été utilisées auparavant dans le contexte étudié : la théorie du choix managérial de Norton (1991) et la loi de la proximité de Moles et Rohmer (1978). Par ailleurs, sept (7) proximités sont étudiées, qui sont une adaptation de la proposition originale faite par Torrès (2011). Il s'agit de la proximité hiérarchique, spatiale, patrimoniale, des systèmes d'information, relationnelle, temporelle et économique.

La discussion et les résultats nous permettent de tirer quatre conclusions principales :

Premièrement, les propriétaire-dirigeants jouent un rôle central dans la gestion des microentreprises et les décisions de financement.

Deuxièmement, les microentreprises s'appuient principalement sur l'autofinancement, le capital de proximité et le financement bancaire. Par conséquent, les propriétaire-dirigeants sont les créateurs de leurs opportunités de financement, où ils donnent la priorité aux stratégies visant à générer des sources de fonds internes d'abord et poursuivent, seulement si nécessaire, avec les sources externes. De plus, les sources de financement et les stratégies d'accès diffèrent en fonction de l'objectif de l'entreprise. Les faits montrent que l'épargne et les relations de proximité sont indispensables pour la création de l'entreprise. Il est essentiel de construire et de maintenir une bonne trajectoire, d'être proactif et d'avoir un contrôle strict de la gestion des flux de trésorerie pour l'exploitation. Enfin, le contrôle des liquidités, la fixation d'objectifs de performance clairs et le capital de proximité sont cruciaux pour la croissance.

Troisièmement, des résultats notables indiquent que le mix de proximités étudié est vital pour l'accès au financement des microentreprises. Cependant, les préférences de proximité des propriétaire-dirigeants influencent leurs décisions de financement, limitant leur accès ainsi que le développement de l'entreprise. Nous appelons cela le cercle vicieux de la proximité du microfinancement. Dans l'ensemble, la proximité hiérarchique et la proximité relationnelle sont les seules qui peuvent faire les deux : (1) débloquent l'accès au financement et (2) être hautement préférées par les propriétaire-dirigeant lorsqu'ils prennent des décisions de financement.

Enfin, les éléments supplémentaires à considérer pour obtenir des fonds sont la rentabilité, le pitch, le plan, l'équipe, la formalité, et les produits et les services de l'entreprise.

**Mots clés :** Microentreprises, accès au financement, Amérique latine, République dominicaine.

# **Título: La optimización del acceso al financiamiento en América Latina: el caso de las microempresas de la República Dominicana**

## **Resumen:**

La importancia de las pequeñas y medianas empresas (PYMES) y su significativa contribución al producto interior bruto (PIB) de los países, al empleo y a la creación de valor son ampliamente reconocidas. Sin embargo, son pocos los estudios de investigación sobre las PYME que se centran únicamente en las microestructuras, a pesar de ser la clase empresarial más destacada de cualquier país y de ser, con diferencia, la mejor representación de las PYME (P. Cook 2001; Jaouen and Torrès 2008; J.S. Ramalho and da Silva 2009; St-Pierre, Julien, and Morin 2010; St-Pierre 2018). Además, la mayoría de los estudios académicos sobre las PYMES se refieren a los países de ingresos más elevados, en particular los Estados Unidos, el Reino Unido, la Unión Europea y algunos otros (véase P. Cook 2001; Elyasiani and Goldberg 2004).

La literatura demuestra que la teoría financiera clásica no se adapta a la complejidad y realidad de las PYME, que necesitan su teoría financiera (Pettit and Singer 1985; P. Hutchinson 1999; Abdulsaleh and Worthington 2013). Además, la mayoría de las investigaciones en el naciente campo de las finanzas empresariales se realizan bajo visiones positivistas de la ciencia y metodologías cuantitativas (St-Pierre and Fadil 2011; 2016; St-Pierre 2018).

Esta tesis pretende contribuir a llenar estos vacíos de conocimiento guiada por un paradigma de investigación constructivista y realizando una indagación naturalista exploratoria de diez (10) microempresas en la República Dominicana. El objetivo es identificar los elementos claves para que las microempresas puedan acceder a la financiación, uno de sus principales obstáculos para su desarrollo. Se utiliza un marco conceptual novedoso con un interés particular en América Latina y se movilizan teorías que nunca antes se habían utilizado en el contexto estudiado: La teoría de la elección gerencial de Norton (1991) y la ley de proximidad de Moles y Rohmer (1978). Además, se estudian siete (7) proximidades, que son una adaptación de la propuesta original de Torrès (2011). Estas son la proximidad jerárquica, espacial, patrimonial, de sistemas de información, relacional, temporal y económica.



La discusión y los resultados nos permiten sacar las siguientes cuatro conclusiones principales:

Primero, los gerentes propietarios desempeñan un papel central en gestión de la microempresa y las decisiones de financiación.

Segundo, las fuentes de financiamiento de las microempresas son limitadas. Dependen principalmente de la autofinanciación del conjunto de recursos de los gerentes propietarios o de la capacidad de generación de efectivo del negocio, del capital de proximidad y de la financiación de deuda en bancos comerciales. Por lo tanto, los gerentes propietarios son los creadores de sus oportunidades de financiación, donde priorizan las estrategias para generar primero fuentes internas de fondos y continuar, sólo si es necesario, con las externas. Además, las fuentes de financiación y las estrategias de acceso de los gerentes propietarios difieren según el objetivo de la empresa. Los datos demuestran que los ahorros de los gerentes propietarios y las relaciones de proximidad son esenciales para crear la empresa. Construir y mantener una buena trayectoria, ser proactivo y tener un estricto control de la gestión del flujo de caja son fundamentales a la hora de operar el negocio. Por último, el control de la liquidez, el establecimiento de objetivos claros de rendimiento y el capital de proximidad son cruciales para el crecimiento.

Tercero, los hallazgos más destacados indican que la mezcla de proximidades estudiada es vital para el acceso a la financiación de las microempresas. No obstante, al mismo tiempo, las preferencias de proximidad de los gerentes propietarios influyen en sus decisiones de financiamiento limitando su acceso a la financiación y el desarrollo y la productividad de la empresa. Le llamamos a esto el círculo vicioso de la proximidad de la micro financiación. En general, sólo la proximidad jerárquica y relacional puede hacer ambas cosas: (1) desbloquear el acceso a la financiación y (2) ser muy preferidas por los gerentes propietarios a la hora de tomar decisiones de financiación.

Por último, los elementos adicionales que vale la pena considerar para obtener fondos son la rentabilidad del negocio, el pitch, plan, equipo, formalidad y los productos y servicios de la empresa.

**Palabras claves:** Microempresas, acceso al financiamiento, América Latina, República Dominicana.

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The contents of this document are  
the sole responsibility of the author.

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## ABBREVIATIONS

<b>ADEPE</b>	<i>Asociación para el Desarrollo de la Provincia Espaillat</i>
<b>ADOPEM</b>	<i>Asociación Dominicana para el Desarrollo de la Mujer</i>
<b>AIRAC</b>	<i>Asociación de Instituciones Rurales de Ahorro y Crédito</i>
<b>AP</b>	Account Payables
<b>AR</b>	Accounts Receivables
<b>BA</b>	Business Angel
<b>CAP</b>	<i>Croissance, Autonomie, Pérennité</i>
<b>CDD</b>	<i>Centro Dominicano de Desarrollo</i>
<b>CEO</b>	Chief Executive Officer
<b>CEPAL</b>	<i>Comisión Económica para América Latina y el Caribe</i>
<b>CFI</b>	<i>Corporación de Fomento Industrial</i>
<b>CFO</b>	Chief Financial Officer
<b>CODOPYME</b>	<i>Confederación Dominicana de la Pequeña y Mediana Empresa</i>
<b>COOPROHARINA</b>	<i>Cooperativa de Ahorro y Crédito de Procesadores de la Harina</i>
<b>COOPSEMUE</b>	<i>Cooperativas de Servicios Múltiples Empresariales</i>
<b>CPI</b>	Consumer Price Index
<b>DGII</b>	<i>Dirección General De Impuestos Internos</i>
<b>ECLAC</b>	Economic Commission for Latin America and The Caribbean
<b>EIB</b>	European Investment Bank
<b>EIF</b>	European Investment Fund
<b>FASE</b>	<i>Fondo de Asistencia Solidaria para Empleados</i>
<b>FDD</b>	<i>Fundación Dominicana De Desarrollo</i>
<b>FDI</b>	Foreign Direct Investment
<b>FELABAN</b>	Federation of Latin American Banks
<b>FOMIN</b>	<i>Fondo Multilateral de Inversiones</i>

<b>FONDOMICRO</b>	<i>Fondo para el Financiamiento de la Microempresa</i>
<b>GDP</b>	Gross Domestic Product
<b>GT</b>	Grounded Theory
<b>IDB</b>	Inter-American Development Bank Group
<b>INDOTEC</b>	<i>Instituto Dominicano de Tecnología Industrial</i>
<b>INFOTEP</b>	<i>Instituto Nacional de Formación Técnico Profesional</i>
<b>INSEE</b>	<i>Institut national de la statistique et des études économiques</i>
<b>INTEC</b>	<i>Instituto Tecnológico de Santo Domingo</i>
<b>IPO</b>	Initial Public Offering
<b>ITLA</b>	<i>Instituto Tecnológico de Las Américas</i>
<b>MFI</b>	Micro Finance Institutions
<b>MICM</b>	<i>Ministerio de Industria, Comercio y Mipymes</i>
<b>MIE</b>	<i>Microempresa</i>
<b>MIF</b>	Multilateral Investment Fund
<b>MIPYMES</b>	<i>Micro, Pequeñas y Medianas Empresas</i>
<b>MSMES</b>	Micro, Small, and Medium Enterprises
<b>MUDE</b>	<i>Mujeres en Desarrollo</i>
<b>NGOS</b>	Non-Governmental Organizations
<b>OECD</b>	Organization for Economic Co-Operation and Development
<b>ONAPI</b>	<i>Oficina Nacional de la Propiedad Industrial</i>
<b>ONE</b>	<i>Oficina Nacional De Estadística</i>
<b>ONG</b>	Not-For-Profit Organization
<b>PA' TI</b>	<i>Programa de Asistencia al Trabajador Independiente</i>
<b>PE</b>	<i>Pequeña Empresa</i>
<b>PIC</b>	<i>Pérennité, Indépendance, et Croissance</i>
<b>POT</b>	The Pecking Order Theory
<b>PROMIPYME</b>	<i>Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa</i>

<b>PUCMM</b>	<i>Pontificia Universidad Católica Madre y Maestra</i>
<b>PYMES</b>	<i>Pequeñas y Medianas Empresas</i>
<b>RIPME</b>	<i>Revue Internationale PME</i>
<b>ROA</b>	Return On Assets
<b>ROE</b>	Return On Equity
<b>ROI</b>	Return On Investments
<b>RST</b>	<i>Régimen Simplificado de Tributación</i>
<b>SBA</b>	Small Business Administration
<b>SBDC</b>	Small Business Development Centers
<b>SMES</b>	Small And Medium-Sized Enterprises
<b>UASD</b>	<i>Universidad Autónoma De Santo Domingo</i>
<b>UF</b>	<i>Unidades De Fomento</i>
<b>UFV</b>	<i>Unidades De Fomento A La Vivienda</i>
<b>UI</b>	<i>Unidades Indexadas</i>
<b>UNPHU</b>	<i>Universidad Nacional Pedro Henríquez Ureña</i>
<b>UT</b>	<i>Unidades Tributarias</i>
<b>VC</b>	Venture Capital

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## GENERAL INTRODUCTION

Micro and small businesses play a significant role in a country's gross domestic product (GDP), employment, and value creation. However, despite their meaningful contributions and being the most numerous economic units in countries worldwide, financial constraints (among other things) have remained a notable drawback for these businesses' development and operations.

Most of the time, small businesses do not obtain financing because of a poor business plan, poor relationship with lenders, high financing and transaction cost, lack of information, and poor technical skills and know-how. As a result, most businesses are not financed because they are neither seductive (or attractive) enough to be sustained nor funded by lenders or investors.

Most people think that the main contributors to our economies are the big multinational public corporations such as the Chinese and American banks, Apple, Microsoft, Google, Amazon, Tesla, Meta Platforms, and oil companies. They are undoubtedly changing the world and our lifestyles as they continue to implement cutting-edge technological innovations more efficiently. These corporations' efforts should not be neglected; however, quite surprisingly, in most economies' micro, small, and medium-sized businesses are also key contributors. They represent about half of the economy's output in most countries worldwide.

Small and medium-sized enterprises (SMEs) Gross Domestic Product (GDP) share in the United States is 43.5% (Kobe and Schwinn 2018; U.S. Small Business Administration 2019)<sup>1</sup>, 52% in Canada (Innovation, Science and Economic Development Canada 2021)<sup>2</sup>, 56% in Australia (Gilfillan 2020)<sup>3</sup>, 49% in the UK (Hutton and Ward 2021), 60% in China (OECD 2020a), and 55% in Sub-Saharan Africa (African Development Bank 2013), to name a few.

In the European Union, SMEs make up 99.8% of all enterprises, 53% of value added, and 65% of employment (Muller et al. 2021). In Latin America, they represent 99% of businesses and generate 61% of work and 25% of GDP (Dini and Stumpo 2020)<sup>4</sup>. It is widely

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<sup>1</sup> For the evolution of SMEs' GDP contributions from 1965 to 2014 in the United States, see Highfill et al. (2020, 15).

<sup>2</sup> With data from 2014 to 2018.

<sup>3</sup> With data from 2017 to 2018.

<sup>4</sup> For more examples, see St-Pierre (2018, 4–5).

acknowledged that small businesses play a central role in local economies, societies, and cultures.

The Dominican Republic, a developing country in Latin America, faces a similar reality. Most businesses are SMEs (99%), employ about 67% of workers, and contribute 39% to the country's GDP (Stezano 2013; Ortiz, Cabal, and Mena 2014).

Small-sized business finances have gained substantial interest at the international level (Liedholm 2002; Gregory et al. 2005) because of their unexploited potential that can contribute to countries' development in all sectors of their economies. However, nowadays, small enterprises face challenging financial conditions making them less agile and competitive compared to more established competitors who have better access to financing and investment opportunities (see Schmitz 1982; Hansen 1983; Levy 1993; A. N. Berger and Udell 1998; De la Torre, Gozzi, and Schmukler 2006; The World Bank 2007; Sanguinetti et al. 2011). Plus, it has been highlighted that the availability of finance is essential for SMEs' development, growth, and success (P. Cook 2001; Aristy-Escuder 2012; see also The World Bank 2007).

Small enterprises need to be heard and understood by providing them financial guidance, financing opportunities, and adapted solutions the same way big corporations do.

Accessing funding for a micro business remains challenging in the Dominican Republic. Thus, it is common for entrepreneurs to find solutions to their financing and resource needs the best they can.

This research aims to determine the key elements micro businesses use to obtain financing. Identifying these foundations is expected to optimize these enterprises' financing access (internal or external, formal or informal).

The contributions of this research can be used by entrepreneurs or anyone who wishes to contribute to the development of very small businesses—public and private and international institutions. Entrepreneurs can use it as guidance to make informed decisions (within the context studied) for financial planning, strategy, and capital acquisition. It can aid in identifying traditional and alternative sources of funds. It can be used for developing policies and laws, training and educational purposes, and advice.

The research work is divided the following way:

First is the **general introduction and presentation** of the project. It details the research's relevance and novelty, highlighting the investigation's central focus, the research problem, and the case study. Then, it reviews the research's theoretical and practical interests, general and specific objectives and explains the research paradigm and methodology. Finally, it provides an overview of the research design.

Then, **the first part** presents the theoretical and methodological foundations of the study. First, it provides a conceptual and theoretical framework drawing upon bibliographical sources comprising the case study background, the concepts and terms related to the study, and the research object. It especially explores the theory behind SMEs, focusing on microenterprises and an overview of their financing. Moreover, it proposes the theories to be mobilized with an adapted application to our case and relevant literature considerations. Last, it provides a comprehensive account of the research paradigm, methodology, and quality framing the research.

**The second part** details, analyzes, and interprets the collected data, the techniques used, and the presentation of results, graphs, and tables. Moreover, it discusses the findings and results linking to our objectives, explaining what was found in the data and what was expected, and comparing our findings with other researchers. Finally, it specifies the research limitations and scope for future research.

Last, **the general conclusion** provides a comprehensive summary of the research. It includes the main ideas derived from the literature review; the bases of the research paradigm and methodology; the key findings linking with the research objectives; the research theoretical, methodological, and practical contributions; specific and unique recommendations based on the thesis results and the discussion; and lastly, some considerations on the work limitations and scope for future research.

## 1. Relevance and originality of the research

Most small businesses in the Dominican Republic and Latin America are created by necessity providing goods and services in demand to what they can produce and know best.

According to a 2013 report by CAF Development Bank of Latin America entitled “*Emprendimientos en América Latina desde la subsistencia hacia la transformación productiva*”<sup>5</sup> says that small and medium-sized businesses count for 90% of the enterprises in Latin America and 75% of the Latin entrepreneurs promote their own business as an alternative to unemployment and not as a growth option (Sanguinetti et al. 2013). This means that most of these businesses are created by individuals that not necessarily have the basic skills and knowledge to manage an enterprise and perform formal work in the sector where they are venturing.

Most small businesses are characterized by family employment with members that only add mediocre value to the company, limited managerial knowledge and capabilities, insignificant revenues, and growth rate. These factors could explain the low productivity, lack of dynamism, and informality of businesses in the region.

Given their hazardous circumstances and unpredictable performance, how can these underproductive subsistence entrepreneurs that belong to such a high percentage of an economy’s total enterprises access financing and resources to continue and develop their businesses?

All these factors equal a risky deal for potential creditors willing to invest their funds; therefore, the proposal will be rejected, or higher interest rates than the remaining investments will be asked.

Small businesses cannot afford a high financing cost because of their nature (see Saito and Villanueva 1981). Regardless of being subsistence entrepreneurs, small businesses can grow by increasing their profits, expanding their market share, improving their productivity, and adding value with their products and services to the Dominican Republic economy.

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<sup>5</sup> In English: Entrepreneurship in Latin America from subsistence to a productive transformation.

According to a study by ECLAC<sup>6</sup>, small and medium-sized enterprises (SMEs) represent 99% of enterprises and 67% of workers in the Dominican Republic (Stezano 2013). Of this 99%, 98% are microenterprises providing 76 % of employment generated, and only 2% are small and medium enterprises contributing 24% of jobs (Ortiz, Cabal, and Mena 2014). According to the authors, SMEs are the primary source of employment in the country compared to other sectors in the Dominican economy, such as agriculture, the government, and the free trade zone<sup>7</sup>.

These percentages indicate that SMEs, especially microstructures, are fundamental in ameliorating and developing Dominicans' lives because of their impact on job creation, GDP contributions to the Dominican society, and their potential to create wealth for most to reduce poverty. They are part of the country's social and economic growth and stability.

Despite the relevance of SMEs, obtaining reliable and updated information about the subject in Latin America and the Dominican Republic is limited and problematic (Saavedra G. and Hernández C. 2008; Zevallos 2011; Oficina Nacional de Estadística (ONE) 2016; see also P. Cook 2001). Data is poor and scarce, and there are often restrictions on accessing databases (Ortiz, Cabal, and Mena 2014; Correa, Leiva, and Stumpo 2020; see also The World Bank 2007)<sup>8</sup>. Additionally, the high incidence of business informality further complicates the study of these enterprises, primarily very small ones (see, e.g., Álvarez, López, and Toledo 2021).

Most microenterprises in the Dominican Republic operate informally. Nine (9) out of ten (10) microenterprises were operating informally in 2013, which represents 89% of the total micro enterprises in the country (Ortiz, Cabal, and Mena 2014; Fundación Reservas del País, FondoMicro, and Data Crédito 2019).

Another major challenge when studying SMEs is that no standard agreement exists on these enterprises. Often, researchers talk about SMEs as if they were a homogeneous group. However, a study sample can have profound differences between small and medium enterprises. Even when comparing two small businesses with the exact size dimensions, intrinsic and governance characteristics could make each one unique.

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<sup>6</sup> ECLAC stands for Economic Commission for Latin America and the Caribbean. In Spanish is CEPAL which means *Comisión Económica para América Latina y el Caribe*.

<sup>7</sup> *Zonas francas* in Spanish.

<sup>8</sup> Cook (2001) indicates that there are small firms' data problems and inadequacies in developing countries once they have been collected.

Usually, the SME literature includes micro-enterprises in the term SME. Some add an “M” and refer to MSMEs—i.e., micro, small, and medium-sized enterprises. Others talk about microenterprises, microbusinesses, very small businesses, or small businesses. Countries and institutions worldwide have their definitions and understanding of what SMEs are. Moreover, enterprises evolve in different economic, legal, social, and environmental contexts. Given these circumstances, making comparisons, studying their evolution, and developing plans to support them becomes a pretty complex task.

The Dominican government has recently tried stimulating SMEs’ development<sup>9</sup> or *Mipymes*<sup>10</sup>. These include strengthening the legal and institutional framework, simplifying procedures related to the formalization of businesses and taxation, and creating a single window for multiple services. Furthermore, they focused on designing and implementing laws, policies, programs, and tools to access credit and providing training to entrepreneurs in several areas (human, technical, and financial) to improve their managerial skills (Ortiz, Cabal, and Mena 2014; see also Zevallos 2011).

In addition, FONDOMICRO<sup>11</sup> has been a key institution in supporting the sector’s development since its creation in the 1990s. Its purpose has been to promote access to credit for small businesses in the Dominican Republic (FondoMicro 2021). Likewise, it has been the leading institution in developing studies and providing reliable information and statistics on the sector. Plus, they propose consulting, evaluations and training to its members.

Despite recent efforts to alleviate the Dominican small businesses’ financial distress, informality and technical know-how limitations remain. Besides, it is still too soon to know the impacts, uses, and tangible benefits of initiatives for small businesses as they are still fresh.

In a recent publication, ECLAC expresses its concern, indicating that Latin American countries have made numerous efforts to support small businesses in the region; nevertheless, the results are not enough (Dini and Stumpo 2020; see also De la Torre, Gozzi, and Schukler 2006)<sup>12</sup>. They explain that small enterprises’ performance remains poor, and productivity differences are substantial compared to big enterprises in the region or more developed

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<sup>9</sup> *Pymes* stands for *Pequeñas y Medianas Empresas* in Spanish. Its English equivalent is Small and Medium Enterprises (SMEs).

<sup>10</sup> *Mipymes* stands for *Micro, Pequeñas y Medianas Empresas* in Spanish. In English, Micro, Small and Medium Enterprises (MSMEs).

<sup>11</sup> FONDOMICRO stands for *Fondo para el Financiamiento de la Microempresa*.in Spanish.

<sup>12</sup> Dini and Stumpo’s (2020) publication compiled several studies that analyzed the dynamics of micro, small and medium-sized enterprises (MSMEs) in Latin America and the evolution of development policies implemented in the last decade by the institutions that promote their development.



countries. To illustrate, Latin American performance between microenterprises and big enterprises in the region is seven (7) times higher than the differences found in Europe when making the same comparison (see also Álvarez, López, and Toledo 2021).

In addition, the study explains some of the problems and weaknesses found in policies and development programs carried out in Latin American countries. Out of these, the following can be highlighted<sup>13</sup>:

- The fragility of supporting institutions in most countries. With few exceptions, there are no specialized public entities with long-term strategies and the participation of entrepreneurs in the design and implementation of policies,
- Absence of strategic vision of MSMEs' role in productive transformations. Therefore, it is not easy to include them in more general programs,
- Numerous supporting activities and lack of coordination among them and,
- Lack of information systems, accurate data, and explicit references to perform in-depth analysis and design policies.

From the enterprise perspective, Molina-Ycaza and Sánchez-Riofío's (2016) review of publications about the development obstacles faced by micro, small, and medium-sized enterprises (MSMEs) in Latin America indicated six (6) recurrent barriers. In order of importance, these are access to finance and lack of specialized human resources, technology, entrepreneurial culture, government policies, and specialized assistance.

According to the authors, the difficulty in accessing financing is mainly due to the following reasons<sup>14</sup>:

- the high collateral requirements (between 100% and 150% of the loan amount requested),
- the high-interest rates,
- the excessive requirements (audited financial statements, property appraisals, and feasibility studies),
- the cost and time involved in the procedures,

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<sup>13</sup> For more details, see sections X and XI of the book by Dini and Rueda (2020) and Correa, Dini, and Stumpo (2020).

<sup>14</sup> See also The World Bank (2007) and Sanguinetti et al. (2011).

- the use of self-financing and operating liabilities as the primary source of funds, among others.

Moreover, the authors explain that credit rationing by financial institutions is and becomes a problem for small enterprises because they do not have enough funds to grow or, in some cases, operate.

Zevallos (2011), studying the Dominican Republic policies and institutions that support SMEs, goes along Molina-Ycaza and Sánchez-Riofío (2016), stating that accessing external finance is a problem (despite improvements). He adds that some of the most critical obstacles include that:

- Formal enterprises can only fulfill most banks' credit requirements,
- Small loans transaction costs are expensive for financial intermediaries,
- Many banking regulations do not consider the specific situation of microfinance institutions,
- Absence, outdated, or errors in the business titles which limit their capacity to use assets as collateral and,
- Small businesses' lack of credit history makes credit options more expensive and forces banks to meet higher requirements (e.g., collateral, guarantor).

The literature on SME financing exposes that enterprises must put aside essential projects due to a lack of funding (e.g., St-Pierre and Fadil 2016; St-Pierre 2018).

Poor quality of information (Pettit and Singer 1985; Binks and Ennew 1997; Lopez-Gracia and Aybar-Arias 2000; St-Pierre and Fadil 2011) and the combination of the owner-manager personal activities and accounts with the ones of the enterprise (Levin and Travis 1987; J. S. Ang 1991; 1992; Rhyne and Otero 1992; Petty and Bygrave 1993; Naffziger, Hornsby, and Kuratko 1994; LeCornu et al. 1996; Wellalage and Locke 2016) distance small businesses from getting external finance. The moral hazard and adverse selection problems arise in this case scenario.

It is complicated for fund providers to determine the value and risk of the enterprise projects, how funds will be used, and the amount of the return (Leland and Pyle 1977). Therefore, they will find ways to protect themselves (Gregory et al. 2005).

Commercial banks to finance microenterprises will require information to evaluate the client's character, project, and business potential and will demand formal collateral (Rhyne and Otero 1992). Furthermore, they will monitor the enterprise and incur complex contractual agreements (Barnea, Haugen, and Senbet 1981; Pettit and Singer 1985; St-Pierre 2000b). Nevertheless, these practices are expensive for banks and require information. At the same time, microenterprises cannot assume high financing costs, do not keep formal records, and have limited marketable assets (Pace and Collins 1976; Rhyne and Otero 1992; Pissarides 1999).

Venture capitalists (formal or informal), regardless of engaging more than banks in the projects they support, will also try to control the agency problems (information asymmetries, moral hazard, and adverse selection) arising from entrepreneur-venture capitalist's relationships (A. N. Berger and Udell 1998).

In addition to the elements mentioned above, when looking to finance a business wanting external sources of funds, it has become a standard to make sessions with lenders and entrepreneurs or talents to present the business projects (Barrow, Barrow, and Brown 2018; Burns 2010; St-Pierre 2018). Two tools are crucial to unlocking the funds by investors: the business plan and pitch.

In general, the business plan is the backbone of a business. It is what starts giving it life, structuring it piece by piece. It includes the company's management and operations, the market analysis, the marketing plan, and the business's financial information. The pitch is the presentation of the business idea. It is when the entrepreneur must persuade so that the project gets financed. Nevertheless, the lack of quality proposals makes funders lose interest in supporting small businesses.

Often, in the Dominican Republic, more established companies and a few influential individuals can fund their businesses because they can guarantee lenders or investors a return on their funds and investments (see Ortiz and Castro 2003). Therefore, these companies and individuals force Dominican micro businesses out of the market, making it even harder for them to integrate.

Despite small businesses' barriers to accessing funds, they must find solutions to their financing needs. In addition, adequate methods and techniques must allow them to keep the business operating and growing.

There is an imperative need to make products that accentuate the identity of the Dominican Republic. This can only be achieved by guiding microenterprises to access financing, continuing governmental support, and motivating moneylenders and investors to fund small business productions to develop a sector with opportunities. The empowerment of this sector guarantees the so-needed improvement of Dominicans' lives.

Hansen advances these ideas as well, indicating the following (1983, 362–63):

“While the revival of entrepreneurial activity is essential to a free enterprise philosophy, it is also, perhaps fortuitously, the best and most effective way to create jobs, reduce inflation, and generate the growth that is a prerequisite to the resolution of many of our most pressing social problems.

Access to capital is the central issue in much of what follows. Entrepreneurial talent is not the prerogative of the wealthy but is broadly distributed throughout the population as a whole. Without reasonable access to financing, many of our country's most talented and aggressive entrepreneurs will be cut out of the economic system, innovation and business development will become a luxury reserved for the wealthy, and the economy as a whole will suffer.”

## **2. Theoretical and practical interest of the research**

This research work has several theoretical and practical appeals.

The theoretical interest relies on the fact that micro businesses are incredibly forgotten in small and medium-sized enterprises' research (Jaouen and Torrès 2008). Nevertheless, microenterprises are the most prominent business class in any country and are, by far, the best representation of SMEs (Torrès 2008; St-Pierre 2018). Few studies center on microstructures alone (P. Cook 2001; St-Pierre, Julien, and Morin 2010; St-Pierre 2018).

In addition, the literature shows that classic finance theory principles (e.g., optimal allocation of resources, perfect markets, rationality, separation of ownership and management) are unsuited to the complexity, specificities, and realities of SMEs, in particular very small structures (see, e.g., P. Hutchinson 1999; Abdulsaleh and Worthington 2013). Instead, these businesses need their financial theory (Pettit and Singer 1985).

Most studies in this domain are guided by positivist views of science, quantitative methodologies, and statistical and econometric methods. Researchers develop knowledge remaining distant from entrepreneurs; nonetheless, owner-managers are vital in these types of enterprises (Marchesnay and Fourcade 1997; Marchesnay 1998). Classic finance theory ideologies influence them, use primarily public data, and are concerned with the generalizability of results and the publication of their work in top-ranked journals (see, e.g., St-Pierre and Fadil 2011; 2016; St-Pierre 2018). These practices can only promise knowledge disconnected from the needs and realities of small businesses<sup>15</sup>.

Furthermore, most small business financing literature advances the financier position and their criteria to provide funds, not how entrepreneurs, for instance, finance their businesses. As a result, entrepreneurs' perspectives and experiences are neglected. St-Pierre corroborates this by specifying that "...several crucial questions need to be explored through interviews or case studies to gather the opinions and experiences of entrepreneurs to understand better what is happening in SMEs" (2018, 25).

Despite being one of the most researched subjects, St-Pierre and Fadil (2011), in their recent literature review on entrepreneurial finance,<sup>16</sup> indicate the little progress there has been made in the last twenty (20) years in financing access that is in accordance with SMEs' peculiarities. In addition, J.S. Ramalho and da Silva indicate that, to their knowledge, "there are no studies on the capital structure of micro firms" (2009, 4).

In developing countries, small businesses' access to credit or other forms of financing remains one of the main barriers to doing business (Schmitz 1982; Sanguinetti et al. 2011; Wellalage and Locke 2016). Moreover, the situation worsens for those that operate informally, as businesses are considered high risk by default (Assenova and Sorenson 2017).

In a study of small and medium enterprises in the Dominican Republic, Aristy-Escuder (2012) found that enterprises that access capital improve their future performance. Nevertheless, Ortiz, Cabal, and Mena's (2014) survey comprising 15,458 microenterprises and 1,844 small and medium enterprises nationwide concludes that access to financial resources is a solid drawback for maintaining enterprise operations. Furthermore, they indicate significant

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<sup>15</sup> See Barton and Gordon's (1987) critique of capital structure theory and research.

<sup>16</sup> With publications from 1996 to 2010.

differences between microenterprises and SMEs and advocate for developing differentiated policies, programs, and products for these enterprises.

According to Cook (2001), most SME research concerns higher-income countries, particularly the United States, the United Kingdom, and the European Union, which implies the production of knowledge only relevant to these economies because of their specific context, institutional settings, and policy environments. The author adds that SME research on developing countries has been primarily empirical and descriptive rather than theoretical. These include, for example, general surveys to generate basic information to characterize the sector. Besides describing, there is little theoretical work and even less hypothesis testing. In addition, he highlights the challenges of acquiring, managing, testing, and analyzing updated data about SMEs. Surveys are infrequent and published with long delays. Ultimately, he concludes that little is known about the entrepreneur and the internal working of small enterprises in developing countries compared to more developed ones.

This thesis aims to contribute to filling these knowledge gaps within the world of microenterprises financing and a particular focus on Latin America and the Dominican Republic.

Considering what is advanced in the literature and searching for a microfinancing approach tied to our main interest, we use a novel conceptual framework mobilizing theories that have not been used before in the Dominican Republic context. These are the theory of managerial choice by Norton (1991) and the law of proximity by Moles and Rohmer (1978).

The theory of managerial choice (Norton 1991) remarks that finance theory needs to consider the owner-manager goals, preferences, beliefs, and expectations to understand better how businesses finance their operations and growth.

The law of proximity of Moles and Rohmer (1978) comes from psychology, particularly the psychology of space. It states that individuals prefer what is close to them rather than what is distant—whether, that is an object, a phenomenon, or an individual. In other words, it is a system that orders. It ranks the priorities and actions of the individual through a mixture of proximities (space, time, relationships, etc.), where what is close to the individual will always come first and will be more important than what is not (Torrès 2003).

Since the entrepreneur's central role is a dominant factor in small businesses, we focus on microenterprises owner-managers as the main drivers of the enterprise financing access where they will rely on a mixture of proximities to get funds. These proximities are hierarchical, spatial, patrimonial, information systems, relational, temporal, and economic proximity.

Proximities studied are an adaptation of the original proposition made by Torrès (2011), considering what is suggested by the small/micro business literature and the law of proximity of Moles and Rohmer (1978). Other elements studied include the business plan, pitch, team, and formality.

Concerning practical interest, this thesis aims to comprehend better the elements that ensure financing access for micro businesses. By understanding, analyzing, and applying these elements, businesses could have better chances of getting funded regardless of the activity they would like to carry forward. Moreover, it will provide the guidance entrepreneurs need to optimize their financing.

Owner-managers can use the results of this research to make informed financial planning, strategy, and capital acquisition decisions. By governments to progress policies and laws. Consultants and support agencies to assist microenterprises as well as for training and educational purposes.

This thesis intends to provide authentic theoretical and practical advancements in the SME research field by approaching entrepreneurs in their natural settings, getting immersed in the field, and acknowledging small business idiosyncrasies. In our view, this is only possible by applying qualitative methodologies like the one proposed in this research.

### **3. Research objectives**

This exploration has two types of aims that define the limits and depth of the investigation: general and specific objectives.

## **General objective**

Our primary research objective is to identify the key elements for a micro business to access financing. By identifying these aspects and using them to obtain funding, entrepreneurs could carry out their projects and activities more smoothly, creating a positive domino effect in societies.

## **Specific objectives**

1. Study the approaches used by microenterprises to access financing.
2. Explore the strategies used to get finance.
3. Identify the primary financing sources for microenterprises.

## **4. Research paradigm and methodology**

A constructivist research paradigm guides this research. *Knowledge* is a construct resulting from the interaction between the subject and the object. The truth is regarded as relative rather than absolute, as supported by positivism.

These constructions have value and serve the context where knowledge has been created—in time, place, culture, and situation—(Charmaz 2006; Le Moigne 2012). Like a key would, for instance, to open the door it has been manufactured for (Glaserfeld 1988).

Our thesis is defined by a qualitative methodology based on an analytical research method. We identify the need and explore the crucial elements for optimizing the financing access of the Dominican microenterprises.

The objective was to create valuable knowledge for the business world to better understand microstructure financing access through the entrepreneurs' lived experiences and perspectives.

It is exploratory research that studies the phenomena in their natural settings in-depth and builds theory from a set of cases using abductive reasoning and multiple data sources.



The research relies on the compilation, use, and analysis of the bibliographical sources and information where we explore the elements of our interest. A big part of the information comes from written documents and other data sources, such as observations and personal interviews with those involved in the study.

This research project has an analysis-synthesis method because it divides and distinguishes the elements of a whole. First, we expose the data as a whole, then perform a clean and specific study of our case.

### **The universe or population**

The research project is based on the Latin American context of micro, small and medium-sized enterprises (MSMEs). However, it keeps a particular interest and studies comprehensively microenterprises in the Dominican Republic. For this purpose, the most recent national survey of MSMEs in the Dominican Republic was taken as a reference conducted by FONDOMICRO in 2013 –published in 2014– (Ortiz, Cabal, and Mena 2014). The latter provides information from the entire sector, including formal and informal enterprises (with established premises<sup>17</sup>). However, it does not include the agricultural industry or mobile enterprises<sup>18</sup>.

In the survey, enterprises were defined by the number of permanent employees. The latter were individuals totally or partially dedicated to the business, whether paid for their work and effort. This definition included owners, unpaid workers (family or not), paid workers, and apprentices. Thus, a microenterprise was any non-agricultural productive unit with one (1) to ten (10) permanent employees, a small enterprise with eleven (11) to fifty (50), and a medium-sized enterprise from fifty-one (51) to a hundred and fifty (150) employees.

The report indicates that there are approximately 791,236 micro, small, and medium-sized enterprises (MSMEs) in the Dominican Republic, out of which 772,899 units are microenterprises and 18,337 are small and medium enterprises.

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<sup>17</sup> Established premises for the business included a fixed place for the business, a space at home, a spot in a commercial place or plaza, and a permanent kiosk (see Ortiz, Cabal, and Mena 2014, 133–34).

<sup>18</sup> Mobile enterprises are mobile operating microenterprises. This means that these enterprises have to pick up their goods daily because they do not have a place to store them. They are doing business on the streets or offering their good and services by motorized means or on foot (see Ortiz, Cabal, and Mena 2014, 134).

Finally, the enterprises were classified into three groups of economic activities: manufacturing, commerce, and services.

## **Techniques**

The techniques used in this research were observations, interviews, and documents for data collection.

The interest in the MSMEs research in the Dominican Republic arose after a prolonged observational work highlighting the sector's significance for the country's social stability and economic development. Further insight into these enterprises and their field of research indicated that MSMEs are essential in the Dominican Republic and other countries. Plus, it signaled the need for theoretical and practical knowledge that can do justice to enterprises of small dimensions.

During the immersion in the enterprise and the interview process, careful, non-participant observation by the researcher provided valuable descriptive and contextual data later used for the analysis.

Interviews with microentrepreneurs of the most relevant economic activities (manufacturing, commerce, and services) in the Dominican Republic were a dominant primary data collection strategy in this research work. Interviews were face-to-face and followed a pre-established set of semi-structured and closed questions with enough flexibility so that interviewees could speak their minds about what they considered relevant for each question. Interviews were recorded and transcribed for analysis. Later, a shorter round of phone interviews with some entrepreneurs was performed to clarify specific points of the original interview and explore others that emerged during the analysis.

Documents were mostly secondary data sources, mainly from FONDOMICRO, the National Statistics Office, the Ministry of Industry, Trade, and SMEs (translated from Spanish)<sup>19</sup>, press publications, and laws in the Dominican Republic.

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<sup>19</sup> In Spanish: "*Ministerio de Industria, Comercio y MiPymes*".

## Sample

It is necessary to define the study's focus, boundaries, and scope to understand what will be examined.

Despite its multiple definitions worldwide, a microenterprise is defined in the Dominican Republic by law 187-17. It states that a microenterprise is any economic exploitation unit carried out by a natural or legal person in agricultural, industrial, commercial, or service activities, rural or urban, that corresponds to the following size categories: a) up to ten (10) employees; and b) annual gross sales up to eight million Dominican pesos (RD\$8,000, 000.00) (Congreso Nacional de la República Dominicana 2017a).

The law also furnishes details regarding a small or medium enterprise. The table below synthesizes the MSMEs' current definitions in the country.

**Table 1. Law 187-17 of the Dominican Republic**

Structure	Employees	Annual Revenue	Characteristics
Micro	1-10	Up to RD\$ 8,000,000.00	Any economic exploitation unit carried out by a natural or legal person in agricultural, industrial, commercial, or service activities, rural or urban.
Small	11-50	Up to RD\$ 54,000,000.00	
Medium	51-150	RD\$ 202,000,000.00	

Source: Personal elaboration based on the Dominican Republic Law 187-17 for Micro, Small, and Medium Enterprises, 2017

The table above facilitates the comparison and distinction among the three organizational structures: micro, small and medium. For a Dominican enterprise to be considered medium or be included within the category of MSMEs, it must have between fifty-one (51) and a hundred and fifty (150) employees and no more than two hundred and two million Dominican pesos (RD\$ 202,000,000.00) in yearly revenue. On the other hand, Dominican enterprises regarded

as small are those that have between eleven (11) and fifty (50) employees and up to fifty-four million Dominican pesos (RD\$ 54,000,000.00).

The law explains the need to comply with the two size classifications established by the law for an enterprise to be classified in one of the MSMEs categories. If an enterprise surpasses one of the rangers defined, it will be organized in the category in which this superior variable is found. A medium-sized enterprise must comply with both quantitative variables within its class to be considered medium. If the enterprise surpasses one of the variables, it will no longer be considered medium or belonging to the MSMEs sector.

In addition, it specifies that gross sales value will be indexed annually based on the Consumer Price Index (CPI). The Ministry of Industry, Commerce, and MSMEs will be in charge of publishing at the beginning of each year the indexed values of the annual gross sales for each category. This Ministry will also be responsible for the enterprise registry within the categories fixed by the law, among other things.

Law 187-17 modified in 2017 the Dominican law 488-08 of December 19, 2008. The latter was the first time MSMEs were defined in the country and established a regulatory regime for the development and competitiveness of the *micro, pequeña, y medianas empresas (MIPYMES)* for its term in Spanish<sup>20</sup>. The table below summarizes the *MIPYMES* classifications in law 488-08.

**Table 2. Law 488-08 (December 19, 2008) of the Dominican Republic**

Structure	Employees	Annual Revenue	Assets Market Value	Characteristics
<b>Micro</b>	1-15	RD\$ 6,000,000.00	RD\$ 3,000,000.00	A formal or informal economic unit carried out by a natural person or a legal entity performing rural or urban business, agricultural, industrial, commercial, or service activities.
<b>Small</b>	16-60	RD\$ 6,000,000.01 - RD\$ 40,000,000.00	RD\$ 3,000,000.01 - RD\$ 12,000,000.00	
<b>Medium</b>	61-200	RD\$ 40,000,000.01 - RD\$ 150,000,000.00	RD\$ 12,000,000.01 - RD\$ 40,000,000.00	

<sup>20</sup> *MIPYMES* is widely used in Latin America to refer to Micro, Small, and Medium Enterprises (MSMEs). *PYMES* is also used to relate to Small and Medium Enterprises (SMEs). Sometimes microenterprises are included within the term SMEs. However, as microenterprises gain more recognition by governments, institutions, and academia, it is becoming common in recent years to distinguish these enterprises within the sector.

Source: Personal elaboration based on the Dominican Republic Law 488-08 for Micro, Small, and Medium Enterprises (Congreso Nacional de la República Dominicana 2008).

As can be noted in table 1 and table 2, MSMEs definitions are not the same for each law. For example, law 488-08 uses three (3) quantitative variables to define each enterprise size: the number of employees, annual revenues, and asset market value. On the other hand, law 187-17 uses two (2): the number of employees and annual revenues. Furthermore, it includes lower ranges for the number of employees and greater values for annual revenues, which were adjusted to the cumulative inflation since 2008. To illustrate, a microenterprise, as defined by law 488-08, needed one (1) to fifteen (15) employees, no more than six million Dominican pesos (RD\$6,000,000.00) in annual gross sales, and up to three million Dominican pesos (RD\$3,000,000) in assets. On the other hand, law 187-17 states that a microenterprise can have a maximum of ten (10) employees with annual gross sales of up to eight million Dominican pesos (RD\$8,000,000.00) and makes no specification regarding the enterprise assets market value it should have.

It is relevant to note that law 488-08 included formal and informal economic units in its definition. Nevertheless, the law required enterprises to comply with their tax, formalization, and labor obligations if they wanted to benefit from the advantages the law provided—e.g., development programs, technical assistance, access to finance, and training. On the other hand, law 187-17 does not include informality, meaning business must be formal.

It is worth highlighting that law 187-17 does not entirely replace law 488-08. Instead, it was created to modify paragraph I of Article 1 and Articles 2 and 22 of law 488-08, which included, in particular, the national MSMEs definitions.

At the beginning of this PhD thesis in 2016, the law 488-08 definition was taken as a reference because it was the existing regulatory framework. However, a comprehensive literature review showed that the criterion of one (1) to fifteen (15) employees established by this law differed from the region's standards and the scientific work available about Dominican microenterprises. Thus, it was decided to apply the one (1) to ten (10) employees' criterion as the primary reference to go along with the existing knowledge and recommendations. In addition, the annual revenue and the assets market value indicated by the law were desired values but not compulsory for the enterprises' selection in the sample. Accordingly, the microenterprise definition used in this research is detailed in the table below.

**Table 3. Microenterprise definition used in this research work**

Structure	Required variable	Desired variables		Characteristics
	Employees	Annual Revenue	Assets Market Value	
Micro	1-10*	RD\$ 6,000,000.00	RD\$ 3,000,000.00	A formal or informal economic unit carried out by a natural person or a legal entity performing rural or urban business, agricultural, industrial, commercial, or service activities.

\*Number of permanent employees, including the owner.

Source: Personal elaboration

The one (1) to ten (10) staff headcount definition has been the main criteria used since 1992 by the available publications where we point out those of FONDOMICRO and the statistical information provided by the National Statistics Office<sup>21</sup> of the Dominican Republic. Therefore, respecting this criterion enabled a more precise comparison among the years with the reliable data available of this sector and other countries in the region. It promoted consistency. Furthermore, the first Dominican micro, small, and medium-sized enterprises law did not come until December 19, 2008—i.e., law 488-08.

FONDOMICRO, as mentioned briefly at the beginning of this general introduction, is a private Dominican institution created in the early 90s to promote access to credit to MSMEs in the Dominican Republic (see FondoMicro 2021). They provide reliable information and statistics about this sector and furnish its members with consulting, evaluations, and training.

Since 1992, FONDOMICRO has been conducting vital research programs within the MSMEs sector in the country, where the first census was in March of the same year (see Moya Pons and Ortiz 1994). However, the country’s national statistics office did not produce data about the sector until 2015, when they published their first report (see Oficina Nacional de Estadística (ONE) 2015).

The discrepancies found between law 488-08 and the MSMEs studies, statistical data, and definitions used in the region were the source of harsh criticism by FONDOMICRO in 2017

<sup>21</sup> *Oficina Nacional de Estadística (ONE)*—in Spanish.

with their publication *Análisis Del Marco Jurídico De Las Micro, Pequeñas y Medianas Empresas En La República Dominicana* (see FondoMicro and Fundación CODESPA 2017)<sup>22</sup>.

In 2017 and according to law 187-17, the MSMEs definition evolved to address better each enterprise type's needs, realities, and specificities: micro, small, and medium. In addition, it changed to facilitate the development of adapted programs, measures, services, public policies, projects, initiatives, and regulations to potentiate the sector; and to serve as bases to elaborate consistent records, databases, and publications.

It should be noted that the microenterprise definition used in this thesis arises from an analysis of the literature and law 488-08, not 187-17. However, the one (1) to ten (10) employees criterium is shared with the current law. Furthermore, the fieldwork for this research project was already underway when law 187-17 was published.

To delimitate our study, we referenced the country's most recent and exhaustive national survey ever conducted on MSMEs. FONDOMICRO performed the survey in 2013, entitling *Micro, Pequeñas y Medianas Empresas En La República Dominicana 2013* (see Ortiz, Cabal, and Mena 2014)<sup>23</sup>.

According to the survey, there are approximately 791,236 micro, small, and medium-sized enterprises (MSMEs) in the Dominican Republic. Of this total, 772,899 units are microenterprises, and 18,337 are small and medium enterprises.

Our interest in Dominican Republic microenterprises is not trivial compared to the small and medium enterprises. Microenterprises caught our attention for several reasons. First, they represent central support to the Dominican economy and society because they are crucial job creators that contribute significantly to the growth of the national gross domestic product. Second, they represent 98% of the MSMEs available. Third, in 2013, they employed 1,644,260 individuals representing 76% of the number of jobs within the sector. Fourth, they contributed 19.1% to the national GDP in 2013. Last, microenterprises continue to grow exponentially in the Dominican Republic economy, increasing from 309,279 units in 1993 to 772,899 units in 2013 (see figure 1). In other words, they grew 150% in the period or 4.7% each year. Plus, for

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<sup>22</sup> Analysis Of The Legal Framework For Micro, Small, And Medium Enterprises In The Dominican Republic in English.

<sup>23</sup> Micro, Small and Medium Enterprises In The Dominican Republic 2013 in English.

every 1,000 habitants, there are 75 microenterprises (Ortiz, Cabal, and Mena 2014). The Dominican Republic is a country of microenterprises.

The table below summarizes the Dominican Republic’s micro, small, and medium-sized enterprises’ amounts and percentages, the number of jobs, and the rate of national GDP contributed in 2013.

**Table 4. Dominican Republic Micro, Small and Medium enterprises\*, employment and GDP contribution**

<b>Structure</b>	<b>Number of enterprises</b>	<b>Enterprises in %</b>	<b>Amounts of Jobs</b>	<b>Jobs in %</b>	<b>GDP contribution in %</b>
<b>Micro</b>	772,899	98%	1,644,260	76%	19.1%
<b>Small and Medium</b>	18,337	2%	522,231	24%	19.5%
<b>TOTAL</b>	791,236	100%	2,166,491	100%	38.6%

\*MSMEs represent 46.2% of the active working population and 54.4% of the total employment in the economy.

Source: Adapted from Ortiz, Cabal, and Mena (2014)

Table 4 shows that the small and medium enterprises only represent 2% with 18,337 enterprises, and 24% of jobs with 522,231. Nevertheless, their GDP contribution was 0.4% higher than the microenterprises<sup>24</sup>. As a result, our interest remains in the gray area of the table.

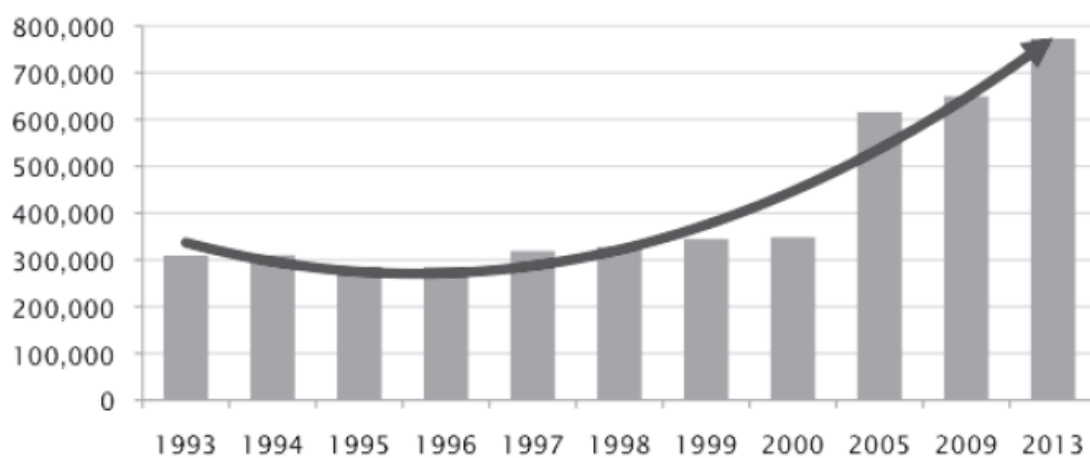
Figure 1 below illustrates the evolution of the number of microenterprises since 1993.

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<sup>24</sup> While small and medium enterprises only represent 2% of MSMEs in the country, their GDP contributions of 19.5% indicate that these enterprises are more productive than microstructures. The latter are more numerous and employ more people but are unproductive given that they represent 98% of economic units in the sector and contribute 19.1% of GDP.



**Figure 1. Development of microenterprises in the Dominican Republic from 1993 to 2013**



Source: Ortiz, Cabal, and Mena (2014)

According to the FONDOMICRO survey, the heterogeneity of microenterprises' activities in the past two decades can be classified into three major sectors: commerce, services, and manufacturing. Commerce activities refer to wholesale and retail businesses, small grocery shops or *colmados* or *bodegas*, and the sale and repair of vehicles. Services include personal care services (beauty salons, barber shops, gyms, nail, and massage centers), education and health services, gambling, bars and entertainment, and repair services. Finally, manufacturing economic activities refers primarily to producing food and drinks, clothing and textile manufacturing, and products made of wood and metal.

From the Dominican micro economy, these three (3) major economic activities are the ones that will be used for our sample. Their percent distribution from 1993 to 2013 is shown in table 5.

**Table 5. Microenterprises according to Economic Activity Sector 1993-2013\***

<b>Economic activity sector</b>	<b>1993</b>	<b>2013</b>
<b>Manufacturing</b>	22.9	14.8
<b>Commerce</b>	60.5	46.8
<b>Service</b>	16.5	38.4
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

\* Excludes mobile microenterprises which do not have fixed premises.

Source: Ortiz, Cabal, and Mena (2014)

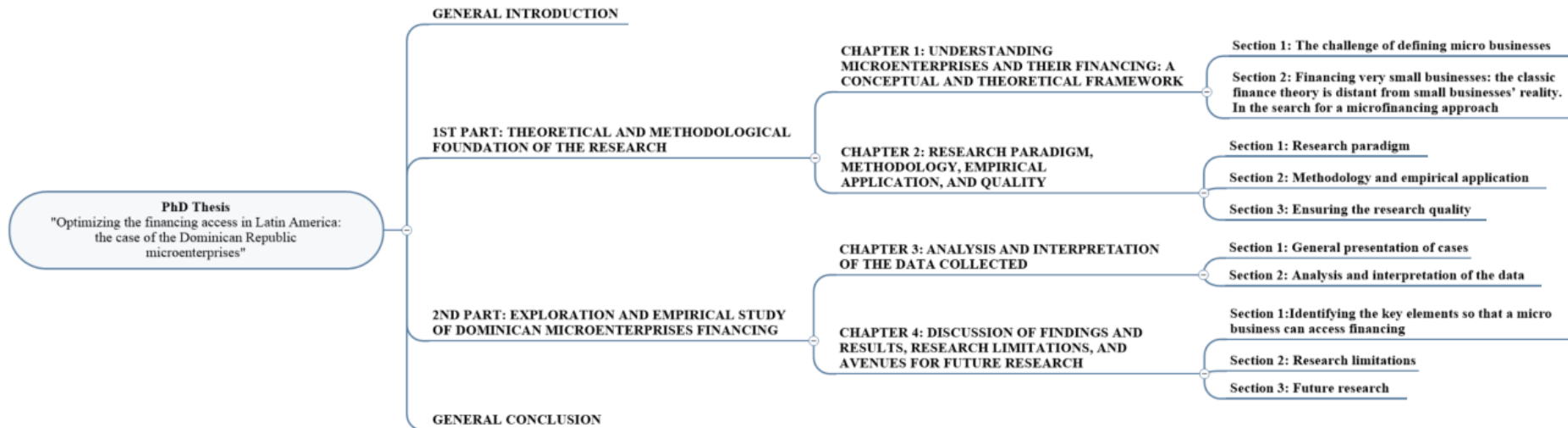
From 1993 to 2013, the number of microenterprises in the Dominican Republic increased, and the distribution of economic activities changed. We point out, in particular, the services-related activities that grew more than any other activity in the past two decades. There has been a change of 21.9% since 1993. Nevertheless, despite its decrease, commerce remains the dominant economic activity with 46.8%.

For this research, our sample will comprise ten (10) microenterprises of the Dominican Republic. They must consist of one (1) to ten (10) permanent employees (including their owner). It is desired that they do not surpass six million Dominican pesos (RD\$6,000,000.00) in yearly revenue and three million Dominican pesos (RD\$3,000,000.00) in assets. They can be formal or informal, a family business or not, and they need to belong to the three major economic activities. Thus, to respect the statistical data available and the weight of these sectors (manufacturing 14.8%, commerce 46.8%, and service 38.4), the ten (10) microenterprises will be distributed the following way: one (1) from the manufacturing economic activities, five (5) from commerce activities and the last four (4) from service activities. It will also promote the diversity of profiles in our sample.

## **5. Research design**

The figure below portrays the research structure and plan. It includes the general introduction, parts one and two with the sections to be covered, and the general conclusion.

**Figure 2. Research Design**



## **PART I: THEORETICAL AND METHODOLOGICAL FOUNDATION OF THE RESEARCH**

The first part of this thesis aims to provide the theoretical and conceptual framework of microenterprises and their financing, along with an overview of the research paradigm, methodology, empirical application, and data analysis procedures employed in the study. This part comprises chapters one and two.

**Chapter one** studies microenterprises and their financing in two sections:

Section one focuses on microenterprises and exposes the challenge of defining them. First, it discusses the notion of size and how it has been an unavoidable variable of control in studying businesses of small dimensions. Then, it takes a journey of the theoretical currents developed to define the small enterprise and establish SMEs as a research area in management science. Furthermore, it addresses the theoretical current of specificity, diversity, synthesis, and denaturation.

Microenterprises are studied as a concept and not only as miniature enterprises. Thus, it uses the synthesis approach that combines quantitative and qualitative information to define them. In this sense, the section divides into two parts to address each one of the approaches, from the most general aspects to the most specific ones relating to Latin America. The first part addresses the quantitative approach, and the second discusses the qualitative approach.

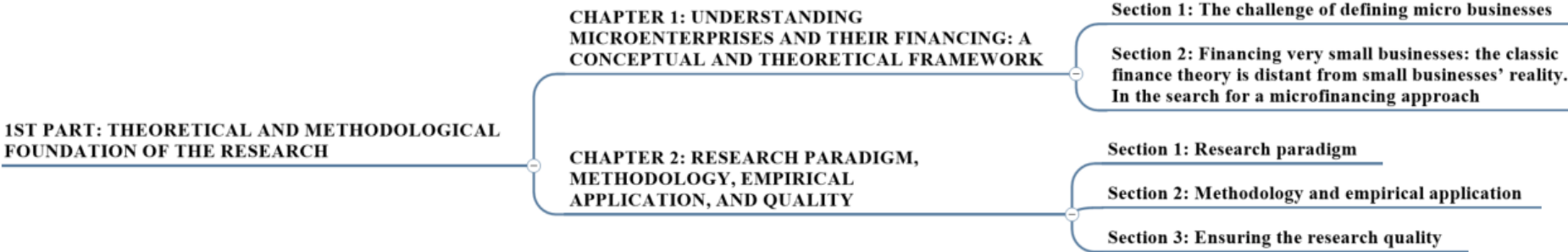
Section two aims to study microenterprise financing, referencing the SME finance literature and the context studied. First, it explains the common financial characteristics of small businesses and how they differ from big enterprises. Furthermore, it specifies the theories best suited to small business financing realities. After, the section divides into three portions. The first one goes over very small businesses' financing options and practices. The second one explores MSME financing in Latin America. The last one positions this research work given the state of knowledge on small businesses, their funding, and the Latin American background.

**Chapter two** provides the paradigmatic lenses and methodological roadmap used to achieve the objectives of this research. It explains and justifies each of its phases, the decisions made, and the procedures carried out in a straightforward and detailed manner. The chapter

splits into three segments. Section one is entitled research paradigm; section two, methodology and empirical application; and section three, ensuring the research quality.

The diagram below portrays the structure of the first part of this thesis.

**Figure 3. Structure of Part I**



## **CHAPTER 1: UNDERSTANDING MICROENTERPRISES AND THEIR FINANCING: A CONCEPTUAL AND THEORETICAL FRAMEWORK**

Chapter one presents the theoretical and conceptual context of microenterprises and their financing. For this purpose, it references the knowledge of small and medium-sized enterprises (SMEs), given the lack of independent literature about microstructures. The chapter comprises two sections.

If one wishes to study microenterprises, it is necessary to define what it means and how the concept can be operationalized for an empirical application capable of providing generalizable conclusions. Nevertheless, addressing small businesses is not a simple task.

**Section one** of this chapter discusses the notion of size and how researchers have attempted to study small businesses. It is perceived that size has been an unavoidable control variable in small business research. Researchers determine the boundaries of their studies by focusing on enterprises that share a specific definition of size and often opt for studying either a diverse sample—e.g., grocery stores, beauty salons, car workshops, and advertising agencies— or a homogeneous one—e.g., grocery stores alone or beauty salons only and so on. Nevertheless, there is no standard definition of size, nor can one be sure that similar enterprises are alike given their specificities in governance, proprietorship, and context, for example. In this sense, each enterprise is unique, making the SME world extraordinarily diverse and complex to address, mainly when generalizability and consistent results are in mind.

The section explains the need to open the “black box” when studying small enterprises and developing concepts and models adapted to their reality instead of wanting to fit SMEs within classic models, theories, and tools designed for big enterprises.

In addition, it takes a quick journey of the theoretical currents that have shaped the SMEs’ research domain in management, taking as guidance Torrès’s (1997; 1998) writings. These are the theoretical currents of specificity, diversity, synthesis, and denaturation.

Adopting the synthesis approach proposed by Pierre-André Julien (1990) appeared to be an appropriate choice for this research. The latter defines SMEs accepting their specificity and diversity and combining quantitative and qualitative information.

Therefore, section one applies the synthesis approach from a general view to a more specific one relating to the context studied. The first part of the section aims to define SMEs and microenterprises guided by a quantitative perspective. Furthermore, it provides an international and Latin American outlook. Last, part two includes the qualitative characteristics of small structures in general and ends with a brief description of them in Latin America.

**Section two** of this chapter exposes the financial reality of small enterprises. It explains their peculiarities, difficulties, differences from big enterprises, objective function, evolution in imperfect markets, and agency relationship problems. Numerous authors argue that the classic finance theories are not designed with small businesses in mind and that these enterprises need their financial approach.

It explains the theories that have shed light on small business finance. These include the theory of managerial choice by Norton (1991), the pecking order theory by Myers (1984) and Myers and Majluf (1984), and the business growth cycle theory by Berger and Udell (1998). Furthermore, the author proposes the law of proximity as an explanatory approach to microenterprises finance to what she calls the proxemic order theory. In addition, the agency theory (Jensen and Meckling 1976), the asymmetry of information, adverse selection, and moral hazard problems are addressed further in the section when discussing bank financing.

Next, the section divides into three parts.

The first covers the general self, debt, and equity financing microbusiness options and practices. Some questions addressed are how financing works in these businesses, which sources exist, the criteria deemed essential to access different financing sources, and why studying small businesses' capital structure is more complex than big firms. Next, the segment divides into debt and equity financing. It covers trade credit, bank financing, venture capital, and initial public offerings.

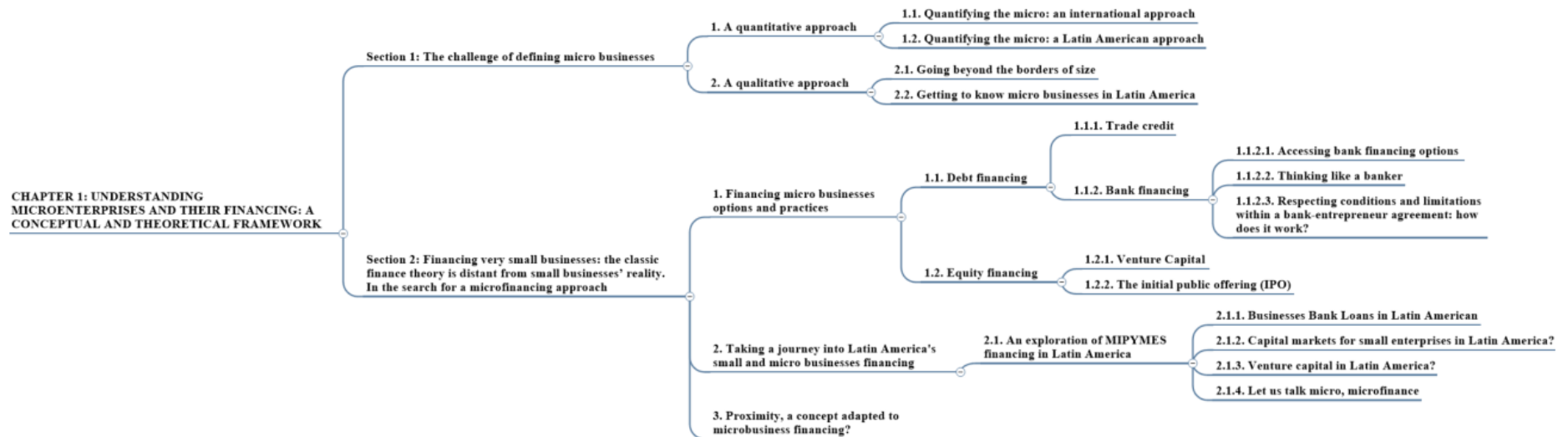
The second one explores MSMEs or *MIPYMES* financing in Latin America and provides a picture of the region's bank loans, capital markets, venture capital, and microfinance.



Last, part three positions this research work considering the state of knowledge on small businesses, their financing, and the context studied. In searching for a micro business approach tied to this research interest, the author proposes a mixture of proximities as critical elements to access financing in microenterprises placing the owner-manager (and their preferences) at the core of the business management. Furthermore, it is explained that in the same way the proposed proximities facilitate accessing funds, they also influence the owner-manager financing decision-making and can cause imprisonment—i.e., other financing options outside of owner-manager proximities preferences may not be considered. The proposition is an adaptation of Torrès's (2011) writings taking into account Norton's theory of managerial choice (1991), the law of proximity of Moles and Rohmer (1978), and the literature.

The diagram below shows the structure of chapter one.

Figure 4. Structure of Chapter 1



## Section 1: The challenge of defining micro businesses

“...relative to the amount of empirical work that has been undertaken with size, there has been strikingly little conceptual definition of what it is. In many ways it is analogous to the concept of the mind in psychology 15 years ago, a concept which explained every-thing and hence nothing at the same time, because it was a surrogate for things which at the time were poorly understood. Size, indeed, may be the organizational sociologists’ black box.”

“One moves from a black box to a Pandora’s box in moving from the question of what size is to determining its role within and across types of organizations.”

Kimberly (1976, 575)

Since its early beginnings in the late 1970s and early 1980s, researchers of small and medium-sized enterprises (SMEs) have questioned the essence of what makes a business small. For example, is a small business considered small based on its size, is its organizational structure, is the management style privileged, or is it its uniqueness, its environment? As a result, multiple theoretical, managerial, empirical, and epistemological interrogations have enriched the small business domain.

The Encyclopedia of Economics and Management defines small and medium businesses as “legally and financially independent enterprises where the manager assumes the financial, technical and social responsibility of it without dissociating these elements.” This definition stresses the active, centralized role played by the manager in the enterprise. The manager is the actor with the most significant impact on the firm. On the other hand, the Organization for Economic Co-operation and Development (OECD) defines these businesses “as non-subsidiary, independent firms which employ fewer than a given number of employees” (OECD 2000) undertaking, thus, and more quantitative approach.

However, regardless of the approach taken, whether measured or not, these definitions do not give us a general picture of the collage representing small businesses. It is logical, maybe obvious, to assume that a small enterprise will hire only a given number of employees and that small business managers will share exhausting diverse and technical responsibilities for the enterprise they run. Nevertheless, this does not help us place ourselves within the small business spectrum. How do we know we are talking about small businesses; where does the dividing line is drawn to distinguish them from big enterprises?

The pioneers of this recent research area (SMEs) were academics focused on size. According to Torrès (1997; 1998), the study of the dimensions of enterprises goes back to the late 1960s, when the University of Aston conducted research comparing and studying the specific and general problems faced across a wide range of organizations (52), including “firms making motor cars and chocolate bars, municipal departments repairing roads and teaching arithmetic, large retail stores, small insurance companies and so on” (Pugh et al. 1968, 67; 1969). Their studies concluded that size, among other factors, plays a determinant role in the structure of enterprises.

Desreumaux (1992) goes along with these findings, arguing that “the size of an organization is a major predictor of its structure.”

For Mintzberg, size is also a contingency factor decisive for the organization’s structure of an enterprise: “the larger the organization, the more elaborate is its structure: the more specialized the tasks are, the more the units are differentiated and the more its administrative component is developed” (Mintzberg 1982, 217). In other words, “the bigger the company, the more formalized the enterprise behavior is” (1982, 215). Big enterprises are rigid production assemblies to what he calls “mechanic organizations” made out of standardization, specialization, rules, procedures, and formalization. In contrast, small businesses are somewhat more flexible, less formalized structures to what he calls “organic structures.”

Size has been used to conduct numerous studies about small businesses, and it is an unavoidable variable of control. Maybe, fixing and regulating size is how small business research has tried to find its scientific identity and validity: following a set of scientific methodological principles. Nevertheless, conceptual definitions of size are deficient.

“There is very little discussion in the literature about how size should or might be defined in a conceptual sense” (Kimberly 1976). Furthermore, numerous authors have expressed the

deficiency and dangerous generalization of quantitative approaches and the notion of size in the literature (e.g., Kimberly 1976; Hertz 1982; Pettit and Singer 1985; Julien 1990; Marchesnay 1991; 2003; Desreumaux 1992; Torrès 1997; 1998). We are far from a unifying category in the subject worldwide (Abdulsaleh and Worthington 2013).

When talking about size, it seems unavoidable to point out the intelligent analysis made by Kimberly in 1976, where he reviews eighty (80) empirical studies about the size and the methods used to conduct the investigations. The table below provides an overview of the publications examined.

**Table 6. Classification of Empirical Studies by Publication**

<b>Main Journals</b>				
<i>Administrative Science Quarterly</i>	<i>American Sociological Review</i>	<i>Sociology</i>	<i>Social Forces</i>	<i>American Journal of Sociology</i>
Entwisle and Walton (61)	Terrien and Mills (55)	Ingham (67)	Haas, Hall, and Johnson (63)	Hall and Tittle (66)
Haas and Collen (63)	Tsouderous (55)	Hinings and Lee (71)	Mayhew and Rushing (73)	Bell (67)
Indik (64)	Anderson and Warkov (61)	Child (72a)	Pfeffer and Leblibici (73)	Blau (68)
Rosengren (67)	Hawley, Boland, and Boland (65)	Child and Mansfield (72)	Freeman and Kronenfeld (74)	Childers, Mayhew, and Gray (71)
Rushing (67b)	Blau, Heydebrand, and Stauffer (66)	Hinings and Foster (73)	Beck (74)	
Pugh et al. (68)	Raphael (67)	Child, Loveridge, and Warner (73)	Noell (74)	
Pugh et al. (69)	Hall, Haas, and Johnson (67)	Hickson et al. (74)		
Pondy (69)	Harvey (68)	Donaldson and Warner (74)		
Hickson, Pugh, and Pheysey (69)	Blau (70)			
Klatzky (70b)	Holdaway and Blowers (71)			
Aldrich (72)	Hendershot and James (72)			
Child (72b)	Mayhew et al. (72)			
Child (73a)	Meyer (72)			
Child (73b)	Coleman (73)			
Child (73c)	Freeman (73)			
Hrebiniak and Alluto (73)	Mayhew (73)			
Mansfield (73)	Specht (73)			
Payne and Mansfield (73)	von Broembsen and Gray (73)			
Khandwalla (74)	Hummon, Doreian, and Teuter (75)			
<b>Other Journals</b>	<b>Books</b>	<b>Other</b>		
Melman (51)	Bendix (56)	Baker and Davis (54)		
Lindenfield (61)	Woodward (65)	Haire (59)		
Draper and Strother (63)	Ulmann (67)			
Rushing (66a)	Ingham (70)			
Rushing (67a)	Blau and Schoenherr (71)			
Klatzky (70a)	Blau (73)			
Blau (72)	Heydebrand (73)			
Negandhi and Reimann (72)				
Negandhi and Reimann (73)				
Coates and Upgraff (73)				
Goldman (73)				
McMillan et al. (73)				
Champion and Britterton (74)				
Labovitz and Miller (74)				
Tosi and Patt (67)				

The number in parentheses indicates the year of publication as noted in reference list.

Source: Kimberly (1976)

Among the numerous observations and arguments he specifies about size and its use, it is relevant to highlight his contrast with the intertypical and the intratypical methods.

The intertypical approach standardizes the size measure across a heterogeneous sample of businesses. The idea is to fix the notion of size when favoring all different types of organizations. Therefore, it looks for a universal application. On the other hand, the intratypical approach prioritizes the types of organizations rather than size; the organization's characteristics become more critical for empirical studies and theory contributions.

Both approaches have drawbacks, dividing by standardizing size or homogenizing by organizational type. How can these scientific results be generalized for each one of these approaches?

By taking the intertypical approach, quantitative measurements will be set universally for the sample. In most cases, this translates into an operational definition that includes the number of employees the enterprise has, the yearly revenue, and the total assets value of the enterprise (Woodward 1994). By respecting these guiding principles, a diverse sample can be chosen: manufacturing plants, grocery stores, restaurants, salons, hotels, insurance, and financial service companies. However, although widely used, this approach encounters the struggle of generalizing results when no homogeneous definition of size exists and the enterprises' diversity is profoundly robust. In that sense, no comparison between a clothing manufacturing company and a traveling agency can be made if the number of employees, for instance, is preferred as the size criteria.

Hall, Haas, and Johnson, for instance, applied an intertypical method obtaining inconsistent results in the examination of the relationship between size (6 members to over 9,000 members) and measures of organizational complexity and formality for seventy-five (75) different organizations containing "educational, commercial, military, governmental, manufacturing, religious, and penal organizations" (1967, 907).

The generalization for the other approach, the intratypical, is represented by the nature of the organizations studied. Due to their similarities, the sample will comprise a specific type of organization, such as hospitals only, restaurants, supermarkets, prisons, educational establishments, or public institutions. Thus, in the end, it could be assumed that a homogeneous

group put in the same pot will provide consistent results after all, and generalization can be achieved. Nonetheless, how do we know that the sample used shares the same characteristics? “A given mental hospital, for example, may resemble a given prison in some ways more than it resembles another mental hospital” (Kimberly 1976, 577). The concept of organization “type” itself is and becomes a problem. Research is embarked upon a linguistic category of the “type” of organizations of the study, such as the ones of the public school system, manufacturing plants, hospitals, penal institutions, retail stores, labor unions, farms cooperatives, banks, television stations and so on (Kimberly 1976).

Another problem with the intratypical approach, according to Kimberly, is that “size should be measured in the same way across organizational types” (1976, 577). Does this mean that if the amount of employees size criteria is privileged for manufacturing plants or educational institutions, it should also be the same for travel agencies, banks, retail stores, or supermarkets? Moreover, if this is the case, illustrating Kimberly’s ideas, can this comparison be made when a manufacturing plant that has one hundred (100) employees and even up to five hundred (500) in the United States is considered small, and a retail store with the same amount of staff is considered big?

Neither the intertypical nor intratypical approach has generalizing results for the small business theory. The intertypical method uses size as the predominant variable across a heterogeneous sample. On the other hand, the intratypical approach uses the organization type as the main guiding principle in the study. Researchers will subscribe to one of these approaches according to their insight without forgetting its limitations.

Hall (1972), for example, adapted the intertypical approach, acknowledging no “law” concerning an organization’s size and characteristics. While on the other hand, Child (1972) preferred to work with organizations operating within particular environments to achieve specific performance objectives. In other words, types of organizations with a homogeneous sample where there is a major contextual factor. Above all, size, nonetheless, is the most privileged variable used, given its importance to the structure of organizations (Kimberly 1976).

Although the criteria privileged when talking about size is the number of employees (Kimberly 1976), size is also defined by various measurements where the total annual revenue and the value of the total assets are highlighted (Osteryoung and Newman 1993). “It takes very

little thought to recognize the great variance in size among contemporary organizations. There is an interesting statistical paradox that is related to this variance” (R. H. Hall and Tolbert 2015). As a result, the literature comprises a wide range of size applications, and studies use them in a broad spectrum of samples and circumstances.

In the end (and perhaps oversimplifying), according to Torrès (1998, 23; 1997, 15), two lines of research can be opposed in small business research:

1. “Those that consider size as the predictive variable of excellence. Besides its important role, this research trend grants this factor an absolute importance. The size effect is universal”.
2. “Those that relativize not only the importance but also the role of size. They relativize the universal role of the effect-size, and the size effect is contingent”.

As discussed here, size has proven to be one of the most privileged criteria when conducting academic research related to organizations. Size can play a decisive role in the structure of organizations and how they function. As stated previously, big companies, for instance, will tend to be more formalized, standardize their procedures more, decentralize their inner units, and be more rigid and mechanical. In contrast, for small businesses (in general), the reality will be the opposite. There is a dividing line between one world and another regardless of size definitions, nuances, and numerous usages in the literature.

In addition, it is rational to think that a small enterprise differs from a big one. Researchers have questioned the capacity to apply the classic models, theories, and tools designed and created for big firms (which in most cases are big public firms) to small businesses. Nevertheless, the specificity of these businesses and the different realities of small and medium enterprises (SMEs) make applying the classic models to small businesses challenging. SMEs are peculiar, and SME research has a particular application that multiple theoretical interrogations and empirical studies have shaped.

The interest in small businesses has implied the “black box” opening. The latter is a system that ignores the internal functioning of firms and focuses only on the external exchanges, i.e., inputs and outputs.



Barton and Gordon explain it as follows: “finance and economics are based primarily on theories of market behavior; the firm is assumed to be merely an efficient transformer of inputs and outputs. As such, this ‘black box’ theory of the firm assumes rational behavior based on a unitary objective of shareholder wealth maximization, attained by a singular drive for efficiency” (1987, 69).

Now, the question here is: can the inner functioning of an enterprise be overlooked, especially for a small business where the manager plays a chief role in the decisions made and the functioning of the enterprise? Will the manager, who is most often the owner and core of the business, influence the final enterprise output? Furthermore, in that sense, how do we know the manager is making rational decisions to maximize profits? Can human actions be rationalized when it is inevitable that humans are essentially real emotional beings? The “black box” opening represented the stepping stone to new undiscovered research interests focusing on human behavior in different areas.

Borrowing Hirigoyen’s words, “a model is only true based on the hypotheses it is made upon.” Talking about small businesses implies an exit of the rational economic man mindset and perfect markets. The different SMEs’ realities move away from the hypothesis of the classic model because the propositions do not correspond. SMEs are not small big companies; they are not necessarily a phase before becoming big enterprises<sup>25</sup>. They are not in the maximization of shareholders’ wealth and risk minimization model either (see, e.g., McMahon and Stanger 1995). A break of the old paradigms<sup>26</sup> was necessary, given the specificities and diversity of small businesses<sup>27</sup>.

Therefore, diverse theoretical currents developed from the 1970s to the late 1990s shaping SMEs as an actual research discipline in management. These theoretical currents were the ones on size and growth (origins -discussed previously-), specificity, diversity, synthesis, and denaturation. We will take a journey using Olivier Torrès’s (1997; 1998) fundamental writings

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<sup>25</sup> See, e.g., the study performed by St-Pierre, Julien, and Morin (2010) about the relationship between enterprise age, size, and performance. The study comprised a sample of 288 Quebec manufacturing SMEs with sizes ranging from 4 to 234 employees and ages between 2 and 135 years. The authors found, among other things, that small enterprises can be old (25yrs or more) and bigger ones young (less than 13yrs), opposing the traditional thinking that small enterprises are young and big ones are necessarily old. It also indicates that growth is not necessarily the goal of all entrepreneurs.

<sup>26</sup> According to Kuhn (1972; 2008), a paradigm represents the set of beliefs, recognized values, and techniques common to a group’s members.

<sup>27</sup> See Hutchinson (1999) for a brief overview of neoclassical economic assumptions. These include “perfectly competitive markets with many participants, none of whom can individually influence prices; information being freely and instantaneously available to all economic agents; all economic agents being profit maximizers and utility maximizers; and all economic agents using their complete and perfect knowledge to implement optimizing actions instantaneously” (P. Hutchinson 1999, 344).

to understand further the general picture of the history and development of small business research.

➤ **The theoretical current of specificity**

Small businesses were considered a reduced model of big enterprises or a stage before becoming big organizations for a long time. However, once the old paradigm was challenged and numerous authors started recognizing the characteristic features of small businesses, SMEs' specific theories began. Scientific journals titles headed "Children are not 'Little grown-ups': Small business needs its own organizational theory" (Dandridge 1979), "A small business is not a little big business" (Welsh and White 1981), "*Pour une taxonomie de l'hypofirme*" (Candau 1981), and "Is small so beautiful?" (Marchesnay 1982); all recognizing that small enterprises are real.

"[These businesses are peculiar] not only due to their small size but also because they are characterized by the nature of their economic activities (independence, low industrial integration, subcontracting), by the technologies used (production in small sequences or by the unit, limited investments), by the impossibility or the tremendous difficulty of accessing to capital markets, and especially by the distinctive characteristics of their management. This is usually done by the owner-manager (no separation of ownership and control), often assisted by members of his/her family, rarely by associates, which leads to centralization of the decision making, a highly personalized relationship style, a frequent lack of future projection, and also great flexibility" (Candau 1981, 16).

Even though the small business research took off from the fundamentals of size, small businesses should not be only reduced by a "small size" enterprise. There are multiple-size definitions where the idea of a small business is understood differently among nations; different industries take different approaches, international institutions assume their meanings, and researchers conduct their studies under their classifications. Small businesses have no unique quantitative definitions; therefore, it should not be the only measurement to delineate the small business frontier from big enterprises. Hertz (1982) agrees that small businesses should be

studied as a concept, not as a small enterprise, which will establish a universal definition and facilitate comparing these business types.

Although not standard, size delineations are the privileged criteria in the SMEs scientific community. However, in addition to size, numerous authors, including the Canadian Pierre-Andre Julien, cofounder with the French Michel Marchesnay, and the Belgian Robert Wtterwulge of the RIPME (*Revue Internationale PME*), have expressed numerous times that the common ground among small businesses is their heterogeneity (Julien 1990; 1993; Marchesnay 1991; Torrès and Messeghem 2015, 329–31). They are similar because they differ. Therefore, we cannot talk about a small business but small businesses and that the smaller the enterprise, the greater its specificity. In this sense, generalizing and understanding the SMEs concept and providing adequate theories to SMEs becomes a complex problematic exercise.

Curran and Blackburn, as well as other authors (e.g., Pierre-André Julien 1990; Torrès 2000; Torrès and Julien 2005), explain that “there is no established, widely accepted definition, official or otherwise, of the small firm” (Curran and Blackburn 2001, 9). Therefore, it has created problems for small business research consistency, and academics are encouraged to specify and “offer reasoned justifications for the definitions they adopt” (2001, 9).

Every research, regardless of its discipline, must have a solid theoretical base upon which the scientific contribution can be built. The constitution of SMEs as a field began with this challenging theoretical generalization.

In response to the call for generality, the specificity of SMEs appears to be the unifying factor among authors and universal law, even with a diverse panorama. In general, SME researchers constitute a sample of small firms to refer to the theoretical corpus of SME research (Torrès 1998). However, as discussed previously, taking the notion of size as the leading factor may incur inconsistent results considering first the several delineations size is given in countries and industries, and it will be inadequate to assume that all businesses chosen as a given “small size” will be the same. Furthermore, nowadays, for instance, due to technological innovation and economic integration, it is entirely normal to find businesses considered of a small size operate much more like big enterprises than as one of their kind (classic).

We have a “...propensity to look out for regularities and to impose laws upon nature, leads to the psychological phenomenon of dogmatic thinking or, more generally, dogmatic behavior: we expect regularities everywhere and attempt to find them even where there are none...”

(Popper 1962, 49). Consequently, the generalization of the SMEs specificity pushing toward a universal definition of a highly heterogeneous body sounds reasonable? This paradox led to the study of small business diversity as a theoretical current developed at the same time as the one on specificity.

➤ **The theoretical current of diversity**

The diversity theoretical current seeks to establish typologies ordering and classifying the heterogeneity existing in SMEs. It opposes the universality principle of specificity, which aims to give SMEs specific characteristics (Torrès 1997; 1998).

The world of SMEs is well diverse. These differences rely, among other elements, on the economic activities performed, the managerial style privileged, the enterprise strategy undertaken, the technology applied, and the values endorsed (Candau 1981). Unquestionably, these businesses are specific, but their diversity is a distinguishing aspect that could make us consider each business unique.

To illustrate this community heterogeneity and diversity, Julien and Torrès (2005) cite Curran and Blackburn (2001, 6), who add the following:

“Small enterprises have an extreme range of forms; they operate in every sector of the economy, from computer software to candle-making and from insurance (brokering) to instrument manufacturing. Entrepreneurs and owner-managers come from different genders and/or a wide range of ethnic, cultural, and educational backgrounds and from every age group. While some start their own business from scratch, others inherit or buy an ongoing business. Some are sole owners, while others run their business with partners or other directors. Some are family businesses with owners, partners or fellow directors and even employees linked by blood or marriage. Others are made up of people who have come together solely because they share common goals, complementary skills or access to capital.”

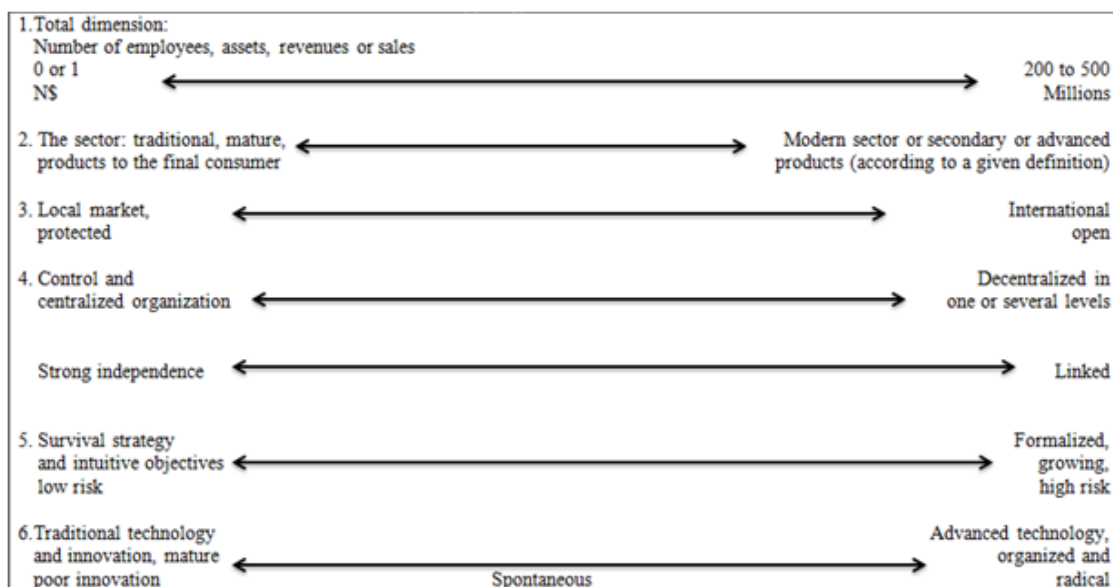
In this situation, creating theories that apply to each one of these scenarios becomes a challenging or unattainable task.

➤ **The theoretical current of synthesis**

Putting together the homogeneous with the heterogeneous concluded, in the mid-80s late 90s, into the theoretical current of synthesis (Torrès 1997; 1998). Therefore, the analysis included previous thoughts on the concept of SMEs.

Pierre-André Julien (1990) proposes an approach that joins diversity and specificity into one definition (Torrès 1998). He summarizes a complex phenomenon with quantitative and qualitative information that can be applied to any small business regardless of its particularity.

**Figure 5. Typology on “continuum”**



Source: Adapted from Julien (1990)

Two sides are represented in the table above, left and right. The more on the left, the stronger the small business characteristics will be. The more on the right, the closer we approach the concept of a big enterprise.

Julien simultaneously provides quantitative and qualitative definitions when providing the possibility to move to the right or left as the enterprise changes. There is no dissociation between size (the number of employees, assets, and sales) and the internal and external functioning of the enterprise (style of management, strategy, and markets addressed).

As discussed earlier, the analysis of SMEs cannot solely rely on the notion of size because there are dangerous generalizations, and there is no unanimous concept for it. Introducing this approach facilitates the analysis of the world of SMEs more competently without disassociating its elements.

No small business analysis should be made without considering all its elements. It should not be a matter of size only but about the concept of SMEs. Taking into account what makes them what they are, such as the vital role of managers (who are also owners), how they tend to be flexible and independent, with centralized decision-making, hire family members, produce on limited scales, and lack future projection in general (Candau 1981).

Studying small enterprises without opening the black box represents a significant limiting factor. Julien (1990) combined, thus, the most pertinent aspects relating to the complex phenomenon of SMEs into one simplified representation. Size is as important as the other aspects relative to small businesses.

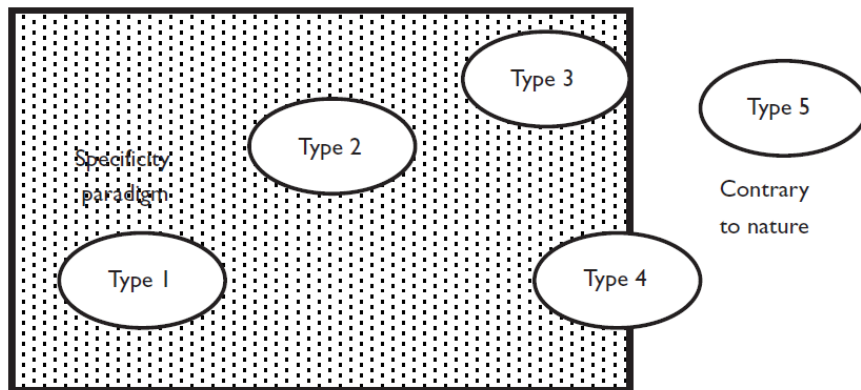
### ➤ **The theoretical current of denaturation**

Is it possible to think that not all small businesses will be on the left side of Julien's "typology on continuum" chart? What if a business considered small regarding its size is more toward the right side than to the left one? Would this business be regarded as a big enterprise despite its small size?

The theoretical current of denaturation seeks to analyze these types of interrogations. It explores the framework set for small businesses to determine its validity. It is based on the idea that SMEs are specific but also recognizes that a small enterprise may not correspond to the classic conception of SMEs described in the literature. "The denaturing approach is not completely distinct from earlier work, because it is based on that work. It is simply another way of stating the problem of small business specificity, by proposing the small business concept as the central object of the research. Its goal is a refutation of the closed classical small business conception validity framework" (Torrès and Julien 2005, 361).

The principle of this approach is represented in a commonly found figure when the subject is addressed in the literature (Torrès 1997; 1998; Curran and Blackburn 2001; Torrès and Julien 2005).

**Figure 6. Graphic representation of the theoretical current of denaturation**



Source: Torrès and Julien (2005)

The square in the figure represents the specificity paradigm. In other words, it is the set of beliefs, recognized values, and common techniques (Kuhn 1972; 2008) to a classic small business approach (left side of the “typology on continuum” chart by Julien). The circles or bubbles indicating “type 1”, “type 2”, “type 3”, “type 4”, and “type 5” represent the different typologies found within the rich diversity of the world of small businesses. “Type 5” represents the denaturalization approach where the type of small business in question goes against (and represents a refutation to) the classic small business paradigm.

**Figure 7. The Small Business Concept and its Antithesis, the Anti-Small Business Concept**

<i>The Small Business Concept (according to Julien, 1990)</i>	<i>The Anti-Small Business Concept</i>
<p style="text-align: center;">Small size Centralized management Low level of labour specialization Intuitive and short-term strategy Simple and informal internal and external information systems Local market</p>	<p style="text-align: center;">Small size Decentralized management High level of labour specialization Explicit and long-term strategy Complex and formal internal and external information systems World market</p>

Source: Torrès and Julien (2005)

Torrès and Julien (2005) published a thought-provoking article illustrating this denaturalization theoretical current. They used a small business case to which they agreed to be a “baby multinational” or a “baby big business.” In the article, the business was the world leader in the natural colorant market. Its expertise relied on extracting a natural pigment from plants called anthocyanin. This pigment was later used mainly in the pharmaceutical and beverage industry. Some of their clients were Coca-cola and Schweppes.

It was a small business comprising forty (40) employees. Twenty (20) were located in Saint Julien de Peyrolas, France, and the other twenty (20) employees were in a production branch in Tunisia with alliances in Spain and Italy. In addition, 80% of their production was exported to more than twenty (20) countries, and they were at 70% in their imports from ten (10) distinct countries. Their turnover was five (5) million euros per year.

Another study that shows the spectrum of the international activities SMEs can have is performed by St-Pierre et al. (2011). It analyzed the internationalization behavior of 588 manufacturing SMEs in Quebec. Their results indicated that 68% of enterprises surveyed import, 52% export, 17% use foreign subcontractors, 14% work with foreign partners, 6% have established subsidiaries abroad, 6% have made foreign direct investments (FDI), and 22% have other international activities such as prospecting for foreign customers and improving sales personnel skills and international competition analysis.



The table below presents the percentage of enterprises performing each activity mentioned by enterprise size.

**Table 7. Diversity of SME's international activities by size (percentage of companies engaged in each type of activity)**

Number of employees	N	Subsidiaries abroad	FDI	Export	Imports of equipment	Import of inputs	Sub-contracting	Collaboration	Innovation
Less than 20	74	7	3	38	26	38	15	19	16
20 – 49	300	3	5	47	44	50	16	13	20
50 – 99	142	8	7	65	53	60	20	15	27
100 – 250	72	15	14	64	68	53	15	8	25
Total	588	6	6	52	47	51	17	14	22

N: number of enterprises in the sample that belong to the corresponding size category of number of employees.

FDI: foreign direct investment.

Collaboration: percentage of enterprises with at least one collaboration agreement with a foreign firm.

Innovation: percentage of enterprises having carried out at least one form of innovation activity with an organization abroad.

Source: Adapted from St-Pierre et al. (2011)

Businesses, more than ever before, are faced with “an array of options in both configuration and coordination for each activity in the value chain” (Porter 1986) so that they can adopt international strategies in different countries (Roth 1992).

An international strategy transforms the familiar concept of a small business, and this is what, in reality, the Julien and Torrès and St-Pierre et al. examples are doing. They challenge the classic small business concept by proposing a scenario where a business of small size can:

1. have leading-edge technology,
2. sophisticated information collection systems (for obtaining market data) and transition (for activity reports, budgets),
3. a decentralized structure (with independent local units),
4. a standardized production chain with high levels of control and, most importantly,
5. there is no longer a “one-man show.”

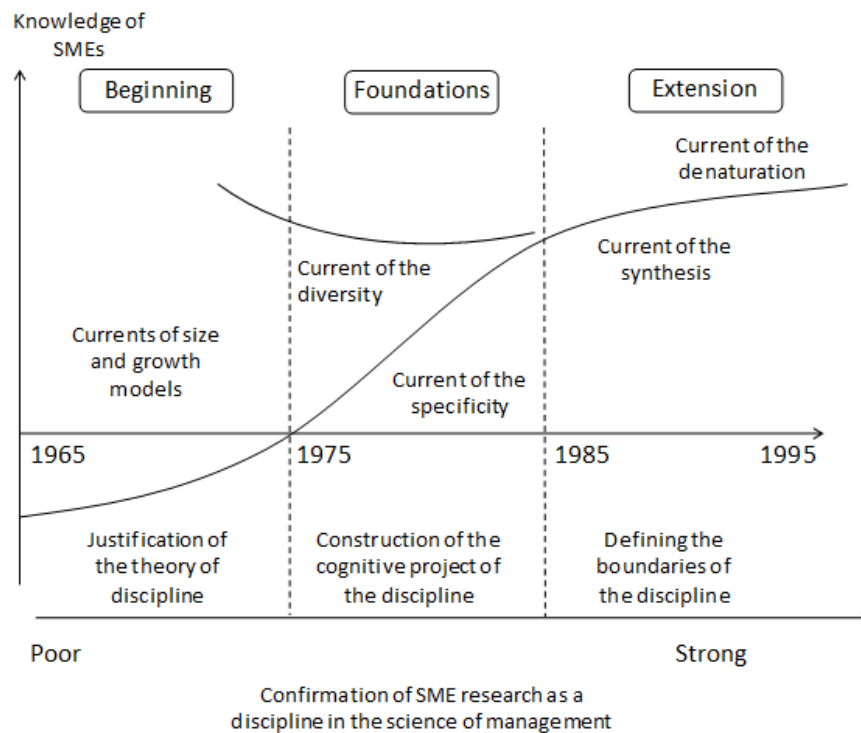
It is, therefore, a refutation or a “black swan,” according to Popper. In other words, “no matter how many instances of white swans we may have observed, this does not justify the conclusion that all swans are white” (Popper 2002). The denaturation approach is the black swan.

### ➤ **Evolution of the small business research**

Small business research has steadily found its way toward shaping its own identity. It has proven to be a rich discipline with promising research potential and practical applications. It comprises diverse theoretical currents shaped throughout time thanks to multiple theoretical, managerial, empirical, and epistemological interrogations. Each progress sets the bases for the next.

Olivier Torrès (1998) encapsulates the different small business currents of thoughts flawlessly in a figure (below) titled *Vers une discipline de recherche* or *Towards a research discipline* in English (figure 8).

**Figure 8. *Vers une discipline de recherche***



Source: Adapted from Torrès (1998)

As shown in the figure, the small business domain, which started to develop in the mid-1960s, should be consecrated to the academic researchers studying the notion of size. Next, between 1975 and 1985, the construction of the discipline began bringing out the peculiarities and heterogeneity of small businesses. It was acknowledged that small businesses were not a stage in the growth process of big enterprises and did not necessarily desire to become big at all. In addition, it was unquestioned that they were not small models of big corporations; they required theories adapted to their realities and that opening the black box was crucial.

As small businesses started shaping as a management discipline, the progress continued building upon the basis of previous works<sup>28</sup>. Consequently, the theoretical synthesis current emerged, combining small businesses' specificity with its diversity phenomenon and quantitative and qualitative definitions. This framework represented a significant evolution for this emerging discipline's knowledge and structuring development (Torrès 1997; 1998).

<sup>28</sup> See Julien (1998) for a small business and entrepreneurship research knowledge summary.

The continuous interrogations in the field arose in the mid-nineties with the most privileged principle in small business research: specificity. Testing the validity of this framework by the denaturalization theoretical current emphasized that not all small businesses fall within the classic small business model. Small businesses do not necessarily have centralized management, low labor specialization, intuitive and short-term strategy, and simple and informal internal and external information systems. Today, given economic integration and technological innovations, small businesses can operate and sell in international markets, which provokes a decentralization of management and more complex information systems and strategy. They represent the oddity of being configured and coordinated as a big enterprise, although they are considered small enterprises.

Small business research is a complex but fascinating endeavor for any researcher in management science. They must set boundaries according to their position, conceptions, and research objective (Torrès 1998). Unfortunately, as shown in the literature, “there is no established, widely accepted definition, official or otherwise, of the small firm” (Curran and Blackburn 2001, 9), which has consequently created problems for small business research consistency and academics are encouraged to specify and “offer reasoned justifications for the definitions they adopt” (2001, 9).

**This research concentrates on microstructures taking, in essence, a synthesis approach** (see Pierre-André Julien 1990).

In the interest of the subject’s diversity and complexity, it is necessary to state and justify the definitions this research uses to avoid inconstancy in our data gathering, measurements, and analysis.

The lack of independent literature concerning microbusinesses is palpable. There is almost a total absence of this object. It could be agreed that micro businesses are the great forgotten of small and medium-sized enterprises (SME) research (Jaouen and Torrès 2008). Few studies center on microstructures alone (J.S. Ramalho and da Silva 2009; St-Pierre, Julien, and Morin 2010; St-Pierre 2018). Nevertheless, microenterprises are the most prominent business class in any country (Torrès 2008).

Most microbusiness research is usually classified within the SME spectrum since microbusinesses are generally understood to be part of a universe and not one on its own. Therefore, readers should not be surprised that SMEs, small businesses, and very small (micro)

business research will set the bases and guidance for this research work on small business financing, where we take a microenterprise focus and study the case of the Dominican Republic.

This work is not reduced by quantitative or statistical answers but explores the richness given by the qualitative aspects and context of our research object and case study. As part of this chapter, we define *microenterprises* by developing quantitative and qualitative approaches from international, Latin-American, and Dominican perspectives.

## **1. A quantitative approach**

*Quantitative definitions* are aspects that can be easily classified. They are measurable and specific as expressed in numbers (Punch 2014).

There are numerous ways to define micro, small, and medium enterprises. However, SMEs' quantitative definitions often concern the enterprise size regarding their number of employees, total business assets worth, and yearly revenue.

This first part of section one aims to define and study microenterprises from a quantitative perspective. It begins by providing a general overview of quantitative definitions and continues by giving the specifics of the Latin American context.

### **1.1. Quantifying the micro: an international approach**

Microenterprises' quantitative definitions are tied to the country, international institution, or industry. Each understands how many employees there must be, how much money the business should make, and how many assets the enterprise should hold to classify itself as a micro, small, medium, or big business. The notion of size is subjective in this case due to the incompatibility of the criteria used to define size.

As mentioned earlier, numerous authors have expressed the deficiency and dangerous generalization of quantitative approaches and the notion of size (e.g., Kimberly 1976; Hertz 1982; Julien 1990; Marchesnay 1991; 2003; Desreumaux 1992; Torrès 1997). These differences remain whether we talk about small and medium enterprises (SMEs) or micro businesses. We are far from a unifying category in the subject worldwide.

Osteryoung and Newman (1993) reviewed the historical evolution of the small business definition from the nineteenth century to the year of the publication of their article. In sum, the variables most often used to define a small business are the number of employees, the annual sales, the number of assets, the management organization structure, and the dominance in its operating industry. Out of these last ones, the number of employees has been the most often used.

In further support, Kimberly's review of the variable size in empirical studies between 1950 and 1974 indicates that 65 articles out of 80 –i.e., more than 80%– used this measurement as well (1976). Hatten (2012) corroborates, indicating that the staff headcount or the number of employees is the most common criterion used to distinguish whether a business is big or small.

The most frequent upper limit for SMEs is 250 employees, as in the European Union (OECD 2000; European Commission 2003; 2015; Levratto 2009; Bpifrance 2014). However, SMEs have less than 500 employees in Canada and the United States, 300 in Japan, 200 in Thailand and Morocco, 100 in Bangladesh, 20 in New Zealand, and even 2000 in China (OCDE 1997a; 1997b; Bpifrance 2014). In addition, in some countries, such as Qatar, there is no formal definition (Bpifrance 2014)<sup>29</sup>.

In regards to microenterprises, few countries have specifically established a definition for these business types. In Thailand, for instance, it does not exist, and China got it recently in 2011 (Bpifrance 2014).

Generally, the micro specifications are found under the SME category the same way they are established in the annexes of article 2 from the “commission recommendation of the 6 May 2003 concerning the definition of micro, small and medium-sized enterprises” in the European Union (see European Commission 2003). The principle of fewer than ten (10) employees remains the most associated with this category, such as China and the European Union (Marchesnay 1991; European Commission 2003; Bpifrance 2014). On the other hand, there are about five (5) employees in Malaysia, Taiwan, the United States, and Australia (Bpifrance 2014; Gilfillan 2015).

The second quantitative criterion tied to size is the financial measures expressed by the enterprise's yearly turnover and the balance sheet total. Other measures added to this definition are enterprises' independence and proprietorship, as well as the classifications by industry. In both cases, there are different definitions undertaken as well.

If the objective is to lead to more effective, more prosperous, and unvaried theoretical and empirical advancements, there must be a unanimous definition for the subject in question. A standard report can facilitate enterprise studies, classifications, and comparisons to evaluate

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<sup>29</sup> For more examples of countries worldwide, see St-Pierre (2018) and OECD (2020a).

firms within an economic sector, activity, region, or country. Considering these enterprises' evolutions and governmental policies will not only become easier but also valid and reliable.

Given the need for a collective definition, the European Commission adopted in 1996 the first standard definition for its member states regarding small and medium enterprises. The latter included the number of employees, the yearly revenues, and the balance sheet amounts of enterprises. Later in 2003, the definition was modified by the recommendation № 2003/361/CE of May 6, 2003, and it is still used today. Its article №2, found in the annexes, states that “the category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million” (2003).

SMEs' staff headcount or the number of employees, financial ceilings, and ownership identified by the European Commission for each type of enterprise are the following:

**Table 8. European SME definition Commission recommendation of 6 May 2003 (2003/361/EC)**

Structure	Staff headcount	Yearly Revenue	Total Balance Sheet	Autonomy
Microenterprises	< 10	< 2 million €	< 2 million €	Less than 25 % of the capital or voting rights are directly or indirectly controlled, jointly or individually, by one or more enterprises.
Small enterprises	< 50	<10 million €	< 10 million €	
Medium enterprises	< 250	< 50 million €	< 43 million €	
Big enterprises	250 or more	> 50 million €	> 43 million €	

Source: European Commission (2003)

The staff headcount, as stated in article № 5, refers to:

1. the employees,
2. the individuals for the enterprise being subordinated to it and deemed to be employees under national law,
3. the owner-managers, and
4. the partners engaging in regular activity in the enterprise and benefiting from financial advantages from the company.



Even though this definition is voluntary for the member states, the European Commission invites them “together with the European Investment Bank (EIB) and the European Investment Fund (EIF), to apply it as widely as possible” (European Commission 2015, 5). This characterization can help make more adapted policies, programs, and funding opportunities available for SMEs, including the micro.

Several institutions around the world have applied their quantitative norms as well. Some of these are the INSEE or the National Institute of Statistics and Economic Studies in France, the SBA or the United States Small Business Administration, the World Bank, and the Economic Commission for Latin America and the Caribbean (ECLAC)<sup>30</sup>—*Comisión Económica para América Latina y el Caribe* (CEPAL) in Spanish. The tables below summarize and compare these organizations’ quantitative SMEs norms by the number of employees.

**Table 9. SMEs definitions by number of employees**

<b>Institutions</b>	<b>Enterprise Size</b>	<b>Number of employees</b>
<b>INSEE</b> <sup>31</sup>	Microenterprise	< 10
	Medium and Small Enterprise	< 250
	Intermediate Enterprise	250 – 4 999
	Big Enterprise	≥ 5 000
<b>SBA</b> <sup>32</sup>	Small Business	500
<b>World Bank</b>	Microenterprise	< 10
	Small Enterprise	< 50
	Medium Enterprise	< 300

Source: INSEE (2019), SBA (2022), and IFC (2009)

<sup>30</sup> As established on the CEPAL website, the CEPAL is one of the five (5) regional commissions of the United Nations. It was founded in 1948 to contribute to Latin America’s economic development and reinforce economic relations among countries of this region and other countries in the world. Later, it included the Caribbean nations and the social development interest. For more examples of the Latin American region institutions see the definitions of *La Comunidad Andina* and *Mercosur* (see, e.g., Molina-Ycaza and Sánchez-Riofrío 2016).

<sup>31</sup> The INSEE specifies how an enterprise is defined in the website’s SME concept description section. In addition, one should refer to Decree No 2008-1354, article 51 of the law on the Modernization of the Economy, “on the criteria for determining the category of an enterprise for statistical and economic analysis purposes.”

<sup>32</sup> Significant industries and industry groups generally define small business size standards. However, nearly all businesses qualify as small with 500 employees. For example, some of the sectors include but are not limited to: agriculture (500 employees), mining industries -except support services for mining- (from 250 to 1 500 employees), manufacturing (from 500 to 1 500 employees), utilities such as hydroelectric, fossil, nuclear and renewable power generation and electric and natural gas power distribution (from 250 to 1 000 employees), wholesale and retail (from 100 to 500 employees), transportation and warehousing (from 500 to 1 500) and information (from 500 to 1 500).

**Table 10. ECLAC SME definition by economy size (number of employees)**

<b>Economy size<sup>33</sup></b>	<b>Microenterprise</b>	<b>Small Enterprise</b>	<b>Medium enterprise</b>	<b>SME</b>
<b>Small</b>	1 – 10	11 – 35	56 – 100	11 - 100
<b>Medium</b>	1 – 10	11 – 50	51 – 150	11 – 150
<b>Big</b>	1 – 10	11 – 35	56 – 100	11 - 100

Source: ECLAL or CEPAL (adapted from Lilianne and Pavón 2016)

Another international perspective concerning quantitative definitions we can point out is the one given by the Organization for Economic Co-operation and Development (OECD), officially born on September 30<sup>th</sup> of 1961 (2021).

After a study by the OECD of eighteen (18) countries<sup>34</sup>, the number of employees in enterprises has widely defined the concept of SMEs (1997a; 1997b). The OECD concluded that the classification of SMEs obeys the following global agreement:

**Table 11. OECD What do SMEs mean?**

<b>Structure</b>	<b>Number of employees</b>
<b>Microenterprises</b>	1 – 4
<b>Very Small enterprises</b>	5 – 19
<b>Small enterprises</b>	20 – 99
<b>Medium enterprises</b>	100 – 500
<b>Big enterprises</b>	500

Source: Adapted from OECD (1997a; 1997b)

Once again, this definition is different from the other ones provided earlier in this chapter.

Divergences are also palpable when comparing different industries. For example, a precision engineering enterprise with less than 200 employees or less than 50 million € in

<sup>33</sup> The ECLAC not only uses a staff headcount approach for micro, small and medium enterprises but also considers the size of the economy in the region.

<sup>34</sup> Countries were: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, United Kingdom, and the United States.

yearly revenue is considered, for its sector, a big enterprise. In contrast, automobile construction, is regarded as an SME (Belletante, Levratto, and Paraque 2001). Therefore, these variances are not only among countries and institutions but also in industries highlighting the definition challenges for micro, small, and medium enterprises worldwide.

The United States Small Business Administration (SBA) not only provides their widely used size standards in their country (500 employees and 7.5 million dollars in average annual receipts for many non-manufacturing industries), but they have also made available on their website a list of size standards by industry sector known as the “Table of Size Standards”(2022). The table comprises industries including agriculture, mining, construction, manufacturing, retail and wholesale trading, transportation, finance and insurance, and healthcare. In addition, the objective is to help small business owners assess their small business status since “certain government programs, such as SBA loan programs and contracting opportunities, are reserved for small businesses” (2022).

After going through the numerous international definitions concerning quantitative approaches, we share Belletante, Levratto, and Paraque’s position that “the discrimination based on the revenue or the number of employees is not relevant and other explanatory elements must be used to understand the specificity of SMEs” (2001, 15). Numerical conceptions remain insufficient and limited. Size is not everything.

The quantitative approach fixes a set of guiding principles. Nonetheless, it is necessary to use other explanation elements to understand the world of SMEs. For example, “there is no absolute optimal configuration of the firm but, on the contrary, it is the degree of coherence of the product, the market, and the manager” (Belletante, Levratto, and Paraque 2001, 14).

## **1.2. Quantifying the micro: a Latin American approach**

Latin American nations mirror SMEs’ heterogeneity and complexity phenomenon and the measurable definitions used to identify micro, small, and medium enterprises. Consequently, there is no consensus to define and classify these enterprises. Nevertheless, unlike more developed countries, there is a significant portion of small, micro, and informal enterprises in the region with low productivity and dynamism and a slow pace of growth.

The lack of jobs created in the formal sector in this region enhances the appearance of sole proprietorships and microstructures as a solution to unemployment (Sanguinetti et al. 2013). These last ones are characterized by the employment of their owners or a few family members with mediocre value-added and limited managerial knowledge and capabilities, insignificant revenues, and a limited growth rate.

75% of Latin American entrepreneurs have, in reality, microenterprises (with less than five (5) employees), employing about 40% of the salaried workers in the private sector (Sanguinetti et al. 2013). In addition, 28% of this region's employed population works independently (2013). In other words, many of the region's entrepreneurs are self-employed or operate in small-scale enterprises.

Table 12 illustrates this phenomenon among selected Latin American countries where sole proprietorships and small structures remain dominant.

**Table 12. Percentages of micro-enterprises, employees in micro-enterprises, and self-employed non-professionals in selected countries of Latin America and the United States (several years)**

Country	Year	Micro-entrepreneurs of total entrepreneurs (a)/ (includes self-employed)	Employees that work in a private microenterprise (b)	Non-professional self-employed (out of the total employed population)
Argentina	2010	72	38	15
Bolivia	2008	71	40	32
Brazil	2009	84	40	19
Chile	2009	40	23	20
Colombia	2010	85	40	40
Costa Rica	2010	62	32	18
Ecuador	2010	77	45	29
El Salvador	2010	87	39	29
Guatemala	2006	85	43	28
Honduras	2009	87	50	32
Mexico	2006	78	38	21
Nicaragua	2005	81	44	30
Panama	2010	69	27	25
Paraguay	2010	80	54	33
Peru	2010	78	42	34
Dominican Republic	2010	72	28	41
Uruguay	2010	67	31	21
Venezuela	2010	77	27	36
United States	2009-2010	40	5	NA

<b>Latin America (c)</b>		<b>75</b>	<b>38</b>	<b>28</b>
(a) Ranges from 1 to 5 employees. (b) Ranges from 1 to 4 or 5 employees, depending on which country in Latin America (SEDLAC 2012). (c) The data reported for Latin America corresponds to the simple average of the country's data. NA: Not available.				

Source: Sanguinetti et al. (2011); Gluzmann, Jaume, and Gasparini (2012); SEDLAC (2012); US Census Bureau and US Bureau of Labor Statistics (2012); and Business Dynamics Statistics Data of the US Census Bureau (2012)

By looking at this table, we can go hand in hand with Morris' idea that most people have the potential to become entrepreneurs and learn “when the venture is underway, social and networking skills, guerrilla capabilities, a talent for adaptation, or an ability to deal with growth” (2002, 2). However, regardless of the possible truthfulness of this statement, the unskilled labor and poor efficiency behind these micro initiatives must not be neglected. Failing to find a job, receiving relatively low wages, the absence of job stability, and higher unemployment rates (people actively looking for a job and not finding it) motivates self-employment (Evans and Leighton 1989). Furthermore, self-employed entrepreneurs from an unemployment situation are likelier to fail than entrepreneurs from paid jobs (Carrasco 1999).

Defining SMEs is a complex endeavor, and it is not different in Latin America. There is no specific definition in each country, nor regional alliances of what makes an enterprise large, medium, small, or micro (see, e.g., Tunal Santiago 2003; Saavedra G. and Hernández C. 2008; Molina-Ycaza and Sánchez-Riofrío 2016). Nonetheless, our review indicates that it is often based on a legal definition commonly found between the second (2<sup>nd</sup>) to the fifth (5<sup>th</sup>) article of the law of the country, apart from Costa Rica, where it is found in articles fifteen (15), sixteen (16), and seventeen (17). In addition, the region generally classifies large companies with more than 200 employees; medium ones between 50 and 200; small ones between 11 and 50; and microenterprises with up to 10 employees.

The following table summarizes the most recent Latin American countries' SME definitions established by law. It focuses on the number of employees for a micro, small and medium enterprise.

**Table 13. Latin American SMEs law definitions by number of employees**

Country	Microenterprise	Small Enterprise	Medium enterprise
<b>Argentina</b> Resolution 103-E/2017	NA	NA	NA
<b>Bolivia</b> Resolución Ministerial Mdpyp/200/2009	1 – 9	10 – 19	20 – 49
<b>Brazil</b> Lei Complementar Federal 123/2006	NA	NA	NA
<b>Chile</b> Ley 20416	1 – 9	10 – 49	50 – 199
<b>Colombia</b> Ley 905 de 2004	1 – 10	11– 50	51 – 200
<b>Costa Rica</b> Decreto ejecutivo 39295- MEIC	NA	NA	NA
<b>Ecuador</b>			
<b>El Salvador</b> Decreto No. 667	1 – 10	11 – 50	NA
<b>Guatemala</b> Acuerdo Gubernativo No. 211 – 2015	1 – 10	11 – 80	81 – 200
<b>Honduras</b> Decreto No. 135-2008	1 – 10	11– 50	51 – 150
<b>Mexico</b> Ley para el Desarrollo de la Competitividad de la Micro, Pequeña y Mediana Empresa <i>Última Reforma</i> DOF 13-08-2019	1 – 10	11 – 50	51 – 250
<b>Nicaragua</b> Decreto N° 17-2008	1 – 5	6 – 30	31 – 100
<b>Panama</b> Ley No. 33 2000	NA	NA	NA
<b>Paraguay</b> Ley No. 4.457 2012	NA	≤ 30	≤ 50
<b>Peru</b> Decreto Legislativo N° 1086 July 2008	1 – 10	1 – 100	NA
<b>Dominican Republic</b> Ley 187-17 <sup>35</sup>	1 – 10	11 – 50	51 – 150
<b>Uruguay</b> Decreto reglamentario 504/2007 del certificado Pyme Ministerio de Industria, Energía y Minería (MIEM)	1 – 4	5 – 19	20 – 99
<b>Venezuela</b> Decreto No. 6.215 2008	NA	≤ 50	51 – 100
<b>United States</b> Small Business Administration (SBA)	NA	500	NA
<b>European Union</b> Commission recommendation of 6 May 2003	< 10	< 50	< 250
NA: Not available.			

<sup>35</sup> The Dominican Republic Law 488-08 of Micro, Small and Medium Enterprises (2008) was modified in 2017 by law 187-17. This last one changes paragraph I of Article 1 and Articles 2 and 22 of Law No. 488-08 (Congreso Nacional de la República Dominicana 2017a).

Source: Modified and updated from Alvarez and Durán (2009)

A review of selected Latin American countries' legal frameworks suggests that the staff headcount is not the only criteria used to define SMEs (despite facilitating comparison among countries, e.g., no currency exchange involved). Instead, it includes a wide range of measures. To illustrate, we will go over the regulatory regiment of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Perú, Dominican Republic, Uruguay, and Venezuela. In the end, a table summarizing the quantitative approaches will be provided.

In **Argentina**, the classification criteria are the annual sales in Argentinian pesos depending on the enterprise economic activity sector: construction, services, commerce, industry and mining, and agriculture. The Ministry of Production and the Secretary of Entrepreneurs and of the Small and Medium Enterprises state in the resolution 103-E/2017 the following definitions for micro, small and medium-sized enterprises (Ministerio De Producción and Secretaría De Emprendedores Y De La Pequeña Y Mediana Empresa 2017):

1. **Microenterprise:** construction: \$ 4.700.000, services: \$ 3.500.000, commerce: \$ 12.500.000, industry and mining: \$ 10.500.000, agriculture: \$ 3.000.000,
2. **Small enterprise:** construction: \$ 30.000.000, services: \$ 21.000.000, commerce: \$ 75.000.000, industry and mining: \$ 64.000.000, agriculture \$ 19.000.000,
3. **Medium enterprise (1):** construction: \$ 240.000.000, services: \$ 175.000.000, commerce: \$ 630.000.000, industry and mining: \$ 520.000.000, agriculture \$ 145.000.000,
4. **Medium Enterprise (2):** construction: \$ 360.000.000, services: \$ 250.000.000, commerce: \$ 900.000.000, industry and mining: \$ 760.000.000, agriculture \$ 230.000.000.

**Bolivia**, in its *Resolución Ministerial 200/2009*, made available by the Ministry of productive development and rural economy, not only uses the staff headcount as the country's quantitative definition but also includes the total amount of assets, annual sales, and exports in

*Unidades de Fomento a la Vivienda (UFV)*<sup>36</sup>. Therefore, definitions are the following (Ministerio de Desarrollo Productivo y Economía Plural Bolivia 2009):

1. **Microenterprise:** productive units that have less than or no more than nine (9) employees; less than or no more than one hundred and fifty thousand (150.000.00) UFV in total productive assets; less than or no more than six hundred thousand (600.000.00) in annual sales; and less than or no more than seventy-five thousand (75.000.00) UFV in yearly exports.
2. **Small enterprise:** productive units that have between ten (10) and nineteen (19) employees; between one hundred fifty thousand and one (150.001.00) and one million and five hundred thousand (1.500.000.00) UFVs in total productive assets; between six hundred thousand and one (600.001.00) and three million (3.000.000.00) UFVs in annual sales; and between seventy-five thousand and one (75.001.00) and seven hundred fifty thousand (750.000.00) UFVs in yearly exports.
3. **Medium enterprise:** productive units that have between twenty (20) and forty-nine (49) employees; between one million and five hundred thousand and one (1.500.001.00) and six million (6.000.000.00) UFVs in total productive assets; three million and one (3.000.001.00) and twelve million (12.000.000.00) UFVs in annual sales; between seven hundred fifty thousand and one (750.001.00) and seven million five hundred thousand (7.500.000.00) UFVs in yearly exports.

The General Law for the micro and small enterprises in **Brazil** adopts the following definitions in Brazilian Reals (SEBRAE 2022; 2021):

1. **Individual micro-entrepreneur:** annual gross revenue up to R \$ 81,000.00,
2. **Microenterprise:** annual gross revenue equal to or less than R \$ 360,000.00,
3. **Small enterprise:** annual gross revenue exceeding R \$ 360,000.00 and equal to or less than R \$ 4,800,000.00.

Law 20416 for SMEs in **Chile** includes not only the staff headcount as a measurement to define these business types but also the annual revenues from sales and services and other activities in *Unidades de Fomento (UF)*. These last ones are inflation-adjusted measurements

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<sup>36</sup> The *Unidades de Fomento a la Vivienda (UFV)* is published every day by the central bank of Bolivia (BCB) and represents a benchmark index that shows the daily evolution of prices and is calculated based on the Consumer Price Index (CPI) published by the national institute of statistics. For example, on June 13, 2017, the value of one UFV was 2,20545 *bolivianos (Bs)*, one dollar was 6.96 Bs, and one euro was 7.68 Bs (Banco Central de Bolivia 2017).



based on Chile's consumer price index (CPI) and implemented after the minister of finance executed Supreme Decree No. 40 in 1967. The annual income established in law 20416 for SMEs in Chile specifies the following (Ministerio de economía, fomento y reconstrucción 2014):

1. **Microenterprises:** companies whose annual income in sales and services and other turnover activities have not exceeded 2,400 units of development in the last calendar year,
2. **Small enterprise:** companies whose annual revenue from sales, services, and other activities of turnover are more than 2,400 units of development and not exceed 25,000 units of development in the last year's calendar and,
3. **Medium-sized enterprises:** companies whose annual revenue from sales, services, and other turnover activities are greater than 25,000 units of development and do not exceed the 100,000 units in the last year's calendar.

**Colombian** law for Micro, Small, and Medium businesses (law 905, 2004) includes in its quantitative definition the number of employees and the number of total assets belonging to the enterprise in minimum wage salary counts. According to the Ministry of Labor, the minimum monthly salary in Colombia was 737.717 Colombian pesos in 2017. To illustrate, the law states (El Congreso de Colombia 2004):

1. **Microenterprise** total asset value, excluding the house of the owner, cannot exceed 500 minimum monthly legal salaries in Colombia,
2. **Small enterprises** between 501 to 5,000.00 minimum monthly legal salaries and,
3. **Medium enterprise** from 5,001.00 to 30,000.00 salaries.

As established on art. 15, 16, and 17 in the *Decreto Ejecutivo* 39295- MEIC, **Costa Rica** uses a formula to determine the size of a company. The formula is as follows:  $P = [(F_{pe} * pe/D_{pe}) + (F_{inpf} * inpf/D_{inpf}) + (F_{an} * an/D_{an})] * 100$ . The P value obtained will be used to classify businesses. A microenterprise will be  $1 \leq P \leq 10$ . A small enterprise will be  $10 < P \leq 35$ . A medium enterprise will be  $35 < P \leq 100$ , and a big enterprise will have a "P" value greater than 100 (INA and MEIC 2016; Presidente de la República and Ministerio de economía, industria y comercio 2015).

The law for the protection, promotion, and development of micro and small enterprises (Law 667) in **El Salvador** not only uses the staff headcount to classify these enterprises but

also uses the minimum monthly salary as well as Colombia. This last one is used regarding the total gross sales the enterprise makes. The Ministry of labor, on the 1<sup>st</sup> January 2017, increased the minimum monthly salary to USD 300 for the urban area and USD 250 for the countryside. Two definitions are stated (La Asamblea Legislativa de la República de El Salvador 2014; CONAMYPE 2015):

1. A **microenterprise** cannot exceed 482 minimum monthly salaries in gross sales,
2. A **small enterprise** has sales greater than 482 minimum monthly salaries up to 4,817.00.

**Guatemala**, Colombia, and El Salvador use the minimum monthly salary as a quantitative measurement. The minimum monthly salary is set by the Ministry of labor and social security of Guatemala to Q.2, 893.21 for Non-agricultural and agricultural economic activities, January 1<sup>st</sup>, 2017. In addition, the most recent law, *Acuerdo Gubernativo No. 211 – 2015*, specifies besides the staff headcount for each of the business types, the following (Mineco and Mipyme INE 2015):

1. A **microenterprise**'s gross sales cannot exceed the 190 non-countryside minimum monthly salaries,
2. A **small enterprise** must have from 191 to 3,700.00 monthly salaries in gross sales and,
3. A **medium enterprise** from 3,701.00 to 15,420.00 minimum monthly salaries.

**Honduras** and **Mexico** use the number of employees as their SMEs quantitative definition (Poder Legislativo Honduras 2009; Cámara De Diputados Del H. Congreso De La Unión 2019). Nevertheless, Mexico divides by economic activity or sector and the Small Businesses Administration in the United States of America. Therefore, the law for the development of the competitiveness of the Micro, Small, and Medium Enterprise in **Mexico** provides de following classification (Cámara De Diputados Del H. Congreso De La Unión 2019):

1. A **micro** has 1 to 10 employees for the industry, commerce, and services sectors,
2. A **small enterprise** has 11 to 30 employees for the commerce sector and 11 to 50 employees for the industry and services sectors,
3. A **medium enterprise** has 31 to 100 employees for the commerce sector, 51 to 100 for services, and 51 to 250 for the industry.

**Nicaragua** also uses the annual total sales and assets values in its local currency: *córdoba*. The regulation of SMEs Law, Decree No. 17-2008 states that (Presidente de la República de Nicaragua 2008):

1. **Microenterprises** cannot exceed 200,000.00 in total assets value and 1 million in total annual sales,
2. **Small enterprises** can have up to 1.5 million in total assets and 9 million in total annual sales,
3. **Medium enterprises** cannot surpass the 6 million total assets and 40 million annual sales.

**Panama** classifies SMEs by the enterprise's total revenue regardless of economic sector or activity. Law No. 33 2000, which dictates the norms for promoting, creating, and developing Micro, Small, and Medium enterprises, states the following (Asamblea Legislativa Panamá 2000):

1. **Microenterprises** cannot surpass one hundred fifty thousand balboas or B/.\$150,000.00 in annual revenue,
2. **Small enterprises** must be between B/. 150,000.01 and B/. 1,000,000.00 and,
3. **Medium enterprises** between B/. 1,000,000.01 and B/.2,500,000.00 annual revenue.

**Paraguay** also uses the total revenue in their local currency as their quantitative definition. The law states that (Poder Legislativo República de Paraguay 2012):

1. An enterprise is a **microenterprise** or "MIE" if business sales do not exceed five hundred million guaraníes (G. 500,000,000.00),
2. A **small enterprise** or "PE" cannot go beyond two thousand five hundred million guaraníes (G. 2,500,000,000.00),
3. A **medium enterprise** can make up to six thousand million guarantees.

**Peru's** law 1086 defines their *Pymes* with the number of employees and total annual *Unidades Tributarias* (UI) sales. It states the following (El Peruano 2008):

1. An enterprise is considered **micro** if it does not exceed ten (10) employees and one hundred fifty (150) *Unidades Tributarias* (UI) in annual sales,

2. **A small enterprise** must not go over one hundred (100) employees and a thousand seven hundred (1,700.00) *Unidades Tributarias* (UI) of annual sales.

The Peruvian law does not define medium and big enterprises; however, it could be assumed that if the specifications provided for small enterprises are surpassed, the enterprise could be considered medium.

The **Dominican Republic**, SME law 187-17, includes in its quantitative definitions the number of employees and the total annual revenues discussed in this thesis's general introduction (refer to table 1, page 17).

**Uruguay** provides an SME definition considering the number of employees and the total annual sales. The regulatory decree 504 of 2007 of the SME certificate modifies Article 8 of decree No. 54-992 of February 7, 1992, and Article 1 of Decree No. 266-995 of July 19, 1995, uses an inflation-adjusted measure of sales the same way Chile does. This measure is called *Unidades Indexadas* (UI). The regulatory decree specifies that (MIEM 2007):

1. **An enterprise is micro** if it does not have more than four (4) employees and two million (2,000,000.00) of *Unidades Indexadas* (UI) annual sales,
2. **A small enterprise** cannot have more than nineteen (19) employees and cannot exceed the ten million (10,000,000.00) of *Unidades Indexadas* (UI) and,
3. **A medium enterprise** must not have more than ninety-nine (99) employees, and its annual sales must remain lower than seventy-five million (75,000,000.00) of *Unidades Indexadas* (UI).

**Venezuela** uses the number of employees and the annual turnover as its quantitative measurements. Article five (5) in Decree No. 6.215 July 15, 2008, refers to the yearly sales as *Unidades Tributarias* (UI) the same way Uruguay does in its law. The details are the following (Presidente de la República Bolivariana de Venezuela 2008):

1. **A small enterprise** must not have more than 50 employees and cannot exceed a hundred thousand (100,000.00) *Unidades Tributarias* (UI),
2. **Medium enterprises** cannot have more than a hundred (100) workers, and their yearly turnover must remain lower than two hundred fifty-thousand (250,000.00) *Unidades Tributarias* (UI).

Latin America is an example that quantitative approaches used to define SMEs are not fixed and change depending on their environment. To illustrate, El Salvador and Guatemala use the minimum monthly salary to measure the total annual sales in their SME classification. Colombia uses the same minimum monthly salary approach but classifies the value of the total assets instead of yearly revenues. Chile, one of the economies with a high predominance of bigger structures in the region, uses *Unidades de Fomento* (UF) to measure annual sales and define SMEs. Uruguay and Venezuela use the same approach Chile uses but with *Unidades Indexadas* (UI).

Furthermore, Costa Rica created its formula and a value guides classification range they call the “P” value. The greater the “P” value, the bigger the company. Argentina prioritizes the total annual revenues depending on the economic activities of the SME. In addition, it is essential to point out that most of the countries in the region did not define big enterprises, except Chile, which stated that a big enterprise has more than 200 employees.

The table below summarizes Latin American countries’ quantitative approaches to their most recent SME laws. In addition, the United States and the European Union remain present to facilitate comparison among the different methods.

**Table 14. Comparing SMEs Quantitative approaches used by Latin American countries, the United States, and the European Union**

Country	Number of employees	Total Sales	Total Assets	Other
Argentina		X		X
Bolivia	X	X	X	X
Brazil		X		
Chile	X	X		X
Colombia	X		X	
Costa Rica	X	X	X	X
Ecuador				
El Salvador	X	X		
Guatemala	X	X		
Honduras	X			
Mexico	X			
Nicaragua	X	X	X	
Panama		X		

Paraguay	X	X		
Peru	X	X		
Dominican Republic	X	X		
Uruguay	X	X		
Venezuela	X	X		
United States	X			
European Union	X	X	X	

Source: Modified and updated from Saavedra and Hernández (2008)<sup>37</sup>

From the previous table, it can be affirmed that SME size definitions are diverse. This variousness could be explained by these businesses' production scale, chain, and capacity (Aldrich, 1972). Alternatively, by the dynamic adaptation to their environment (Hrebiniak and Joyce 1985), or by the personal choices entrepreneurs make about their enterprise size (Morris et al. 2006), or maybe it is engendered by survival (Greiner 1998). In other words, it could be subject to each country's context and circumstances.

It cannot be forgotten that most of the enterprises in Latin America are small structures created to solve unemployment and to make a living to survive in the short term. These subsistent entrepreneurs with low productivity work alone or with their family members or friends to provide a limited number of products and services. Microstructures (1 to 5 employees) predominance in Latin America is thus palpable. It responds to an unstable environment with limited opportunities where entrepreneurs keep their company at a size they can control with the people they trust most to keep living one day at a time.

As shown, SME sizes and definitions vary depending on the context. Consequently, **to facilitate and maintain consistency and avoid irregularities in this research** (Kimberly 1976; Hertz 1982; Torrès 1998; Curran and Blackburn 2001), **a staff headcount of one (1) to ten (10) employees has been chosen as the quantitative measurement for micro businesses.** Most countries in Latin America, with few exceptions (Argentina, Brazil, Costa Rica, Panama, and Paraguay), use this one (1) to ten (10) employees range for microenterprises.

By adopting the one (1) to ten (10) employee criteria in Latin America, the micro abundance rises from 75% to 91% of all the enterprises, and the remaining 9% belongs to enterprises

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<sup>37</sup> See also Zevallos (2006) and Molina-Ycaza and Sánchez-Riofrio (2016).

greater than ten (10) employees (Sanguinetti et al. 2013). The table below breaks down this firm's size distribution for each one of the Latin American countries selected and their working population.

**Table 15. Distribution of the employed population by Firms size (1-10 employees) in selected countries of Latin America and the United States (several years)**

Country	Year	Employers by firm size (percentage)		Employees by firm size (percentage)	
		Up to 10 employees	More than 10 employees	Up to 10 employees	More than 10 employees
Argentina	2010	88.1	11.9	55.7	44.3
Bolivia	2008	95.1	4.9	61.8	38.2
Brazil	2009	NA	NA	NA	NA
Chile	2009	62.3	37.7	31.3	68.7
Colombia	2010	94.1	5.9	49.0	51.0
Costa Rica	2010	86.1	13.9	42.9	57.1
Ecuador	2010	91.1	8.9	59.0	41.0
El Salvador	2010	95.2	4.8	45.2	54.8
Guatemala	2006	95.5	4.5	55.8	44.2
Honduras	2009	94.7	5.3	57.0	43.0
Mexico	2006	90.9	9.1	48.7	51.3
Nicaragua	2005	NA	NA	NA	NA
Panama	2010	90.7	9.3	36.9	63.1
Paraguay	2010	92.5	7.5	66.8	33.2
Peru	2010	95.4	4.6	55.7	44.3
Dominican Republic	2010	95.5	4.5	31.9	68.1
Uruguay	2010	87.2	12.8	45.3	54.7
Venezuela	2010	94.6	5.4	46.4	53.6
United States	2011	68.8	31.2	15.0	85.0
<b>Latin America (a)</b>		<b>90.6</b>	<b>9.4</b>	<b>49.3</b>	<b>50.7</b>

(a) The data reported for Latin America corresponds to the simple average of the country's data.  
NA: Not available.

Source: Sanguinetti et al.(2013) and Gluzmann, Jaume, and Gasparini (2012).

This table captures the actively employed population scope regardless of formality, economic activity, or size. Businesses comprising ten (10) employees or less represent 94% or more in Bolivia (95.1%), Colombia (94.1%), El Salvador (95.2%), Guatemala (95.5%), Honduras (94.7%), Peru (95.4%), the Dominican Republic (95.5%) and Venezuela (94.6%). Almost half of the employed workers (49.3%) contribute to enterprises with up to ten (10) employees in Latin America. In contrast, only 15% of workers in the United States work for enterprises with ten (10) employees or less.

Micro businesses represent a vital job creator in the region. However, as the necessity or absence of jobs creates more and more small structures, they lower their capacity to create new jobs and produce efficiently (Sanguinetti et al. 2013). The total percentage of the working population employed by businesses with up to ten (10) employees in Latin America illustrates this limitation. According to the table above, 91% of microenterprises use 49.3% of the working population. Indeed, these microstructures represent social and economic stability in these countries; nonetheless, on the other hand, larger businesses which represent only 9% of enterprises, produce 50.7% of jobs, 1.4% more than 91%.

After our Latin American enterprises' quantitative definitions journey, it can be concluded that size should not be the only measure considered when studying small businesses. The ideas of size are tied to a context: country, industry, institution, and even the individual definition used by academics. Size is then one piece of the puzzle that has no meaning standing alone. It must be complemented to comprehend the concept of a small business fully.



## **2. A qualitative approach**

The first part of this section showed the diversity of quantitative definitions and classifications used to define small enterprises. However, size considerations should not be the only criteria to consider. Selecting a quantitative definition and moving on with the research would be significantly limiting if one wants to understand what microstructures mean.

Since microenterprises in the thesis are studied as a concept and not as a limited number of employees, this section goes over these enterprises' characteristics or qualitative aspects. "The word qualitative implies an emphasis on the qualities of entities and on processes and meanings that are not experimentally examined or measured..." (Denzin and Lincoln 2008, 14).

The subsection divides into two parts. First, it reviews small business characteristics in general and then provides a quick view of Latin America.

### **2.1. Going beyond the borders of size**

Micro businesses are more than small-scale enterprises: several employees, a total value of assets, or an annual turnover. More than their size, enterprises are social constructions. They are embodied by human beings who propose value goods and services to the community. Therefore, the science of management is interested not only in the production and income of enterprises but also in the human and collective actions of these social constructions. In other words, as Martinet (1984) stresses: "the specificity of management sciences is to have to think together, in a non-separable way, the study of technical and economic factors, their possible mechanisms, ways of maneuvering them, transforming them... and the study of actors, their relations psycho-socio-political processes, procedures in which they move but inexorably participate in obtaining the products targeted" (in Martinet and Pesqueux 2013, 31).

Small businesses being part of the management science, work the same way. Its quantitative elements and qualitative foundations should not be disassociated. Julien (1990) provides in his "typology on continuum" synthesis approach both notions (quantitative and qualitative), taking into account the specificity and diversity of these businesses and their possibilities of growth (refer to figure 5, page 43). Some qualitative characteristics include but are not limited to the managerial style, the enterprise strategy, the technology used, and the values endorsed by the enterprise. In the case of microenterprises, the left side of Julien's approach is privileged:

control and centralized organization, strong independence, survival strategy, intuitive objectives, low risk, poor innovation, traditional technology, and local markets<sup>38</sup>.

Julien's approach is not the only one that can be used to explore microenterprises' qualitative definitions or the multicriteria typologies, as he calls them (1990). For example, Hirigoyen (1981), regardless of focusing on the characteristics of French medium enterprises, provides qualitative definitions that could be used within the frames of microenterprises<sup>39</sup>. These characteristics are the following:

- **Responsibility:** relies on one person or a few family members, where decisions directly impact the business (Candau 1981). Entrepreneurs face questions such as what do I do, how, where, when, with what, to whom, and in what way. Managers assume the business's financial, technical, and social responsibility.

“The figure of an entrepreneur is not associated with any suffering or weakness. It is the image of a man or woman who puts together an organization, creates value, and seizes opportunities” (Torrès and Chabaud 2013, 44). He/she is the creator and the result of this value creation (Bruyat 1993), leading a one-person show primarily or, as Guy Mathiolon (2008) likes to call them, “genuine orchestra men and women” who are at the same time “the manager, the salesman, the accountant, and the person who produces the good and the service.” Owner-managers multi-task and assume various responsibilities (L. J. Spence 1999; Reijonen 2008).

- **Ownership:** the business is mainly under the hands of one individual, which in most cases is the owner and manager of the firm or a few family members.

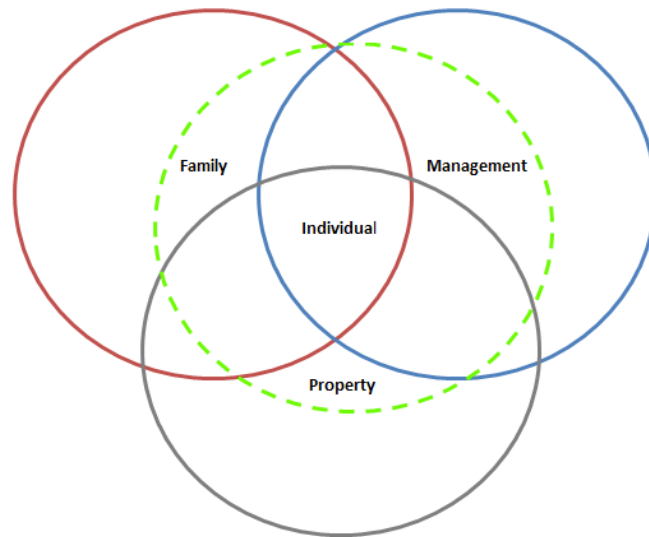
Hirigoyen (2008), who, among his research interest, has been passionate about family firms, proposes a model modified from the traditional schema of Gersick et al. by adding a fourth (4<sup>th</sup>) circle: the individual (in this case, the owner-manager).

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<sup>38</sup> Torrès (2002) shares the same characteristics.

<sup>39</sup> See also the small business characteristics provided by Spence (1999).

**Figure 9. Theory of the four circles**



Source: Hirigoyen (2008)

Regardless of being within the family business research, this model represents an everyday reality lived by microenterprises. The circles represent independent but overlapping subsystems in the original model: family, management, and property (Gersick et al. 1997).

The model represented shows that not all family members are involved in the management of the business; however, they are owners of or some part of the business. Others may be interested in the business's operations and belong to the family but may not own any parts. Among the family member, circumstances are not fixed. They can change over time.

By adding the central circle (Individual), Hirigoyen (2008) demonstrates an additional perspective to this model that can be used for further research regarding the relationships, behaviors, conflicts of interest, and these ties in general for family businesses. Although we do not go into detail about the family characteristics and situations of micro-businesses, it is a notion that cannot be disregarded. There is a strong family presence in most micro businesses. In addition, this model shows that the

center of the enterprise is the individual (or the entrepreneur, the manager, the owner), and it is part of a family. In other words, “the owner who has devoted his capital and those of the family and personal circle is at the same time manager of the business” (Marchesnay and Fourcade 1997, 16).

- **The existence of a particular objective of wealth:** the classic maximization of wealth for the shareholders, is rarely applicable.

McMahon and Stanger (1995) emphasize that in an owner-managed enterprise, the maximization of shareholders’ wealth, as the financial theory argues, no longer applies. Instead, the authors explain that owner-managers satisfaction (i.e., utility) often relies on non-pecuniary (often referred to as psychological or psychic) benefits above pecuniary ones.

Non-pecuniary advantages could be in or outside the financial domain. For instance, they indicate that non-pecuniary benefits in the economic field can be the security from having excess liquidity, the safety from having a diversified wealth holding, owning investments that can be transferred easily to others, having the flexibility to change circumstances if needed, keeping sole control, and avoiding accountability to others.

Non-pecuniary benefits outside the financial domain include, for example, “having a preferred lifestyle, being secure in self-employment, being able to offer secure employment to family and friends, maintaining good and benevolent relations with employees, having self-esteem or esteem of others, contributing to the wider community, and being philanthropic” (1995, 28).

Entrepreneurs’ objectives and profiles are diverse.

Another example is the one by Marchesnay (1991), where he proposes two types of entrepreneurs or managers according to their objectives. These are the “PIC” and the “CAP.” PIC stands for *pérennité, indépendance, croissance* in French, sustainability, independence, and growth in English. CAP stands for *croissance, autonomie, pérennité* in French, and growth, autonomy, and sustainability in English. Both follow the same order of importance, starting from the first to the last.

PIC entrepreneurs' first concern is ensuring their business lasts and continues to function over time with the hopes of transferring it to the family or selling it reasonably priced. The enterprise falls under personal and family patrimony. Their second priority is their independence. They want to be able to manage their inheritance as they wish. They will therefore be reluctant to raise capital with external partners and incur debts, primarily long-term debts, with banks. It will also help them keep control over the business. Lastly, the last interest regards growth which is not a desire in itself but rather a consequence of the entrepreneurs' willingness to accumulate more patrimony.

CAPs, on the other hand, will crave growth in the first place. They are constantly looking for opportunities to make high profits regardless of risk. There is no significant attachment to the business as they always look for favorable situations to win. If that means selling their well-established company, they will. Secondly, they angle for the autonomy of the decision they make. They are not bothered or anxious about including external partners or getting into debt. They focus on making crucial decisions and managing and acting as they wish. Finally, their last concern is the sustainability of the business, given their constant desire to maximize earnings. The CAP is always chasing, and it is more mobile and individualistic.

Rindova, Barry, and Ketchen (2009) defend the idea that individuals may want to be entrepreneurs for a variety of reasons which are not strictly tied to wealth. Entrepreneurs may wish to free themselves from the authority of others. To emancipate. To escape from or remove constraints in their environment—e.g., economic, social, technological, cultural, and institutional. They may want to be owners, autonomous, and mobilize resources to make a change in society. Because something is meaningful, because they can be creative, they want to pursue a dream, because they are passionate about something. This is the case, for instance, of entrepreneurs that are explorers, scientists, artists, freelancers, and social cooperatives. “Money as a motivator for entrepreneurs has limits” (Rindova, Barry, and Ketchen 2009, 488; see also Graebner and Eisenhardt 2004).

Reijonen (2008) small and micro enterprises study in Finland found that business success was not determined by growth in terms of turnover or employment but by the quality of life, job satisfaction, and satisfied clientele. Therefore, customers' respect and happiness, job fulfillment, product quality, and making a reasonable income were essential.

In sum, the objectives prevailing in small businesses are as varied as there are entrepreneurs. They could be tied to the personal wants and characteristics of the owner-manager. They can include, for instance, the desire to increase personal income and the one of the family, to continue a family tradition, to find a solution to unemployment, to develop their projects, to have more flexibility, and so on.

- **Flexibility:** freedom to do and manage as the owner and manager decide. Greater adaptation to their environment.
- **The absence of decision-making and planning methods:** poor management practices. Decisions rely on one person who has the most significant impact on the company.
- **An inadequate information system** with limited technology, information, and communication access.
- **Human size:** The small dimension of a micro-sized business makes direct communication among members easier. They exercise proximity (Jaouen and Torrès 2008). What is nearby is more important than what is not.

“Often, the manager is very close to the shareholders, if there are any, when he/she is not the owner, and it is easier for him/her to make them understand the challenges the company faces in the short and long term. He/she knows his/her clients very well; he/she is in contact with his market and its evolutions every day and measures the day-to-day demands by adjusting his/her price, quality, or innovation. He/she knows all his/her employees, and the question of their standard of living is not a statistical question for him/her, but a tangible fact, as is their commitment” (Bon 2013, 57).

- **Low/ weak autonomy:** There is a dependency among parties, and the smaller the enterprise, the stronger this dependency will be. Micro businesses depend not only on their stakeholders but also on their institutional network. Some of these businesses' dependencies rely upon the employees required to be multipurpose. Regardless of their specialization, they need to cooperate with other members, business owners (if several), providers of capital (such as banks), their clients, and their suppliers (Marchesnay and Fourcade 1997; Jaouen and Torrès 2008).

The multicriteria or qualitative definitions provide the richness of small business research. It helps us study small businesses as a concept and not as a mini version of an enterprise. The notion of size standing alone does not provide the answers to the complexity of our subject. As we have seen, thanks to technological advancement and economic integration, small businesses can behave more like big enterprises than classic small structures nowadays. For instance, they can enter international markets, have effective information systems, have a provider in the other corner of the world, or have employees specializing in tasks. **This is why for this thesis, regardless of choosing a one (1) to ten (10) employees' range, we also include the specifications given by Julien (1990) complemented by the one provided by Hirigoyen (1981).**

## **2.2. Getting to know micro businesses in Latin America**

The notions of size or quantitative definitions divide the world of small business. In contrast, the qualitative or multicriteria definitions appear to unify and bring together most small firms regardless of size definition, sector, or region. In Latin America is the same way: microenterprises share common characteristics with all the other businesses of a small size.

Microenterprises in the region are characterized by having a manager who is also the business owner, many family members as employees, deficient management practices, inadequate planning methods, and informality. Frequently, no commercial registration, no formal accounting is kept, and no social security is given to the employees (Sanguinetti et al. 2013). For instance, the table below provides a picture of these characteristics in Bolivia, Ecuador, and Colombia.

**Table 16. General characteristics of micro-enterprises in selected countries of Latin America (several years)<sup>a/</sup>**

<b>Variable</b>	<b>Bolivia<sup>b/</sup></b>	<b>Colombia</b>	<b>Ecuador</b>
<b>Number of workers (including the owner)</b>	1.9	1.9	1.7
<b>Average Sales (dollars)</b>	20,427.00	26,651.00	9,336.00
<b>No commercial registration (percentage)</b>	91	44	73
<b>No accounting (percentage)</b>	94	67	80
<b>Provide no social security to employees (percentage)</b>	97	72	85
<b>Percentage of women</b>	43	52	43

a/ Bolivia, 2012; Colombia, 2007; Ecuador, 2004.

b/ The percentage of microenterprises with “No commercial registration” is 100% of the survey MyPEs, since the universe surveyed was of the unregistered microenterprises in FUNDEMPRESA. The percentage reported (91%) corresponds to the units that never had commercial registration. The “no accounting” percentage comes from adding those who do not carry any registration with those who only take personal notes in a notebook of income and expenses. The rate of “provide no social security to its employees” reflects the fraction of microentrepreneurs who do not have their personnel registered with the Ministry of Labor.

Source: Put together with bases from Sanguinetti et al.(2011; 2013)

Latin American micro-entrepreneurs enjoy strong independence, usually led by an intuitive and survival strategy with a lack of planning. For instance, in Bolivia, out of all micro-entrepreneurs, 70% declared to have no short-term goal, 46% to have no long-term goals, 85% to have no vision of market positioning in the future, and 98% have no reason to exist or have a mission (Sanguinetti et al. 2013). There is a vision more toward survival than growth, economic dynamism, and productivity. Furthermore, regardless of the importance of relationships and proximity for businesses, especially the smaller ones, 87% of Bolivian microentrepreneurs do not belong to any productive linkage with suppliers, customers, or the government (2013).

Another point that stands out is the high percentage of women entrepreneurs involved in business activities. In the region, about 50% of enterprises are led by women (Sanguinetti et al. 2013), whereas in France, for instance, the percentage only reaches 27% (Degeorge and Chabaud 2013). In the United States, being a man is associated with a greater probability of being self-employed than being a wage earner (2013). Conversely, the opposite result is



observed in Latin America: men are less likely to belong to the self-employed category than women, although this varies between countries. There is a strong masculine presence in the French and American microenterprises; however, women prefer to work independently and be leaders in Latin America<sup>40</sup>.

Despite the vibrant diversity and heterogeneity present in the small business world, the qualitative definitions seem to unite and therefore institute the community of small businesses.

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<sup>40</sup> For more details, see the growth and economic report made by the Latin America Development Bank (CAF) by Sanguinetti et al. (2013) as well as the book *Qui sont vraiment les dirigeants des PME* directed by Didier Chabaud (2013).

## **Section 2: Financing very small businesses: the classic finance theory is distant from small businesses' reality. In the search for a microfinancing approach**

“Evidently, organisms adapt well enough to ‘satisfice’; they do not, in general, ‘optimize’.”

...

“Since the organism, like those of the real world, has neither the senses nor the wits to discover an ‘optimal’ path—even assuming the concept of optimal to be. Clearly denned—we are concerned only with finding a choice mechanism that will lead it to pursue, a ‘satisficing’ path, a path that will permit satisfaction at some specified level of all of its needs.”

Simon (1956, 129, 136)

Who refers to small businesses refer to a social and economic phenomenon. They represent strong job creators, especially during hard times, and essential contributors to most countries' economic output. However, the support for developing this economic fabric relies on implementing policies adapted to their particularities. Governments, for instance, create ministries, laws, and programs to simplify these businesses' legalization, facilitate their financial access and ameliorate their technical and managerial skills and quality assurance for their products and services.

This kind of support is supposed to, one way or another, transform the creativity of a nation into worthy value propositions serving the community. In other words, an idea becomes a product or service, filling a gap in the market that needs to be fulfilled. Nevertheless, no business proposition, regardless of its cleverness, can take place without sufficient financial resources, especially for small business units.

Mc Mahon et al. (1993) affirm that despite the substantial diversity in the small business world, small businesses encounter common financial problems. For example, they have limited starting capital, frequent liquidity problems, incapacity to secure external financing on acceptable terms, constant difficulties in ensuring debt services (inadequate profit margins), and complications in optimizing the uses of their assets.

In addition to the previous problems, most small businesses are characterized by incomplete or absence of accounting information and cost control system. They lack financial records used for management, cannot analyze, and interpret financial statements, and give insufficient attention to working capital management<sup>41</sup>. Furthermore, the evaluation of projects and investment decisions are unstructured, the knowledge of different financing types and methods is limited, and the entrepreneur lacks financial planning and has limited financial expertise (St-Pierre 2000b; 2018).

It is not striking that small businesses come across their financial reality quite distinctive from big enterprises.

Scherr and Hulburt (2001, 85) indicate that “small firms differ from large firms in taxability, ownership, flexibility, industry, economies of scale, financial market access, and level of information asymmetries<sup>42</sup>.” Plus, significant and essential distinctions are found in the objective function (McMahon and Stanger 1995), agency relationships (H. E. Van Auken and Neeley 1996), and market imperfections (see P. Hutchinson 1999).

We are not saying that large enterprises do not have financial challenges, but we are pointing out that small businesses do not have the same financial management problems as their larger counterparts (Walker and Petty 1978; Welsh and White 1981; J. S. Ang 1991; 1992). They are two completely different worlds where “the financial management of small enterprises is or should be qualitatively as well as quantitatively different from that of large enterprises” (LeCornu et al. 1996, 1). Nevertheless, where does the dividing line between these two worlds is drawn?

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<sup>41</sup> Working capital is the management of current assets and liabilities. There are four main current assets: accounts receivables, inventories (e.g., raw materials, work in progress, and finished goods), and cash. Current liabilities include account payables and other short-term borrowings. Net working capital is the difference between current assets and current liabilities. For further details on working capital for corporations, see Jindrichovska (2013), chapter 20 in Brealey, Myers, and Marcus (2018), and chapter 3 in St-Pierre (2000b; 2018).

<sup>42</sup> See also Cooley and Edwards (1982).

Assuring that “there is no single theory of finance that can adequately explain the behaviors of various types of small firms” (1992, 185) and despite affirming that “small businesses are too heterogeneous to be lumped into a single category” (1991, 7), Ang attempts to differentiate small businesses’ finance problems and complexities from publicly traded firms—big enterprises—(see also Pettit and Singer 1985). Some of the elements highlighted in the elaboration of this new paradigm are the following:

- **Personal and business accounts are integrated.** The “wealth flows freely between the owner and the business, personal finances are really part of the organization” (Levin and Travis 1987, 30). This means that the business risk is not separable from personal risk and that a business bankruptcy may cause individual bankruptcy.
- **Shorter expected life.** Small businesses may stop operating for many more reasons than big enterprises. For example, if a critical technical talent leaves the company or one of the partners managing and owning the business does not want to continue in the enterprise.
- **No publicly traded securities.** The only person that knows the value of their business is the owner-manager. Small businesses do not have a “ready market valuation for their shares” and do not have accurate information reporting and significant financing sources. Instead, they get capital “any way they can and use them any way they need to” (Levin and Travis 1987, 31).
- **Limited liability is absent or ineffective.** Owners are not protected against personal losses from business failures. As a result, owners incur higher failure costs. Their assets and wealth are at stake if they need to meet debt obligations in case of bankruptcy.
- **Estate tax.** Owners will combine their revenues with those of the business, which makes them more expensive to meet tax obligations. This could lead to unwanted liquidation of the company.
- **The relationships with stockholders are less formal but of great importance.** Small business is proximity management (see Jaouen and Torrès 2008); the smaller it is, the more authentic this will be. Small businesses depend on what Ang calls “F-

connections” (family and friends), especially for raising their starting capital. They rely on more intimate relationships with their local banks, suppliers, employees, and customers. Their reputation is crucial: “A strong reputation enables a small business owner to acquire short-term credit from suppliers and longer-term financing from banks, or to secure favorable contracts from suppliers and customers” (J. S. Ang 1992, 188). In addition, most transactions are two-party transactions.

- **The management team is not complete.** Technical talent relies on a few essential individuals and may lack the necessary knowledge and skills in finance, marketing production, and international business (Ang 1991). Moreover, in most cases, they cannot afford essential employees and pay, for instance, accounting and bookkeeping services (Welsh and White 1981).
- **Commonly a family business** with transfer issues.
- **Larger potential for making mistakes.** Ang (1992, 189) specifies that “most new small businesses have neither business experience nor training” and that “there is a difference between what they ought to do, what they are capable of doing, what they want to do, and what they actually end up doing.” As a result, there is a higher degree of flexibility.

LeCornu et al. (1996) provide a similar set of characteristics as Ang (1991, 1992) by pointing out that when talking about small businesses:

- **There is no separation between management and ownership. Instead, the firm operates as an extension of the manager.**
- **There are fewer financing and investment options.**
- **There is a limited amount of resources or “resource poverty.”**
- **There is more likely to experience problems due to growth, especially when starting.**

- **Financial management relies on one person's or fewer individuals' shoulders.**
- **There is no well-established securities market for small businesses.**

They also emphasize the owner-manager's central role in the financial management and objectives of the enterprise. "The goals of the owner become the goals of the firm," which are not necessarily driven by monetary gains, wealth maximization, optimization of the enterprise value, and minimization of risk exposure (LeCornu et al. 1996, 2; see also Rindova, Barry, and Ketchen 2009). In other words, personal motivations or non-financial objectives for owner-managers in a small business are as important as any other goal (see, e.g., McMahon and Stanger 1995; Reijonen 2008). For example, the need to control their own lives and the operations of their business, the advantage to work for themselves, to have greater flexibility for personal and family life, to achieve a higher position in society, to be respected, and so on, might be privileged against financial objectives (LeCornu et al. 1996). This situation makes our small business financial management endeavor more complex given that, in this case, the business's success is tied to what the owner-manager pursues. "Personal preference sets financial policy" (Levin and Travis 1987, 31).

When entering the small business world, the different realities encountered makes it challenging to provide a standard financial theory. Small business owner-managers have the freedom to pursue whatever objective has value to them personally; the enterprise is an extension of them and not an independent body they manage (Petty and Bygrave 1993). The distinctive financial situation of small businesses questions the appropriateness of the classic financial perspectives, which are merely based upon large, publicly traded firms (Cassar and Holmes 2003).

Numerous authors and academics have concluded that the theory of modern corporate finance is not developed with small businesses in mind and that the traditional financial goal of the firm of wealth maximization, risk minimization, and the hypothesis of rationality no longer applies (see, e.g., Pettit and Singer 1985; Levin and Travis 1987; J. S. Ang 1991; 1992; Petty and Bygrave 1993; LeCornu et al. 1996; St-Pierre 2000b; 2018; Graebner and Eisenhardt

2004; Rindova, Barry, and Ketchen 2009)<sup>43</sup>. Smaller firms are not larger firms scaled down (Scherr and Hulburt 2001).

Others argue that the standard financial statements and ratios are not designed for unlisted firms (Vos 1992) and cannot consider the business as an extension of the owner-manager or family members of the business but strictly for corporate operations (Levin and Travis 1987).

Richard Levin and Virginia Travis (1987), in their article “Small company finance: what the books don’t say,” bring up that finance textbooks methods cannot be used to judge the health of small private companies. However, if they are used, they state that some of the following may occur (quoting from their article 1987, 31):

- “The balance sheet figures may be misleading when the lifestyle of the owner-manager and the family members is factored in. In some cases, assets are inflated by beach cottages, mountain chalets, automobiles, and airplanes. In others, the corporate books fail to show plants and warehouses that the family holds separately but uses for operations.”
- “Some of the management efficiency indicators such as the return on assets (ROA) and return on equity (ROE) may be distorted when the owners can lease equipment or real state to the corporation.” “ROA is worthless when assets include ski chalets and beach houses.”
- “Even income statements can be distorted in the private corporation” because “profitability doesn’t necessarily drive decision making [...] hiring an uncle to advise the sales reps or a friend to work in the accounting department serve personal goals more than the profit margin”. “Similarly, spending for recreation or transportation and paying relatives’ rents, salaries, or benefits well above market rates put an artificially high cost on the book.”
- “Maximizing internal rates of return is less important than dividing the wealth appropriately between the owners of the organization.”

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<sup>43</sup>See also Barton and Gordon’s (1987) critique of capital structure theory and research.

Not only do the classic hypotheses of wealth maximization and rationality not apply in a small business context, but the tools and principles learned from typical finance textbooks and classes are not developed for the complexity of small business finances and how they behave. Therefore, they should be modified or put aside. This is why small business research is unique compared to its bigger counterparts. In addition, the fact that owner-managers are at the core of decisions made in their organizations changes the game's rules.

Some theories have shed light on small business finance realities and specificities (St-Pierre and Beaudoin 1995; St-Pierre 2000b; 2018; Gregory et al. 2005; Wu, Song, and Zeng 2008; J.S. Ramalho and da Silva 2009). The literature indicates that these are the theory of managerial choice by Norton (1991), the pecking order theory by Myers (1984) and Myers and Majluf (1984), and the business growth cycle theory by Berger and Udell (1998)<sup>44</sup>. We will cover each one in more detail and add an extra one we named the proxemic order theory.

### ➤ **The theory of managerial choice**

Choices are part of every aspect of our life. We make choices for everything we do and do not do, and even when we decide not to make choices, we are making a decision. In finance is the same way. We choose to do or not to do and how.

If we take a classic finance position, our decisions and actions will be led by rationality and the hypothesis of wealth maximization of the firm's shareholders. However, if these hypotheses do not correspond, such as small businesses' case, we face a different reality. Remember when we borrowed Hirigoyen's words and mentioned (beginning of chapter one) that "a model is only true based on the hypotheses it is built upon." The classic model is not wrong; it is just that the hypotheses it uses do not represent the specificity, complexity, and different realities of small businesses, especially if they are of a tiny dimension, such as microenterprises.

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<sup>44</sup>Numerous researchers have studied enterprise financing, particularly since Modigliani and Miller's essential writings (see 1958; 1963). However, we will not discuss these debates because they focus primarily on big enterprises, not small structures. Instead, the purpose here is to present the essential theories to understand better the SME financing domain and closer direct us to achieving our research objective.

It is necessary to mention that traditional capital structure theories often derive from the following theories: Modigliani and Miller's writings (see 1958; 1963), the trade-off theory, the agency theory (see Jensen and Meckling 1976), the information asymmetry theory (see Akerlof 1970), the signal theory (see M. Spence 1973; Ross 1977; Heinkel 1982), the pecking-order theory (see Myers 1984; Myers and Majluf 1984) and the ones related to taxes (see Miller 1977) and bankruptcy cost (see Warner 1977). Among these classic theories, we will be going over the pecking order theory, the agency theory, and the information asymmetry theory, given their relevance in the SME financing literature. The first one will be discussed in this section, and the last two mainly in the bank financing part of this chapter.



The theory of managerial choice proposes that finance theory needs to appropriately consider the owner-manager goals, preferences, beliefs, and expectations to understand better how businesses finance their operations and growth (Norton 1991).

Taking Marchesnay's PIC and CAP entrepreneurs' profiles objectives as an example, PIC managers (i.e., sustainability, independence, and growth in English) will avoid raising capital with external partners and incur debts, primarily long-term obligations. This is because they want to keep control over their business, manage it as they wish, and hope to transfer it to their family in the future. On the other hand, CAP managers (growth, autonomy, sustainability in English), since they are constantly chasing opportunities to profit from external partners, getting into debt, and even selling their business, do not bother (Marchesnay 1991; 1997). Thus, financing decisions are tied to the entrepreneurs' characteristics, preferences, and objectives.

Lane and Jameson (1993) found financial behavior differences between founders and non-founder entrepreneurs. The authors explain that founders value control significantly compared to non-founders and will therefore influence their financing, investing, and dividends decisions. They add that those founders, aiming for enterprise control, will favor internal financing above debt and debt over equity and, when investing, will limit investments requiring external funding. Last, they will minimize dividend distributions to increase the self-financing capacity of the enterprise. Consequently, entrepreneurs' profiles do influence how the enterprise is funded.

Mac An Bhaird (2010) highlights that a small business capital structure is mainly determined by firm-owner-centered factors, including their characteristics, motivations, preference, goals, and wiliness to keep control, among others (see also Low and Mazzarol 2006; J. Ang, Cole, and Lawson 2010; Daskalakis, Jarvis, and Schizas 2013). For instance, owner-managers in his study indicated wanting to keep control and independence and deplete internal sources of funds before contemplating using external sources.

Ang, Cole, and Lawson (2010) study concluded that owners' characteristics contribute significantly to an enterprise capital structure. The authors add, for instance, that personal risk characteristics account for 33% to 60% of variations of capital structure choices. Thus, risk-averse entrepreneurs might be more conservative in seeking external financing and mainly rely on internal sources of funds. At the same time, the opposite would occur for those overly optimistic and who can handle multiple levels of risk.

Several studies advance the idea that whether to finance with internal resources, through debt (short-term or long-term), or equity in small businesses rests on the owner-manager shoulders, who is the one triggering these decisions.

The line dividing the personal life and the business's life is blurred because the business is an extension of the owner and not a separate world (Levin and Travis 1987; Ang 1991, 1992; Naffziger, Hornsby, and Kuratko 1994; LeCornu et al. 1996). Thus, one could suppose that if owner-managers dislike debt obligations because it has been inculcated through their family traditions or culture, they will stay away from them. If reasoning, the encouragement of incurring debts to lower the cost of financing due to the tax deduction obtained by the interest rate expenses (Modigliani and Miller 1958; 1963) may not be enough motivation to seduce owner-managers who have their mindset on debt. They will believe that debt is just not an option and that the success of their business is tied mainly to this perspective.

Norton's (1991) results indicated that small business firms do not use debt to lower costs and that managerial preferences affect the capital structure (one-third of respondents desired no debt or minimal debt). In further support, Berger and Udell (1998, 661, 624) explain that "...to some extent the lack of external finance may reflect the choice of the entrepreneur" and add that entrepreneurs, for example, "...may choose external debt in order to keep ownership and control of their firms, or they may choose external equity to help share the risk with less risk-averse investors".

In this sense, Johnson (1990) noted that "few studies have explicitly addressed the question of how psychological predisposition, individual behaviors, and firm-level outcomes are related. Entrepreneurship is a multidimensional process that demands the utilization of multidimensional research models if a true understanding of the process is to be attained" (in Naffziger, Hornsby, and Kuratko 1994, 30).

Pettit and Singer, who concentrated on discussing issues of micro-finances, add that it is evident that the optimal level of debt and the way of raising capital for small businesses "is more than likely a function of the firm's characteristics and its managers" (1985, 58). The context, circumstances, and preferences of owner-managers are within the formula.

Last, some studies focus on the owner-managers gender, age, education, and experience as determinants of the enterprise capital structure and its financing access<sup>45</sup>. Other reflections concentrate on the enterprises' characteristics, such as size, age, performance, asset structure, ownership, legal form, formality, location, industry, and economic environment<sup>46</sup>.

### ➤ **The pecking order theory (POT)**

As the previous theory says, the owner-managers beliefs, expectations, and preferences are strong determinants of how a small business will finance its projects and operations. However, besides the personal choices and objectives the owner-manager has, the pecking order theory states that due primarily to information asymmetries, firms prefer to follow a hierarchy regarding financing choices. This is known as the pecking order. The firm will choose to self-finance its projects first. Once they run out of these first sources and more funding is necessary, they will incur debt obligations and benefit from the tax deduction from the debt interest rates cost. At last, it will use equity by issuing shares. This theory was initially developed by Myers (1984) and Myers and Majluf (1984).

Following a pecking order could signal to the market the financial health of an enterprise. For example, a business self-financing its projects with accumulated earnings could portray a secure financial standing. On the other hand, debt financing could indicate a more constrained enterprise given its debt obligations over time and increases its financial risk. Finally, equity financing is used as the last resort.

In addition, the pecking order permits the owner-manager to maintain the original owner of the firm and keep control (Lane and Jameson 1993; Lopez-Gracia and Aybar-Arias 2000; Wu, Song, and Zeng 2008).

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<sup>45</sup> For some examples of owner-manager characteristics and the enterprise capital structure and financing access studies, see Cole (1998); Carter and Rosa (1998); Orhan (2001); Verheul and Thurik (2001); Romano, Tanewski, Smyrniotis (2001); Cassar (2004); Kim (2006); Alsos, Isaksen, and Ljunggren (2006); Constantinidis, Cornet, and Asandei (2006); Vos et al. (2007); Coleman (2007); Harrison and Mason (2007); Nofsinger and Wang (2011) and Sena, Scott, and Roper (2012).

<sup>46</sup> Some examples of enterprise characteristics studies and capital structure include Bradley, Jarrell, and Kim (1984); Holmes and Kent (1991); Petersen and Rajan (1994); Van Auken and Neeley (1996); Berger and Udell (1998); Michaelas, Chittenden, and Poutziouris (1999); Coco (2000); Hall, Hutchinson and Michaelas (2000; 2004); Cassar (2004); Mackay and Phillips (2005); Cull et al. (2006); Vos et al. (2007); Okpara and Wynn (2007); López-García and Sogorb-Mira (2008); Wu, Song, and Zeng (2008); Ono and Uesugi (2009); Mac An Bhaird (2010); Mac An Bhaird and Lucey (2010); Fatoki and Asah (2011); La Rocca, La Rocca, and Cariola (2011); Aga and Reilly (2011); Coleman and Robb (2012); Daskalakis, Jarvis, and Schizas (2013); Fadil and St-Pierre (2016); Assenova and Sorenson (2017); St-Pierre (2018); and Archer (2021).

The pecking order theory is at the heart of numerous studies in small business finance. It is indeed the most mobilized theory by researchers in entrepreneurial finance after the agency theory, according to the international survey on the academic knowledge and practices of researchers made by St-Pierre and Fadil (2016).

In 1991, Norton's analysis of a hundred and ten (110) small rapidly growing enterprises suggested a pecking order exists in small businesses regarding financing choices.

Other researchers came after Norton supporting the same conclusion. This is the case, for instance, of the studies made by Graham and Harvey (2001); Ali Omri, Akremi, and Bellouma (2005), studying a sample of 300 Tunisian SMEs from 1997 to 2003; López Garcia and Sogorb Mira (2008) analyzing 3,569 Spanish SMEs from 1995 to 2004; J.S. Ramalho and da Silva (2009) studying 4,692 Portuguese firms; and, Qiu and La (2010) studying 367 firms in Australia from 1992 to 2006, among others<sup>47</sup>.

Beck, Demirgüç-Kunt, and Maksimovic's (2008) study about small business financing patterns in forty-eight (48) countries evidence that a pecking order holds across countries.

Studies generally support that the pecking order theoretical model helps explain small firms' capital structure. However, there is no certainty that the model could determine small businesses' capital structure without flaws. Each firm has its characteristics –e.g., ownership, size, age, governance, development stage, industry– and operates in different contexts –e.g., countries, financial system development, law regimes, urban or rural areas– (G. C. Hall, Hutchinson, and Michaelas 2004). For instance, Mac An Bhaird (2010, 108) indicates that firms in the computer software development and services sector operate under a modified pecking order stating that some would desire to use external equity before utilizing debt<sup>48</sup>. In further support, Coleman and Robb's (2012) study (with longitudinal data of over 4,000 firms in the United States) confirmed that new technology-based firms raised more equity external capital than non-technology-based firms. Moreover, they had a lower ratio of the owners provided funds and external debt–i.e., results were contrary to the financing pecking order and the business growth cycle theory.

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<sup>47</sup> See also Wu, Song, and Zeng (2008) and Mac An Bhaird (2010).

<sup>48</sup> See also Hogan and Hutson (2005) and Mac An Bhaird and Lucey (2010).

Paul, Whittam, and Wyper (2007) partly agree with the pecking order theory. In their study of twenty (20) Scotland-based entrepreneurs with in-depth interviews, the authors found that entrepreneurs use their funds to start the business. However, they will look for external equity financing before debt once depleted. The researchers explain that this is due to several reasons:

1. Investors can add value by helping the enterprise acquire skills, social capital (commercial contracts and access to relevant networks), and competitive advantage.
2. Debt is considered by entrepreneurs a liability that often needs to be backed with personal guarantees, and entrepreneurs limit mortgaging their assets.
3. Equity provides long-term financing and does not impact the enterprise cash flows (debt financing does).

At the same time, several researchers stress the need to study more in detail micro-businesses and their owner-managers (see, e.g., Torrès 2008; Jaouen and Torrès 2008; J.S. Ramalho and da Silva 2009; St-Pierre 2018). For instance, J.S. Ramalho and da Silva indicate that, to their knowledge, “there are no studies on the capital structure of micro firms (2009, 4)<sup>49</sup>.”

More qualitative research is also advised as most studies rely on SME data sets (despite firm size differences) and econometric methodologies (see, e.g., Paul, Whittam, and Wyper 2007; St-Pierre and Fadil 2011; 2016; St-Pierre 2018).

### ➤ **The business growth cycle theory**

This theory suggests that knowing the organization’s development stage is necessary to understand company financing choices. Since enterprises face different challenges during their development, given financings may be adequate when a small business is starting, such as self-financing, others when the enterprise is growing, such as short-term debt financing, and others when the enterprise is getting bigger and have used its other sources of financing such as issuing stocks.

Ang points out that given the several stages of changes that small enterprises experience, “there may not be a single theory explaining the capital structure of small businesses” and that

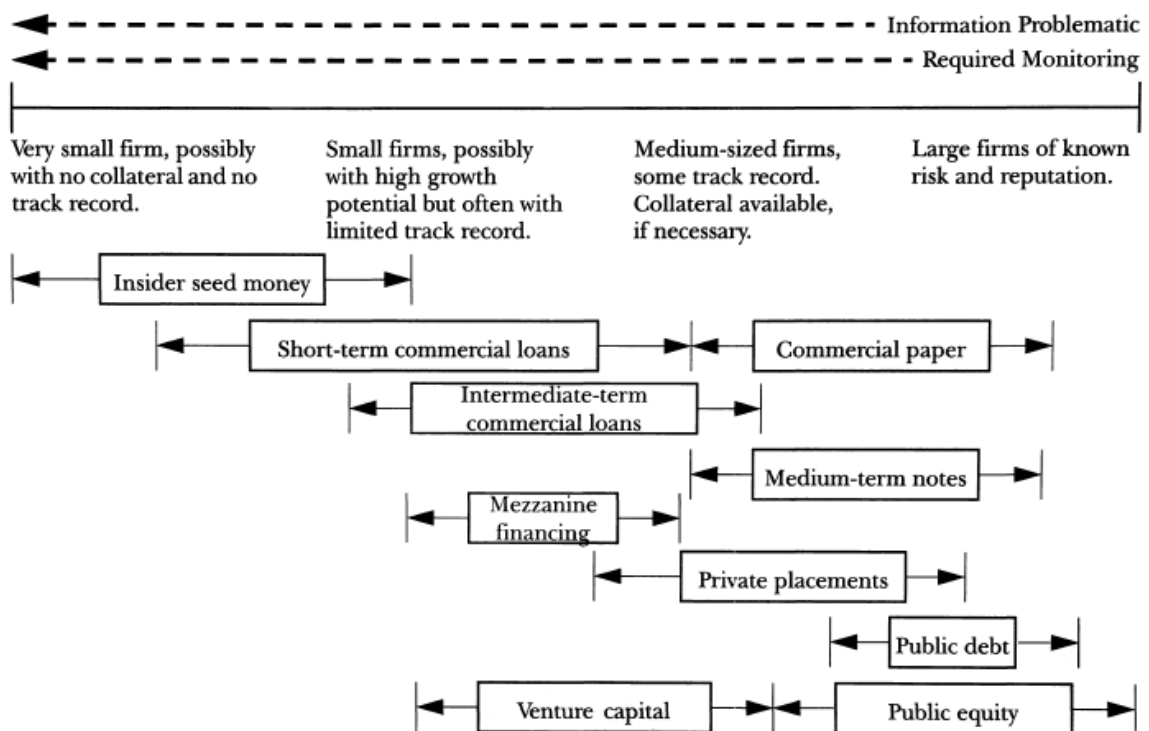
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<sup>49</sup> The authors point out some studies on the financing decisions of family business owners, like the one of Romano, Tanewski, and Smyrniotis (2001), and mention that many family businesses are microenterprises, although not all of them can be classified as such.

a proper approach will be to have “many versions of the capital structure theory appropriate for small businesses at each stage of development” (1991, 11).

Beshouri and Nigro (1995), for instance, showed the financing preferences according to the development of the enterprise. They add that size is a prominent factor in determining the firms funding options and terms. The severity of information problems and the amount of the required monitoring, in addition to size, influence the firm’s choices due to the diligence cost. In the figure below, the more on the left, the smaller the enterprise’s size, and the stronger the information problems and direct monitoring are. In this case, an agency relationship incurs higher agency costs as the enterprise is smaller and lower agency costs when the enterprise starts becoming more into a big enterprise (and public). Later in the section, we will cover this relationship between the principal (lenders) and the agent (owner-manager).

**Figure 10. Firm continuum**



Source: Adapted from Carey et al. 1993 (in Beshouri and Nigro 1995)

Berger and Udell (1998) explain that the financial growth cycle of small businesses lies on a size/age/information continuum<sup>50</sup>. Firms' financial needs and options change as they grow, gain further experience, and become more transparent with information. They add that smaller/younger/more opaque firms must rely on initial insider finance (i.e., funds provided by the start-up team, family, and friends), trade credit, and angel finance. Then, as the firm grows, it will access intermediated finance for equity (i.e., venture capital) and debt (i.e., banks, finance companies). Finally, if the firms continue to mature and grow, they will access the public equity and debt market.

Numerous authors in the literature have mobilized the growth cycle theory to perform their studies; many corroborate with it as well. For instance, Barton and Gordon (1987) suggest that the enterprise life cycle influences the financing choices and, therefore, the enterprise capital structure.

Wu, Song, and Zeng (2008), with empirical evidence from sixty (60) small businesses across three(3) cities in China, concluded that enterprises' financial needs and options change with size and the firms' lifecycle stages. At start-up, the enterprise will tend to rely on the owner's savings and the support of immediate family and friends. When growing, enterprise financing needs to increase and access intermediated finance such as banks.

The analysis performed by Vos and Forlong (1996) and Cull et al. (2006) also indicated that firms' leverage changes according to the enterprise life cycle and size. According to Homaifar, Zietz, and Benkato (1994), there is a positive relationship between the firms' size and their leverage and a negative relationship between the firms' future growth opportunities and their leverage. Their results revealed that a firm's size and future growth opportunities determine the enterprise capital structure.

In further support, Hall, Hutchinson, and Michaelas (2000) found that long-term debt positively relates to the enterprise size and asset structure and negatively to age. Conversely, short-term debt is negatively associated with enterprise profitability, asset structure, size, and age and positively related to growth (see also Chittenden, Hall, and Hutchinson 1996; Romano, Tanewski, and Smyrniotis 2001).

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<sup>50</sup> See figure 1 in Berger and Udell (1998, 623) for a visual representation of the firm continuum and sources of finance. The authors adapted and updated Carey et al. (1993, Fig. 10). See also figure 7.1 in St-Pierre (2018, 292) for a more recent version of Berger and Udell's (1998) theory representation. Note that alternative financing sources such as crowdfunding, peer-to-peer lending, crowdfunding, online lenders, and invoice trading are not included.

Last, La Rocca, La Rocca, and Cariola's (2011) study of 10 242 non-financial Italian SMEs from 1996 to 2005 found evidence that a homogenous financial lifecycle pattern exists in SMEs and, to a large extent, it could explain their economic behavior. Furthermore, the authors specified that this pattern is similar among different industries and institutional contexts and is consistent over time.

Berger and Udell, however, explain that the approach that firms evolve through a financial growth cycle is acknowledged in the literature as a descriptive model. Furthermore, they highlight that "the growth cycle paradigm is not intended to fit all small businesses, and that firm size, age, and information availability are far from perfectly correlated" (A. N. Berger and Udell 1998, 622). In this regard, we consider that, in addition to the size/age/information continuum, businesses evolve in different contexts—industries, financial system development, government support, institutional environment, and location (e.g., rural or urban), to name a few. Moreover, there are environmental characteristics that may influence the financing options available for businesses as well.

Gregory et al. recognize the limits of the Berger and Udell (1998) financial growth cycle model as well, stating that "it does not provide a full story regarding the relationship between firm characteristics and capital structure decision" (2005, 390). They explain, among other things, that the model cannot be universal because SMEs have different characteristics, are idiosyncratic, and their financing is anything but standard. The authors suggest further research to find an alternative theory—if exists—and encourage researchers to get more robust measures of information transparency besides the audited financial statements before making generalized assumptions.

### ➤ **Proxemic order theory: an explanatory approach adapted to microenterprises?**

Given the lack of literature on microbusinesses, academics interested in studying them rely on the abundant literature on SMEs. Micro businesses are by far the best representation of the singularities of small and medium-sized enterprises (Torrès 2008). If the SMEs are specific and the smaller the business size, the stronger this specificity is, micro businesses are, as Torrès calls the *quintessence*<sup>51</sup> of SMEs. There is no better representation than micro businesses to

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<sup>51</sup> *Quintessence* (in French—the same word is used in English) means "the essence of a thing in its purest and most concentrated form" or "the most typical example or representative" (Merriam-Webster.com Dictionary 2022b).

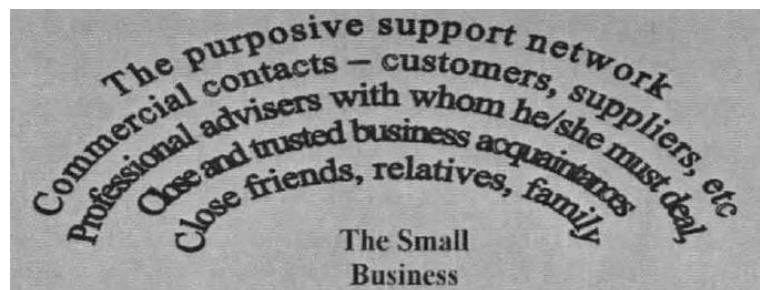


explain the SME field, which is why micro-businesses research is essential. This “firm group *per se* clearly deserves a special attention” (J.S. Ramalho and da Silva 2009, 4).

A micro business is proximity management (Jaouen and Torrès 2008). Relationships, regardless of being informal, are vital in every aspect of the company with family and friends, local bankers, suppliers, customers, and employees (Ang 1991, 1992). Therefore, micro-entrepreneurs prefer proximity or what is close to them rather than distance. Their support system, for instance, is their close relationships with their network.

To illustrate, according to Gibbs (1988), small businesses have different network support layers –see figure 11 below–(in Torrès 2008). The layers closer to the center are more personal and have a more decisive influence on the business or the owner-manager, who is the one that leads the show, while in the more distant layers, the opposite occurs. This means, for example, that the opinion of a friend, which could be wrong, can be worth more than the one of a public organization that is correct.

**Figure 11. Alan Gibb’s layer model (1988)**



Source: Gibbs (1988 in Torrès 2008)

Due to this proximity, most of the owner-managers funds will come first from their pockets. If more capital is needed, they will look for proximity capital (Crevoisier 1997) or capital from family and friends (St-Pierre 2000b), or any other mixture of proximities at their disposal. This could mean looking for funds through their family and friends, former work colleagues, and political and professional networks (Crevoisier 1997). It is important to note, as Crevoisier mentions, that “a company’s self-financing ability stems mainly from its ‘credit’ or trust that it

manages to inspire in potential partners” (1997, 5). Therefore, connections are essential for financial success and, at the same time, provide utility (Vos et al. 2007).

This proximity gives entrepreneurs a sense of comfort. In their relationships, for instance, there is trust. However, at the same time, this preference implies a high opportunity cost because other opportunities could have been explored and could have been better for raising capital. Still, entrepreneurs never got to them because they decided to lock themselves up in their immediate circles. The book devoted to the management of micro-businesses, *Les très petites entreprises un management de proximité* in French, Very small businesses proximity management in English, says it very well: “As Naguère Pascal said in his thoughts, too much distance and too much proximity prevents the view” (Jaouen and Torrès 2008, 42). We will go into more detail about proximity and very small businesses at the end of the section—in part 3.

After reviewing the theories and specifying the characteristics that make small businesses distinct from bigger enterprises, it stands out that owner-managers engage an active role in their enterprises and relationships with stakeholders. It is relevant to mention that the enterprise is an extension of owners in every sense. Considering that the smaller the enterprise, the stronger the specificities or distinctions are, micro or very small businesses are the most accurate representation of the essence of small and medium-sized enterprises.

It can also be concluded that the economic and financial theories fail to explain the characteristic behavior of small organizations due to the hypothesis that forms these models. For example, the standard neoclassical approach rest upon revenue maximization and total rationality, and the standard finance theory consider markets to be efficient, that the financing of a firm is the same regardless of size, that individuals are risk averse, demanding a higher return for the riskier positions, among others<sup>52</sup>.

While the abovementioned theories provided some light on SME financing, they suggest different approaches. Given these businesses’ specificity and diversity, they cannot be generalized to SMEs. Small enterprises need multidimensional methods that not only include the technical and economic factors of the firm and its environment; but should also consider the actors, their behavior, their psychological predispositions, and the social and cultural context adapted to them and their reality. Plus, further research leads to new avenues to

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<sup>52</sup> For more details, refer to “What Does Finance Have to Say to the Entrepreneur?” by Petty and Bygrave (1993) and “Small enterprise: finance, ownership and control” by Hutchinson (1999).

consider additional factors and variables once contexts are changed. In other words, generalizing the results of studies in this area of knowledge is, for the moment, a utopia<sup>53</sup>. As the field advances and knowledge accumulates, it is hoped that alternative theories and models will be developed to serve SMEs genuinely.

After covering small business characteristics and the theories that may best explain their financing, it is pertinent to explain their financing options and practices (part 1), what financing possibilities and offers are available to small enterprises, how entrepreneurs can get financed, and what is essential to consider. Afterward, we illustrate the Latin American region MSMEs financing with relevant statistics and information (part 2). Last, we position this research work considering the literature findings and suggest an innovative approach to access and better understand microbusinesses financing (part 3)

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<sup>53</sup> Utopia means “any idealized place, state, or situation of perfection,” “any visionary scheme or system for an ideally perfect society,” or “a novel or other work depicting a utopian society or place” (Collins English Dictionary 2022). “If you refer to an imaginary situation as a utopia, you mean that it is one in which society is perfect, and everyone is happy, but which you feel is not possible” (2022).

## 1. Financing micro businesses options and practices

This subsection reviews the general self, debt, and equity financing options and practices for micro, small, and medium-sized enterprises. The aim is to understand and provide an overview of how the financing options work and the criteria deemed essential to access the different financing sources considered.

As an introduction, the subsection begins by indicating which factors may explain a higher or a lower level of leverage in a small enterprise. Next, it explains the small business financing sources and highlights a few elements that make studying small enterprises' capital structure more complex than big businesses. Then, it divides into two parts: debt financing and equity financing. The first focuses on trade credit and bank financing, and the second concentrates on venture capital and initial public offerings.

### ➤ Before starting

Before heading to the financing choices and practices of small businesses in general, it is relevant to understand the reasons why small businesses may have a high level of financing in the company or a low level. For example, Ang (1992), in his article "On the theory of finance for privately held firms," provides the reasons for a higher and a lower leverage ratio in small firms (table below).

**Table 17. Factors that may explain financial leverage in small firms**

<b>REASONS FOR A HIGHER LEVERAGE</b>	<b>REASONS FOR A LOWER LEVERAGE</b>
<p>-Value of reputation and informal relationships: Agency cost, monitoring, and information asymmetries are reduced because lenders or other capital providers know the owner-manager.</p>	<p>-Tax disadvantage: Owner-managers borrow from wealthier individuals or institutions with higher tax brackets, and their tax deductions are not enough to offset lenders' income and personal taxes.</p>

<p><b>-No or partial limited liability:</b> Lenders are more willing to provide financing if the owner-manager has personal assets that can be used as collateral to repay the loan in case of default.</p>	<p><b>-Desire to maintain control:</b> Owner-managers who want to keep control of their businesses will let go of potential expansion projects to avoid external financing.</p>
<p><b>-Fewer number of lenders:</b> Fewer lenders imply fewer conflicts among them in case of default, which presupposes a lower bankruptcy cost. More debt will then be granted.</p>	<p><b>-Minimize agency cost:</b> Low debt or no debt reduces the risk of the lack of protection or no limited liability in case the owner-manager has a partner that can incur debts.</p>
<p><b>-Quasi-equity and unreported equity:</b> Owner-managers use their circles, such as family and friends, to raise capital for the company's projects. These debts which have to be repaid embody the characteristics of equity as well. Therefore, these contributions should allow the owner-manager to obtain more financing.</p>	<p><b>-Owner's risk aversion:</b> The owner-manager is reluctant to incur serious debts due to the possibility of unlimited liability and high personal bankruptcy costs.</p>
<p><b>-Risk-taking and overoptimistic entrepreneurs:</b> Over-optimistic and risky entrepreneurs will find one way or another some financing options.</p>	<p><b>-High cost of bonding and monitoring and minimize state tax.</b></p>

Source: Personal elaboration with bases from Ang (1992)

The first reason, according to Ang (1992), for small businesses to obtain financing is “the value or reputation and informal relationships”; it can be argued that three (3) out of the five (5) reasons for a higher level of financing he gives are related to proximity. The valuable reputation and healthy informal relationships owner-managers have with their employees, suppliers, and bankers; their circles with friends and family (which allow them to raise quasi-equity); the few numbers of lender which keeps conflicts, default risk, and bankruptcy cost (if any) controlled, are all manifestations of proximity.

Crevoisier (1997) pointed out that the self-financing capability of small businesses, especially micro or very small, is their ability to make their personal and professional circles support them and raise proximity capital.

According to Ang, small businesses financing sources are multiple. These could include formal or informal sources such as the owner's savings and personal borrowings, friends and

relatives, financing from suppliers, advances from customers, local banks, and venture capital companies (1991; 1992)<sup>54</sup>. Levin and Travis (1987, 31) add that entrepreneurs get capital “any way they can and use them any way they need to.” No laws determine small businesses financing structure and choices (J. S. Ang 1992). For Gregory et al. (2005, 391), “to try to predict financing sources based on characteristics of the SME is fruitless because SMEs are characteristically different.”

In general, when we talk about a company’s financing, we refer to its capital structure—i.e., the percentage of the company funded by debt and the portion of the company supported by equity financing.

Small businesses use debt and equity that can be raised internally or externally (formally and informally). According to Ou and Haynes (2006), debt capital includes loans provided by creditors from traditional and non-traditional lenders. Traditional lenders are, for example, credit unions, thrifts, commercial banks, finance companies, brokerage firms, and leasing companies. Non-traditional lenders comprise families, businesses, the government, and others.

In regards to equity, Ou and Haynes (2006) indicate that internal equity can be obtained from existing owners, their relatives, new or existing partners, or retained profits within the firm. In addition, external equity can include sources other than existing shareholders or relatives. The small business literature primarily highlights venture capital, individual investors such as business angels, and capital raised in public markets such as initial public offerings.

The capital structure of small businesses is more complex than big enterprises because of the numerous ways small firms can raise capital. In addition, it is sometimes difficult to distinguish clearly what is debt and what is equity. Sometimes, it is not even included in the enterprise financial reports (see J. S. Ang 1992; St-Pierre 2018). To illustrate, during a liquidity crisis, an owner-manager relative can financially support the enterprise to meet required payments because of their pre-existing relationship and trust. The reimbursement conditions may not necessarily be clear; if it is a loan to be repaid (and at what interest), if the contributor will become a shareholder or if it is a donation. This transaction can be debt, equity, or none and may not be registered formally in the enterprise statements.

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<sup>54</sup> See also Chittenden, Hall, and Hutchinson (1996) and Wu, Song, and Zeng (2008).

According to Ang (1992), small business leverage calculated with traditional financial reports is biased. He explains that this is due to four (4) main reasons.

First, the role of quasi-equity is not acknowledged. The author defines quasi-equity as “debts held by individuals or institutions that have an implicit understanding with small business owner (1) not to exercise the right to force bankruptcy when interest payments are delinquent, and (2) to share some residual claims when the firm is returned to profitability” (J. S. Ang 1992, 193).

Second, owner-managers accurate equity is undervalued because the following aspects are overlooked: “subsidized or reduced salary, low cost or free labor from family members, owners’ loans to the business, owners’ assets (used by the business or for loan guarantee but not recorded in the business financial statements), and owner’s intellectual property” (J. S. Ang 1992, 193).

Third, some assets and liabilities are often not reported, such as the leased assets; and last, equity may be overestimated if potential liabilities are not considered, such as estate tax (J. S. Ang 1992).

For this research, and perhaps oversimplifying, we understand small business financing as internal and external sources of funds where each is constituted of some debt and some equity (see Ou and Haynes 2006).

Internal financing sources may include the enterprise’s resources which can come from the owners’ capital, such as their savings, friends, and family funds; the business retained earnings and asset sales.

External financing sources can comprise trade credit, loans provided by creditors, venture capital, individual investors like business angels, and money raised in public markets such as initial public offerings.

The remainder of the chapter will focus on the literature’s principal SMEs’ external debt and equity financing sources.

According to St-Pierre (2000b; see also 2018; Grinblatt and Titman 2002), when financing through debt, debt interest payments are tax deductible which makes the cost of using this financing less expensive; nevertheless, it increases the financial risk of the company because it

engages to regular debt interest payments until the repayment of the principal. Lenders can force enterprises into bankruptcy if borrowers do not meet their payment obligations. On the other hand, equity financing does not require making fixed interest payments; however, dividends are not tax deductible, making the cost of using this financing more expensive than debt financing. It also increases the company's borrowing capacity and diminishes the owner-managers control over the enterprise.

Keeping in mind the elements mentioned in this brief introduction, we will now cover small businesses' primary external debt and equity financing options and practices. For debt, we focus on trade credit and bank financing; for equity, we concentrate on formal and informal venture capital and initial public offerings.

### **1.1. Debt financing**

When engaging in debt obligations, the debt holder commits through a contract to return the money borrowed in full by making principal and interest payments on specific dates (St-Pierre 2000b; 2018). If the enterprise goes bankrupt, the debt must be paid in full before making payment to shareholders or stockholders because they are a priority compared to other investors (Grinblatt and Titman 2002).

There are short-term and long-term debt obligations. Short-term debts generally must be paid within the next twelve (12) months and include trade credit, lines of credit, and bank loans. Long-term debts, on the other hand, are obligations that often have over a year to be paid and include debts such as bank loans, leasing, participating debt, debts guarantee, and convertible debts (St-Pierre 2000b; 2018; Grinblatt and Titman 2002)<sup>55</sup>.

Generally, debt finance tends to be the primary source of external funding for firms regardless of size, big or small (The World Bank 2007).

Given their relevance in the SME financing literature,<sup>56</sup> we will review trade credit and bank financing in this debt financing part.

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<sup>55</sup> See St-Pierre (2018, 306–7) for each definition.

<sup>56</sup> Berger and Udell (2006) argue that a more comprehensive conceptual framework of SME financing is needed than the literature proposes. Instead, the authors suggest that SME lending should consider lending transaction technologies. These include financial statement lending, small business credit scoring, asset-based lending, factoring, fixed-asset lending, leasing, relationship lending, and trade credit. Other debt financing sources can include alternative fund sources such as crowdfunding and partnerships (e.g., employees, suppliers, clients, competitors, financial institutions, and government).



### 1.1.1. Trade Credit

Trade credits are short-term obligations or current liabilities an enterprise (the buyer) has to pay to its suppliers (sellers) for goods and services delivered to the company (see García-Teruel and Martínez-Solano 2010). Vendors give the enterprise days to make the corresponding payments—e.g., 30, 60, or 90 days. Faced with a need for short-term financing, the enterprise may want to agree with its suppliers to delay these payments (however, on the other hand, suppliers want to get paid as soon as possible).

According to several authors (see, e.g., Mitchell A. Petersen and Rajan 1997; St-Pierre 2000b; 2018; A. N. Berger and Udell 2006), delaying accounts payable payments is one of the most privileged external financing sources by small businesses.

As indicated by St-Pierre (2000b), entrepreneurs can take advantage of their relationships with suppliers as it is easier for them to negotiate one-on-one (two entrepreneurs) or as a client and supplier. For example, it might be easier to ask an entrepreneur for a payment delay than a banker. Bankers do not share the same ideas, principles, and perspectives as entrepreneurs.

Petersen and Rajan (1997) explain that suppliers have several advantages in providing credit to small businesses than traditional financial institutions. The authors suggest that it is easier for suppliers to investigate the creditworthiness of their clients (small businesses), monitor them, and force them to pay, if necessary. This is explained by the fact that suppliers can get information faster, recurrently, and at a lower cost, given their commercial relationship with businesses. They may visit the enterprises' premises more often than financial institutions would and can better understand the businesses' health given the size and timing of orders made and the previous payments. Furthermore, they can warn companies that they can cut off future supplies' delivery if they do not pay. If the businesses default, they can liquidate the goods they have sold to the firms (serving thus as collateral).

The authors also indicate that suppliers may grant credit to their clients because they benefit from it. A firm's supplier may have a long-term interest in the business's survival because it protects its profit margins of future sales, mainly if there are no other substitutes for the customer firm, and reduces the transaction cost of paying bills.

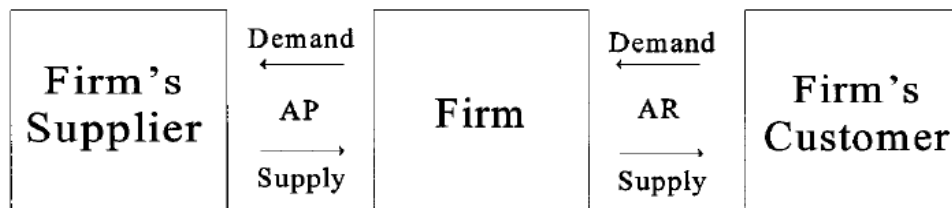
In further support, Cook's (1999) results suggest that suppliers have privileged access to information about the business conditions and partners compared to financial intermediaries.

In addition, the author specifies that trade debt can signal (to banks in particular) that the business is worthy of credit.

Account payment delays can be arranged in a somewhat compassionate manner if the small business has strong and close ties with suppliers and a good payment reputation. However, if it is not paid within the days agreed, it can become expensive financing due to sanctions imposed by suppliers, and the relationship can deteriorate (Mitchell A. Petersen and Rajan 1997; St-Pierre 2000b; 2018).

The figure below represents the trade credit relationships of a firm. Account payment delays (AP, in the figure) refer to the credit or financing the business suppliers can grant to the entrepreneur—i.e., the left part of the schema. On the right side, it represents the credit that can be provided from the business to its clients, which belongs to the firm’s accounts receivables (AR, in the figure -not discussed in this section-).<sup>57</sup>

**Figure 12. The trade-credit relationships\***



\*The amount of trade credit extended between the firm and its suppliers will appear as the accounts payable on the firm’s balance sheet. The amount of trade credit extended between the firm and its customers will appear as accounts receivable on the firm’s balance sheet.

Source: Petersen and Rajan (1997)

### 1.1.2. Bank financing

Banks are financial intermediaries that “collect the savings from individuals and corporations and funnel them to firms that use the money to finance their investments in plants, equipment, research and development and so forth” (Grinblatt and Titman 2002, 3). There are several financial intermediaries, and the most important ones are described below.

<sup>57</sup> See also García-Teruel and Martínez-Solano (2010).

**Table 18. Description of financial intermediaries**

<b>Financial Intermediary</b>	<b>Description</b>
<b>Commercial bank</b>	Takes deposits from individuals and corporations and lends these funds to borrowers.
<b>Investment bank</b>	Raises money for corporations by issuing securities.
<b>Insurance company</b>	Invests money set aside to pay future claims in securities, real estate, and other assets.
<b>Pension fund</b>	Invests money set aside to pay future pensions in securities, real estate, and other assets.
<b>Charitable foundation</b>	Invests in the endowment of a nonprofit organization such as a university.
<b>Mutual fund</b>	Pools savings from individual investors to purchase securities.
<b>Venture capital firm</b>	Pools money from individual investors and other financial intermediaries to fund relatively small, new businesses, generally with private equity financing.

Source: Grinblatt and Titman (2002)

Small businesses may not have access to all the financial intermediaries above. Nevertheless, extensive literature documents that banks are a vital external capital source for SMEs regardless of the country's development (see, e.g., Hansen 1983; Haines, Riding, and Thomas 1991; The World Bank 2007; Wu, Song, and Zeng 2008; Quispe-Agnoli and Vilán 2008; Sanguinetti et al. 2011; Abdulsaleh and Worthington 2013). Moreover, according to St-Pierre (2000b), short-term bank financing is the most habituated financing source for small businesses after accounts payable delays—i.e., trade credit.

The opportunity to access financial services offered by banks in the short and long term is tied to several aspects. These may include the general and financial management of the enterprise, its current debt obligations, its collateral and repayment capabilities, its credit score, and the quality of the existing relationships with the entrepreneur and bankers. For instance, the possibility of accessing the lines of credit financing, which is the first short-term option small businesses have with banks, will be tied to the effective management of the enterprise's short-term assets, such as its stock or inventory and its account receivables (St-Pierre 2000b; 2018).

Other bank financing options for small businesses, according to St-Pierre (2000b; 2018),<sup>58</sup> may include:

- **Small businesses loans** guaranteed by the federal government up to 100% of the amount of the loan,
- **Commercial loans** with a fixed date and can represent 60% to 75% of the materials and equipment values owned by the company,
- **Long-term financing**, such as real estate mortgage financing, can represent 75% of the total cost of the building. Second, participating debt provides the lender the right to participate in the company's results (borrower). Third, debt guarantees are often used to buy a specific asset given as collateral to the banker. Last is the convertible debts, which allow the creditor to exchange them for company shares.

#### 1.1.2.1. Accessing bank financing options

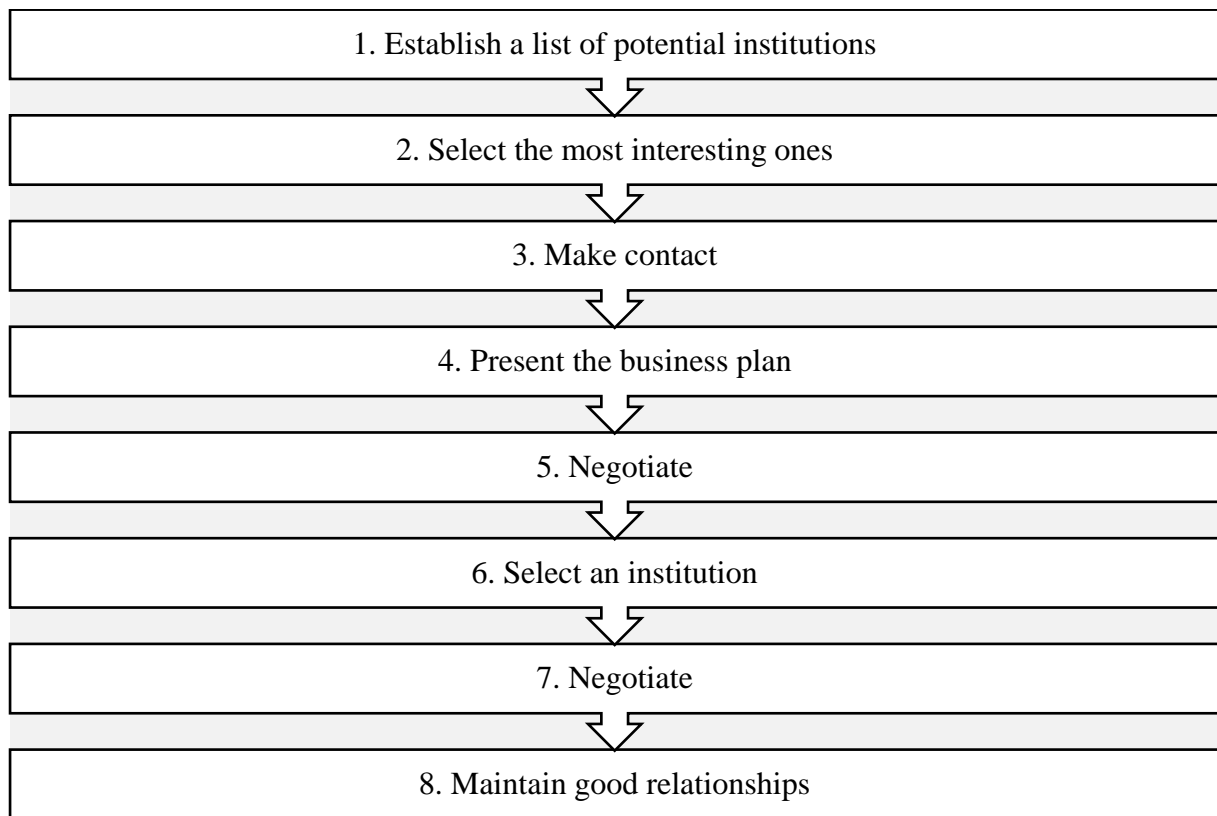
Accessing bank financing options rely (in principle) on small businesses' capacity to meet a list of criteria given by creditors and understanding what bankers want from entrepreneurs and the determinant aspects that set the loan approving boundaries and conditions. If small business entrepreneurs consider these elements when knocking on the door of bankers, bank financing access can be optimized because the possibility of getting funded increases. In addition, lasting valuable close relationships with the banker, the reputation of the enterprise, and understanding one another, as suggested by Ang (1992) and St-Pierre (2000b), are indispensable to access financing. "It should be noted that a loan is negotiated with a person and not with an institution. It is therefore important that the entrepreneur feels at ease with his/her credit agent" (St-Pierre 2000b, 293).

Small business entrepreneurs should follow a process when deciding or having the necessity to finance a project or the business's operations through a bank. The main steps involve selecting the financial institution, presenting the business plan, negotiating, and keeping good relationships with the banker, as shown in the figure below.

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<sup>58</sup> The details for each example are from Canada.

**Figure 13. Process of selecting a lending institution**



Source: Modified from St-Pierre (2000b)

Selecting financing institutions is not only tied to the interest rates offered to small businesses for the different financing options. It can also include the services it provides, the adequate staff response to the enterprise’s needs, and the relationship the institution has with its clients. In addition, the bank’s experience dealing with small business-specific situations and economic activities can also be valued (St-Pierre 2000b).

According to Haines, Riding, and Thomas (1991), when small businesses do not like a bank, owner-managers can go “bank shopping” (or look for bank alternatives) and will take into account financial, non-financial, and environmental factors to choose from.

Financial factors, which play a crucial role, refer to the amount of the loans and credit lines and the terms on which they are granted—e.g., collateral requirements, interest rates, and possible changes in lending criteria. These elements are primarily determined by the creditors’ risk appreciation of the firm.

Non-financial aspects of the bank relationship can include the bank services fees, credit availability, the loan processing speed, the range of services available, and the perceived account manager competence and continuity.

Last, environmental factors may comprise the bank's distinction among competitors, location (urban or rural), whether personal and business operations can be handled in the same branch, age of the enterprise, and if it had financial problems recently.

The authors explain that the bank loan market is inefficient because the owner-managers perception of the bank competition and its financial services is vital for triggering shopping behavior.

For Bhide (1992), it is never too late to start a relationship with a bank and advocates for entrepreneurs to cultivate a relationship with a lending institution even before the business is creditworthy. He adds that building a record and a relationship with creditors is essential before formally presenting the business plan and requesting a loan or credit line.

The more the lending institution knows about the small business, the more comfortable the banker will be and the entrepreneur to present the business plan and negotiate.

According to Barrow, Barrow, and Brown (2018, 15), "the business plan is the ticket of admission giving the entrepreneur his first and often only chance to impress prospective sources of finance with the quality of the proposal." Furthermore, they explain that "to have any chance at all of getting financial and/or managerial support, [the] business plan must be the best that can be written and it must be potentially package." It is the "vehicle to attract" the external financing needed by the company (Burns 2010). Given the business plan's significance in accessing funding for small businesses, we will cover a few concepts about it before continuing this bank financing section.

### ➤ **The business plan: a determinant tool to access financing?**

Several definitions of a business plan can be retained:

Based on the model of Borello (2000), a business plan is a study that packages clearly and coherently: the market analysis of the sector and the competition the enterprise faces, the product services it offers, the company's strategy and vision, the quantification of the figures

to determine the level of the business attractiveness, and the financial feasibility of the initiative.

Sahlman (1997) states that a business plan is a crafted document that should include the key drivers of the business success or failure represented as a business model, including:

1. the people or team that will be involved,
2. the opportunity to explain what will be sold and to whom,
3. the context providing the general picture of the environment, trends, demographics, inflation, and lastly,
4. the risk and reward details on what can go right and wrong and how the business will respond.

Stutely (2000; 2012) says that a “business plan outlines a method for carrying out some activity in a given period in the future” and that this can be done for any activity and period.

Finally, we have the definitions of Burns (2010) that goes along the lines of Borello. He explains that the business plan is the road map where entrepreneurs need to know where they are now and decide where they want to go and how. The project should therefore include the personal aims (vision and mission statement), the business objectives, the market research (business environment, opportunities, and threats), the company analysis (capabilities, strengths, and weaknesses), the customer analysis (market segmentation), the marketing mix (product/service, price, promotion, place, people), the marketing strategy and plan, and lastly the operation needs and financial plan (cash flows, profit statements, break-even and funding requirements).

In conclusion, there is no standard definition of a business plan. Still, overall, it is a tool that allows entrepreneurs to communicate to investors (including lenders) in writing how the business will achieve its specific objectives in a clear and precise way. It sets the strategy to get where the enterprise wants to go in the future.

Before devoting their resources, investors (and lenders) generally want to use a business plan to assess the business idea’s potential and objectives. Then, they may finance the business initiative if the project makes sense for them according to their criteria and what is more relevant to them. Different investors have different priorities. For instance, a banker does not have the same standards a venture capital company or a business angel will have. Therefore,

entrepreneurs must put themselves in the investor's perspective and stress their evaluation criteria to increase their financing chances.

Mason and Stark (2004) studied the criteria used to finance a business for bankers and equity investors<sup>59</sup>. Three (3) different businesses plan for specific economic activities (internet, restaurant, and lab testing) were evaluated by three (3) bankers, three (3) venture capitalists, and four (4) business angles. Their study concluded that each investor emphasizes different selecting criteria:

- “**Banker’s** funding decision will be dominated by financial consideration[s].” These include the business’s ability to generate sufficient cash flow to pay back its debts and keep running the enterprise or the entrepreneur’s collateral that can be used if defaulting, such as stocks, accounts receivables, and personal assets. As a result, the banker will “give little consideration to the entrepreneurial capabilities or the characteristics of the opportunity supported” (2004, 239).
- **Venture capitalists** give the market issues as much weight as financial figures and consider both essential. Then, as secondary importance, we find the entrepreneur and the strategy.
- Lastly, **business angels** focus more on the people, qualities, and how the business feels. They follow “intuitive feelings” (OECD 2006) and; will be more likely to invest if they come across a business they are familiar with and where they have prior knowledge and experience.

We will detail more about the business plan, the selecting criteria, and the equity financing in the upcoming sections of this chapter. However, we continue addressing SME bank financing first.

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<sup>59</sup> See table 1: “Classification of Thought Segments in the Protocols: Evaluation Criteria” (in C. Mason and Stark 2004, 238).



### 1.1.2.2. Thinking like a banker

As suggested by Mason and Stark's study: "different types of funder analyze proposals differently, have different funding criteria and place emphasis on different kinds of information" (2004, 241). Thus, the business plan must be elaborated according to its expected audience and use. For instance, entrepreneurs must consider bankers' interests when proposing to access bank financing. Thus, to succeed, it makes sense to think like a banker.

As covered earlier, a banker's job is to collect funds from the public and lend them through different channels to enterprises and individuals. The borrowed money (principal) must be paid back in full plus an additional percentage of interest which is the investment return for the banker and the financing cost for the borrower. Having engaged its clients with their deposits, a bank has to manage its clients' funds precautiously. It will try to limit risk exposures as much as possible while making a return for lending the money and the risk undertaken.

According to Pace and Collins (1976), banks evaluate loan applications from four (4) points of view: character, purpose, repayment, and collateral. First, the character is related to the customer's honesty and integrity. It is often established by performing credit checks and getting feedback from prior banks and business associates. Second, the purpose of the loan must be legitimate and in the best interest of the bank, the customer, and the community. Third, the banker ought to know with certainty how future loan payments will be made, and last, the collateral, which is the insurance, is to be used only if original payments are not made. Finally, the authors explain that financial statements are crucial to assess the purpose, repayment, and collateral criteria<sup>60</sup>.

St-Pierre (2000b) indicates that bankers' decision to lend or not to lend is based upon what the author calls the 5Cs of credit. These are the character, capacity, capital, collateral, and conditions<sup>61</sup>. Some of the following aspects can be highlighted for each one of the Cs.

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<sup>60</sup> For details on the information banks analyze for loan applications, see table 1 in Pace and Collins (1976, 18).

<sup>61</sup> See also St-Pierre and Fadil's (2011) entrepreneurial finance literature review of the last 15 years for an overview of the factors influencing small businesses' bank financing access. These include the entrepreneur's experience, maturity, engagement, collateral, ethnicity, assets, networks, and capital contribution. In addition, they can include the enterprise's debt ratio, investments, growth rate, development, level and type of innovation, information transparency, and relationship with banks. Last, the banking system characteristics comprise the competition among banks, the types of banks, and their demands in terms of collateral, age, and size.

## Selecting criteria to grant a credit for a small business: the 5 Cs of credit

- 1. Character:** relates to the reputation of the business and its credit history. How has the business managed its previous credits? What is the credit score of the borrower? What type of entrepreneur is the bank dealing with, and is he/she reliable? How much the entrepreneur knows about his/her business? Does the enterprise have severe financial management and plan in place?
- 2. Capacity:** refers to the business's ability to make sufficient payments on time to the bank based on its current resources. For example, can the firm fully reimburse its debt obligations if financed?
- 3. Capital:** who are the other investors the enterprise has involved? What does its capital structure look like? Is there enough cash flow to meet all the investor obligations? Can other sources (assets, savings, and investments) be used to repay the loan?
- 4. Conditions:** What are the enterprise's current circumstances in its market and competition? What is the general outlook of this enterprise? What will be the uses of the loan?
- 5. Collateral:** Will the loan be guaranteed or not? Quality of the various assets of the enterprise: accounts receivable (amount, duration, quality of customers), stocks (amounts, quality, turnover rate), and long-term assets (utility for the business and market value).

Studying these conditions in detail and proposing solutions to each one should increase the possibility of accessing a bank credit for a small business by responding to the banker's expectations and desires. However, at the same time, both parties need to negotiate and come to an agreement. In addition, both must understand each other, collaborate, and benefit from the deal, which (in most situations) is not necessarily the case between a banker and a small business entrepreneur.

According to Covey (2009, 167), "when [a] win-win agreement is set up properly, [parties] will do whatever is necessary to accomplish the desired results within guidelines," and it encourages "self-directing" and "self-control" to fulfill the agreement. He adds that in a win-

win arrangement, there must be a mutual understanding and commitment in five (5) areas (2009, 183):

1. **Desired results:** specify what needs to be done (goals, objectives) and when.
2. **Guidelines:** specify the parameters (principles and policies) for results to be accomplished.
3. **Resources:** identify the human, financial, technical, or organizational support available to help accomplish the results.
4. **Accountability:** sets up performance standards, evaluation time, and measuring progress.
5. **Consequences:** establish – good and bad, natural and logical – what does and will happen as a result of the evaluation. They also give the reason – the “why” – for doing what they do.

Covey highlights that the abovementioned points are sources of empowerment for both parties to commit. However, he puts more significant stress on seeking reciprocal and maximal benefits for both when putting together the agreement. He explains that while win-win agreements are explicit, up-front contracts between individuals, it is also important to remember that win-win relationships are more than contracts.

It is not straightforward when talking about small businesses looking to get financed by banks. Making win-win agreements between parties can be an arduous task. In the following section, we will discuss some of the challenges of the small-business-bank relationship.

### **1.1.2.3. Respecting conditions and limitations within a bank-entrepreneur agreement: how does it work?**

As we have seen until this point, the literature is quite persistent in pointing out and establishing that small businesses differ from big companies. Moreover, the classical theories, models, and approaches created for big corporations are hard to adapt to small businesses’

unique and diverse realities (see, e.g., Pettit and Singer 1985). However, throughout the literature, it also appears unavoidable that the agency theory is applied to small businesses. For example, it has been widely used in finance to explain the circumstances found in a small business-creditor relationship and the hardship experienced by small businesses to access financing (see, e.g., St-Pierre and Fadil 2016)<sup>62</sup>.

Between a business entrepreneur and a creditor, there is an agency relationship. Jensen and Meckling (1976, 308) define this relationship “as a contract under which one or more persons –the principal(s)– engage another person –the agent– to perform some service on their behalf which involves delegating some decision making authority to the agent.” Thus, in other words, the situation of the principal will be determined by the actions performed by the agent.

When the bank lends to a small business entrepreneur, they will have a relationship until the loan and interest rates are repaid; without forgetting that funds must be used wisely and responsibly—it is the banker’s chief objective. Nevertheless, how can the banker be sure that the agent—i.e., the entrepreneur— will act in the bank’s best interest—i.e., the principal—and, not in his/her own best interest? It may seem terrifying for the bank to acknowledge that: the entrepreneur may act for his/her advantage (not the bank’s), that most small businesses tend to lack effective financial management and long-term strategy, and that the information and decision-making of the enterprise rely on the shoulders of one individual, the owner-manager. These elements sound threatening and risky for the banker who, given this situation, will have to (1) monitor the entrepreneur’s actions to keep them on track and (2) will have to set the restrictions or conditions to keep control over the situation. These measures incur agency costs (Jensen and Meckling 1976).

**Besides conflicts of interest, other problems may arise from an agency relationship between the small business entrepreneur and the banker (or creditor). These include information asymmetry, moral hazard, and adverse selection problems** (see Leland and Pyle 1977; Pettit and Singer 1985; A. N. Berger and Udell 1998; St-Pierre 2000b; 2018; Lopez-Gracia and Aybar-Arias 2000; see also P. Hutchinson 1999; Armendáriz de Aghion and Morduch 2005; Voordeckers and Steijvers 2006 and others; Rojas 2017).

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<sup>62</sup> St-Pierre and Fadil’s (2016) international survey gathering data from 149 researchers found that the agency theory was used by 74% of researchers in their studies, followed by the hierarchical order theory with 50%. The business growth cycle theory was used to a lower extent, with 30%, and the trade-off theory represented 20%.

*Information asymmetry* means the owner-manager possesses information that outsiders do not have –e.g., bankers, shareholders, and funders. To illustrate, entrepreneurs may choose to share with funders only the information that is beneficial for their funding request (and keep private what is not), providing a distorted or biased picture of the enterprise’s reality.

In this regard, Leland and Pyle add the following: “borrowers typically know their collateral, industriousness, and moral rectitude better than do lenders; entrepreneurs possess ‘inside’ information about their own projects for which they seek financing” (1977, 371).

“The greater the information asymmetry, the easier it is for the manager to take actions detrimental to the interest of others” (Pettit and Singer 1985, 53). Thus, differences in information are responsible for considerable tensions in the entrepreneurs’ and bankers’ relationships, and it is considered one of the principal causes preventing small businesses from financing their projects (Binks and Ennew 1997; St-Pierre and Fadil 2011).

The *moral hazard problem* occurs when the entrepreneur does not act in the investor’s best interest (Drover, Wood, and Payne 2014; see also Kelly and Hay 2003; Sanguinetti et al. 2011). The banker cannot be sure how the agent uses the proposed funds. The entrepreneur could privilege purposes different from the ones established in the agreement. These can include, for instance, personal use or paying dividends rather than buying the equipment that was supposed to be bought with the funds (St-Pierre 2000b). In this case, it is crucial to refresh that the dividing line between the entrepreneur’s personal life and the enterprise is unquestionably thin. Several researchers consider the enterprise an extension of the manager and not a separate world (see, e.g., Levin and Travis 1987; J. S. Ang 1991; 1992; Petty and Bygrave 1993; Naffziger, Hornsby, and Kuratko 1994; LeCornu et al. 1996).

Lastly, the *adverse selection problem* appears when the bank cannot determine the value of the project proposed or if the entrepreneur possesses the adequate knowledge and capabilities to manage wisely the funds that will be provided (see St-Pierre 2000b; Lopez-Gracia and Aybar-Arias 2000; Kelly and Hay 2003; Sanguinetti et al. 2011). In addition, as suggested by Armendáriz de Aghion and Morduch (2005, 37), what is the inherent riskiness of the borrower because: “some may simply be more prudent, more conservative, better insured [while] others may be risk-loving, may be poorly disciplined, or may face competing claims on their funds.”

Agency problems can be alleviated through monitoring and complex contractual arrangements (Barnea, Haugen, and Senbet 1981; Pettit and Singer 1985; J. S. Ang 1991;

Chittenden, Hall, and Hutchinson 1996; St-Pierre 2000b; 2018; see also Kelly and Hay 2003). For example, to minimize their risk exposure, banks may want to propose lower credit amounts or shorter durations than the ones requested by entrepreneurs (i.e., credit rationing). Likewise, they can demand higher interest rates (than big enterprises). In addition, they would want to track how the finances of the company are being used and the availability of collateral (assets of the company or owner-manager personal assets). Plus, they will put together strict lending conditions even though they may be considered abusive by entrepreneurs (Levin and Travis 1987).

Lending restrictions or covenants intend to reduce the risk exposure by controlling the borrower's actions. For example, Apilado and Millington's (1992) study of 204 loan agreements (123 small and 81 large firms) concluded that small enterprises had an average of 18.2 covenants and large firms had only 10.8. The restrictions were divided into five (5) categories: (1) production and investment policy, (2) dividends/stocks/cash conservation, (3) financing, (4) reporting requirements, and (5) other. The table below details each one of these categories:

**Table 19. Bank loan restrictions for small businesses by categories**

Category	Restrictions
<b>1. Production and investment policy</b>	<ol style="list-style-type: none"> <li>1. Prohibit purchase of common stocks of other firms.</li> <li>2. Prohibit/limit loans to others (especially subsidiaries).</li> <li>3. Limit extension of credit to others.</li> <li>4. Prohibit/limit salary or wage advances.</li> <li>5. Prohibit sale/leasing of assets used in production.</li> <li>6. Limit use of secured debt.</li> <li>7. Prohibit mergers/acquisitions/restructuring.</li> <li>8. Maintain certain levels in selected operating ratios.</li> </ol>
<b>2. Dividends/stocks/cash conservation</b>	<ol style="list-style-type: none"> <li>9. Restrict dividends to specified levels.</li> <li>10. Prohibit purchase of treasury stock.</li> <li>11. Restrict salaries to certain levels.</li> <li>12. Prohibit partial liquidations.</li> </ol>

<b>3. Financing</b>	13. No additional debt of either parent or subsidiary. 14. No new debt to take a priority position. 15. Limits on discretionary payments on subordinated debt. 16. Maintain certain levels in selected debt ratios. 17. Free from debt for specified period. 18. Prevent/limit sale-leaseback arrangements. 19. Restrict new leases and lease payments. 20. Capitalize leases into debt structure for analysis.
<b>4. Reporting requirements</b>	21. Periodic financial statements (balance sheet, income statement) 22. State and federal government reports (tax, SEC, etc.). 23. Use of generally accepted accounting principles. 24. Certificate of compliance from management that covenants and other agreements are being met. 25. Verification of insurance (especially on collateral). 26. Bank inspection of premises at any time.
<b>5. Other</b>	27. Repayment schedule (specific). 28. Use of equity participation or warrants on stock. 29. Prepayment stipulations.

Source: Apilado and Millington (1992)

The measures to control the agency problems and minimize banks' risk exposure will reduce the agency charge as much as possible, while at the same time, these "solutions" will also incur costs. Two types of cost can be identified: direct and indirect costs (see, e.g., Pettit and Singer 1985).

The direct costs come from enterprises borrowing expenses. However, the latter will be more significant given that the monitoring banks will have to reduce information asymmetries, securitize collaterals, and develop and create debt contracts (Pettit and Singer 1985).

In this regard, Saito and Villanueva (1981) explain that banks' administrative cost is expected to rise as the size and duration of the loan decrease. This is because more careful loan appraisal, supervision, and accounting services are needed to cope with small-scale borrowers. Furthermore, the higher the risk, the more wiliness there is to cover losses from default. The transaction cost will thus comprise the administrative cost and the default risk expenses.

The indirect costs are tied to the opportunity costs for the numerous limitations imposed by loan contracts where owner-managers can no longer operate freely according to what they consider best for the company (see Pettit and Singer 1985). In addition, the restrictions established by banks may force entrepreneurs to require consultancy services if they fall off

track or may notice that they will not be able to meet one or several of the conditions (Pettit and Singer 1985). For instance, the reporting requirements specified by the Apilado and Millington (1992) study (category 4—table above).

Pace and Collins (1976) and Stanga and Tiller (1983) evidence the high amount of information that small businesses must provide to bankers, especially financial information.

Pissarides (1999) indicates that small businesses pay higher financing costs than larger firms because they are considered riskier and cannot offer adequate marketable assets or collateral (see also Saito and Villanueva 1981; Armendáriz de Aghion and Morduch 2005; Beck, Demirgüç-Kunt, and Martínez Pería 2008)<sup>63</sup>. Plus, they struggle to provide audited, standardized financial statements as small businesses tend not to keep formal records (see Pace and Collins 1976; Stanga and Tiller 1983; Rhyne and Otero 1992; Rojas 2017).

The game rules set by bankers can be considered abusive by many small business entrepreneurs. They will not only set strict limitations, but they will also (when possible) take advantage of the no-limited liability situation that arises for a small business owner-manager (J. S. Ang 1992). Bankers “want the owners’ personal assets on the hook.” At the same time, the owner-managers may prefer to “insulate their personal wealth from cooperate risk” even when this trade-off may represent higher financing costs for the enterprise (Levin and Travis 1987).

Osteryoung and Newman (1993) explain that regardless of the form of the organization (proprietorship, partnership, or corporation), lenders request personal guarantees to small business owner-managers because they cannot distinguish the business from the owner (see also Gregory et al. 2005).

Findings of the empirical study made by Wu, Song, and Zeng (2008) suggest that collateral in terms of secured property is the essential factor in obtaining a loan for SMEs in China<sup>64</sup>. It is followed by taxation submission, national finance policies, and accounting documents (including profitability information and credit scoring).

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<sup>63</sup> Sometimes, in particular, for young enterprises, the company’s value mainly reposes upon its know-how and intellectual propriety, which has limited liquidation possibility to reimburse a loan if interest payments are delinquent (see St-Pierre 2018).

<sup>64</sup> For Mac An Bhaird (2010), collateral is the universal requirement to secure debt across all sectors.



The literature also adds that building and keeping a healthy firm-creditor relationship is essential for small business entrepreneurs to access financing. Through this relationship, entrepreneurs can obtain the funds and may enjoy more flexible conditions and lower financing costs.

Petersen and Rajan's (1994, 5) study provides "evidence [that] relationships increase the availability and reduce the price of credit" in a small business context. Furthermore, their empirical results pointed out that the ability to get financed from a lending institution increases when:

1. there is a close tied relationship ("multiple lenders increase the price and reduce the availability for credit"),
2. the firm spends more time in the relationship (duration),
3. the firm increases its ties with the lender by buying and using his/her services, and
4. when "it concentrates its borrowing with the lender."

Cole (1998), in his article "The importance of relationships to the availability of credit," concludes that small businesses' pre-existing relationships with potential lenders increase the possibility of getting financed. It also provides strong evidence that this relationship generates useful private information that affects credit availability. Furthermore, new evidence indicates that the small business's pre-existing use of financial services, notably savings accounts and financial management services with the lender, increases the likelihood of financing. In this sense, it can be assumed that such relationships will reduce and control the cost and problems inherent in the agency relationship and information asymmetries in lenders and small business entrepreneurs.

In line with previous studies, Voordeckers and Steijvers (2006), examining SMEs' credit approvals from a large bank in Belgium, found, among other things, that collateral requirements for loans decrease with the bank-borrower relationship length. Furthermore, Blackwell and Winters (1997) provide evidence that enterprises with close and longer relationships with their banks are monitored less frequently and pay lower interest rates on average.

Other studies such as the ones performed by Berger and Udell (1995a; 1998), Uzzi (1999), Boot (2000), Lapavitsas (2007), and Elyasiani and Goldberg (2004) considered close, trust-based and pre-existing relationships with creditors valuable and beneficial to access to funds.

Now, going back to the “win-win agreement is more than a contract” by Covey, it can be reasoned that small business entrepreneurs and bankers can negotiate acceptable terms for one another, putting aside rivalry and constructing a valuable collaborative relationship. The greater the bank’s covenants imposed and the owner-managers collateral, the lower the loan interest rates should be due, given the increased security and lower financial risk. However, as we have seen, it is not that straightforward. As a result, banks (and investors) are often discouraged when dealing with SME financing requests.

In sum, and according to Padachi, Howorth, and Narasimhan (2012), commercial banks and investors are reluctant to finance SMEs due to the following three well-known reasons:

1. Creditors and investors consider SMEs high-risk borrowers in particular because they lack assets, have low capitalization, are vulnerable to market fluctuations, and have more possibilities of going bankrupt.
2. Accessing the creditworthiness of potential SME proposals is difficult due to information asymmetry problems. SMEs lack accounting records and have inadequate financial statements and business plans.
3. SME financing is not profitable considering the high administrative and transaction cost of lending and investing in these firms.

Next, we will be discussing SMEs’ external equity financing.

## **1.2. Equity financing**

Besides debt financing, small businesses can up for another external financing source: equity financing. The latter differs from debt financing in several ways. Equity financing is characterized by investors that, instead of getting an interest rate for the funds invested as bankers do, will receive dividends revenue, capital gains, or a percentage of the company’s profits (Bradley III and Camp 2014). In addition, they have voting privileges in the enterprise’s decisions and the right to information (see St-Pierre 2000b; 2018; Grinblatt and Titman 2002). This relationship between the entrepreneur and the investor will exist until the investor sells or transfers his/her company’s shares or units of equity ownership. Equity represents the investor’s level of ownership in an enterprise.

As mentioned earlier, each external financing has its advantages and disadvantages. For example, the owner and lender relationship will exist for debt financing until the loan is repaid. This is because lenders do not own a piece of the company. In addition, debt costs less to the company than equity because of the tax deductions. However, it increases the risk to the company, given the constant interest rate payments that must be paid until the loan is reimbursed.

On the other hand, equity financing requires the payment of dividends that are not tax deductible and therefore become more expensive than debt. Furthermore, owner-managers will have to give up some of their autonomy and control over their company by selling pieces of ownership to investors. As a result, the company will no longer belong to entrepreneurs. However, on the bright side, equity financing decreases the debt/equity ratio and, thus, the financial risk of the business, which can give more debt financing opportunities to the company, if necessary.

Small enterprises have several options when opting for equity financing, according to St-Pierre (2000b; 2018). These are friendly or proximity capital (see Crevoisier 1997), formal and informal venture capital, incentive programs for employees, partnerships (e.g., employees, suppliers, clients, competitors, financial institutions, and government), crowdfunding, public offerings, and government funding. Entrepreneurs will choose according to the equity financing options available in their country, the enterprise characteristics, and their preferences and needs<sup>65</sup>.

We will focus on external equity capital from private equity markets (i.e., venture capital) and public markets (i.e., the initial public offerings), given their importance in the SME financing literature<sup>66</sup>.

### **1.2.1. Venture Capital**

There are two main types of venture capital<sup>67</sup>: formal and informal. The formal one is provided by recognized and organized entities, institutions, or governments, and the informal

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<sup>65</sup> It is necessary to mention that not all options are available in all countries.

<sup>66</sup> See Ou and Haynes (2006).

<sup>67</sup> “The use of the term ‘venture capital’ is not uniform. Sometimes it refers to any external equity investment in a new or early-stage venture, including angel finance” (A. N. Berger and Udell 1998, 619). This segment provides an overview and refers to both formal and informal venture capitalists.

venture capital, on the other hand, comes from private individual investors such as business angels (BA) (see A. N. Berger and Udell 1998; St-Pierre 2000b; OECD 2006; Ou and Haynes 2006).

Venture capital (VC) firms “pool[s] money from individual investors and other financial intermediaries to fund relatively small, new businesses, generally with private equity financing” (Grinblatt and Titman 2002, 4).

Although the several definitions found in the literature, a business angel can be defined “as a high net worth individual, acting alone or in a formal or informal syndicate, who invests his or her own money directly in an unquoted business in which there is no family connection and who, after making the investment, generally takes an active involvement in the business, for example, as an advisor or member of the board of directors” (C. M. Mason and Harrison 2008, 309)<sup>68</sup>.

According to St-Pierre (2018), there are (4) four main financing types when referring to venture capital for an enterprise. These are:

- **Seed capital** which is used for enterprise projects that are in development and have not yet started their activities—e.g., product development, prototypes, and pre-tests.
- **Startup capital** is intended for enterprises that are young or starting.
- **Development capital** is for enterprises in a growth stage or facing significant growth in the future.
- **A capital transfer** is for enterprises where the management wishes to sell its shares.

As mentioned briefly in the short business plan section above<sup>69</sup>, when deciding to fund a small business proposition, venture capitalists not only focus on the financial considerations such as bankers do but will also stress the market, the entrepreneur, and the team working on the project or business.

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<sup>68</sup> For a general overview of business angels, see Ramadani (2009). However, as indicated by Riding (2008) and St-Pierre (2018), it is pertinent to mention that business angels remain somewhat invisible and in the background. Thus, it is not easy to provide a precise picture of this sector.

<sup>69</sup> See section “1.1.2.1. Accessing bank financing options” pages 106-110.

Numerous authors have analyzed the criteria privileged by venture capitalists (formal and informal) to invest in small businesses, and the value of the entrepreneur is a reoccurring fact<sup>70</sup>.

MacMillan, Siegel, and Narasimha (1985) conducted a United States study engaging venture capitalists to respond to a questionnaire and point out the most relevant and determinant criteria to fund a business proposition. They concluded that one of the most exciting results of their study is the direct confirmation “that above all it is the quality of the entrepreneur that ultimately determines the funding decision” (1985, 128). Not only do entrepreneurs have to show and prove their capabilities and personality as much as possible through a business plan, but by any means they can, the authors add. How well do they know the market, the competition, and the value proposition? How well do they react to risk, and, really importantly, what team backs up the proposition? Who are they, what have they done, have they worked together, how do they complement each other’s weaknesses, and how well do entrepreneurs lead the team?

Knight’s (1994) cross-cultural analysis of US, Canadian, European, and Asia Pacific venture capitalists goes along with the conclusions provided by the MacMillan, Siegel, and Narasimha (1985) study: “the entrepreneur’s personality and experience’ rate much higher in general than the product or market characteristics or financial considerations” (1994, 35). Both studies used the same criteria grouped into (5) five different categories: (1) the entrepreneur’s personality, (2) the entrepreneur’s experience, (3) the characteristics of the product and service, (4) the characteristics of the market, and (5) the financial considerations. The different measures used by category are detailed in the table below.

**Table 20. Criteria used by venture capitalists to evaluate a small business proposition**

Category	Criteria
<b>1. Entrepreneur personality</b>	<ol style="list-style-type: none"> <li>1. Capable of sustained intense effort.</li> <li>2. Able to evaluate and react to risk well</li> <li>3. Articulate in discussing venture</li> <li>4. Attends to detail.</li> <li>5. Has a personality compatible with mine.</li> </ol>

<sup>70</sup> For a summary of the criteria favored by venture capitalists (VC) to finance ventures identified by some past studies, see Hall and Hofer (1993). Refer to Silva (2004) for an overview of the previous studies on VC decision-making.

<b>2. Entrepreneur's experience</b>	6. Thoroughly familiar with the market targeted by the venture. 7. Demonstrated leadership ability in the past. 8. Has a track record relevant to venture. 9. The entrepreneur was referred to me by a trustworthy source. 10. I am already familiar with the entrepreneur's reputation.
<b>3. Characteristics of the product and service</b>	11. The product is proprietary or can otherwise be protected. 12. The product enjoys demonstrated market acceptance. 13. The product has been developed to the point of a functioning prototype. 14. The product may be described as "high tech."
<b>4. Characteristics of the market</b>	15. The target market enjoys a significant growth rate. 16. The venture will stimulate an existing market. 17. The venture is an industry with which I am familiar. 18. There is little threat of competition during the first three years. 19. The venture will create a new market.
<b>5. Financial considerations</b>	20. I require a return equal to at least 10 times my investment within 5-10 years. 21. I require an investment that can be easily made liquid (e.g., taken public or acquired). 22. I require a return equal to at least 10 times my investment within at least 5 years. 23. I will not be expected to make subsequent investments. 24. I will not participate in later rounds of investment (which require my participation in the initial round of investment).

Source: MacMillan, Siegel, and Narasimha (1985) and Knight (1994)

In addition to these criteria, St-Pierre (2018) indicates that venture capitalists consider exit opportunities. She explains that this criterion is specific to venture capital investors and refers to how the venture capitalist will exit the firm after the investment period and returns (or not) have been obtained. According to the author, the most common exit techniques used are purchasing an investor's parts by management and other enterprise members, selling to another venture capitalist (formal or informal), and using the stock exchange. In general, the first one is frequently the most used, and the last one is the least acceptable option by small businesses (see also Cumming and Johan 2012; Rojas 2017)

Other interesting facts were supported in MacMillan, Siegel, and Narasimha's (1985) and Knight's (1994) studies. First, the common notion that venture capitalists fund mainly high technology projects is rejected. The need for "high-tech" products and services was not critical; in some cases, it even appeared like a bad idea rather than a good one. The high-tech industry's

rapid growth and high returns may seem appealing to some venture capitalists. However, they know that in most cases, small businesses lack practical managerial skills in crucial areas such as marketing and finance, which drives away the high growth, high return incentive (Knight 1994). Thus, high technology proposals rated surprisingly low in both studies. In the cross-cultural study, for instance, the United States VCs ranked high-tech the 18th out of 24, the Canadian VCs in the 24th position, and the 23rd in Europe and the Asian Pacific region (Knight 1994).

Another study about venture capitalists' funding decision criteria is the study made by Mason and Stark (2004)<sup>71</sup>. The study used the business plan as the primary driver of the funding decision. Bankers and formal and informal venture capitalists evaluated three (3) business plans of three (3) different industries, and the result showed consistency with the two (2) studies mentioned above. Venture capitalists privilege the entrepreneur's personality, experience, and capabilities as well as the people contributing to the project above other factors –this will be even more true for informal venture capitalists such as business angels<sup>72</sup>.

“There is no question that irrespective of the horse (product), horse race (market), or odds (financial criteria), it is the jockey (the entrepreneur) who fundamentally determines whether the venture capitalist will place a bet at all” (MacMillan, Siegel, and Narasimha 1985, 128). The question then would be: is the horse rider fit to ride?<sup>73</sup>

Often venture capitalists participate in SME financing through stocks—i.e., equity<sup>74</sup>. Thus, venture capitalists engage in the projects they support more than bankers do and for more extended periods. In addition, they frequently specialize in specific markets, such as technology, software, electronics, and medical, and target small young enterprises with high growth potential.

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<sup>71</sup> Other studies include the ones of Ruhnka and Young (1987); Bachher and Guild (1996); Franke et al. (2006); Pintado, De Lema, and Van Auken (2007); and Kollmann and Kuckertz (2010).

<sup>72</sup> For a literature review overview regarding investment decision-making by business angels, see Riding, Madill, and Haines (2007) in table 13.2. In addition, see White and Dumay (2017) for a recent literature review of business angel publications made from 2000 to 2013. See Zider (1998) for an example of the ideal entrepreneur characteristics according to venture capitalists.

<sup>73</sup> The analysis of formal and informal venture capitalist criteria used to evaluate small business propositions suggests some similarities between the two (see C. Mason and Stark 2004; St-Pierre 2000b). For example, the emphasis on the entrepreneur and team. Likewise, the focus is on the business growth potential, possible returns, the market, and the quality of the value propositions. Other resemblances may be found in the type of investment—e.g., stocks—; expected investment periods—around five (5) to eight (8) years—; investor's implication and value-added, and some of the monitoring and control techniques. Mason and Stark (2004) explain that business angels differ from formal venture capitalists in that they value personal relationships highly and that they are looking for some interest and fun in addition to their investment returns.

<sup>74</sup> See Kaplan and Stromberg (2003). The author's study indicated that venture capitalists often use convertible securities or a combination of debt and equity.

Gorman and Sahlman's (1989) study found that almost all venture capitalists surveyed reported an investment horizon between five (5) to seven (7) years<sup>75</sup> and spent 60% of their time on portfolio management—i.e., monitoring or assisting portfolio companies<sup>76</sup>. The forms of assistance ranked in order included: helping to obtain additional financing, strategic planning, management recruitment, operational planning, introductions to potential customers and suppliers, and revolving compensations issues. Thus, in addition to providing money, venture capitalists helped (1) build the investor group, (2) review and help formulate business strategy, and (3) fill in the management team.

According to Paul, Whittam, and Wyper's (2007) study, entrepreneurs may want to look for venture capitalists because, in addition to the funds, they can provide enterprises with knowledge, skills, commercial contacts, and access to relevant networks<sup>77</sup>. However, venture capitalist implication in small firms does not come without cost. For example, Winton and Yerramilli (2008) indicate that venture capitalists are frequently part of the borrowing enterprise board, have voting rights, and can change the managing team if covenants are not respected. In addition, they exercise frequent passive and active controls, making their supervision more intense than banks and financing costs higher.

Venture capitalists are in constant contact with the enterprises they are investing in. For instance, Gorman and Sahlman's (1989) study provides evidence that a lead investor venture capitalist visits their portfolio companies on average 18.7 times per year with a visit duration of 4.9 hours. In addition, they remain in contact by phone frequently as they perform an average of 7.5 phone conversations per month of about 21.9 minutes long. On the other hand, Blackwell and Winters (1997) found that banks tend to monitor the enterprises they are financing once or twice a year (Winton and Yerramilli 2008).

Berger and Udell (1998) explain venture capitalists will try to control the agency problems (information asymmetries, moral hazard, and adverse selection<sup>78</sup>) that arise from an entrepreneur-venture capitalist's relationship. For example, they will monitor and control contracts and the debt/equity ratios, provide entrepreneur compensations, and allocate voting rights (this is truer for formal venture capitalists than for informal ones). For informal venture

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<sup>75</sup> Business angels' investment periods are similar to those of formal venture capitalist—i.e., 5 to 8 years (St-Pierre 2018).

<sup>76</sup> See also exhibit "How Venture Capitalists Spend Their Time" in Zider (1998).

<sup>77</sup> See also Politis (2008) and Ramadani (2009) for a focus on business angels' value added.

<sup>78</sup> The bank financing section explains information asymmetry, moral hazard, and adverse selection problems (see pages104-120).



capitalists, the authors add that they tend to be more local, and proximity may be more critical in addressing information problems<sup>79</sup>.

In addition to the adverse selection and moral hazard problems in the entrepreneur-venture capitalist relationship, Drover, Wood, and Payne (2014) add the hold-up problem. The latter refers to the concern that valuable, knowledgeable, and highly skilled human capital central to the enterprise can threaten to leave and will thus have negotiating power with investors that can be used to maximize self-interest seeking.

According to Berger and Udell (1998) and other authors, Drover, Wood, and Payne (2014) indicate that venture capitalists will use governance and control mechanisms to minimize agency conflicts, uncertainty, and risk. They add that the most used control techniques include, for example, modifying the management team and compensation, reducing the founder's equity stake, using *ex-ante* and *ex-post* staged funding, changing financial control, and exercising liquidity rights. The authors introduce in their article the following: "If the investor group will not have control over who runs the show—it is hard for me to pull the trigger"—venture capitalists interviewed in their study (2014, 833). They argue that venture capitalists' optimal configuration to invest in a venture is when (1) the entrepreneur's prestige, (2) the opportunity's attractiveness, and (3) the degree of control are high.

Not only do entrepreneurs need to understand the criteria privileged by venture capitalists to access funds (that primarily rely on their shoulders and team), but they also must be aware of the increased financing cost and the kind of intrusion and loss of control they are willing to accept for the company<sup>80</sup>.

### **1.2.2. The initial public offering (IPO)**

A firm can access financing through private entities and investors such as banks and venture capitalists, or public sources by selling publicly traded financial instruments or

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<sup>79</sup> Several authors have suggested that building trust-based relationships between the entrepreneur and informal investors is essential for unlocking the investors' capital investments and alleviating agency and control problems (see, e.g., Harrison, Dibben, and Mason 1997; Manigart et al. 2002; Kelly and Hay 2003). Shepherd and Zacharakis (2001) highlight the importance of trust in the VC-entrepreneur relationship for venture capital firms.

<sup>80</sup> For a summary of venture capital research knowledge, see Landström (2007).

securities—primarily different types of bonds, common stock, and preferred stock (Anderson, Beard, and Born 1995; Grinblatt and Titman 2002).

A business that sells its shares to the public for the first time is making what is termed an “initial public offering” or IPO (J. M. Johnson and Miller 1985). The firms will thus transition from a privately owned business to a publicly owned and traded one and can use the money raised to grow or cover cost or debts (Bradley III and Camp 2014).

An enterprise’s decision to “go public” cannot be taken lightly. Deazeley (2008)<sup>81</sup> explains that going public is one of the most crucial decisions chief financial officers (CFO) can make. One that they cannot handle alone and needs the careful consideration of the chief executive officer (CEO), the board, owners, investors, and other stakeholders. She explains that it is a long process that requires rigor, a substantial amount of preparation, and an enormous amount of energy and attention to meet (1) the requirements of going public and (2) the obligations of a public enterprise. Plus, once an enterprise goes public, it is challenging to go private again in the future.

According to Deazeley (2008), three (3) main questions should be addressed when deciding to go public. These are (1) what factors must be considered in deciding to go public? (2) what must the company have before going public? Moreover, (3) what will life be like as a public company? The table below provides an overview of the key factors to examine for each one of the questions. In addition, each one has relevant details that should be assessed.

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<sup>81</sup> The author’s work content was informed by CFOs interviews and professional advisors and reviewed by the staff of the Toronto Stock Exchange and the TSX Venture Exchange.

**Table 21. Deciding to go public? This is how it works**

Key areas to evaluate	Factors to consider	Details
<p><b>1. What factors must be considered in deciding to go public?</b></p>	<p>1.1. Analyzing the reasons for going public</p>	<p>Some of the reasons for an enterprise to go public include the following:</p> <ul style="list-style-type: none"> <li>• To raise capital beyond that which is available.</li> <li>• To finance exploration or research and development.</li> <li>• To provide an exit strategy for original investors, including venture capitalists, angel investors, and owners.</li> </ul>
	<p>1.2. Weighing the advantages and the disadvantages of going public</p>	<ul style="list-style-type: none"> <li>• <b>Advantages</b> of going public may include: access to capital; improved financial status; enhanced capacity for growth; facilitate mergers and acquisitions; easier access to debt financing; access to secondary equity financing through the ability to issue further shares; potential for higher valuation due to liquidity of shares; publicity; credibility/prestige; and improved recruitment and retention of employees.</li> <li>• <b>Disadvantages</b> of going public may include:             <ul style="list-style-type: none"> <li>- <i>Disadvantages relating to the process of going public:</i> expenses (legal fees, audit/accounting fees, underwriting, printing costs, roadshow, filing fees, etc.); disclosure/due diligence burden; relationship challenges when dealing with existing shareholders and/or management; and time commitment and distraction from the day-to-day running of the business.</li> <li>- <i>Disadvantages relating to life as a public company:</i> ongoing time and resource costs of compliance and reporting; reduced flexibility and control; vulnerability to takeover; increased scrutiny by regulators and the public; restrictions on investor communications and selective disclosure of information; increased disclosure of information (e.g., financial performance, terms of contracts, executive compensation, environmental issues); short-termism and pressure to keep the stock price up; investor relations obligations and other pressures of being in the public eye; exposure to shareholder activism; exposure to the effects of volatility in the market price of shares; a smaller pool of director/officer candidates due to complexity of skill sets required in public companies; and increased liability for directors and officers under laws relating to secondary market liability, etc. leading to increased costs of compensation and directors' and officers' insurance.</li> </ul> </li> </ul>

	<p>1.3. Assessing the alternatives to going public</p>	<ul style="list-style-type: none"> <li>• Some alternate forms of financing include: bank loans, subordinated debt; venture capital; private placements; and asset-based borrowing.</li> <li>• Some alternate forms of organization other than a publicly listed company that may be appropriate can include: joint ventures, partnerships; employee participation in ownership; and limited partnerships with flow-through shares (resource industry).</li> <li>• Alternate means of accessing operating capital may include: divestiture of non-core operations/assets and leasing.</li> </ul>
	<p>1.4. Signs that a company is ready to go public</p>	<p>Signs that a company is ready to go public include the following:</p> <ul style="list-style-type: none"> <li>• The company can demonstrate a good earnings history, asset backing, solid industry position, and growth potential.</li> <li>• The company can cover the costs associated with the process of going public.</li> <li>• The board and management are familiar with and can meet the exchange’s listing requirements and the relevant securities commissions.</li> <li>• The company is sufficiently developed in capitalization, management, and board resources to meet the ongoing costs and pressures of being public, maintaining a public image, and competing against competitor public companies.</li> <li>• A reasonable timeline has been developed for the going public process.</li> <li>• Both the drawbacks and advantages of being a public company are understood and accepted.</li> <li>• Going public is in line with business objectives and is part of a considered business plan.</li> </ul>
	<p>1.5. Choosing the exchange</p>	<ul style="list-style-type: none"> <li>• It is essential to evaluate which exchange is the best for the enterprise. Its advantages and disadvantages. If it is going to be a national or foreign exchange or a combination of the two.</li> <li>• Key considerations in choosing an exchange include the following: listing requirements, ongoing requirements, market activity, and valuations; capital market access; regulatory environment; litigation environment; and financial reporting standards reconciliation.</li> </ul>
<p><b>2. What must the company have in place before going public?</b></p>	<p>2.1. Selecting advisors and managing relationships</p>	<ul style="list-style-type: none"> <li>• The relationship between the board and senior management of the company and its external advisors is one of the vital factors for the success of the enterprise’s public offering.</li> <li>• Advisors should be chosen carefully. Their relationship and communication must be well-managed throughout the public process, and responsibilities and timelines must be clear and understood.</li> <li>• The advisory team for taking the enterprise public often includes the following members: underwriter/investment banker, accounting advisors, lawyer, and other experts depending on the industry or the stock exchange—e.g., engineers, oil and gas reserve analysts, management consultants, road show consultants, and others.</li> </ul>

	2.2. Getting the corporate house in order: organization and operations	<ul style="list-style-type: none"> <li>• Corporate organization and operations should be reviewed to prepare the enterprise to become public. Changes may be necessary, such as simplifying the enterprise structure and making processes and procedures more efficient, formal, and attractive to investors.</li> <li>• Having a well-developed business plan is essential. It should include business definition, market analysis and strategy, product performance and potential, operations, and management structure.</li> <li>• The business model must be accurate and sustainable.</li> <li>• Make sure to comply with regulations, perform adequate risk assessments, and review the existing share capital structure.</li> <li>• Maintaining focus on the business while preparing to go public.</li> </ul>
	2.3. Preparation and review of financial statements	<ul style="list-style-type: none"> <li>• Audited financial statements for several previous years will be required as part of the listing process– which involves a significant amount of time and energy.</li> </ul>
	2.4. Developing reporting systems and controls: disclosure controls and procedures and internal control over financial reporting	<ul style="list-style-type: none"> <li>• Certification and reporting requirements. To comply with certification conditions, the company must have a robust system of disclosure controls, procedures, internal controls over financial reporting, and a method for reviewing its design and effectiveness.</li> <li>• These obligations are onerous for public companies and require substantial education for CEOs and CFOs.</li> <li>• To facilitate the transition from a private to a public company, the enterprise should run like a public company sometime before becoming public.</li> </ul>
	2.5. Evaluating the skill sets of management and the board	<ul style="list-style-type: none"> <li>• To have the right team in place and the skill sets of senior management and the board of directors should be evaluated before going public. Some aspects that can be considered are the following: public company and industry experience, industry experience, impeccable background, highest standards of integrity, communications skills, ability to cope with compliance requirements, and understanding and respect for obligations to shareholders.</li> <li>• The reputation and experience of the people involved in the company are weighted by investment bankers and analysts and influence the company’s performance once it goes public.</li> <li>• After evaluation, additional people may be needed. Some may be highly valuable, and others may have to change their roles in the company when it goes public or cannot continue.</li> </ul>

	2.6. Securing a robust and independent board of directors	<ul style="list-style-type: none"> <li>• A strong board of directors dramatically impacts the process of going public and the enterprise’s performance after it is public. Therefore, the directors’ skill sets, independence, and financial literacy should be given special attention.</li> <li>• Directors’ recruitment and retention is a significant challenge for new and emerging companies. Often, they cannot provide sufficient compensations and benefits to attract directors and may rely on stock-based compensations.</li> <li>• The board can be strengthened as the company grows.</li> </ul>
	2.7. Ensuring that corporate governance complies with best practices	<p>Some of the best practices guidelines include the following:</p> <ul style="list-style-type: none"> <li>• The board should have a majority of independent directors and be led by an independent chair or lead director.</li> <li>• The independent directors should meet regularly in the absence of management.</li> <li>• The board should adopt a written mandate expressly acknowledging responsibility for stewardship of the company. This may include the integrity of officers and the organization, strategic planning, risk identification and management, succession planning, communication policy, internal control and management information systems, and corporate governance.</li> <li>• Position descriptions (for the CEO, chair of the board, and chairs of board committees).</li> <li>• New directors should receive orientation and continuing education.</li> <li>• The board should adopt and monitor compliance with a written business conduct and ethics code. This should address conflicts of interest, protection, and use of corporate assets and opportunities; confidentiality of corporate information; fair dealing with stakeholders; compliance with laws, rules, and regulations; and reporting illegal or unethical behavior (whistleblower policies).</li> <li>• The board should have a nominating committee composed of independent directors with a written charter and follow specific steps in nominating or appointing directors.</li> <li>• The board should have a compensation committee composed of independent directors with a written charter.</li> <li>• The board, its committees, and each director should assess effectiveness and contribution regularly.</li> </ul>
	2.8. Developing a communications strategy	<ul style="list-style-type: none"> <li>• Be able to effectively communicate the company’s “story,” value proposition, and “sales pitch” to investment bankers, analysts, and investors to generate interest in the company’s shares.</li> <li>• Clear communication with existing shareholders and investors, major customers and suppliers, analysts and potential investors, and regulators is essential.</li> <li>• Carefully manage communication and comply with the frequent regulations governing communications in the period prior to going public.</li> </ul>

<b>3. What will life be like as a public company?</b>	3.1. Coping with increased disclosure obligations	<ul style="list-style-type: none"> <li>• Disclosure of financial statements and information such as executive compensation, environmental policies, risk factors, intercorporate relations, legal proceedings, material contracts, and business acquisitions reports, among others.</li> <li>• Quarterly financial reporting regulatory requirement.</li> <li>• Disclosure requirements may include the following: <ul style="list-style-type: none"> <li>- <i>Annual information forms</i> that describe the company. Its operations, prospects, risks, and other external factors.</li> <li>- <i>Management's discussion and analysis</i> that includes a narrative explanation of the management team about the enterprise performance during the period covered in the financial statements and the enterprise's financial condition and prospects.</li> <li>- <i>Immediate material changes report</i> whenever there is a "material change," i.e., any changes in the business, operations, or capital that may impact the price or value of any company-listed securities.</li> <li>- <i>Corporate governance reporting</i>. It can include information regarding the independence of board members, mandate, position descriptions, orientation and education, code of ethics, compensation, board committees, and assessments and nomination procedures.</li> <li>- <i>Insider trading reports</i> comprising reports of all trades made in the company's securities.</li> <li>- Disclosure of <i>other mandatory</i> information (like mineral projects and oil and gas activities).</li> </ul> </li> </ul>
	3.2. Complying with regulatory requirements regarding financial disclosure	<ul style="list-style-type: none"> <li>• Quarterly financial reporting regulatory requirements may include financial statements, news releases, management's discussion, and analysis, CEO and CFO certifications, annual information forms, and any additional information depending on the stock exchange and the securities commission.</li> <li>• Adequate disclosure of reliable information is vital for the enterprise's reputation and avoiding any risk of litigation.</li> <li>• High workload and financial cost to comply.</li> <li>• It is recommended to become accustomed to a public company's best practices before becoming one.</li> </ul>
	3.3. Fulfilling obligations to shareholders	<ul style="list-style-type: none"> <li>• Disclosure responsibilities—prescribed form of proxy and an information circular. The latter can include details to be acted upon, directors standing for election, executive compensation and security ownership of directors, principal shareholders, and management.</li> <li>• Hold annual meetings</li> <li>• The enterprise no longer belongs to its founders but its shareholders; thus, obligations to them must be met.</li> </ul>

	<p>3.4. Adapting to the new role of the CFO</p>	<ul style="list-style-type: none"> <li>• CFO will require new skills and new dynamics in existing relationships. Plus, it will have new responsibilities—in particular for compliance and reporting.</li> <li>• Additional staff may be necessary to cope with compliance and reporting obligations.</li> <li>• Importance of reliable information systems to generate reports.</li> <li>• CFO should respond to short-term regulations and demands without forgetting the enterprise’s long-term strategy.</li> <li>• After going public, the CFO must handle a diverse group of shareholders instead of two or three knowledgeable investors. Therefore, CFO communications with investors are critical.</li> </ul>
	<p>3.5. Managing ongoing communications and delivering on the promise</p>	<ul style="list-style-type: none"> <li>• Deliver the promise made to investors.</li> <li>• Communication and good stakeholder relation are crucial.</li> <li>• The company must demonstrate critical elements, including: effective use of proceeds of IPO, operational success, increasing shareholder value, and the ability to meet or beat forecasts.</li> <li>• Frequent and forthright communication with investors, regulators, and other stakeholders will be necessary to keep them interested up and maintain liquidity.</li> </ul>

Source: Personal elaboration with bases from Deazeley (2008)<sup>82</sup>

<sup>82</sup> For more information, the author suggests visiting [www.rmgb.ca](http://www.rmgb.ca)



As detailed in the table above, becoming a public enterprise is a total cultural change. It affects everything in the enterprise, from its operations and strategy to executive compensation arrangements, regulatory obligations, and liability (Deazeley 2008). The enterprise no longer belongs to the founder(s) but its shareholders. Thus, obligations to them must be met—such as information disclosure and annual meeting requirements. In addition, the enterprise must deliver the promise made to investors and ensure: the effective use of payoffs of IPO, operational success, increasing shareholder value, and the ability to meet or beat forecasts. Consequently, Deazeley recommends that the enterprise operates as a public company before making the formal first step towards becoming one so that the transition can happen in the smoothest way possible.

The IPO process is extremely delicate and requires much time, effort, and resources for any enterprise. The procedure is complex and especially burdensome for small companies since they lack sufficient financial literacy, resources, and in many cases, formality.

Johnson and Miller (1985, 39) indicate that direct and private offerings for small businesses are highly desirable because the issuer can “avoid considerable expense[s], information disclosure, and time delays.”

According to St-Pierre (2000a), small enterprises that raise public capital are often similar. They have high growth potential and need significant capital to sustain growth. However, they are led by entrepreneurs where the founder is often in charge and are risky businesses given their organizational structure. The author argues that entrepreneurs who have taken their companies public tend to underestimate the disadvantages of public funding, particularly regarding the disclosure obligations and the fact that they become “public property.”

In general, small businesses do not go public. This is because they rarely have market exchanges for debt or equity. If they do, accessing them is expensive for most and impossible for many small structures (see J. S. Ang 1991; Mitchell A. Petersen and Rajan 1997; A. N. Berger and Udell 1998; J.S. Ramalho and da Silva 2009). Ang (1991) adds that the high costs of going public for small businesses include: the fixed cost of issuing securities, the high cost of compliance with government regulations, and the cost of investment banks or financial consultant services<sup>83</sup>. St-Pierre (2000a; 2000b; 2018) adds the indirect cost of finding and negotiating with subscribers and the initial stock undervaluation. Plus, she explains how several

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<sup>83</sup> St-Pierre (2000b) indicates that given certain fixed costs, the costs for a public issue are inversely proportional to the firm’s size.

studies have provided evidence of the small businesses' stock poor performance once listed regardless of the increased risk investing in these enterprises implies (see, e.g., Ritter 1991; Loughran and Ritter 1995; St-Pierre and Fadil 2011)<sup>84</sup>.

Opening the enterprise capital is a big no-no for many small business entrepreneurs<sup>85</sup>. The literature suggests that most small business owner-managers prefer to give up exciting projects with potential and growth possibilities for the enterprise than to make outsiders owners of a piece of their company and lose control and flexibility (see, e.g., Candau 1981; Barton and Matthews 1989; Norton 1991; J. S. Ang 1992; Petty and Bygrave 1993; Lane and Jameson 1993; LeCornu et al. 1996). This means that, on the one hand, owner-managers may have the financing needed. Nevertheless, on the other hand, they will have other people with voting rights, who participate in the enterprise decisions, have rights to profits and information and determine how the company's resources will be used. Therefore, in most cases, keeping the enterprise in control and having flexibility is more significant to owner-managers than accessing equity financing to engage a promising project in the long term.

The going out process is different for every enterprise. The country, market, industry, financing alternatives, and enterprise size and life cycle are some specificities that should be considered before raising public capital. In addition, entrepreneurs must be clear about selling pieces of the company's ownership, their desires and time horizons, financing cost, risk, and loss of control tolerance.

Next, we will explore SME financing in Latin America with a particular interest in bank financing, capital markets, venture capital, and microfinance.

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<sup>84</sup> Higher risk does not mean higher returns when investing in SME stocks. In addition, SMEs' return performance may not be positive yearly (see, e.g., St-Pierre 2000a).

<sup>85</sup> No-no means "something unacceptable or forbidden" (Merriam-Webster.com Dictionary 2022a).

## 2. Taking a journey into Latin America's small and micro businesses financing

Micro, small and medium enterprises significantly contribute to countries' development and job creation. This remains true, even though in the Latin American region, *MIPYMES*<sup>86</sup> encounter problems of productivity, low competition, limited exports, poor management, great informality, social inequality, and knowledge and skill gaps (Ferraro and Stumpo 2010; see also Dini and Stumpo 2020).

Small businesses make noteworthy headlines in the press, and governments understand the significance of these businesses to the economy. They contribute between 45 and 65% of employment and 25 to 35% of the gross domestic product in Latin America (Llisterri 2007). The efforts of public authorities in the region to promote these businesses are reflected by the numerous programs created to potentiate the sector's development and reduce inequalities (see Dini and Stumpo 2020). However, small business financing has remained unsolved in Latin America, especially for microenterprises representing the majority of businesses in this region (see, e.g., De la Torre, Gozzi, and Schumkler 2006; The World Bank 2007; Zevallos 2011; Sanguinetti et al. 2011; Molina-Ycaza and Sánchez-Riofrío 2016).

This subsection explores businesses' external financing options and practices in Latin America.

Before going any further, it is necessary to clarify three (3) points about the scope and depth of our analysis in this part.

First, due to the limited amount of reliable and updated information on MSMEs in Latin America<sup>87</sup>, most of the sources used in this section come from publications made by international institutions—or authors representing these organizations. These are, in particular, the CAF Latin American Development Bank, the Inter-American Development Bank Group (IDB), the Latin American Federation of Banks (FELABAN), the Economic Commission for Latin America and the Caribbean (ECLAC), and the World Bank.

Second, this segment provides an overview of MSMEs financing options and practices in Latin America rather than a detailed analysis of each one of the countries in the region. It is essential to mention that although the Latin American region shares common characteristics,

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<sup>86</sup> *MIPYMES* stands for Micro, Pequeñas y Medianas Empresas in Spanish. In English, Micro, Small and Medium Enterprises (MSMEs).

<sup>87</sup> See Cook (2001); Saavedra and Hernández (2008); Zevallos (2011); Ortiz, Cabal, and Mena (2014), Oficina Nacional de Estadística (2016); and Correa, Leiva, and Stumpo (2020).

there are differences among countries as each has its peculiarities—e.g., its challenges and problems, institutional environment, and financial market development.

Third, while our focus remains on Latin America, we compare it to other regions when possible, such as the OECD countries, emerging Europe, Africa, and emerging Asia, to understand what distinguishes the region studied from others.

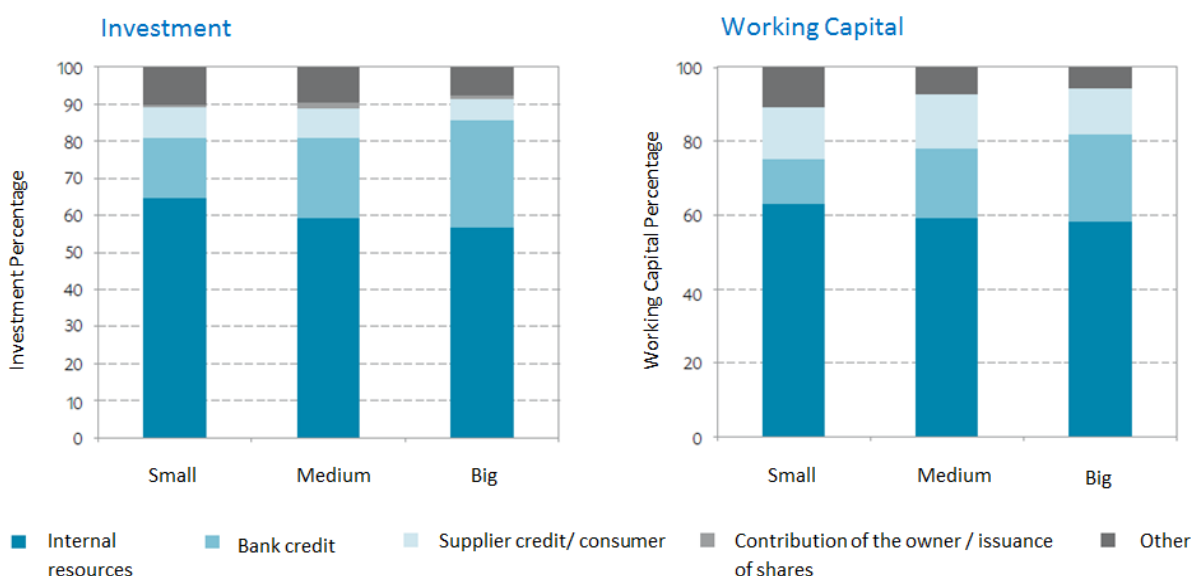
The subsection starts with a brief overview of MIPYMES financing sources and their context. Next, it studies and discusses four (4) financing sources. First, it reviews businesses’ bank financing. Second, it provides a picture of Latin American capital markets focusing on the stock market. Third, it overlooks venture capitalists in the region, and last, it covers microfinance.

### 2.1. An exploration of MIPYMES financing in Latin America

Small businesses in Latin America have limited financing sources at their disposal. They mainly rely upon the business’s retained earnings, the owner-manager personal capital, trade credit, and debt financing, where the banking sector takes the lead.

The graph below shows the distribution of financing sources used by formal small, medium, and big enterprises in the region for investments and working capital.

**Figure 14. Sources of financing for investment and working capital by enterprises’ size in Latin America (2006-2009 average)**



Source: Adapted from Sanguinetti et al. (2011)<sup>88</sup>

As shown in figure 14, Latin American enterprises follow a pecking order regarding their financing, whether for investments or operations. Internal resources are the primary sources of capital regardless of the enterprise size<sup>89</sup>. However, the bigger the company, the more bank loans are used for either purpose<sup>90</sup>. For instance, big enterprises in the region finance 27.4% of their investments and 23% of their working capital with bank loans. In contrast, small enterprises only reach 19% for investment and 13% for working capital.

These data provide evidence that smaller enterprises may encounter more obstacles in accessing finance. It may be a hardship caused by market failures such as the previously mentioned: information asymmetries, adverse selection, and moral hazard problems. In addition, there may be market restrictions, credit request rejections, complex applications, unfavorable conditions, high-interest rates, and collateral requirements. On the other hand, it may also explain that smaller structures prefer not to finance through banks' credit but rather through other sources such as trade credit, close friends and colleagues, informal lenders, or pawn shops. For instance, figure 14 shows that supplier credit is as important as bank credit to finance small businesses working capital.

After internal resources, debt financing remains the privileged source of capital in the region. Consequently, banking has played an indispensable role in financing the Latin American economy (Quispe-Agnoli and Vilán 2008).

According to Sanguinetti et al. (2011), 47% of Latin American formal enterprises have lines of credit or loans in a financial institution. To illustrate, the table below provides the percentages of credit lines and loans outstanding by enterprises' size and for other regions with similar development to Latin America.

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<sup>88</sup> Sanguinetti et al. (2011) calculated with data from The World Bank (2009).

<sup>89</sup> In the survey, a firm is considered small if it has between 5 and 19 employees; medium, between 20 and 99 employees; and big if it has more than 100 employees (Sanguinetti et al. 2011). See also Rojas (2017).

<sup>90</sup> Cull et al. (2006) explain that this is a classic financing pattern with enterprises. The latter is that the reliance on bank financing and similar intermediaries increase with firm size, whereas the dependence on informal sources of funds decreases.

**Table 22. Percentage of companies with a line of credit or credit in a financial institution**

Region	Enterprises			
	Average	Small	Medium	Big
Emerging Asia	46	37	50	62
Sub-Saharan Africa	23	17	34	48
Emerging Europe	47	40	56	67
Latin America	47	39	54	68
Middle East and North Africa	28	19	32	46

Source: Adapted from Sanguinetti et al. (2011)<sup>91</sup>

The information on the table provides further evidence that bigger enterprises have more debt financing than smaller ones. About 68% of big enterprises in Latin America have access to lines of credit and/or a loan from a financial institution compared to 39% for small enterprises. Nevertheless, when paralleling Latin America to other regions with comparable development, it seems evident that Latin American debt financial systems are similar to theirs and sometimes present themselves as a leader—which it is the case with the African regions.

Given banks' importance for enterprises in the region, it seems pertinent to study them further<sup>92</sup>. Following, we will explore bank loans and the criteria Latin American bankers use to grant credit. The obstacles entrepreneurs face when obtaining credit and why they may not apply.

### **2.1.1. Businesses Bank Loans in Latin American**

As mentioned earlier, banks are financial intermediaries whose function is to collect capital surpluses or savings from the public to issue loans that borrowers will use (enterprises, institutions, or individuals) to finance investments and operations, to meet obligations, or just for a set of necessities. Banks' business is to provide loans charging interest rates for using the

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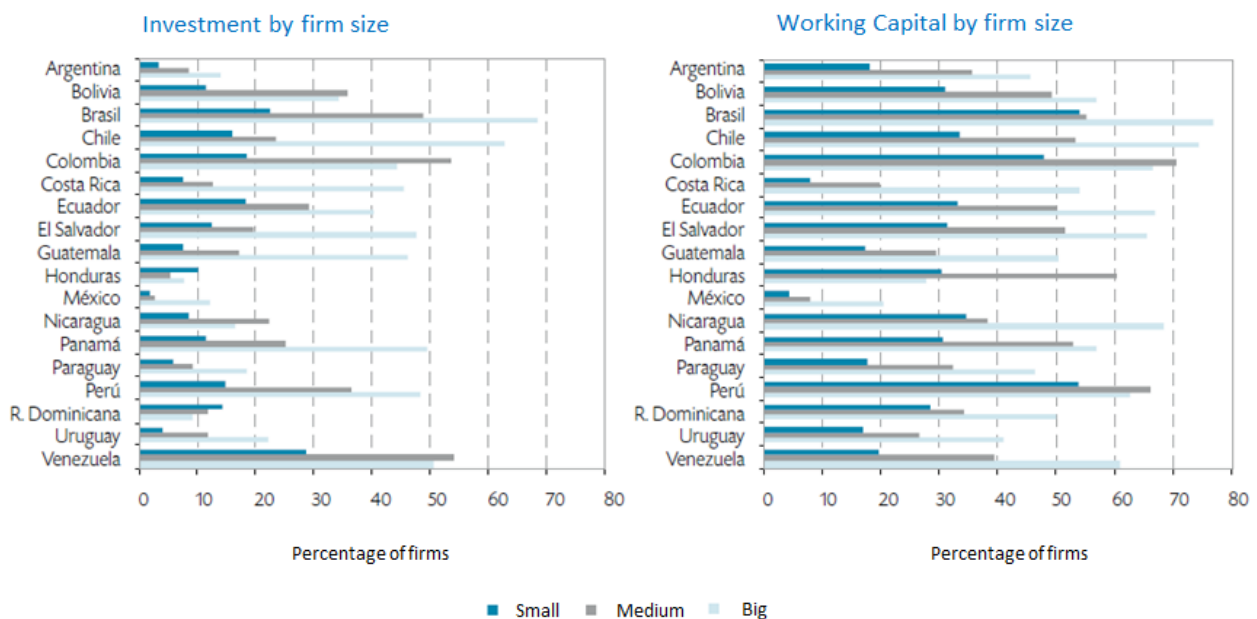
<sup>91</sup> From the World Bank Enterprise Surveys (2010 in Sanguinetti et al. 2011).

<sup>92</sup> See De la Torre, Martínez Pería, and Schmurkler (2010) for a review of the bank products used by SMEs in Argentina, Chile, Colombia, Mexico, Peru, Puerto Rico, and Venezuela.

money they provide. The borrower's debt cost is the bankers' return (interest rate). Since bankers need to return the depositors' money eventually, they need to manage it as wisely as possible to avoid losing it. Consequently, bankers study the companies that request credit, and not all of them can obtain it, as commonly happens with the smaller structures in the region.

Figure 15 shows the percentage of firms by size that finances their investment and operations with bank loans for selected countries in Latin America. Higher percentages are seen for bigger enterprises. For small businesses, bank loans finance working capital more than investments. Overall, it is perceived that regardless of the enterprise's size, short-term loans tend to be predominant in the region as opposed to long-term financing.

**Figure 15. Percentage of firms that report financing investment and working capital with bank credit in Latin America (average 2006-2009)**



Source: Adapted from Sanguinetti et al.(2011)<sup>93</sup>

Besides the bank loan financing similarities in Latin America, significant differences persist within the region. For instance, countries such as Brazil, Chile, Colombia, Ecuador, and Venezuela are strong users of bank loans for investments. In contrast, Argentina, Honduras, Mexico, Paraguay, the Dominican Republic, and Uruguay experience the opposite effect.

<sup>93</sup> Sanguinetti et al. (2011) calculated with data from The World Bank (2009).

Concerning small businesses, most countries in the region use over 10% of bank financing for investments, and Brazil and Venezuela are the only ones that exceed 20%. This proves that long-term bank financing in Latin America is incipient for small businesses.

This low rate of small businesses' bank debt financing for investments in the region could be explained, among other things, by the problems and additional costs arising from the agency relationship between bankers and entrepreneurs, in other words, the failures of financial markets<sup>94</sup>. To protect themselves from small business borrowers (who tend to be considered riskier than their bigger counterparts), banks will try to reduce information asymmetries and set restrictive covenants<sup>95</sup>. For example, to grant a loan, banks will evaluate a set of criteria where they request information concerning the small business's financial statements, solvency, collateral, management, obligations with other financial institutions, business stability, and informality.

The recent survey made by the Inter-American Development Bank Group (IDB) through the Multilateral Investment Fund (MIF)<sup>96</sup> and the Federation of Latin American Banks (FELABAN)<sup>97</sup> provides a global outlook of the banking sector in Latin America and the Caribbean (Narita et al. 2014). The sample comprised 110 banks from 19 countries in the region<sup>98</sup>.

Out of the panorama presented, the criteria used by Latin American banks to grant credit to small businesses can be identified. As can be perceived from the figure below, bankers' decisions are mainly dominated by financial considerations such as financial statements, enterprise cash flows, and assets analysis<sup>99</sup>. Furthermore, other non-trivial aspects, such as customer visits relating to the client proximity, are shown as relevant as the financial

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<sup>94</sup> They are discussed in the bank financing part of this chapter (see pages 104 to 120).

<sup>95</sup> The Inter-American Development Bank (2005), The World Bank (2007), and Sanguinetti et al.(2011) explain that the literature suggests that small enterprises face greater difficulties in accessing credit regardless of countries' financial systems development and that deficiencies aggravate when financial systems are less developed such as in Latin America.

<sup>96</sup> Multilateral Investment Fund (MIF) or *Fondo Multilateral de Inversiones* (FOMIN) as the fund is known in Spanish. For more information, please refer to <https://www.iadb.org/en/resources-businesses/resources-businesses-2>.

<sup>97</sup> FELABAN is the Latin American Federation of Banks or *La Federación Latinoamericana de Bancos* in Spanish. The institution publishes relevant information about Latin America's banking and financial sectors. In addition, they focus on issues of interest that provide an overall outlook of the region to encourage its financial and economic development. For more information, please refer to <http://www.felaban.net/>.

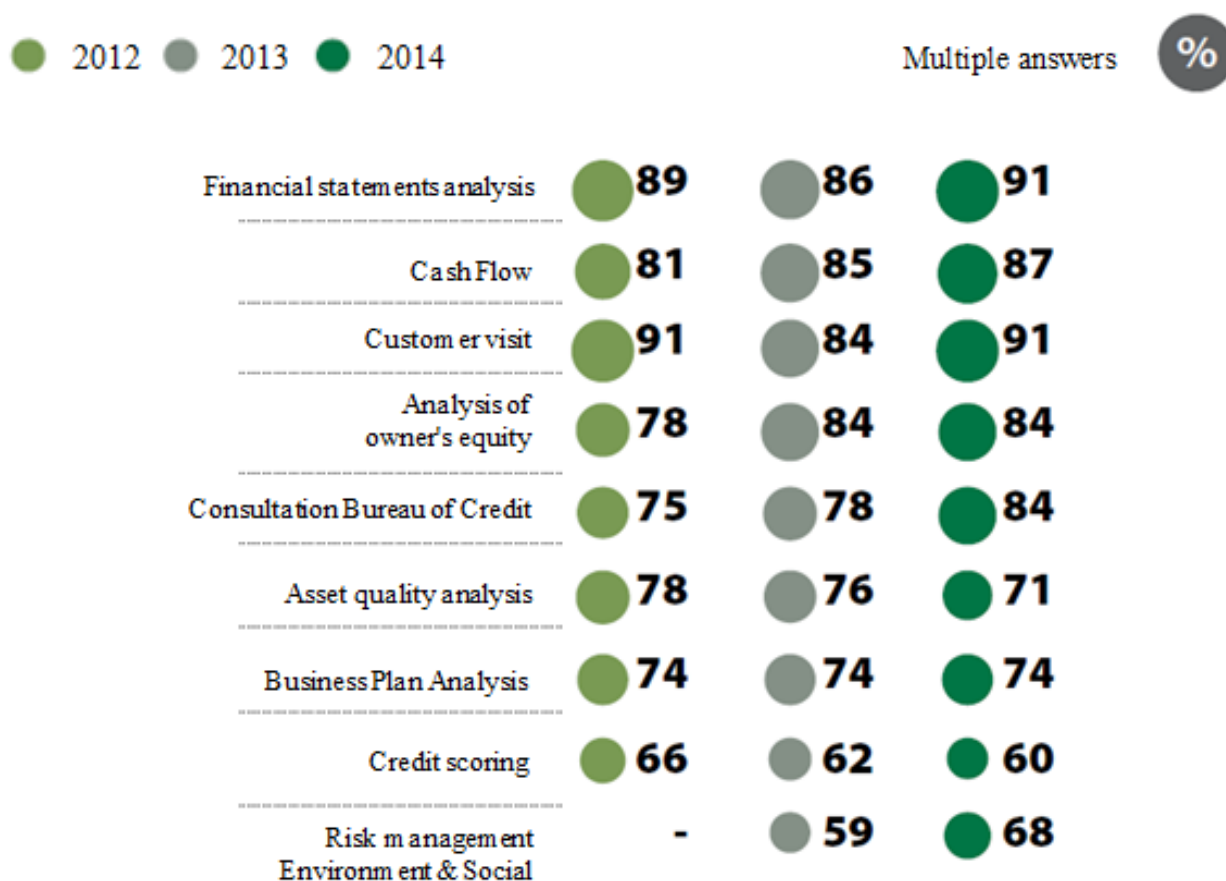
<sup>98</sup> The sample of 110 banks was distributed the following way: 13 banks from Argentina, 7 banks from Brazil, 8 banks from Bolivia, 2 banks from Chile, 6 banks from Colombia, 6 banks from Costa Rica, 7 banks from Ecuador, 6 banks from El Salvador, 6 banks from Guatemala, 9 banks from Honduras, 2 banks from Jamaica, 7 banks from Mexico, 2 banks from Nicaragua, 1 bank from Panama, 8 banks from Paraguay, 6 banks from Peru, 7 banks from the Dominican Republic, 3 banks from Uruguay and 4 banks from Venezuela. For more details on the sample, see the survey's datasheet, pages 35-38.

<sup>99</sup> The importance of a business's financial information to bankers has been widely recognized and discussed in the literature (see, e.g., Pace and Collins 1976; Stanga and Tiller 1983; Rhyne and Otero 1992; St-Pierre 2000b; C. Mason and Stark 2004).



criteria—e.g., with a 91% for 2014<sup>100</sup>. Thus, while the focus remains on hard data, primarily financial information, there is also soft data derived from bank-borrowers' relationships to grant credit to small businesses.

**Figure 16. Which aspects are included in the loan analysis procedure for a small enterprise in your bank?**



Source: Adapted from Narita et al. (2014)

It seems pertinent for a complementary analysis framework to point out the barriers the survey identifies that prevent small enterprises from accessing bank loans and services in the region. In the study, 51% of the 110 Latin American banks interviewed stated that informality and the lack of information are severe obstacles for enterprises when applying for credit. The

<sup>100</sup> The value of relationships with creditors has been widely discussed in the literature as well (see, e.g., Mitchell A. Petersen and Rajan 1994; A. N. Berger and Udell 1995a; 1998; Blackwell and Winters 1997; Cole 1998; Uzzi 1999; Boot 2000; Elyasiani and Goldberg 2004; Voordeckers and Steijvers 2006; Lapavistas 2007). See the banking section of this chapter for more details (see pages 104 to 120).

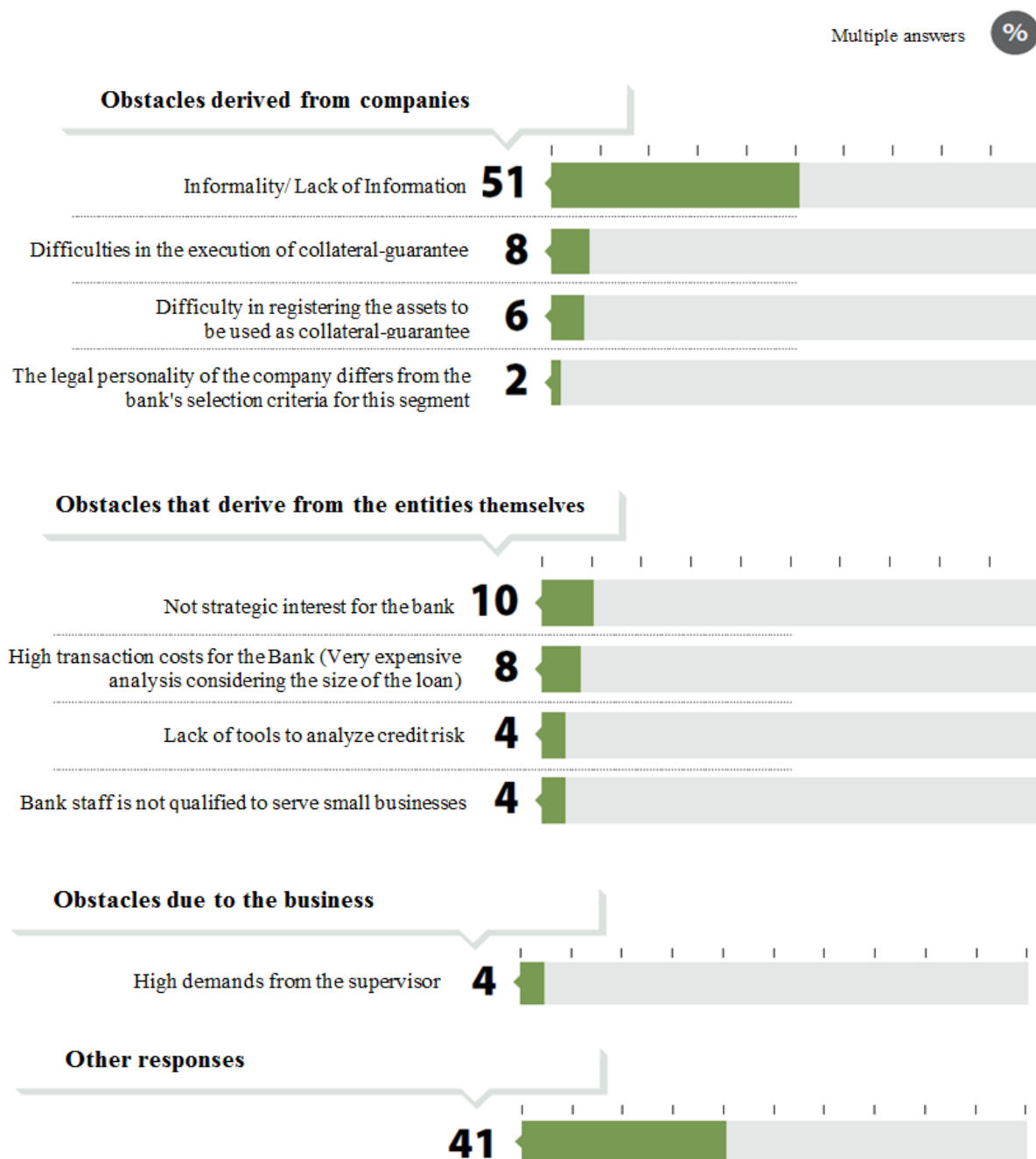
smaller the enterprise, the greater the difficulty<sup>101</sup>. Other barriers may include the high cost of monitoring, putting together contracts, the analysis, and the fact that they may not generate enough cash, pay late, or default on their loan (see also Zevallos 2006; 2011; Molina-Ycaza and Sánchez-Riofrío 2016)<sup>102</sup>. It is worth noting that the survey has been conducted since 2011 and has consistently obtained the same results (Rojas 2017). Figure 17 provides more details of the barriers mentioned by banking entities.

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<sup>101</sup> These barriers have also been identified in the literature (see, e.g., Pettit and Singer 1985; Rhyne and Otero 1992; Binks and Ennew 1997; Lopez-Gracia and Aybar-Arias 2000; St-Pierre and Fadil 2011). Further details can be found in the banking section of this chapter (see pages 104 to 120)

<sup>102</sup> Zevallos (2011) focuses on the most critical SMEs' obstacles to accessing external financing in the Dominican Republic.

**Figure 17. What are the obstacles to why your bank does not offer services to small businesses?**



Other responses include:

- The cost of this small sector is very high
- We need many resources to finance them
- Do not generate enough cash to pay that credit
- Payment delay or default

Source: Adapted from Narita et al. (2014)

Narita et al. (2014) indicate that bankers may apply several methods to assess the enterprise risk and alleviate informality problems. These last ones can include cash flow analyses, on-site client visits, and credit scorings. Furthermore, some banks in the region are experimenting with new, more neutral credit methodologies that consider the entrepreneurs' personality, aptitude, and intelligence, which scientific research has proven to correlate with success and willingness to pay.

The World Bank (2007) indicates that personal interaction between borrowers and lenders or relationship lending is vital in environments with weak financial infrastructures and high levels of informality (such as in Latin America). It entails understanding the borrowers' business and not just applying mechanical selecting procedures such as credit scoring systems or collateral evaluations. Nevertheless, they add that lenders are not always willing to forest relationships with their customers, particularly on a small scale, because they are costly.

Understanding the banker's perspective and requirements brings the entrepreneur a step closer to getting financed. However, fulfilling the banker's criteria is insufficient to understand why a business did not get funds. As the literature suggests, the owner-managers beliefs, expectations, desires, background, and understanding play a decisive role in this context. For example, some may not apply for bank credits because they do not know. Others may consider collateral requirements and interest rates too high or find the application complex. Finally, others may not want a bank loan or think they might not get the application approved. To illustrate, table 23 indicates some reasons businesses in Latin America may not apply for a bank loan according to their size.

**Table 23. Reasons for not applying for credit according to the size of the company in Latin America (percentage)**

Reasons	Enterprise		
	Small <sup>a/</sup>	Medium <sup>a/</sup>	Big <sup>a/</sup>
Does not know	0.16	0.38	0.20
Does not need a credit	64.20	67.63	77.83
Credit application procedure	6.49	4.79	3.08
Unfavorable interest rates	14.60	10.50	5.86
Collateral requirements too high	4.84	4.53	1.99

Size or maturity of credit is insufficient	0.85	0.92	0.99
Requires informal payment	1.54	1.26	1.09
Did not think it was going to be approved	6.98	9.45	8.65
Other reasons	0.03	0.55	0.30
a/ Data for Latin America year 2006, except Brazil data 2009			

Source: Adapted from Sanguinetti et al. (2011)<sup>103</sup>

After looking at the information provided in the table, the main reason why Latin American enterprises (regardless of size) do not apply for a loan is that they do not need one. It also shows a high level of firms that do not request credit because they think they would not get approved by banks. All enterprises share common grounds where they voluntarily exclude themselves from credit<sup>104</sup>. Nevertheless, as the evidence in the table demonstrates, interest rates, collateral requirements, and puzzling procedures increase as businesses size decreases (see also Álvarez, López, and Toledo 2021).

In further support, Zevallos's (2006) study focused on the entrepreneurial perspective of more than 2 700 entrepreneurs in six Latin American countries<sup>105</sup> provides evidence that complex contractual agreements, high-interest rates, and collateral demands are recurrent obstacles for SMEs to access financing in the region (see Molina-Ycaza and Sánchez-Riofrío 2016). In addition, financing sources are limited. SMEs lack access to venture capital, factoring, or leasing. The table below indicates the most relevant obstacles SMEs face to access financing for each one of the countries studied.

**Table 24. Financing access issues in selected Latin American countries**

Country	Financing access issues
Argentina	<ul style="list-style-type: none"> <li>• Excessive collateral requirements</li> <li>• High-interest rates</li> <li>• Many deficiencies in the financial system to evaluate SMEs</li> </ul>

<sup>103</sup> From the World Bank Enterprise Surveys (2010 in Sanguinetti et al. 2011).

<sup>104</sup> The World Bank (2007) indicates a difference between voluntary self-exclusion to financial services and involuntary exclusion. Individuals can voluntarily exclude themselves from financial services because they do not need or use them, find other ways to access them, lack financial literacy, or have cultural and religious reasons. On the other hand, the involuntary exclusion will occur when barriers hinder access to financing. These can include, for instance, insufficient income, high risk, discrimination, contractual and information frameworks, and price and product features.

<sup>105</sup> Countries were Argentina, Colombia, Costa Rica, Chile, El Salvador, and Panamá.

Colombia	<ul style="list-style-type: none"> <li>• High credit costs</li> <li>• Absence of venture capital financing</li> <li>• Absence of mechanisms such as factoring, and leasing, among others</li> </ul>
Costa Rica	<ul style="list-style-type: none"> <li>• Lack of definition of who is worthy of credit</li> <li>• Excessive requirements and procedures</li> <li>• High formalization costs</li> <li>• Limited financing mechanisms such as factoring and leasing</li> <li>• High-interest rates and restricted terms</li> </ul>
Chile	<ul style="list-style-type: none"> <li>• Excessive collateral to grant loans</li> <li>• High-interest rates and commissions</li> <li>• Much time invested in paperwork</li> </ul>
El Salvador	<ul style="list-style-type: none"> <li>• High-interest rates</li> <li>• Type of collateral required</li> <li>• Excessive requirements</li> <li>• Risk evaluation system</li> </ul>
Panama	<ul style="list-style-type: none"> <li>• Collateral required for the loan</li> <li>• High-interest rates</li> <li>• Excessive requirements to be eligible for credit</li> <li>• High costs of financial procedures</li> <li>• Short loan repayment terms</li> </ul>

Source: Modified from Zevallos (2011)

Despite the current disadvantages smaller structures face, it should be highlighted that the banking sector is interested in providing adequate services to small businesses in Latin America. According to Narita et al. (2014) survey, 90% of banks in the region consider small businesses in their strategies. Moreover, 40% of banks' loan portfolios are aimed at these businesses, and the leading driver of working with them (55% of banks) is because of their social and economic impact on the development of countries (see also M. Berger, Goldmark, and Miller-Sanabria 2007; De la Torre, Martínez Pería, and Schmukler 2010).

Banking systems remain the primary external financing source for businesses in Latin America. Nevertheless, the sector still has limitations in attracting and aggregating the financial surpluses of domestic and foreign economic actors and then reassigning them to the deficit agents (Sanguinetti et al. 2011)<sup>106</sup>.

<sup>106</sup> For an analysis of the evolution of the banking sector in Latin America and the Caribbean, see Bank for International Settlements (2007).

A mixture of efforts and initiatives from public institutions, not-for-profit organizations (ONG), and development banks continue to be developed to improve SMEs' financing access. This is the case, for instance, with public warranties, factoring, or microfinance (see, e.g., M. Berger, Goldmark, and Miller-Sanabria 2007; Ferraro and Stumpo 2010; Dini and Stumpo 2020). Furthermore, regardless of some progress, equity markets in the region are not dominant, even for big enterprises. We continue to explore these financing sources next.

### **2.1.2. Capital markets for small enterprises in Latin America?**

The stock market in the Latin American region is incipient not only for small or micro businesses but for all companies. Several studies suggest that few enterprises are publicly owned and traded and that the regional trend for the number of listed companies is to decrease in recent decades. For example, Quispe-Agnoli and Vilán's (2008) study indicates that in 1990 there were, on average, 232 listed enterprises, and in 2006 there were 176. Chile and Colombia were the only two (2) countries where the authors found an increase. This regional trend was also confirmed by De la Torre, Gozzi, and Schmukler's (2006; 2008) studies<sup>107</sup>.

Despite Latin American countries' efforts to liberalize their financial markets and pass key reforms for their proper functioning, several studies suggest that stock markets remain underdeveloped. In addition, they are low in value and size, illiquid<sup>108</sup>, and concentrated in few stocks compared to markets of more industrialized countries (see, e.g., De la Torre, Gozzi, and Schmukler 2006; 2008; Quispe-Agnoli and Vilán 2008; Sanguinetti et al. 2011).

De la Torre, Gozzi, and Schmukler's (2008) study provides additional evidence of the lack of domestic stock markets activity in Latin America (market capitalization, trading, and capital raising) when accounting for several factors, including the per capita income, macroeconomic policies, and the legal and institutional environment.

In further support, Sanguinetti et al. (2011) indicate that when compared to the size of economies in the region and the value of shares exchanged, Latin American domestic markets are one of the lowest in the world. For example, the region's total value of shares in the stock

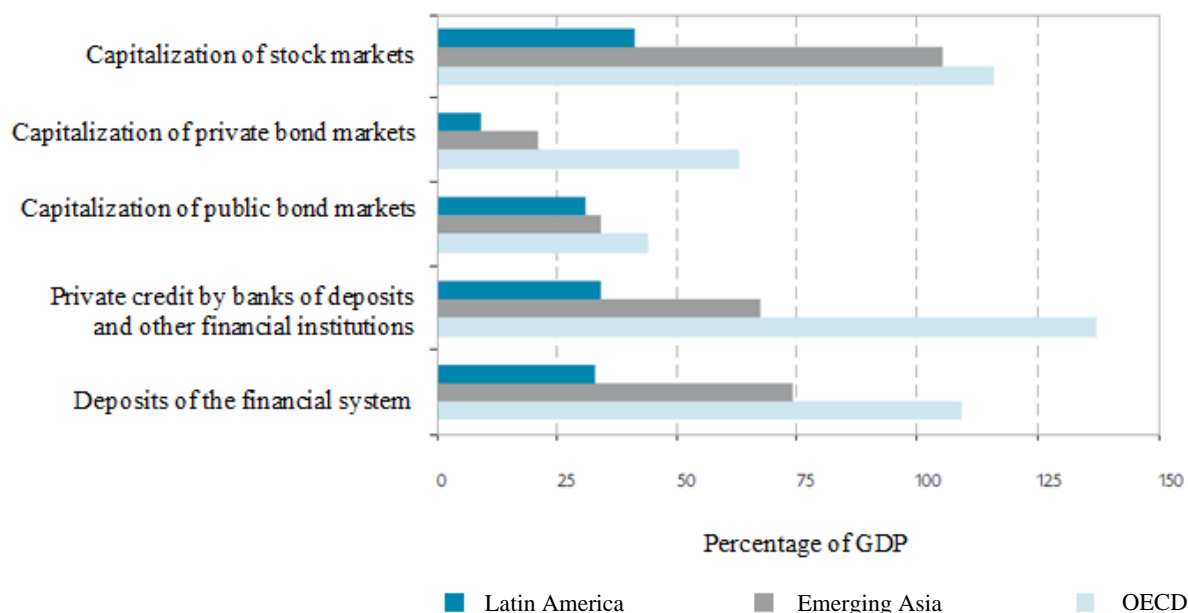
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<sup>107</sup> Quispe-Agnoli and Vilán (2008) and De la Torre, Gozzi, and Schmukler (2006) study Latin America as the largest markets in the region, or LAC7—i.e., Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.

<sup>108</sup> De la Torre, Gozzi, and Schmukler (2008) explain that a general pattern in Latin American markets is that only a few firms can issue securities in amounts that meet the minimum liquidity requirements. Moreover, these securities are often bought by a few institutional investors who follow buy-and-hold strategies, further contributing to low trading activity. They argue that the lack of trading may be due to the low percentage of listed shares available for trading, reflecting the patterns of concentrated ownership and reluctance to give up control.

exchange only reaches 40% of the GDP, as shown in the figure below. On the other hand, emerging Asia reaches more than 100% and almost 125% in OECD countries.

**Figure 18. Components of the domestic financial sector as a percentage of GDP (2007)<sup>a/</sup>**



a/ Latin America includes: Argentina, Brazil, Chile, Colombia, Peru, and Venezuela. Emerging Asia includes: China, South Korea, India, Indonesia, Philippines, Singapore, and Thailand.

Source: Adapted from Sanguinetti et al. (2011)<sup>109</sup>

Differences between the OECD countries and emerging Asia capital markets with those of Latin America are distinctive. Capital markets in Latin America are far from reaching the development of OECD countries or even emerging Asia<sup>110</sup>. Fixed income securities are the most advanced and used compared to industrialized countries. This is the case, particularly for public bonds, where Latin American governments have managed to take advantage of bonds financing, but enterprises are lagging (see De la Torre, Gozzi, and Schmukler 2006; 2008; Tovar and Quispe-Agnoli 2008; Jeanneau and Tovar 2008). Only a handful of big, well-known corporations in the larger countries can successfully issue bonds, such as Mexico and Chile (see De la Torre, Gozzi, and Schmukler 2006).

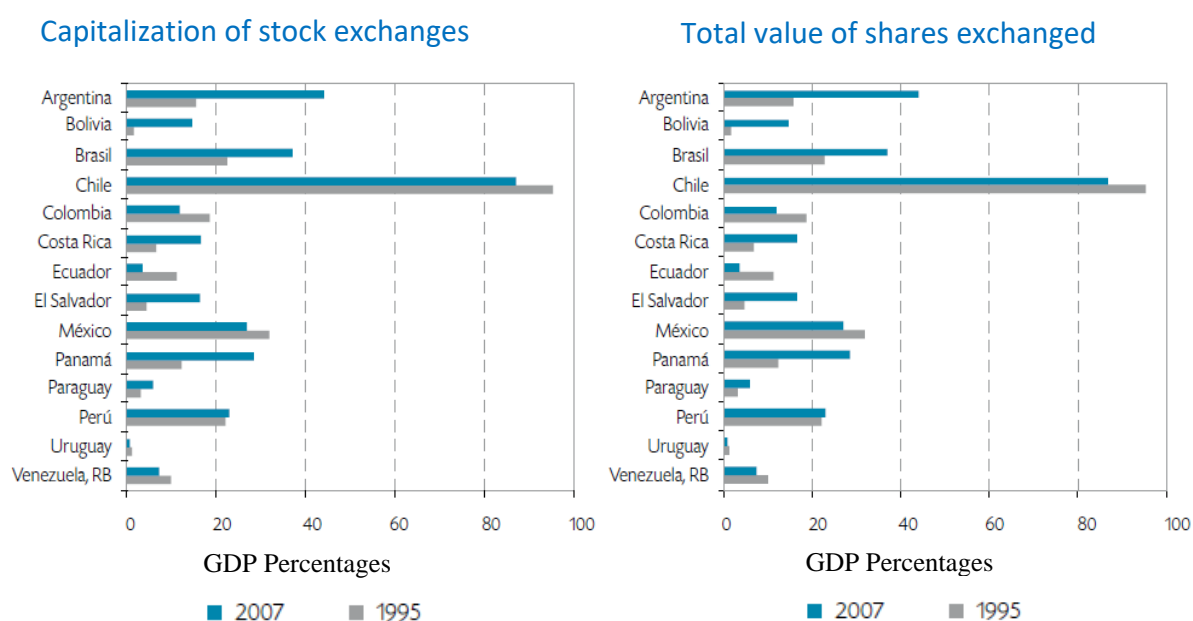
<sup>109</sup> Sanguinetti et al. (2011) calculated with data from Beck, Demirgüç-Kun, and Levine (2009).

<sup>110</sup> See also the studies by De la Torre, Gozzi, and Schmukler (2006; 2008).and Quispe-Agnoli and Vilán (2008).



In addition, the region has uneven progress in financial markets. For instance, as shown in figure 19, countries such as Chile, Brazil, and Argentina lead by capitalization on their stock exchanges, and the value exchanged. However, these markets have liquidity problems. On the other hand, countries such as Ecuador, Paraguay, Uruguay, and Venezuela are almost nonexistent in these markets.

**Figure 19. Capitalization of stock exchanges in Latin America and the total value of shares exchanged (percentage of GDP)**



Source: Adapted from Sanguinetti et al. (2011)<sup>111</sup>

Several factors could explain the underdevelopment, low representation, and use of stock markets as financing sources by Latin American enterprises. According to several authors, these can include (see De la Torre, Gozzi, and Schmukler 2006; Tovar and Quispe-Agnoli 2008; Quispe-Agnoli and Vilán 2008; Sanguinetti et al. 2011):

- Macroeconomic vulnerabilities,
- Geopolitical uncertainty,
- High transaction cost,
- Lack of sophistication and maturity of markets,

<sup>111</sup> Sanguinetti et al. (2011) calculated with data from The World Bank (2009).

- Tax disadvantages,
- Corporate governance and tax evasion problems and,
- Transparency and information disclosure requirements.

Some authors highlight that Latin American equity markets cannot reach the development of more industrialized countries because of the region's intrinsic characteristics. Countries' small economies lack risk diversification opportunities, have weak currencies, and have common systematic risks (Quispe-Agnoli and Vilán 2008; De la Torre, Gozzi, and Schmukler 2008). Others, such as De la Torre, Gozzi, and Schmukler (2006; 2008), question the accuracy of policies and their implementation and advocate for country-specific reforms adapted to the Latin American context and the current international financial markets integration. According to the authors, applying one-size-fits-all approaches is destined to fail and should be avoided if real improvements are desired in the region.

Last, another relevant factor that may have limited the development of stock markets in the region is the integration of capital markets worldwide. The latter has provided enterprises with financing options internationally, moving them away from domestic markets to more attractive ones (see De la Torre, Gozzi, and Schmukler 2006; 2008; Quispe-Agnoli and Vilán 2008).

Given the Latin American context and what becoming and remaining a listed company implies, it is not surprising that businesses in the region would consider other financing sources away from domestic stock markets. However, as previously discussed and several authors suggest, the situation gets worse for smaller structures where no access to market exchanges is more the rule than the exception (see, e.g., J. S. Ang 1991; Mitchell A. Petersen and Rajan 1997; A. N. Berger and Udell 1998; St-Pierre 2000b; 2000a; 2018; Deazeley 2008; J.S. Ramalho and da Silva 2009).

### **2.1.3. Venture capital in Latin America?**

As mentioned in this section<sup>112</sup>, there are formal and informal venture capitalists. Formal venture capitalists are organized institutions that collect funds from different economic agents and invest them in businesses with high growth potential. Informal venture capitalists, often

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<sup>112</sup> See the venture capital section of this chapter (pages 121-127).

known as business angels, are high-net-worth individuals who fund enterprises or projects aiming for high returns.

Venture capitalists tend to finance enterprises in specific sectors where they have the expertise and usually invest in high-tech. Funding can be channeled to project development, enterprises starting or growing, and businesses wanting to sell their shares. Their financing decision primarily relies on the entrepreneurs' qualities, experience, and team and whether they are fit to ride the horse race (see MacMillan, Siegel, and Narasimha 1985). In addition, they weigh the products, services, and market potential and evaluate financial considerations in terms of expected returns, investment periods and rounds, and exit opportunities. Business angels are more susceptible to being guided by intuitive feelings than formal venture capitalists would.

While investors can use convertible securities or a combination of debt and equity, they often own shares and are part of the enterprises' board where they invest. Thus, they have some ownership, control, information rights, and benefits. They can influence the enterprise strategy, team, and operations; and are interested in accomplishing the business results. Hence, they will not only monitor that their investor interests are on track but will also assist enterprises. For example, they can facilitate access to valuable networks, provide contacts, and help with operational and strategic planning, recruitment, and additional financing. They are more involved and controlling than bankers would.

Despite the financing opportunities and assistance formal and informal venture capitalists may represent for small businesses, this financing source remains immature and incomplete in Latin America<sup>113</sup>. As shown in the table below, only 12% of entrepreneurs in the region use private investors and formal venture capitalists combined when they are starting. During the first few years, this percentage decreases to 8%. Compared to other regions of parallel development, such as East Asia, greater access and use of venture capital than Latin America is perceived.

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<sup>113</sup> For the general investment trends of private equity and venture capital in Latin America and other regions, see Guzmán, Elorza, and Mejía (2015).

**Table 25. Percentage of entrepreneurs financed through private funds in Latin America and East Asia (2006)**

	Latin America and the Caribbean		East Asia	
	Start	First few years	Start	First few years
Entrepreneurs financed by private investors	8.9	6.8	27.1	28.8
Entrepreneurs funded by venture capital	2.8	1.7	8.9	15.0

Source: Adapted from Sanguinetti et al. (2011)<sup>114</sup>

Small enterprises from East Asian countries use almost three (3) times more private investors to finance their businesses when starting than Latin American entrepreneurs; and four (4) times more during the first few years. Furthermore, despite East Asia having lower venture capital percentages than other regions, they remain superior to those in Latin America.

Venture capital can be an alternative financing option for small enterprises in the region, particularly for new innovative firms with high growth potential. Nevertheless, most entrepreneurs do not consider it as it is not as dominant as other sources like the banking sector. Therefore, further efforts are required to attract VC financing in the region and support small businesses.

Álvarez, López, and Toledo's recent study (2021) provide evidence of the low levels of venture capital investments in Latin American economies compared to more developed countries. Even Chile has surprisingly low levels despite being the leading country in the region. See the table below.

**Table 26. Venture capital as a percentage of GDP**

Country	Value
Argentina	0.02%
Colombia	0.02%
Mexico	0.03%
Brazil	0.06%
Chile	0.07%
Australia	2.50%

<sup>114</sup> From OECD (2006 Sanguinetti et al. 2011).

Japan	3.40%
Europe	2.90%
Canada	16.90%
Israel	37.60%
United States	42.60%
Note: Values correspond to 2017, except for Israel, which corresponds to 2014. The figure for Europe refers to the simple average for European countries with data available on OECD.Stat.	

Source: Adapted from Álvarez, López, and Toledo (2021)<sup>115</sup>

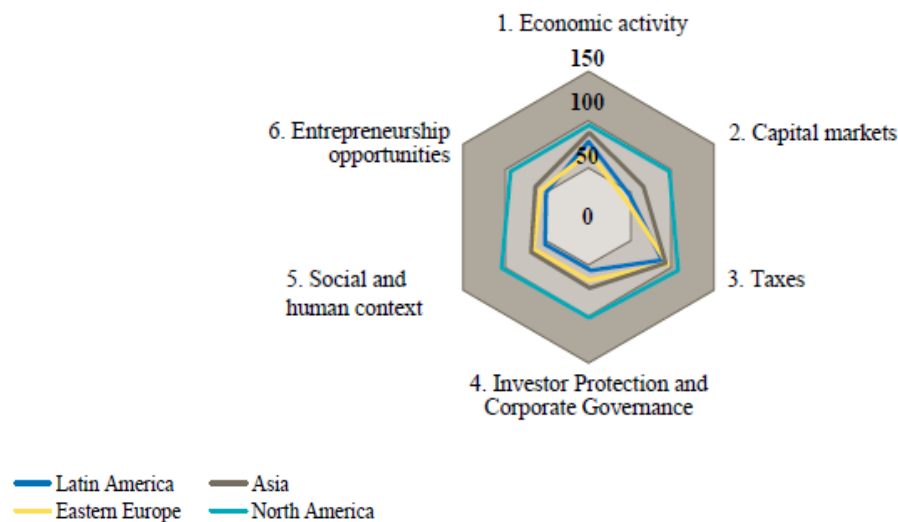
In a recent publication, the CAF Development Bank of Latin America indicates that the Latin American region does not provide the necessary conditions for venture capitalists to develop (G. R. Guzmán, Elorza, and Mejía 2015). Consequently, these markets are incipient.

Using data from the Venture Capital and Private Equity Country Attractiveness Index<sup>116</sup>, the study indicates that tax and economic growth within the region are not enough motivations for VCs to invest once compared to more developed regions such as North America, Europe, and Oceania. VCs need to consider exit options for their investments; in particular, IPOs and capital markets in Latin America are not significant, deep, or liquid enough to encourage them. Governments in the region lack rule of law. There are corporate governance quality and defense of property rights problems. Furthermore, there is a need to improve human capital potential and entrepreneurial opportunities. Figure 20 compares Latin American positioning to attract venture capital investments with other areas of the world in several critical aspects—economic activity, capital markets, taxes, investor protection and corporate governance, social and human context, and entrepreneurship opportunities.

<sup>115</sup> With data from LAVCA (2018) and the OCDE (2018, see also OECD 2020b).

<sup>116</sup> To access the Venture Capital & Private Equity Country Attractiveness Index databases, see Groh et al. (2021a).

**Figure 20. Venture capital attractiveness index by geographic region**



Source: Adapted from Guzmán, Elorza, and Mejía (2015)

As is expected and mentioned on several occasions when addressing business financing issues in Latin America, there are differences among countries in the region. For instance, the CAF study presents Chile as the most attractive market for venture capitalists to invest in Latin America. This is because Chile ensures attractive tax advantages to encourage entrepreneurial activity, has deeper capital markets, the rule of law is stricter, and the institutional, human, and social context are better than other countries in the region. The Chilean market share some of the characteristics of more developed countries such as Austria, China, Taiwan, and Ireland. For 2021, the Venture Capital and Private Equity Country Attractiveness Index (Groh et al. 2021b) ranked Chile in the 34th position out of 125, making it the highest country in Latin America. Nevertheless, as discussed earlier, Chile’s VC investments remain low compared to more developed countries –see table 26 above.

Next, the countries such as Colombia, Mexico, Brazil, and Peru are improving. Then, there are less favorable markets like Argentina, Uruguay, and Ecuador, and last, countries that are unattractive for VCs, where one can mention El Salvador, Paraguay, Guatemala, The Dominican Republic, Nicaragua, and Venezuela<sup>117</sup>.

<sup>117</sup> For more details on each one of the countries, see the CAF study and the Venture Capital & Private Equity Country Attractiveness Index databases and reports (G. R. Guzmán, Elorza, and Mejía 2015; Groh et al. 2021a; 2021b).

Before entrepreneurs in Latin America convince venture capitalists to invest in their proposal or business, they need investors' options. If these are extremely limited and difficult to access in domestic markets, it is doubtful that entrepreneurs will consider and even use VC financing.

If Latin American countries intend to motivate VCs to invest in the region's businesses, especially smaller ones, they must provide the necessary conditions to develop. Countries should focus on improving business environments, strengthening the institutional framework, the rule of law, and property rights, educating their population, and finding ways to enhance capital markets' size, depth, and liquidity. Venture capitalists will flee to countries where these requirements can be ensured; consequently, struggling entrepreneurs will find financing alternatives.

Other sources of funds can be advantageous for small enterprises in the region. As mentioned several times throughout this thesis, enterprises in Latin America are characterized by what we will call a "micro phenomenon." 75% of Latin American entrepreneurs have microenterprises (with less than five-5- employees), employing about 40% of the salaried workers in the private sector (Sanguinetti et al. 2013). If the bar is raised to ten(10) employees, 75% becomes 91%, and 40% becomes 49.3% (2013). These microenterprises can benefit from financing solutions that may be better for their reality. This is the case of microfinance, and we will be exploring it next.

#### **2.1.4. Let us talk micro, microfinance**

Latin American entrepreneurship manifests itself primarily through microenterprises. The importance of these enterprises in the region is so tangible that financial systems have organized themselves to provide solutions to the financing needs of micro-entrepreneurs (see M. Berger, Goldmark, and Miller-Sanabria 2007). Microfinance comprises multiple institutions and a wide range of products. These include microcredit, micro-savings, and micro-insurance destined not only for micro-entrepreneurs but also for low-income families<sup>118</sup>.

The growing interest in providing financial inclusion for all has contributed to developing more adapted programs for those in need, often ignored by the formal banking sector. In this sense, microfinance becomes a social and economic amelioration against the struggles of

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<sup>118</sup> It is necessary to point out that the line between entrepreneurs' personal life and their enterprises is blurry. Some of the financial services are used by them for their personal use, including their family, and the enterprise—this comprises any loans—(see, e.g., Levin and Travis 1987; J. S. Ang 1991; 1992; Petty and Bygrave 1993; Naffziger, Hornsby, and Kuratko 1994; LeCornu et al. 1996).

poverty. As of December 31st, 2013, more than 211 million people were borrowers of a Micro Finance Institutions or MFI (Reed et al. 2015).

The experience of Latin America and the Caribbean is considered a reference in microfinance. The industry has achieved a high level of development in some countries, especially in Bolivia and Peru. The predominance of microenterprises in Latin America encourages academics, practitioners, and private and public entities to create and implement initiatives for their evolution (Sanguinetti et al. 2011). If assisted well, microenterprises and microfinance can become valuable tools to fight against poverty and potentiate countries' development.

The challenge of microfinance, especially for microcredit, is that microfinance institutions must combine formal procedures used by regular banks and no traditional methods. Therefore, it would have to accept, for instance, enterprises that are not legally registered (informal), may not have a credit history, might not keep any accounting record, and lack collateral<sup>119</sup>.

Armendáriz de Aghion and Morduch (2005), in their book *The Economics of Microfinance*, explains that the design of contracts to grant credit by microfinance institutions can include some of the following techniques:

- group lending,
- dynamic incentives based on rewards and punishment,
- schedule of frequent payments and other complementary mechanisms-such as flexible approaches to collateral,
- diffusion of information through public payments,
- the direction of credit towards women and bank staff members' visits and cross-reporting.

We develop each one of these methods below, taking as reference the authors' book developments:

- 1. Group responsibility (or joint liability)**<sup>120</sup> is one of the most important innovations of the microfinance movement. It is a mechanism that allows a group of borrowers to act

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<sup>119</sup> Refer to the qualitative definition of Latin American microenterprises (pages 77-79).

<sup>120</sup> Details presented here are the basics of how joint liability functions and derive from Grameen bank's model or the "Grameen classic style" group lending system. The latter has been adapted by numerous institutions and countries around the world. Group lending models can differ depending on institutions, countries, and village sizes. For example, there is the "solidarity group" approach of Bolivia's BancoSol or the "village bank" approach used by seventy countries throughout Africa, Latin America, and Asia –including affiliates of FINCA, Pro Mujer, and freedom from Hunger–(see Armendáriz de Aghion and Morduch 2005).



as guarantors of each other and takes advantage of the clients' close relationships within the community.

Loan contracts will involve a group of individuals (and not one person) that are clients and responsible for the loan given to one (or two) of the group members. Once difficulties arise, they are supposed to support each other, and if the loan is not repaid by the borrower(s) or by default, the members of the group, everyone, will be denied credit in the future. Thus, the group is interested in making sure the borrower pays promptly, monitoring their group members, and selecting responsible partners when forming the group.

Regular meetings are often made with all groups and the loan officer to publicly record transactions in the lender's ledger (installments of outstanding loans, saving deposits, and fees). The process is performed transparently and publicly, so everyone knows who is doing well and behind. Meetings are also the occasion to provide advice and discuss among participants.

Frequent meetings are beneficial for lenders and borrowers. Lenders will visit and register several borrowers' transactions simultaneously, which is cost-efficient. Borrowers do not have to move to branches to meet with loan officers since they come to them, and any inconveniences can be resolved on the spot. In addition, regular meetings and group organizing can generate information that can alleviate moral hazards and adverse selection problems. At the same time, peer monitoring can reduce the cost of screening, supervising, and enforcing debt repayments by lenders. With time, loan amounts can increase as borrowers' credit history and creditworthiness builds up. It can finance, for example, building or repairing houses, buying equipment, and sending a child to university.

Group lending contracts have allowed customers to get credit and benefit from more affordable rates that would otherwise be inaccessible<sup>121</sup>.

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<sup>121</sup> Armendáriz de Aghion and Morduch (2005) also indicate that the group lending methodology has limitations. One can highlight the following seven (7). First, borrowers may not have good information about each other. Second, borrowers in lousy standing with lenders and groups can result in social excluding problems. Third, some potential borrowers may encounter difficulties forming a group, especially in small villages. Fourth, attending meetings can be costly. Fifth, borrowers assume their risk and their group's risk. If borrowers are risk-averse, they will not be willing to assume other risks. Sixth, wealthier and more successful clients may seek individual loans as they move forward.

2. **Dynamic incentives based on reward or punishment.** For example, incentives can include progressive lending, where credit amounts increase with time for groups or clients responsible for repayments and have a good standing. Smaller amounts are given first to keep good borrowers in future financing rounds and leave out the bad ones. This technique motivates both sides. On the one hand, borrowers want to be creditworthy and keep a good reputation, and on the other hand, banks will lower the lending cost as higher amounts are credited. Likewise, banks can request higher payment installments, and the borrowers' defaulting opportunity cost increases, leading to lower intentions of strategic defaulting.

Another incentive is to threaten borrowers that they will not receive further credit if they default. To minimize defaulting risk, bankers will build lending relationships with borrowers to ensure they are not contracting loans with other lenders regardless of increasing costs. They can also tighten loan eligibility criteria to exclude borrowers who already have loans with other institutions<sup>122</sup>.

3. **Schedule frequent payments** (e.g., weekly, biweekly, or monthly). Regular client visits to make payments helps lenders control risk. In addition, lenders collect directly after the borrowers make their income limiting the possibility of it being used for other purposes. Borrowers can use alternative sources such as family members and friends to honor their commitments if necessary. Furthermore, it facilitates monitoring, identifying early warning signs, building personalized relationships, and generating information. Nonetheless, frequent transactions increase the lender's cost.
4. **Complementary incentive mechanisms.** The latter can include flexible approaches to collateral, diffusion of information through public payments, the direction of credit towards women, and information gathering by bank staff.

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Seventh, social ties may not guarantee loan reimbursements, and last, there can be better alternatives to group lending contracts. For more details, see Armendáriz de Aghion and Morduch (2005, 108–13)

<sup>122</sup> According to the author, when there are several lenders in the market (competition), an effective solution to address over-indebtedness, overlapping clients, and make borrowers face the consequences of default is to have a nationwide credit bureau that keeps track of the credit histories of all borrowers (Armendáriz de Aghion and Morduch 2005). However, for everything to work, moneylenders need to cooperate by using the information to make programs and decisions; plus, it requires adequate regulation.

Some microfinance institutions may require collateral to grant credit but tend to be more flexible with the assets they accept. These include live stocks, land, housing, businesses, and household items. For some lenders, it is essential to have assets borrowers find problematic to lose or have sufficient personal value, more than the collateral market value. Others may consider financial assets such as savings and then use them as collateral for lending. In addition, lenders may value borrowers who demonstrate they can save, are disciplined, and have adequate money management skills.

Making repayment public can benefit lenders in several ways. First, they can profit from borrowers' avoidance of social stigma to reimburse promptly. Second, it reduces lenders' transaction costs by registering several borrowers' transactions simultaneously in one location. Third, public group meetings can help collect information from other borrowers, provide training and advice, and encourage clients to propose the entity's services to others. Last, making public payments can help banks' internal functioning and minimize fraud.

Developing financing programs for women have become increasingly important for microfinance institutions because most of their clients are women. For instance, according to Armendáriz de Aghion and Morduch (2005), 95% of Grameen clients were women in 2002. In addition, the authors explain that several studies suggest that women are more reliable paying than men, making them key for banks' profits.

Last, bank staff members may visit potential borrowers' homes, businesses, or neighborhoods to gather information about them and evaluate if they are worthy of credit. Cross-reporting can also be beneficial when difficulties arise as it can help solve problems more smoothly.

Each microfinance institution uses the lending methodologies it considers efficient for the clients they are targeting (e.g., rural, urban, mature clients, poor clients, enterprises), their environment (e.g., laws, institutional and financial markets development), and their organizational nature (e.g., formality, size, age, for-profit or not-for-profit). Thus, not all microlenders use the classic group lending techniques and can consider other or any of the

techniques discussed previously. In addition, there are different application models, with the Grameen Bank of Bangladesh receiving the most attention.

Although there is no single microfinance model globally, the Latin American region shares specific characteristics that distinguish it from models in other regions, such as Asia or Africa<sup>123</sup>. Berger, Goldmark, and Miller Sanabria (2007; see also Sanguinetti et al. 2011) point out that microfinance in Latin America was not developed with the usual objective of helping the poor in rural areas or women. Instead, it was conceived to provide products and services to individuals excluded from the financial system. It spread led by the private sector with a commercial orientation in urban areas to respond to the demands of a diverse clientele (whether poor or not, women or not). Thus, rather than alleviating poverty, it mainly focused on microenterprises.

Usually, microfinance institutions in Latin America rely on commercial loans granted at market rates instead of collecting deposits. Most loans are individual contracts, and very few are solidarity-based (Sanguinetti et al. 2011). Furthermore, the capital contributions clients can make are more important than the obligation to save as required by other models such as the Grameen Bank (at the end of 2003). Microcredit payment installments generally come from informal, productive activities and consumption loans from personal wages. Lenders know their clients well and value their loyalty and trust built over time through interactions and the use of services.

According to several authors, the Latin American region has the world's most profitable and sustainable microfinance institutions. In addition, it is a sector that continues to expand intensively compared to Africa, Eastern Europe, and the Middle East (see, e.g., M. Berger, Goldmark, and Miller-Sanabria 2007; Sanguinetti et al. 2011).

Today, numerous microfinance institutions exist, including banks, NGOs, and specialized financial entities. The sector has been evolving with a strong commercial orientation and innovative processes characteristic of the region. First, regulated financial institutions have been created from NGO structures (known as upgrading). Commercial banks and other financial institutions have ventured into the microenterprise segments (downscaling). Finally, new institutions have been created, often with the support of international institutions (called greenfield) (see M. Berger, Goldmark, and Miller-Sanabria 2007).

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<sup>123</sup> It is necessary to mention that there are differences among Latin American countries. Therefore, here we specify some of the characteristics that identify microfinance in the region.

Despite the expansion of the microfinance sector in Latin America and MFIs' relative flexibility, proximity to the customer, and outstanding innovative capacity, microentrepreneurs continue to opt for informal sources of funds (Sanguinetti et al. 2011). This may indicate that MFIs' credit and informal financing sources are not perfect substitutes and that entrepreneurs may find certain advantages with informal sources that formal ones cannot offer. In this regard, several authors explain that multiple sources (formal, semi-formal, or informal) generally coexist, are used simultaneously, and occasionally overlap (see, e.g., Jain and Mansuri 2003; Armendáriz de Aghion and Morduch 2005; Sanguinetti et al. 2011).

Using data from the MIDAS USAID program about informal financial services in Colombia (2007), Sanguinetti et al. (2011) compare the characteristics of credit contracts of microentrepreneurs. Traditional sources include compensation funds, NGOs, cooperatives, and banks. Informal sources comprise friends, relatives, family members, moneylenders, pawnshops, and classic non-financial sources like suppliers and commercial establishments (see table 27).

**Table 27. Characteristics of credit contracts for microentrepreneurs in Colombia (2007)**

Source of credit	Fraction that has a loan outstanding (percentage)	Amount average (USD)	Deadline average (days)	Fraction that is paying dues (percentage)	Fraction from which guarantees were requested (percentage)	Interest rate average
<b>Informal sources</b>						
Friends, relatives, family	16	1 550	210	30	30	78
Moneylenders	15	621	89	84	59	270
Pawnshops	1	406	171	39	NA	211
<b>Formal financial sources</b>						
Compensation funds	1	3 368	1 440	100	100	28
NGOs	17	1 470	704	100	90	17
Cooperatives	8	3 150	964	100	90	24
Banks	17	3 530	1 084	96	87	23
<b>Formal non-financial sources</b>						
Suppliers	25	9 815	42	25	28	58
commercial establishments	3	634	609	100	NA	NA
NA: Not available						

Sources: Adapted from Sanguinetti et al.(2011)<sup>124</sup>

While there are differences among microenterprises in Latin America, the credit contract comparison proposed by Sanguinetti et al. (2011) in Colombia provides evidence of some of the aspects we have discussed previously in this thesis. For instance, as several authors suggest, supplier credit is one of the most privileged external financing sources for entrepreneurs (see, e.g., Mitchell A. Petersen and Rajan 1997; St-Pierre 2000b; 2018; A. N. Berger and Udell 2006). The table shows that 25% of microentrepreneurs studied use this source, and suppliers are the ones who offer the highest financing amounts.

Formal sources provide the most advantageous financing rates but require more collateral. In addition, it often involves proper processes and requires business formality; aspects that the literature has pointed out as problematic for smaller businesses, especially in Latin America (see, e.g., Rhyne and Otero 1992; Zevallos 2006; Narita et al. 2014; Rojas 2017).

Perhaps one of the most striking aspects of the data presented on the table is that many entrepreneurs use informal sources despite their high financing costs. As indicated by Sanguinetti et al., lenders charge over 200% interest, which is about twelve (12) times greater than what a traditional bank would charge. Plus, they request less collateral as well<sup>125</sup>.

In any case, not having collateral for credit and remaining in the informal sector comes at a very high price for entrepreneurs when looking for funds, even when referring to microcredit. However, on the other hand, this could motivate them to formalize.

The literature recognizes the multiple benefits of business formality. For example, formal businesses not only have easier access to funds than informal ones but can also increase their profits and obtain valuable resources (see, e.g., Sleuwaegen and Goedhuys 2002; Catão, Pagés, and Rosales 2009; Aga and Reilly 2011; Rand and Torm 2012; Distinguin, Rugemintwari, and Tacneng 2016; Wellalage and Locke 2016; Boly 2018; Archer 2021). At the same time, previous studies suggest that entrepreneurs will only formalize if the benefits of becoming formal are greater than those of remaining informal; and if a legitimate legal and regulatory framework works and protects them (see, e.g., Loayza, Oviedo, and Servén 2005; Demirguc-

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<sup>124</sup> Sanguinetti et al. (2011) calculated using data from USAID-MIDAS (2007).

<sup>125</sup> Levin and Travis (1987) indicate that owner-managers may prefer to insulate their wealth from cooperate risk even when this trade-off may represent a higher financing cost for the enterprise.

Kunt, Love, and Maksimovic 2006; Distinguin, Rugemintwari, and Tacneng 2016; Assenova and Sorenson 2017).

Microfinance's combination of traditional and nontraditional methods may effectively address market failures and extend credit and financial services to microenterprises. In Latin America, regardless of its progress, there is still much to be done in the microfinance arena so that it can genuinely potentiate smaller enterprises financing access. Governments can be strategic agents for financial systems to continue to develop. For instance, states can work on ensuring an ideal institutional environment and facilitating entrepreneurs' formalization. Furthermore, the standard urban development of the microfinance sector in the region seems to exclude rural areas. Geographic proximity could be a solution to access MFIs or other entities. However, it may not be that simple because the size of populations and accessibility to rural areas are significant obstacles to opening branches (Sanguinetti et al. 2011).

### **3. Proximity, a concept adapted to microbusiness financing?**

The last part of section two seeks to position this research work considering the state of knowledge on small businesses, their financing, and the context studied. An original approach is proposed to guide the empirical phase of this research mobilizing, particularly the theory of managerial choice (Norton 1991) and the law of proximity (Moles and Rohmer 1978). The intention is to generate knowledge with theoretical and practical interests that will facilitate and better understand the financing of microenterprises.

Thus far, we have seen that small businesses are not merely defined by a reduced number of employees or by their yearly revenues or the assets it holds, but also by a mixture of characteristics inherent to them that build the concept of small business. The notion of size alone comes short in providing a complete definition of the richness and complexity present in the small business world.

Small businesses vary from big enterprises because of their size and several additional characteristics. For example, they often differ by the sector they operate in (local). Their management and ownership (one man/woman show). Their particular objectives are not purely based on the classic wealth maximization principle. Their absence of decision-making and planning methods (survival strategy). Their tremendous flexibility and control (with strong independence), and their human size, to name a few (see Hirigoyen 1981; Candau 1981; Julien 1990).

Besides the distinct specificity of small businesses, they are also diverse. The different realities of small businesses make it hard to provide a unique theory that can explain their behavior or adapt to each of them, as Ang (1991, 1992) suggested several times. Curran and Blackburn (2001, 6) illustrate this diversity by adding the following (mentioned in section one):

“Small enterprises have an extreme range of forms; they operate in every sector of the economy, from computer software to candle-making and from insurance (brokering) to instrument manufacturing. Entrepreneurs and owner-managers come from different genders and/or a wide range of ethnic, cultural, and educational backgrounds and from every age group. While some start their own business from scratch, others inherit or buy an ongoing business. Some are sole owners while others run their business with partners or other directors. Some are family businesses



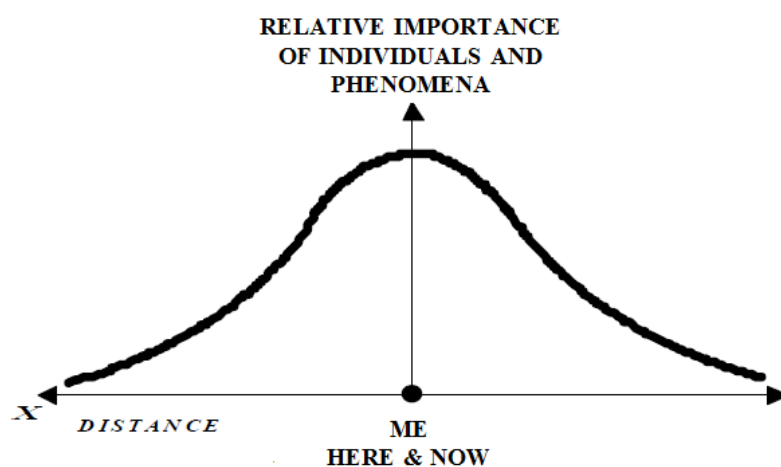
with owners, partners, or fellow directors and even employees linked by blood or marriage. Others are made up of people who have come together solely because they share common goals, complementary skills or access to capital”.

Not to go against Ang’s (1991, 7) statement that “small businesses are too heterogeneous to be lumped into a single category”; however, it seems that the owner-manager central role imposes itself as a dominant factor in small businesses (Marchesnay and Fourcade 1997; Marchesnay 1998). The enterprise is an extension of the owner-manager rather than an independent unit where the dividing line between the personal life and the business is quite blurry (see Levin and Travis 1987; J. S. Ang 1991; 1992; Petty and Bygrave 1993; Naffziger, Hornsby, and Kuratko 1994; LeCornu et al. 1996). Everything the business does is a manifestation of its owner-manager, and the smaller the business, the more this will be true. In the small business context, separating the enterprise and the owner-manager is impossible, and no real progress can be made in entrepreneurial finance if this is not considered (St-Pierre 2018). Furthermore, few researchers in finance consider the owner-manager’s perspective in their studies (see, e.g., St-Pierre and Fadil 2011; 2016; St-Pierre 2018).

This centralized management puts small business owner-managers at the center of the world. Everything organizes concerning them and their perception, leading us to Moles and Rohmer’s works (1978) about space and proximity (widely considered by Olivier Torrès in his small and very small businesses publications).

Moles and Rohmer’s (1978) law of proximity states the individual’s tendency to favor what is close to him/her instead of what is distant (whether that is an object, a phenomenon, or an individual). It is thus a system that orders and ranks the priorities and actions of the individual through a mixture of proximities (space, time, relationships) where what is close to the individual will always come first and be more influential than what is not (see Torrès 2003). The figure below represents the law of proximity.

**Figure 21. The law of proximity**



Source: Adapted from Moles and Rohmer (1978)

The closer to the center (me and here & now), the more relevance a situation, object, or individual may have to the person in question. The law of proximity may explain why we are so weak with our loved ones or family. Why do we prefer advice from a friend to a stranger even though it might not be the best? Why do we shop in stores close to home? Why do we care deeply about our community? Or perhaps, why does an accident at work impact us more than another in a different city or country?

In management, the law of proximity can also explain how small businesses function. It is perhaps why the owner-managers need close and tied relationships with their stakeholders (employees, suppliers, creditors) and institutional networks. Why are they concerned with operational issues and short-term profits (survival strategy)? Their preferences for funds in close distance, relationships, and short duration. Why their financing selections place the company's funds first, the ones of the family and friends second, the accounts payable delays third, the lines of credits fourth, the credit loans fifth, venture capitalist sixth, and last, the selling of shares (often considered as the "out of the question" option). These examples follow what Torrès (2008) may call a proxemic order rather than a pecking order.

Along with Torrès lines, we consider the concept of proximity as an essential element that helps elucidate the small business world at different levels. Therefore, we believe that in the

same way owner-managers should not be disassociated from their small firm, the concept of proximity should not be abandoned when addressing small businesses' peculiarities and situations.

Let us go back to the small business conceptual definition adopted in this thesis (i.e., Julien 1990). The notion of proximity can bring a refreshing approach suited to understand better the specificities of small organizations transforming the concept itself—see table 28. Rather than assuming that small enterprises have a low level of specialization, it could be said that they function through intra-functional proximity or coordination proximity, for instance. Simple and informal systems can be renovated into proximity information systems where personalized and direct physical relationships as sources of information are privileged. Alternatively, the intuitive and short-term strategy could be understood as temporal proximity. Torrès (2000; 2004) reformulates the classic concept of small business through a mixture of proximities (shown in the table below).

**Table 28. Small enterprises as a proximity mix**

<i>From management SPECIFICITY... (According to Julien, 1990)</i>	<i>...to PROXIMITY management (According to Torrès, 2000)</i>
Small size	<i>Spatial proximity</i>
Centralized management	<i>Hierarchical proximity</i>
Low level of specialization	<i>Intrafunctional proximity Coordination proximity</i>
Simple and informal information systems	<i>Proximity information systems</i>
Intuitive and short-term strategy	<i>Temporal proximity</i>

Source: Torrès (2000; 2004)

Following the same principle, a mixture of proximities can be used to explain how finance works in a small business setting. In this sense, proximity becomes essential in obtaining financing for a small/microenterprise. For example, proximity capital, friendly capital, accounts payables payment delays negotiated between entrepreneurs, and creditor-

entrepreneur bank loan agreements are all manifestations of proximities that determine if the business proposition gets funded. Likewise, the formal and informal venture capitalist decisions driven by “the fitness of the horse rider” and the unwillingness to open the capital for equity investors connect to proximity. The key proximity propositions for this context are provided in the table below:

**Table 29. A mixture of proximities as critical elements to access financing**

Types of proximity	Financial implications
<b>Hierarchical proximity</b>	<ul style="list-style-type: none"> <li>• Centralized management and financial decisions.</li> <li>• Owner-manager beliefs, preferences, desires, expectations, goals, conditions, and degree of risk aversion or debt aversion affect the financing strategy and decisions (the theory of managerial choice by Norton 1991).</li> </ul>
<b>Spatial proximity</b>	<ul style="list-style-type: none"> <li>• Proximity capital (Love money).</li> <li>• Predilection for spatially close actors (bankers, venture capitalists).</li> <li>• Local sources of financing.</li> </ul>
<b>Patrimonial Proximity</b>	<ul style="list-style-type: none"> <li>• Concentration of capital in the hands of the owner-manager or his/her family.</li> <li>• Confusion of personal and business assets.</li> <li>• Unwillingness to open the capital for equity investors.</li> <li>• Personal collateral and bank security.</li> </ul>
<b>Information Systems Proximity</b>	<ul style="list-style-type: none"> <li>• Preference for a limited number of financial partners.</li> <li>• Preference for direct and personal relations.</li> <li>• Preference for confidentiality.</li> </ul>
<b>Relational proximity</b>	<ul style="list-style-type: none"> <li>• Preferences for the capital of people/institutions the owner-manager knows or is close to him/her (tied relationships, reputation, and attachment).</li> <li>• Preference for those who share the same value, principles, and culture.</li> <li>• Relational investment recommended.</li> </ul>
<b>Temporal proximity</b>	<ul style="list-style-type: none"> <li>• Short-term over-indebtedness.</li> <li>• Liquidity preference.</li> <li>• Deficiency of own funds.</li> <li>• Relative lack of financial planning.</li> <li>• Narrow range of financing sources.</li> </ul>

<b>Economic Proximity</b>	<ul style="list-style-type: none"> <li>• Preference for known economic sectors or activities.</li> <li>• Preference for known markets.</li> </ul>
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Source: Modified from Torrès (2011)

The table above summarizes the typical small business financial characteristics we have discussed since this thesis's beginning. Out of the original proposition made by Torrès (2011), which only included spatial, patrimonial, information systems, and temporal proximity, it seemed relevant to add three different notions: hierarchical proximity, relational proximity, and economic proximity.

The hierarchical proximity was added because owner-managers make major financial decisions. And as the theory of managerial choice by Norton (1991) suggests, owner-managers beliefs, preferences, and expectations are significant drivers of the small firms' capital structure. In addition, numerous authors advise that small enterprises' general and financial implications cannot be disassociated from owner-managers because, at the end of the day, what the small business is and does is a manifestation of the owner-manager (see, e.g., Pettit and Singer 1985; Levin and Travis 1987; J. S. Ang 1991; 1992; Marchesnay 1991; 1997; Naffziger, Hornsby, and Kuratko 1994; LeCornu et al. 1996; A. N. Berger and Udell 1998). Plus, the centralization of financial decisions was moved from the patrimonial proximity (original) to the hierarchical proximity.

The relational proximity was added as a way of emphasizing the significance and value of close and tied relationships for small businesses and their capacity to boost funds access (see, e.g., J. S. Ang 1991; 1992; Mitchell A. Petersen and Rajan 1994; Cole 1998; Vos et al. 2007). This relates to proximity capital (see Crevoisier 1997) or friendly capital (see St-Pierre 2000b) coming from the business supporting network, which is not only favored because of spacial proximity as suggested by Torrès (2011) but rather because of the sense of trust and reputation found in familiar and/or deep relationships (see Gibbs 1988 in Torrès 2008). Owner-managers will prefer what they know to what they do not know. Furthermore, owner-managers placed in the center (me, here & now) will up for (whenever possible) financing sources not only close in distance from them or short in duration but also those options where a given set of values and principles are shared.

The social configuration and culture may also influence small businesses seeking financing. In this sense, Uzzi (1999) argues that social attachment and a mixture of network relations (social embedded ties and arm's length ties)<sup>126</sup> with specific lenders generate premium benefits for small firms:

1. To obtain financing
2. To lower the cost of borrowing
3. To access private and public information
4. To get solutions for their lending problems

He also specifies that “social structure stratifies market outcomes by influencing both who gets credit and what that credit costs” (Uzzi 1999, 502). In this case, a significant distinction between spatial and information system proximity is made by adding relational proximity.

The economic proximity was added to point out that some investors will fund small businesses within the markets and economic sectors and activities they are familiar with (such as business angels) or where they specialize (such as formal venture capitalists). Therefore, this proximity could increase the likelihood of getting financed.

These three noteworthy additions to the Torrès (2011) proposition seem pertinent given the small/micro business literature discussed thus far and the law of proximity of Moles and Rohmer (1978).

In general, preferring nearness (me and here & now) above distance appears to provide a universal explanation to small business management and why they do what they do. It also helps us appreciate that small business decisions are not necessarily the most optimal ones but rather the most convenient ones given the situation and conditions (in this case, a mix of proximities). In other words, it illustrates the bounded rationality when Herbert A. Simon says:

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<sup>126</sup> Uzzi (1999) defines social embedded ties and arm-length ties as follows (p. 482-483):

-“**Social embeddedness** is defined as the degree to which commercial transactions take place through social relations and networks of relations that use exchange protocols associated with social, noncommercial attachments to govern business dealings (Marsden 1981; Uzzi 1997)”.

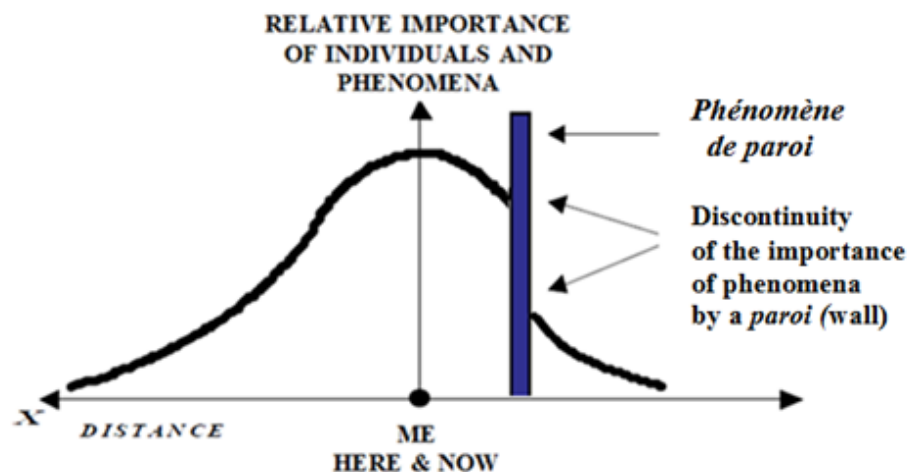
-“The **social embeddedness** framework is one of several sociological accounts for how social structure affects financial markets (Granovetter 1985; Portes and Sensenbrenner 1993; Romo and Schwartz 1995, Uzzi 1996, 1997). Research has focused on the types of social relations and social networks that exist and their economic effects”.

-**Arm-length ties** are characterized by lean and sporadic transactions and “function without any prolonged human or social contact between parties . . . [who] need not enter into recurrent or continuing relations as a result of which they would get to know each other well” (Hirschman 1982:1473). Weber (1946) characterized them as lacking social distinction and having an expressive nature that “knows nothing of honor” (p. 192).

“evidently, organisms adapt well enough to ‘satisfice’; they do not, in general, ‘optimize’” (Simon 1956, 129; see also Jaouen and Torrès 2008).

Moles and Rohmer (1978) also introduced in their book *La psychologie de l'espace*<sup>127</sup> what they call *le phénomène de paroi*<sup>128</sup>. It seems logical to think that favoring what is close, whether an object, an individual, or a phenomenon (law of proximity), will keep us away from what is considered “the outside” or the other options or possibilities more distant. We close ourselves to “the exterior.” The idea of *paroi* reposes itself on separating “the inside” and “the outside.” “The outside” becomes less important even though it could bring optimal solutions to the small business owner-manager. The distant options being further away will not be considered viable possibilities because of the effect of *paroi*. The figure below represents this phenomenon, including its impact on the notion of importance.

**Figure 22. *Phénomène de paroi***



Source: Adapted from Moles and Rohmer (1978)

Torrès (2008, 29) says it quite clear when referring to the concept of proximity: “Proximity is, in fact, an ambivalent concept that refers to both, to what connects us and brings us closer together (closeness), but also to what encloses and isolates us (cloture).”

<sup>127</sup> The psychology of space in English.

<sup>128</sup> The wall phenomenon in English.

In sum, one can draw two major conclusions. First, the various proximities applied to small business finance, particularly very small or micro, would be determinant elements to access sources of funds. They can represent influential drivers to determine if business propositions will be left out or not regarding funding and can open the doors to formal or informal financing.

Second, owner-managers will influence how the enterprise is financed and order their world by proximity preferences. In this sense, it is not all about proximities as crucial drivers to access funds (first conclusion) but also which proximity elements entrepreneurs value the most to get funds, influencing their financing decisions and subsequent actions to get them. Thus, these personal preferences will keep them away from other alternatives, causing a *phénomène de paroi*.

Last, the literature suggests that other tools and techniques can complement the proximities mentioned. Therefore, the business plan, pitch, profitability, formality, and team will be included in our analysis.



## **Concluding remarks for chapter 1**

This chapter detailed microenterprises' theoretical and conceptual aspects, their financing, and the context studied.

**Section one** focused on understanding microenterprises and how they can be defined.

It included a brief overview of the origin and theoretical currents of the area of knowledge devoted to studying small enterprises.

During the literature review, it was decided to study microenterprises as a concept (Hertz 1982) and not only based on size indicators or just a limited number of employees, given the dangerous generalizations and different definitions assigned to this variable of control. Thus, the synthesis approach was taken as a reference as advanced by Julien (1990). The latter recognizes that each enterprise is unique and diverse and includes quantitative and qualitative information to define them.

After an extensive comparison of the quantitative definitions of small enterprises in the literature and at an international and Latin American level, it was possible to identify that the most appropriate size definition to study microenterprises is the number of employees, especially the range of one (1) to ten (10) employees.

As a way of establishing the boundaries of enterprises under study, the quantitative definition is complemented by qualitative specifications, primarily those defended by Julien (1990) and Hirigoyen (1981).

Overall, section one exposed the complexity of studying enterprises of small dimensions. It is challenging, among other things, because of its nature and the variety of terms and definitions used in this knowledge area. There are no standard definitions of size or quantitative variables, and even the terms researchers use differ. There are similarities in qualitative characteristics, but they can never be assumed definitive. Moreover, nothing is written in stone or is black and white. Nuances, perspectives, tendencies, and particular positions within the field exist. In this regard, these elements hinder the development of models, theories, and concepts that can be formally applied in the universe of microenterprises and SMEs.

In addition, the literature study revealed that despite the heterogeneity of microenterprises, the common ground among them is the entrepreneur, who, in most cases, is the owner and manager of the company. They represent the business's core, where everything done in the enterprise manifests as the owner-manager. It is problematic to distinguish the physical person from the legal entity. Therefore, in searching for a common approach within the microenterprise spectrum, the focus will remain on the microenterprise owner-manager—i.e., the entrepreneur—.

**Section 2** was devoted to studying small enterprise finance and the context of Latin America. The analysis of the literature led us to make the following main conclusions:

First, it showed the need to develop theories, concepts, and models that are useful for businesses of small dimensions and reflect their reality. The literature recognizes marked differences between small and large companies, not limited to size or quantitative indicators. There are variances in governance, management, ownership, objectives pursued, strategy, risk, and productivity, to name a few.

Many authors have argued that it is inappropriate to claim that the foundations of the classic financial theory are suitable for small companies. These include optimal allocation of resources, perfect markets, rationality, or even the separation of ownership and management.

Second, it indicated the relevance of entrepreneurs in terms of control, the actions taken in the enterprise, and the objectives pursued, which are not always for-profit maximization purposes or rational (from a classical point of view). In addition, distinguishing the business and the owner-manager is problematic—the business functions more as an extension of the entrepreneur and not as a separate entity. Thus, entrepreneurs are often referred to as “owner-managers” as ownership and management integration are usual.

Third, it signaled the need to consider the entrepreneurs' perspectives and characteristics in future studies, such as their objectives, preferences, beliefs, and expectations.

Fourth, numerous studies have recognized that small enterprises follow a hierarchical order when financing their businesses. First, they use internal resources. Then, once depleted, they seek external debt financing because it is more cost-effective than equity, and the enterprise control is kept. However, it increases the company's financial risk. Last, they pursue equity

funds (via, e.g., the stock market, venture capitalist, and business angels), the most expensive options, and where they forgo some of the enterprise control.

Fifth, some suggest that small enterprise financing is tied to its life cycle. In its beginnings, funds would be internal and personal. Then, as the enterprise grows, it starts gaining access to debt and equity sources.

Sixth, information asymmetries and agency problems are marked obstacles for small enterprises to access external funds. Other barriers include the high cost of bonding and monitoring, tax disadvantages, and the owner-managers' desire to maintain control and risk aversion.

Seventh, reputation and informal relationships are precious to getting funds in small business settings. It reduces agency costs, monitoring, information asymmetries, and conflicts with lenders and investors. Owner-managers use their personal and professional circles to raise capital, such as family, friends, and suppliers. Other elements that can help include having financial statements, collateral, sufficient current resources, cash flows, dealing with fewer lenders simultaneously, a solid business plan, the general outlook of the enterprise, and entrepreneurs who are over-optimistic and risky.

Eighth, several key ideas regarding SMEs' financing options and practices can be retained. First, entrepreneurs get capital "any way they can and use them any way they need to" (Levin and Travis 1987, 31). Sources can be internal and/or external and have some debt and/or equity combination. It is perceived that studying small business capital structure is more complex than big enterprises, given the numerous ways they can raise capital. Furthermore, it is complex to distinguish between debt and equity because of the intrinsic characteristics of small businesses, e.g., quasi-equity, the combination of ownership and management, the objective function, governance, strategy, and risk tolerance. In general, small businesses are considered riskier than big enterprises.

Debt finance is the most frequently used external financing by SMEs. Several authors indicate that trade credit is the first and most privileged financing source, followed by short-term bank financing like lines of credit. Concerning capital markets, small businesses (in most cases) do not have them at their disposal. They are costly to access, whether for debt or equity. Plus, most owner-managers are unwilling to open their capital to maintain control and flexibility.

Evidence suggests that each fund provider will emphasize its selection criteria to finance a small business. For instance, bankers' funding decisions will be guided primarily by financial considerations. Venture capitalists will consider market conditions and financial figures. However, the quality of the entrepreneur (and the team) determines the funding decision. Finally, business angels tend to be more local, prefer familiar sectors, and follow intuitive feelings. They value people and how business feels to them.

Ninth, it is found that Latin America lives a microenterprise reality or experiences what we call a "micro phenomenon." Moreover, *MIPYMES* or MSMEs encounter productivity problems, low competition, limited exports, poor management, great informality, social inequality, and knowledge skill gaps. (Ferraro and Stumpo 2010; see also Dini and Stumpo 2020).

Concerning the financing options and practices, Latin-American *MIPYMES*' primary financing sources are business retained earnings, owner-manager personal capital, and debt financing, where the banking sector takes the lead, particularly for short-term financing. In this sense, small businesses follow a pecking order regarding their financing.

The bigger the enterprise, the more bank financing is used (either for working capital or investments). Furthermore, bankers' financing decisions are primarily dominated by financial considerations (such as financial statements, cash flows, and assets analysis). According to Latin American bankers, informality and lack of information are severe obstacles for small businesses to access credit. The smaller the enterprise, the greater the difficulty. Other relevant barriers include the high cost of monitoring, putting together contracts, and the analysis, in addition to the fact that the business may not generate enough cash flow to pay back, which is considered risky.

Most small enterprises in Latin America voluntarily exclude themselves from credit. Plus, interest rates, collateral requirements, and puzzling procedures increase as business size decreases.

Capital markets in the region are incipient, low in value and size, illiquid, and are not dominant financing strategies regardless of the enterprise size. In addition, Latin America's formal and informal venture capital financing remains immature and incomplete. However, other financing possibilities, such as microfinance destined to support microentrepreneurs (and

low-income families), seem to flourish. For example, the latter is more considerate of business informality, credit history, accounting records, and collateral.

Despite the Latin American microfinance development, studies suggest microentrepreneurs continue using expensive informal sources. This may indicate that microfinance and informal sources are not perfect substitutes and that entrepreneurs find advantages with informal sources that they do not find in more formal ones.

In conclusion, the analysis and assimilation of the literature review findings on small business financing made us understand the need for a paradigm shift and an approach more aligned with microenterprises' reality and the context studied. Thus, to achieve its objectives, this research aims to study microenterprise financing from the entrepreneurs' perspective, mobilizing the theory of managerial choice (Norton 1991), the law of proximity (Moles and Rohmer 1978), and a qualitative methodology.

This thesis seeks to explore and generate theory thanks to the literature findings and empirical work in close nearness to owner-managers and their natural settings. The entrepreneur is considered the core of enterprise management and decision-making and will rely on a mixture of types of proximity to access internal or external funds. The proximities studied are hierarchical, spatial, patrimonial, information systems, relational, temporal, and economical. Other elements of interest are the business plan, team, profitability, pitch, and formality.

## **CHAPTER 2: RESEARCH PARADIGM, METHODOLOGY, EMPIRICAL APPLICATION, AND QUALITY**

Chapter two specifies this research's philosophical standing and strategy to fulfill its objective. It elaborates on the different elements that make this investigation possible. Accordingly, the chapter details the research paradigm, nature, design, reasoning, approach, population and sampling, data sources and collection techniques, data analysis, and quality.

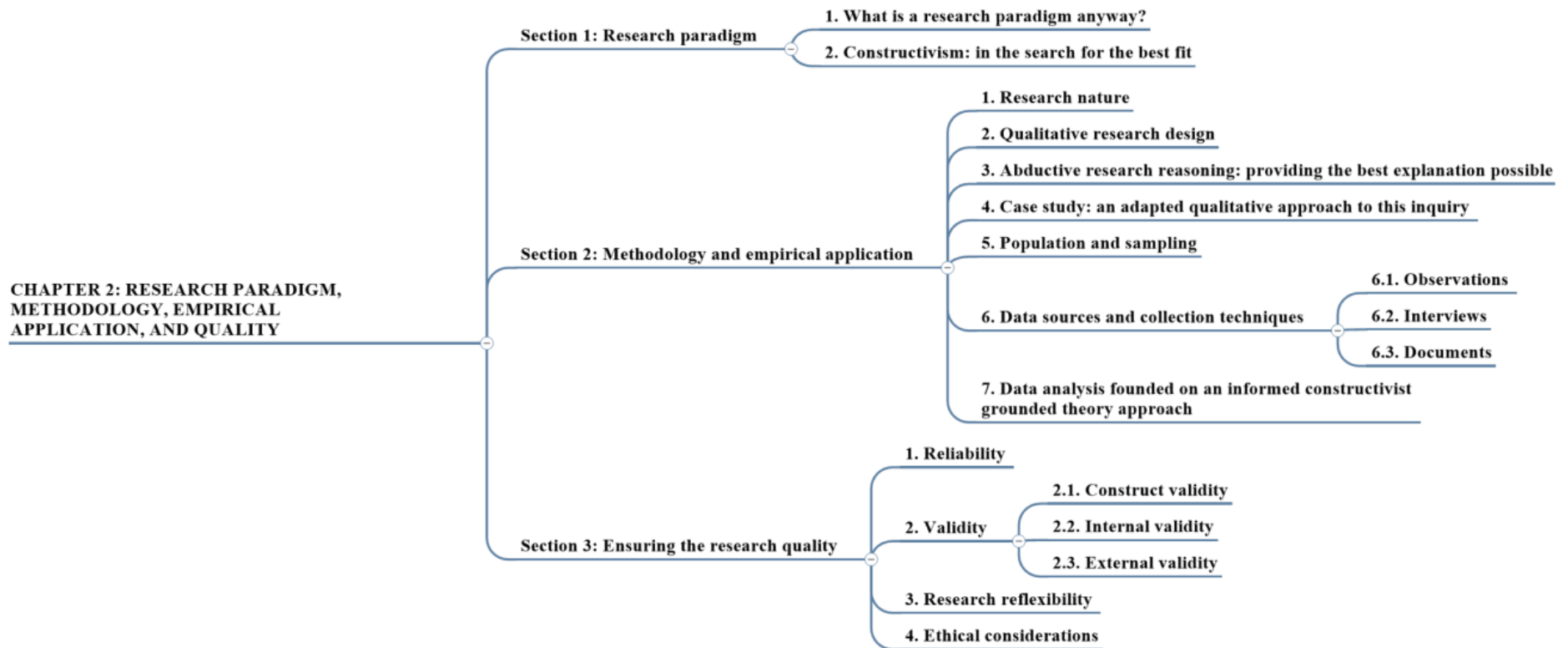
These elements are discussed from the most general aspects to the concrete application in our case. It includes the decisions made during this research endeavor and what they entailed. How they were put into practice, their limitations, and how these last ones were minimized. In addition, it elucidates how quality was strengthened and the ethical considerations framing the research.

The chapter was written with the reader in mind as if they were taken by the hand to follow this research's path. Definitions, perspectives, processes, positions, and decisions were made explicitly and straightforwardly.

This chapter divides into three sections. First, it begins with the research paradigm providing the perspective from which knowledge is constituted. Second, it continues with the methodological and empirical application aspects detailing the *modus operandi* in this study. Third, it finishes with particular attention to this research's quality and ethical commitments.

The diagram below displays the chapter two structure.

Figure 23. Structure of Chapter 2



## Section 1: Research paradigm

The first section of chapter two strives to understand what a research paradigm is, how it guides research (part 1), and what paradigm foundations were driving this research work (part 2).

### 1. What is a research paradigm anyway?

Every research, especially in social sciences, ought to consider how to go about constructing knowledge. A knowledge worth knowing and learning; one classified as legitimate, scientific knowledge. What is the researcher's position, the perspective undertaken, that leads this knowledge construction which pretends to establish the "truth" or "reality" about this world? The system of methods and techniques applied successively serves this research paradigm and determines the nature of knowledge created. In this sense, ontology, epistemology, methodology, and the research methods used are closely related and co-dependent in any research endeavor and set, therefore, explicitly or implicitly, the paths to reach the works' final contributions.

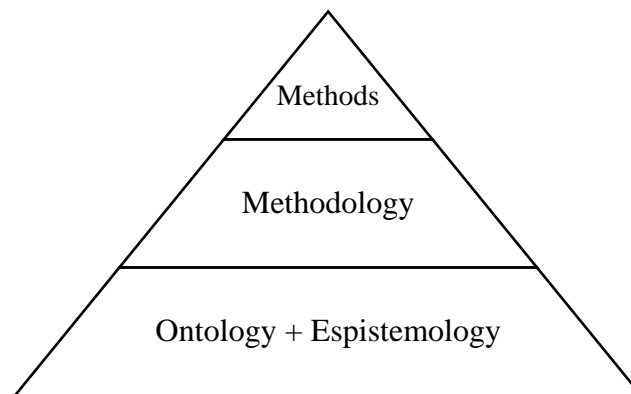
Ontology comes from the Greek words *Ontos* and *Logia*. *Ontos* means "being" or "to be," and *Logia* refers to "science" or "study." In the most general sense, ontology is the branch of philosophy that studies existence. What is existence, what is true or real, what is the nature of reality, of being? Is there one single, independent reality out there waiting to be discovered (realism –commonly called "naïve realism"–), or are there multiple, contextualized, and socially constructed realities (relativism)?

Epistemology derives from the Greek words *Episteme* and *Logia*. *Episteme* means "knowledge." It is the branch of philosophy that studies knowledge and its nature. Any debate about knowledge: what is knowledge, how do we construct knowledge, how do we know what we know, and how do we use knowledge (Kivunja and Kuyini 2017; see also Martinet and Pesqueux 2013). Piaget attributes it as the study of "the constitution of valid knowledge" and "the transition from states of lesser knowledge to states of greater knowledge" (Piaget 1967b, 6,7).



The researcher's ontology and epistemology stance predetermine, in one way or another, how he/she goes about understanding reality and constructing valid knowledge (Crotty 1998; Morgan 2007). It sets the paradigm through which the research work is conducted. Hence, the questions asked, the methodology followed, the methods used, the answers and conclusions provided, and the work's limitations. See figure 24 –below.

**Figure 24. Research paradigm foundations**



Source: Personal elaboration<sup>129</sup>

As Thomas Kuhn (1962) first used in his influential book *The Structure of Scientific Revolutions*, a paradigm represents the set of beliefs, recognized values, and techniques common to a group's members. They are established viewpoints, accepted models, preconceptions, assumptions, theories, or frames of reference.

Guba and Lincoln, two leading authors in the field of research paradigms, define a paradigm as “the basic belief system or worldview that guides the investigator, not only in choices of method but in ontologically and epistemologically fundamental ways” (1994, 105). It is a philosophical way of thinking. Simply put, they are the lenses through which the researcher sees and conducts his/her research work.

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<sup>129</sup> See Jonker and Pennink (2009) for another version of this pyramid. The authors call it “the research pyramid.” From top to bottom, the levels are the research paradigm, methodology, methods, and lastly, the research techniques. According to the authors, a researcher must make logical (and complex) decisions for each one of these levels, from the most abstract (paradigm) to the most concrete (techniques). They define these levels as the following (2009, 25):

- “The research paradigm: how the researcher views ‘reality’. A paradigm is expressed in his ‘basic approach’”.
- “The research methodologies: ‘a way’ to conduct the research that is tailored to the research paradigm.”
- “The research methods: specific steps of action that need to be executed in a certain (stringent) order.”
- “The research techniques: practical ‘instruments’ or ‘tools’ for generating, collecting and analyzing data”

Numerous philosophical positions or paradigms exist. The most common competing research paradigms, especially in social science, are positivism, post-positivism, critical theory (and related ideological positions), and constructivism. The table below by Guba and Lincoln (1994) summarizes these paradigms' ontological, epistemological, and methodological questions.

**Table 30. Basic Beliefs (Metaphysics) of Alternative Inquiry Paradigms**

<i>Item</i>	<i>Positivism</i>	<i>Postpositivism</i>	<i>Critical Theory et al.</i>	<i>Constructivism</i>
Ontology	naive realism— “real” reality but apprehendable	critical realism— “real” reality but only imperfectly and probabilistically apprehendable	historical realism— virtual reality shaped by social, political, cultural, economic, ethnic, and gender values; crystallized over time	relativism—local and specific constructed realities
Epistemology	dualist/objectivist; findings true	modified dualist/ objectivist; critical tradition/community; findings probably true	transactional/ subjectivist; value- mediated findings	transactional/ subjectivist; created findings
Methodology	experimental/ manipulative; verification of hypotheses; chiefly quantitative methods	modified experi- mental/manipulative; critical multiplism; falsification of hypotheses; may include qualitative methods	dialogic/dialectical	hermeneutical/dialectical

Source: Guba and Lincoln (1994)

The idea of supplying this table is not to go into detail about each one of the paradigms it presents but to provide a general outlook of the different philosophical stands one can take when conducting research and creating scientific knowledge<sup>130</sup>. For this research, in particular, is constructivism. *Knowledge* is a social, contextualized construct that results from the interaction between the object and the subject. Thus, the truth is regarded as a relative truth instead of an absolute truth, as supported by positivism.

<sup>130</sup> For more details on each one of the paradigms' *items* in the table, refer to Guba, Egon G, and Yvonna S. Lincoln. 1994. “Competing Paradigms in Qualitative Research.” In *Handbook of Qualitative Research*, N. K. Denzin&Y. S. Lincoln, 105–17. Sage Publications, Inc. The 1994 version has been revised numerous times in subsequent editions of the *Handbook of Qualitative Research*. However, the most detailed version so far is found in chapter five (5) of its fifth edition (2018), pages 213-263.

A detailed summary table comparing the different paradigms is also available in Creswell and Poth (2018, 73–76).

Before going any further, mentioning particular points highlighted by Kuhn, Piaget, Guba, and Lincoln is pertinent. These are the following:

- First, there is no right or wrong research paradigm. As mentioned by Kuhn, they are all “scientific,” although more quantitative methods are often referred to as more objective and trustworthy. No position is better. It is just that “...different men confronting the same range of phenomena, but not usually all the same particular phenomena, describe and interpret them in different ways. What is surprising, and perhaps unique in its degree to the fields we call science, is that such initial divergences should never disappear” (Kuhn 1962, 17).
- Second, prioritizing one paradigm over another and how it is put into practice may be guided by the researcher’s profound engagement with the scientific community where he/she belongs. As Kuhn mentions: “men whose research is based of shared paradigms are committed to the same rules and standards for scientific practice” (1962, 11).
- Third, “paradigms gain their status because they are more successful than their competitors in solving a few problems that the group of practitioners has come to recognize as acute” (Kuhn 1962, 23). It is a promise of success for specific yet incomplete examples. At the same time, Guba and Lincoln expose that a paradigm, particularly in social sciences, must rely on its persuasiveness and utility above arguing proof (1994). For Piaget, it shows the author’s personality and the group ideology he/she belongs to and supports (1967b).

Research paradigm diversity complicates reaching a consensus about legitimate scientific knowledge (Guba 1990; Denzin 2008). It is a debate that may never reach an end. Moreover, this fact is particularly challenging in social sciences, where the phenomena studied are usually people in real-world conditions (Guba and Lincoln 1982). Human behavior is hardly predictable. Therefore, they are less suited to conventional research mindsets such as positivism. Social researchers prefer to absorb as much information as possible, often grounded, on the situation studied in its natural settings, to understand what is happening entirely, growing apart from predetermined controlled environments and traditional generalizable objective conclusions. This does not mean that the knowledge created here is

worthless but that it only has value within the context in which it was created (Le Moigne 2012), raising the debate once again.

## **2. Constructivism: in the search for the best fit**

“The only generalization is there is no generalization”

...

“It is difficult to imagine a human activity that is context-free.”

Lincoln and Guba (2000, 27, 31)

This thesis is a product of constructivism. It centers knowledge construction on the researcher’s interaction and the phenomena studied (see Piaget 1967b; Guba and Lincoln 1994). It is an active process where two or multiple individuals’ synergy offers a contextualized understanding of a given situation at a specific time. The cognizing subjects are the makers of knowledge (Glaserfeld 1992; 2007). Hence, no absolute nor independent truth is proposed, no board time-context-free generalizations, and no cause-effect relationships guiding inquiry as established by positivism (see Guba and Lincoln 1985). Constructivism is incompatible with the traditional way of thinking (Watzlawick 1988).

Constructivists’ nature is to gain understanding through the thought and actions of humans. It values individuals’ prior experiences and knowledge because, as mentioned by Le Moigne (2012), what there is to know, cognitively or artificially, can be constructed by its observers, who simultaneously are its manufacturers and modelers. It is a world ordered and created by our experiences and relationship with the environment (Glaserfeld 1988). To illustrate, Piaget (1937; 1967a), commonly regarded as the pioneer of constructivism, argues that a child’s perception of the world forms by the active interaction he/she has with it. What he/she experiences, touches, sees, and tastes governs his/her understanding of the world. Simple concepts emerge at first but evolve continuously over time as previously acquired knowledge is related to new knowledge and more complex schemes and relationships develop. He/she is

building his/her representations which simultaneously serve as a base for new ones. It is a dynamic process always under construction tied to the child's conscious relationship with the environment. In the simplest terms, Le Moigne would conclude that the knowledge one can construct about what is real is one's own experience of reality (2012). "Truth" is thus subjective and cannot be generalized (Lincoln and Guba 2000).

Many could critique or perhaps refuse that multiple socially constructed realities can coexist and may conflict with each other but are still valid<sup>131</sup>. Goodman (1978) illustrates this fact using an example of the sun. He provides two statements: "the sun always moves" and "the sun never moves." Both premises are equally true, but they contradict each other. He points out that the veracity of these statements depends on their definite context: "under frame of reference A, the sun always moves" and "under the frame of reference B, the sun never moves" (1978, 2). He makes clear that his example falls short of illustrating the "vast variety of versions and vision there are in the several sciences, in the works of different painters and writers, and in our perceptions as informed by these, by circumstances, and by our own insights, interest, and past experiences" (1978, 3).

We constantly "invent concepts, models, and schemes to make sense of experience" (Schwandt 1998, 237). No one can reject these representations' existence because some theories, ideologies, or personal convictions reflect them somehow (Watzlawick 1988). However, this knowledge conflicts with the concept of generalization because it only has value within the context it has been created in (Le Moigne 2012); like a key would, for instance, to open the door, it has been manufactured for (Glaserfeld 1988).

In the eyes of constructivism, the true sense of knowledge is the one that is viable among several possible options, not the one that matches an objective reality (Glaserfeld 1992; 2007). It is one that "fits into the world of the knower experience" (Glaserfeld 1992; 2007), setting a profound distinction between the "fit" and the "match." In this sense, "truth" is the "most informed and sophisticated construction on which there is consensus among individuals" (Guba and Lincoln 1989, 86). It is socially and actively created and progresses over time as it is subject to continuous revisions with the accumulation of knowledge by individuals, and new or more refined constructions emerge (Guba and Lincoln 1989; 1994; Perkins 1999).

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<sup>131</sup> According to Lemieux (2012), reality is infinite.

Constructivism welcomes us to think differently and outdistance ourselves from more conventional mindsets. Nevertheless, perhaps the most striking is that we probably never left the constructivist paradigm in the first place. This thought sends us back to what might be the roots of constructivism, according to Ernst von Glasersfeld in the early 1700s and the works of Vico and Berkeley<sup>132</sup>. We share Vico's idea that the human mind can only know what it conceives. He states: "God is the artificer of nature, man the God of artifacts" (in Glasersfeld 1992; 2007, 92). This world is created by and for humans. Additionally, Berkeley introduces the Latin phrase "being is to be perceived," arguing that nothing can exist if it is not felt or seen by someone and that perceivers say it is real (in Glasersfeld 1992; 2007, 93). Once recognized by individuals, its understanding and the connections of what is believed to be known about it are all products of the human mind (in Glasersfeld 1992; 2007).

In light of Vico's and Berkeley's ideas (among the numerous ones today), it can be stated that all knowledge and even the criteria and methods to develop it are all humans' creations (Phillips 1995; Lemieux 2012). Phillips makes it quite explicit by saying: "physics, biology, sociology, and even philosophy are not disciplines the content of which was handed down, ready formed, from on high; scholars have labored mightily over the generations to construct the content of these fields..." (1995, 5). We build the world, but we believe in perceiving it. Piaget's famous principle will states it as such: "Intelligence (...) organizes the world by organizing itself" (1937; 1967a, 311).

On constructivist grounds, this thesis attempts to provide the set of keys that open the doors to financing for micro Dominican enterprises. It provides a viable solution that fits these entrepreneurs' needs within their environments. One that is constructed thanks to its participants' (researcher and entrepreneurs) thoughts and actions, emphasizing its instrumental and practical functions (Schwandt 1998, 236). It is exhibited here in the most authentic way possible, without neglecting, naturally, that these pages present it as the researcher comprehends the created knowledge and as the most informed and sophisticated one on which there is consensus. Furthermore, these constructions are context- and time-specific and may evolve with the accumulation of new knowledge. Thereby, an ulterior reality is not rejected.

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<sup>132</sup> For the authors' work, refer to:

Vico, Giambattista, *De Antiquissima Italorum Sapientia*, Naples, Stamperia de' Classici Latini, 1858.

George Berkeley, *A treatise concerning the principles of human understanding*, 1710

George Berkeley, *Alciphron or the minute philosopher* (1755). In A. A. Luce & T. E. Jessop (Eds.), *The works of George Berkeley*, London: Nelson, 1950; p.170.

The constructivist position advanced in this research work is defended by Guba and Lincoln, as the authors introduced it in the 1980s under naturalistic inquiry (see Guba and Lincoln 1981; 1982; 1985)<sup>133</sup>. Its main building blocks are summarized and contrasted with positivism in the following table:

**Table 31. Contrasting Positivist and Naturalist Axioms**

<i><b>Axioms About</b></i>	<i><b>Positivist Paradigm</b></i>	<i><b>Naturalist Paradigm</b></i>
<b>The nature of reality</b>	<b>Reality is single, tangible, and fragmentable.</b>	<b>Realities are multiple, constructed, and holistic.</b>
<b>The relationship of knower to the known</b>	<b>Knower and known are independent, a dualism.</b>	<b>Knower and known are interactive, inseparable.</b>
<b>The possibility of generalization</b>	<b>Time- and context-free generalizations (nomothetic statements) are possible.</b>	<b>Only time- and context-bound working hypotheses (idiographic statements) are possible.</b>
<b>The possibility of causal linkages</b>	<b>There are real causes, temporally precedent to or simultaneous with their effects.</b>	<b>All entities are in a state of mutual simultaneous shaping, so that it is impossible to distinguish causes from effects.</b>
<b>The role of values</b>	<b>Inquiry is value-free.</b>	<b>Inquiry is value-bound.</b>

Source: Guba and Lincoln (1985)

The naturalistic inquiry’s distinctive feature is that it is carried out in natural settings. Field study with sufficient immersion and experience with the phenomena studied is a fundamental technique to disclose the ineluctable truth: “what is important, dynamic, and pervasive in that field” (Guba and Lincoln 1981, 55). This leads to context relevance and richness because it is driven by theory grounded in the data instead of finding data to match the theory (Guba and Lincoln 1982). Moreover, it favors deriving meaning from the phenomena and findings that emerge from the research. Another relevant distinction, according to Guba and Lincoln (1982), is the power of human-as-instrument to create knowledge and the sensitivity there is when analyzing the sources of data.

As we have discussed so far, a paradigm approach transcends pure methodological aspects; whether research is quantitative or qualitative, whether experimentation or case studies are

<sup>133</sup> “Naturalistic inquiry: studying real-world situations as they unfold naturally; nonmanipulative, and noncontrolling; openness to whatever emerges (lack of predetermined constraints on findings)” (Patton 2015, 97).

adopted, to the most technical elements of data collection and analysis, to name a few. It reposes on crucial philosophical bases that lead the researcher's choices in all stages of the investigation project to accomplish its objectives. Otherwise stated, a given ontological and epistemological position will respond better to specific methodologies, methods, and techniques than others. The philosophical approach leads the research as a whole and shall determine the type of contribution it can promise. For instance, a constructivist or naturalistic stance will gear toward more qualitative techniques and positivist approaches to more quantitative ones. The underlining postures of these research paradigms' general and methodological characteristics are detailed in the table below.

**Table 32. Derivative Postures of the Scientific and Naturalistic Paradigms**

<i>Postures about</i>	<i>Paradigm</i>	
	<i>Scientific</i>	<i>Naturalistic</i>
<b>General Characteristics</b>		
Preferred techniques	Quantitative	Qualitative
Quality criterion	Rigor	Relevance
Source of theory	<i>A priori</i>	Grounded
Questions of causality	Can <i>x</i> cause <i>y</i> ?	Does <i>x</i> cause <i>y</i> in a natural setting?
Knowledge types used	Propositional	Propositional and tacit
Stance	Reductionist	Expansionist
Purpose	Verification	Discovery
<b>Methodological Characteristics</b>		
Instrument	Paper-and-pencil or physical device	Inquirer (often)
Timing of the specification of data collection and analysis rules	Before inquiry	During and after inquiry
Design	Preordinate	Emergent
Style	Intervention	Selection
Setting	Laboratory	Nature
Treatment	Stable	Variable
Analytic units	Variables	Patterns
Contextual elements	Control	Invited interference

Source: Guba and Lincoln (1981)

This research project falls under the naturalistic paradigm column. It is characterized by applying qualitative techniques with a grounded theory approach—the idea is to generate



theory that facilitates financing for Dominican microenterprises in their natural settings. The inquiry is guided by several key concepts and theories from the literature review. It also takes advantage of any additional information interviewees may provide; participants' active implication is encouraged. The research objective is by far the ultimate ruler in this inquiry. Thus, this research work has been tolerant to what the research endeavor has brought, theoretically and empirically, to provide relevant, viable, and valid knowledge that serves this research context-specificities. In our view, the naturalistic paradigm and its derivatives postures presented in the table above are best suited to address social and behavioral research such as this one. The research methodology and empirical application specificities are detailed in the following section of this chapter.

Guba and Lincoln (1981) highlight that pure constructivist or positivist researches are rare, and scientists often combine these approaches to achieve the desired results. They remark the following:

“With respect to the postures often assumed by adherents of these two paradigms, complementary is not only possible but desirable. There is no reason why both camps should not exploit both quantitative and qualitative techniques, should not be concerned with both relevance and rigor, should not be open to empirically grounded theory as well as flashes of insight from conceptual leaders in the field, should not be interested in both verification and discovery, and so on” (1981, 77).

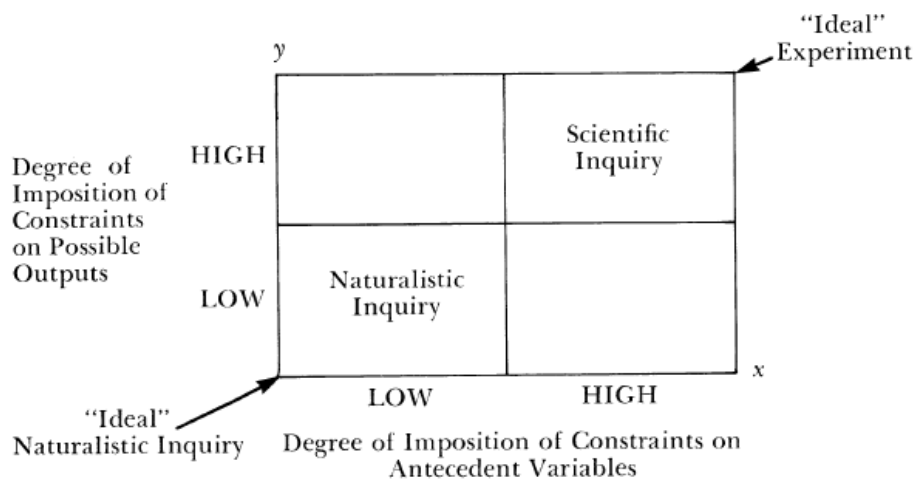
The authors, however, clarify that the naturalistic inquiry foundations are not negotiable. This statement targets the paradigm ontological and epistemological bases. They highlight the following:

“Can one assume both singular reality and multiple realities at the same time? How can one believe in insularity between the investigator and the object of his investigation while also allowing for their mutual interaction? How can one work simultaneously toward the development of nomothetic and idiographic science?” (Guba and Lincoln 1981, 77).

According to the authors, the most appropriate naturalistic inquiry definition is provided by Willems and Raush's (1969) works under the title *Naturalistic Viewpoints in Psychology Research*. They explain that under Willems and Raush's approach, a domain of inquiry is

defined by the constraints the investigator places in two dimensions: (1) the antecedent conditions and (2) outputs. The more control the researcher imposes on these two aspects, the more he/she approaches the “ideal” scientific/positivist inquiry. The less, the more he/she nears the “ideal” naturalistic/constructivist inquiry. An adapted version of the original Willems and Raush’s chart is provided by the authors illustrating this fact (see figure 25–below).

**Figure 25. Representation of the Domain of Inquiry**



Source: Based on Willems and Raush, 1969 (in Guba and Lincoln 1981)

The chart shows the degree of constraints on antecedent variables on the x-axis and the degree of constraints placed on the research outcomes on the y-axis. The more to the right on the x-axis, the more restrictions affecting the research since its beginning. The more to the left, the less these constraints predestine the research. On the other hand, the higher the y-axis, the greater the degree of constraints placed on the research outcomes, while the lower, all findings are subject to evaluation.

This research positions within the naturalistic square indicated on the chart. On the x-axis, few constraints were placed on the antecedent variables dimension to destine the research. These include the small business definition undertook and its legal framework, the financing options emphasized, and the theories mobilized, especially the theory of managerial choice (Norton 1991) and the law of proximity (Moles and Rohmer 1978). On the y-axis, this thesis was at a low level. For instance, despite following an interview guide with semi-structured and closed questions for all enterprises and making sure entrepreneurs answered all the questions,

there were no constraints regarding the outcomes they would provide. Instead, everything was subject to examination. It entailed, for example, analyzing the additional comments and questions during the interview.

In a nutshell, this work seeks to understand multiple participants' meanings and social and historical constructions to generate theory about the subject of interest (Creswell and Creswell 2018, 45, 46).

Another relevant aspect under the constructivist paradigm is Guba and Lincoln's concepts to ensure high-quality qualitative research they introduced in the 1980s to mid-1990s (see Guba 1981; Guba and Lincoln 1981; 1982; 1985; Lincoln 1995). Their trustworthiness criteria include credibility, transferability, dependability, confirmability, and authenticity. These last ones are detailed at the end of this chapter. However, this research does not subscribe to these principles besides being governed by a naturalistic paradigm<sup>134</sup>. The research quality section of this chapter (i.e., section 3) provides the reasons and criteria chosen.

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<sup>134</sup> A comprehensive review of the strategies endorsed for "Good" qualitative research was provided by Cohen and Crabtree (2008), where the authors analyzed the Health Care Journals and Frequently Referenced Books and Book chapters from 1980 to 2005. The list is available online (<https://www.annfamned.org/content/suppl/2008/07/09/6.4.331.DC1>)

## **Section 2: Methodology and empirical application**

Section two of this chapter seeks to specify the methodological and analytical roadmap used to achieve the results of this research. It explains in the same order the nature of the research, the strategy used, the mode of logical reasoning, the research approach, the population and sampling, the data sources and collection techniques, and ends by explaining how the data analysis was carried out.

### **1. Research nature**

A primarily observational field study of Dominican small businesses prompts us, at first instance, to research these enterprises. Some of the questions from this observation were: what do Dominican small enterprises do? Who are they, and how many are they? What is their distribution in the different economic activities? How do they function and manage to keep operating? How do they finance their businesses? What is their organizational structure? How necessary are these businesses for the Dominican Republic's economy and social stability? And so on.

A literature review with a particular interest in the publications made by FONDOMICRO, the National Statistics Office, and the Ministry of Industry, Trade, and MSMEs (translated from Spanish) about Dominican small businesses provided some answers to the numerous questions that intrigued the researcher. However, it also exhibited the profound need to research MSMEs. Studying these enterprises is not only essential but also necessary due to the limited availability of reliable and valid information and the restrictions on access to databases about SMEs in Latin America and the Caribbean (see Saavedra G. and Hernández C. 2008; Zevallos 2011; Ortiz, Cabal, and Mena 2014; Oficina Nacional de Estadística (ONE) 2016; Correa, Leiva, and Stumpo 2020; see also P. Cook 2001; The World Bank 2007).

For the Dominican Republic, SMEs represent 99% of businesses (out of which 98% are Micros and 2% are Small and Medium-sized businesses) and contribute 39% to GDP and 67% of total employment (Ortiz, Cabal, and Mena 2014). Therefore, SMEs are the basis of this country's economic and social growth. Nevertheless, little academic research exists on the subject, especially for very small businesses or microenterprises where this research focuses.

In a more general sense, an exhaustive literature review in the SME and financing fields indicates that micro businesses are the great forgotten of small and medium-sized enterprises research (Jaouen and Torrès 2008). However, microenterprises are the most prominent business class in any country and are, by far, the best representation of SMEs (Torrès 2008; St-Pierre 2018). Furthermore, it also suggests that the classic finance theory is distant from these enterprises' specificities and reality and that they need their financial theory (Pettit and Singer 1985; see also P. Hutchinson 1999; Abdulsaleh and Worthington 2013).

This thesis aims to reduce this knowledge gap by conducting exploratory research about microenterprise financing in the Dominican Republic.

An exploratory research objective is to gain familiarity with a phenomenon studied or to achieve new insights into it (Kothari 2004). It aims to explore, discover, describe, and create knowledge capable of better understanding what is desired to study.

Robert A. Stebbins uses Vogt's (1999, 105) definition of exploratory research as a starting point to develop his book *Exploratory Research in the Social Sciences*. He indicates the following:

“Social science exploration is a broad-ranging, purposive, systematic, prearranged undertaking designed to maximize the discovery of generalizations leading to description and understanding of an area of social or psychological life. Such exploration is, depending on the standpoint taken, a distinctive way of conducting science –scientific process– a special methodological approach (as contrasted with confirmation), and a pervasive personal orientation of the explorer. The emergent generalizations are many and varied; they include the descriptive facts, folk concepts, cultural artifacts, structural arrangements, social processes, and beliefs and belief systems normally found there” (in Stebbins 2001, 3).

Social researchers conducting exploratory research “must intentionally put themselves in a position to make discoveries” (Stebbins 2001, 4) and consider different aspects of the problem. Therefore, it will follow a flexible research design with an intimate relationship with the phenomena studied and the data collected. It also entails keeping an open mind to what the inquiry process may bring the researcher's way and considering all the work's findings.

This exploratory research follows a process designed to propose innovative theoretical results (Charreire Petit and Durieux 2014). In this regard, it adopts a qualitative approach and studies ten (10) microenterprises of the Dominican Republic in depth.

## **2. Qualitative research design**

Before starting any research project, the researcher should consider the contribution he/she would like to make with his/her work, whether it is “to explore a new theme, to discover new laws, to test a theory, to describe a complex phenomenon, to generate propositions” (Hlady Rispal 2002, 26). The research objective, framed in a specific philosophical point of view, will prescribe how the inquiry should proceed (Schwandt 2007) and the strategy or plan of action to successfully fulfill the research purpose (Crotty 1998; Kovach 2018).

The researcher makes hard decisions. What to do first, what to do second, what to do third, when, and how. These choices provide the road map an investigator follows with his/her lenses (paradigm) to arrive at his/her final work contributions. It is the research methodology linking “the issue, theory, and methods of a study (or research program)” (Flick 2018, 792).

There are two traditional methodologies or approaches to research: quantitative and qualitative. A quantitative approach deals with numerical data to analyze the relationships among variables to test the hypothesis under controlled environments and reach generalizable results. It works well under the positivist paradigm and deductive research reasoning—see tables 30, 31, and 32 Guba and Lincoln (1981; 1985; 1994). On the other hand, a qualitative approach<sup>135</sup> relies on multiple sources of rich non-numerical data (such as interview transcripts, notes from observations, documents, photos, videos, and social media information) to understand in-depth the phenomena studied in its natural settings. It seeks to derive meaning from participants’ points of view and generate theory. It fits nicely under a constructivist paradigm, and an inductive or abductive research logic—see tables 30, 31, and 32 or Guba and Lincoln (1981; 1985; 1994). If desired, there is also the possibility of combining quantitative and qualitative approaches in one research project; in this case, the approach is known as mixed methods<sup>136</sup>.

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<sup>135</sup> See Patton (2015, 96–97) for the core strategies of qualitative inquiry regarding its design, data collection and fieldwork, and analysis and reporting.

<sup>136</sup> For more information about mixed methods, refer to Creswell and Creswell (2018).

Methodologies thus establish how research is performed in all its stages to accomplish its objectives (Williams 2007). It prescribes how data is collected and analyzed to reach reliable and valid scientific knowledge and comply with the necessary scientific rigor.

When opting for a qualitative or a quantitative approach, or a combination of the two, it should be noted that there are no true or false methodologies; they are just more or less valuable to accomplish the task (Hlady Rispal 2002; Jootun, McGhee, and Marland 2009; Silverman 2013). In addition, there are no pure qualitative or quantitative studies, but they tend to be more of one or the other (Creswell and Creswell 2018). This research gears towards the qualitative side of this continuum under the constructivist paradigm and the exploratory nature.

According to Strauss and Corbin (1990, 17), qualitative research means “any kind of research that produces findings not arrived at by means of statistical procedures or other means of quantification.” It is a form of research where the researcher or co-researchers collect and interpret data and are involved in the process as much as participants and the data they provide; plus, it has a flexible design (Corbin and Strauss 2015).

Creswell and Poth (2018) provide the typical characteristics of qualitative research by comparing four significant books in the field<sup>137</sup>. These books are LeCompte and Schensul (1999), Hatch (2002), Marshall and Rossman (2015), and Ravitch and Mittenfelner Carl (2016)<sup>138</sup>. The characteristics highlighted were the following:

- It is conducted in a natural setting (the field),
- Relies on the researcher as a crucial instrument in data collection,
- Involves using multiple methods,
- Involves complex reasoning going between inductive and deductive,
- Focuses on participants’ multiple perspectives and meanings,
- Is situated within the context or setting of participants or sites,
- Involves an emergent and evolving design,
- Is reflective and interpretive of the researcher’s background influences and,
- It presents a holistic, complex picture.

Adopting a qualitative approach is appropriate for this research because there is a need to explore Dominican micro businesses financing realities and specificities due to the lack of

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<sup>137</sup> See also Creswell and Creswell (2018, 278).

<sup>138</sup> To see the complete table with the characteristics of each author exposed to qualitative research, refer to Creswell and Poth (2018, 83).

scientific research on the subject. Current theories capture their complexity inadequately, and better-adapted ones should be developed with a detailed understanding of the phenomena studied (see Creswell 2007; Creswell and Poth 2018). This can only be achieved by talking directly to Dominican entrepreneurs in their natural settings, going to their homes or places of work, and inviting them to collaborate in this research endeavor (see Creswell 2007; Creswell and Poth 2018).

A more general literature review of small and medium-sized enterprises (SMEs) and financing indicates how challenging generalizing concepts and theories is for these enterprises because of their diversity. As evidenced in the first chapter of this thesis, SMEs not only hold numerous quantitative definitions under their name but also adhere to distinctive qualitative properties and evolve in heterogeneous contexts.

The second chapter exposed how unsuited the classic finance theory is to the complexity of SMEs, in particular for very small structures. These businesses need their financial theory (Pettit and Singer 1985). In addition, in terms of the small enterprises financing publications, the entrepreneur's perspective and experience are neglected as most of the literature advances the financier position and their criteria to provide funds and not how the entrepreneurs, for instance, finance their businesses. St-Pierre (2018, 25) corroborates this fact by specifying that "...several crucial questions need to be explored through interviews or case studies to gather the opinions and experiences of entrepreneurs to understand better what is happening in SMEs".

This research aims consequently for theoretical and empirical exploration. Theoretical because it searches to consider new perspectives on the SME financing problem. It prioritizes the enterprise owner-manager experience and utilizes original theories such as the law of proximity derived from the works of Moles and Rohmer (1978) and the psychology of space to create better adapted micro businesses financing theory. In addition, it is empirical because it empowers silenced voices and seeks to generate grounded theory capable of optimizing the financing access of very small businesses that represent the economic and social reality of the Dominican Republic. This thesis exploration can be classified as a hybrid since theoretical and empiric knowledge is mobilized to make sense of the phenomena studied. Charreire Petit and Durieux (2014, 93) define hybrid exploration as follows:



“Hybrid exploration consists of going back and forth between observations and theoretical knowledge throughout the research. The researcher has initially mobilized concepts and integrated the literature concerning his/her research object. Then, he/she will use this knowledge to give meaning to his/her observations by going back and forth between the empirical material collected and the theory. The approach is abductive in this case”.

In our view, the hybrid exploration following a qualitative research design and abductive research reasoning during the whole research process, is the most appropriate way to provide the most robust explanation possible about the phenomena studied and reach satisfactory contributions for this research work.

Next, we will discuss the modes of logical reasoning—i.e., deduction, induction, and abduction.

### **3. Abductive research reasoning: providing the best explanation possible**

In the previous part, we subscribed to the research reasoning commonly known as the inference to the best explanation, abduction, and briefly exposed our reasons. However, we deem it pertinent to provide a general outlook of the types of inference modes available to a researcher to expose why abduction is the right fit for this research and how it manifests methodological-wise.

Good research, among other things, is “guided by the rules of logical reasoning” (Kothari 2004, 20). This means following specific mechanisms to generate conclusions in a clear, systematic way. These procedures are known as deduction, induction, or abduction. The two opposing postures are deduction and induction.

Deduction begins with the general and reasons down to the particular. A researcher infers hypotheses from universal theories, which will be subject to empirical testing to reach precise, logical conclusions. Under deduction, the conclusion must follow the hypotheses or premises (Schwandt 2007, 147). This means that for deduction to work and be valid, the conclusion must also be true if the hypotheses are true. The classic example to illustrate this fact is Socrates’ syllogism which says that “all men are mortal” (premise 1); “Socrates is a man” (premise 2); therefore, “Socrates is mortal” (conclusion). In addition, when reasoning deductively, each of

the hypotheses must be translated into operational terms meaning that the researcher must specify how the concepts comprised in each one of the hypotheses will be measured and how data will be collected (Bryman 2012, 24). Theories and hypotheses guide the whole research process. In summary, deduction can be classified as the top (theory) to bottom (observations) process—see figure 26.

For induction, a researcher makes broad generalizations from particular observations. In other words, “theory is the outcome of research” (Bryman 2012, 26), and it could be stated as the bottom (observations) to top (theory) process—see figure 26. For instance, if all the observations conducted by a researcher studying swans evidence that swans are white, the researcher can conclude that all swans in the world are white. Nevertheless, this conclusion is not necessarily true.

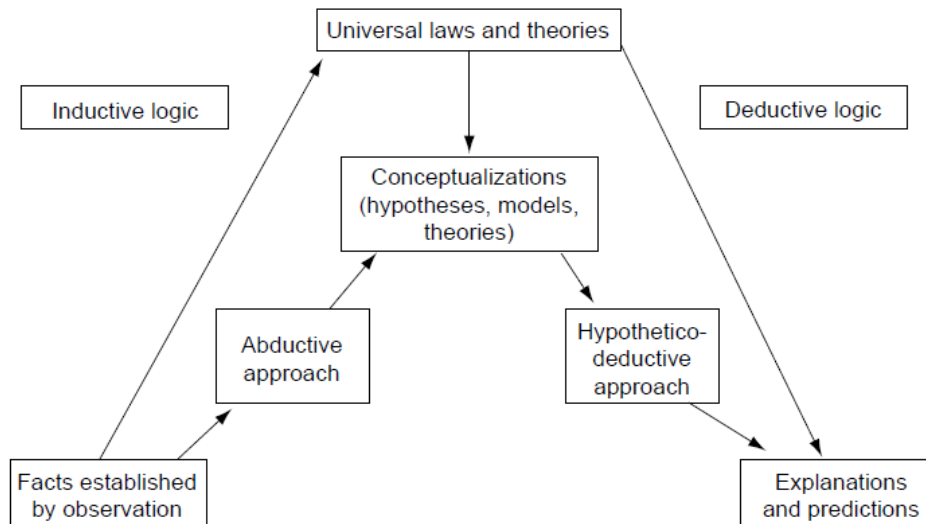
Karl Popper, who firmly opposes inductive logic, and from whom this example is taken, states that: “no matter how many instances of white swans we may have observed, this does not justify the conclusion that all swans are white” (Popper 2002, 4). According to the philosopher, only one black swan is necessary to reject the conclusion that all swans are white. In this respect, he advances the idea that empirical falsification is the only way to progress theory and prove its scientific rigor. Moreover, he encourages abandoning inductive logic due to its imprecision and replacing it with deduction, particularly for hypothetic-deductive methods where hypotheses are rejected with empirical evidence to reach the work’s conclusions. In sum, inductive conclusions may not always be accurate. However, it allows researchers to generate probable hypotheses which could be used later by other researchers to test them using deductive reasoning.

The last inference mode is abduction. Developed by Charles Sanders Peirce, it is a scientific reasoning that is not inductive or deductive. Abduction builds provisional explanatory hypotheses given the situation studied and the information available. It does not reason straight from hypotheses or premises to a conclusion such as deduction (or induction); instead, it usually starts with a set of observations and results. From these, it will try to generalize and provide the most likely explanation with the existing evidence. This implies that conclusions are not absolute. However, they are the most probable and worthy candidates for further investigation (Douven 2021). Concisely, abduction, influenced by a grounded theory methodology, aims “to discover and generate theory [...] that result in a plausible

interpretation” (Schwandt 2007, 1) which can be tested later on. According to Peirce, “abduction is the only logical operation that introduces any new idea” (Peirce 1931 CP 5.172).

The three modes of reasoning mechanisms are shown in the figure below.

**Figure 26. Modes of reasoning and scientific knowledge**



Source: Adapted from Charreire Petit and Durieux (2014)

As shown in the diagram, induction or abduction does not seek to test hypotheses or premises from universal laws and theories like deduction (and the hypothetic-deductive approach). In contrast, it proposes valid, however probable, laws, theories, or conceptualizations from particular observations, which could serve as bases for future testing to ensure certain explanatory and/or predictive conclusions (Charreire Petit and Durieux 2014). In short, if the research objective is to explore, it will incur inductive or abductive reasoning mechanisms. In contrast, deduction (or hypothetic-deductive) procedures will be advanced if the objective is to test.

This research is developed under abductive research logic because it explores and builds upon empirical data and the literature background to provide the best possible explanation and solution given the evidence available. It results “from much analytical work and knowledge” (Reichertz 2019, 268). It is conducted like the fictional detective Sherlock Holmes would moving: “...back and forth between new and prior data, as well as developing knowledge or

theories, and [making] comparisons and interpretations in the search for patterns and the best possible theoretical explanations” (Thornberg 2012, 247).

The abductive reasoning approach manifests in this research through what Thornberg (2012) calls “informed grounded theory.” For the author, both the process and the product of the research “have been thoroughly grounded in data by GT [grounded theory] methods while being informed by existing research literature and theoretical frameworks” (2012, 249). He says, “an informed grounded theorist sees the advantage of using pre-existing theories and research findings in the substantive field in a sensitive, creative and flexible way instead of seeing them as obstacles and threats” (2012, 249). In this work, there is no tabula rasa of knowledge as the more classic grounded theory (GT) methods would advise. Instead, everything is subject to investigation even though the priority remains to stay grounded in the data to reach theory.

Among the versions of grounded theory available to qualitative research today<sup>139</sup>, this research forwards the constructivist grounded theory by Charmaz (2006; 2014), which is a contemporary form of the original grounded theory method of the sociologists Glaser and Strauss (1967). Charmaz advocates for flexible use of the initial GT strategies (such as coding, memo writing, and theoretical sampling) under a constructivist paradigm approach. According to the author, a constructivist grounded theory approach “...places priority on the phenomena of study and sees both data and analysis as created from shared experiences and relationships with participants” (2006, 130)<sup>140</sup>. It thus assumes the existence of multiple socially constructed realities and the inseparable and interactive relationship between the knower and the known

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<sup>139</sup> There are at least five (5) different varieties of the grounded theory, according to Jo Reichertz (2019, 260–61):

1. “*Inductively oriented* grounded theory by Barney Glaser and Anselm Strauss, advocating that concepts and new theories emerge from the data without the researcher’s interference (critical: Thornberg 2012). However, during this process of revealing a stable, hard truth, the researcher remains passive (critical: Dey 1999: 17, 35), which leads to the reasonable objection that this approach is ingrained with Positivism (Glaser & Strauss 1967; Glaser 2001, 2002, 2003; and Glaser & Holton 2004).”
2. “*Classic* grounded theory by Anselm Strauss, which gradually reveals concepts and theories in a circular movement between the acquisition of theory, the gathering of data, and the interpretation of data – driven by constantly comparing each aspect to another (Strauss 1984, 1987, 1994; Strauss & Corbin 1990). This approach is ingrained in American Pragmatics (Peirce, Dewey, Mead) and shows similarities to a (non-reflective) sociology of knowledge and social constructivism (Berger & Luckmann 1966).”
3. “*Code-oriented* grounded theory by the late Anselm Strauss and Juliet Corbin and mainly Juliet Corbin, the primary aim of which is to condense and categorize data utilizing codes. This approach emphasizes precision and strongly resembles qualitative analysis of content. This variety of Grounded Theory may most likely be linked to QDA software, e.g., ATLAS.ti, MAXQDA (Strauss & Corbin 1998; Corbin & Strauss 2008 and 2015 – and especially Corbin 2011).”
4. “*Constructivist* grounded theory (Bryant 2002; Charmaz 2006, 2014; Bryant & Charmaz 2007a, 2007b; Charmaz & Keller 2016), which especially criticizes the inductive approach of the former grounded theory methodology and critically scrutinizes the capability of code routines. This approach (referring to pragmatism and the concept of abduction) considers research work as a search for patterns and best explanations in making comparisons and interpretations. Hence as a process that is always bound to a perspective and which is communicative. This approach shows similarities to reflective sociology of knowledge and communicative constructivism (Reichert 2004b; Keller, Knoblauch & Reichertz 2012).”
5. “*Postmodern, situative* grounded theory (Clarke 2005, 2007; Clarke & Keller 2014) is concerned not only with people/social actors and their perspectives but also with artifacts, practices, and discourses. It emphasizes that research is a mutual communicative construction process between researchers and the researched. This approach is similar to reflexive sociology of knowledge, discourse analysis, and communicative constructivism (Reichert 2009; Keller et al. 2012).”

<sup>140</sup> See also Charmaz, Thornberg, and Keane (2018)

throughout the research process (Piaget 1937; Guba and Lincoln 1985). In this sense, reaching an objective, generalizable, and absolute truth is questionable. Truth can only be subjective, but it has value. It serves the context in which knowledge has been created—time, place, culture, and situation— (Charmaz 2006; Le Moigne 2012).

As Charmaz advises, the constructivist grounded theory rationale and strategies were implemented flexibly in this research to perform a hybrid exploration of ten (10) Dominican microenterprises cases. It is what this thesis conceives as an informed constructivist grounded theory approach. The latter is explained in more detail under the data analysis section of this chapter. Following, we discuss this thesis's qualitative approach.

#### **4. Case study: an adapted qualitative approach to this inquiry**

In the most general sense, qualitative researchers aim for discovery and exploration. There are five (5) approaches to research to reach this goal: narrative research, phenomenology, grounded theory, ethnography, and case study. These approaches share common characteristics regarding the research process. They begin with a research objective and questions; data is gathered, analyzed, and interpreted; the concluding findings are proposed, and the final report is written.

These approaches also have specific guidelines to address the research objective successfully. Some of these differences rely on what they are trying to accomplish—exploring, creating theory, describing—, what they are analyzing, how they gather and process the data collected, and how they report (see Creswell and Poth 2018). As an illustration, a phenomenology approach focuses on understanding the essence of a phenomenon through a comprehensive study of a lived—and shared—experience of several individuals. On the other hand, an ethnography approach objective is rooted in describing and interpreting a culture shared in a group (see Creswell and Poth 2018). One targets the individual experience, whereas the other centers on a group of people sharing the same culture. The aim varies, as do the forms of data collection, its analysis, and the type of the work's final contributions.

Among the five (5) approaches in qualitative research, this inquiry positions itself in the case study approach. It studies ten (10) cases comprehensively. Nonetheless, it applies grounded theory analysis strategies tightly linked to data to explore and develop theory about the microenterprises financing in the Dominican Republic. This mix is explained by the desire

to provide an in-depth understanding of the cases selected in their natural settings while constructing theory with the views of participants, as well as keeping an open mind for unexpected clues throughout the research process. In our view, this blend goes beyond simply exploring the cases: it favors constructing a theory that will serve as the key to access financing for the enterprises studied.

The table below briefly compares the case study and grounded theory approaches foundations, data procedures, and reporting to fully grasp their similarities and differences<sup>141</sup>.

**Table 33. Contrasting Case Study and Grounded Theory approaches**

Elements	Dimensions	Grounded theory	Case study
<b>Foundational Considerations</b>	Research focus of approach	Developing a theory grounded in data from the field	Developing an in-depth description and analysis of a case or multiple cases
	Unit of analysis	Studying a process, an action, or an interaction involving many individuals	Studying an event, a program, an activity, or more than one individual
	Type of research problem best suited for approach	Grounding a theory in the view of participants	Providing an in-depth understanding of a case or cases
	Nature of disciplinary origins	Drawing from sociology	Drawing from psychology, law, political science, and medicine
<b>Data procedures</b>	Forms of data collection	Using primarily interviews with 20 to 60 individuals*	Using multiple sources, such as interviews, observations, documents, and artifacts
	Strategies of data analysis	Analyzing data through open coding, axial coding, and selective coding	Analyzing data through description of the case and themes of the case as well as cross-case themes

<sup>141</sup> Several detailed summary tables comparing the five qualitative research approaches are provided by Creswell and Poht (2018, 163–66).

<b>Research reporting</b>	Introduction of written report	Focusing on the process (or action) that the theory is intended to explain	Using entry vignette and then focusing on central features of the cases
	Description of research procedures	Stating the rationale and data procedures	Stating the rationale, type, and data procedures
	Organization of research outcomes	Developing theory involving open coding categories, axial coding, selective coding, theoretical propositions, and a model	Providing first extensive description of the case followed by key issues (themes or issues) in the case
	Concluding format	Advancing a theory	Making case study assertions and advancing a closing vignette

\* Note: According to Charmaz (2014, 72), “grounded theories may be built with diverse kinds of data—fieldnotes, interviews, and information from records and reports.” Corbin and Strauss (2015) corroborate this fact.

Source: Adapted from Creswell and Poth (2018)

Creswell and Poth (2018) mainly relied on Stake (1995) and Yin (2014) to discuss the distinctive features of the case study approach<sup>142</sup> and Corbin and Strauss (2015) and Charmaz (2014) for the grounded theory approach.

As shown in the table above, both approaches share numerous similarities. Significant differences are found in their disciplinary origins, the types of data privileged, and the data analysis strategies. In our view, both approaches provide a set of flexible guidelines to make them their own to achieve the research objectives while following the scientific rigor path. Leading authors in the field of these qualitative research approaches have advanced this view as well. To illustrate, Yin (2018) states that the case study approach permits combining other methods as part of a larger study. Stake (1995, 2) asserts that “there are many, many ways to do case studies” and that a palette of methods can be used in a case study research endeavor. In regards to grounded theory (GT), Charmaz (2014, 16) emphasizes that “grounded theory methods can complement other approaches to qualitative data analysis, rather than stand in

<sup>142</sup> Yazan (2015) compares and contrasts the three main approaches in case study research: Yin, Merriam, and Stake.

opposition to them.” Glaser, the co-founder of the GT approach in 1967, addressed the approach’s adaptability, highlighting that:

“Grounded theory method although uniquely suited to fieldwork and qualitative data, can be easily used as a general method of analysis with any form of data collection: survey, experiment, case study. Further, it can combine and integrate them. It transcends specific data collection methods” (Glaser 1978 in Goulding 2002, 56)

In management science, Hlady Rispal (2002) points out that a qualitative case study approach can borrow many of the GT principles and apply them faithfully or as a source of inspiration<sup>143</sup>. Moreover, Goulding (2002, 56) highlights that GT, as in any other qualitative research, can use various data sources, including “secondary data to give context and factual substance to the analysis.” In this respect, this research borrows GT principles to study in-depth ten (10) microenterprises (cases) in the Dominican Republic and strengthens its analysis and interpretation with multiple data sources. A research approach and process ideal for novel and valid discoveries as defended by Eisenhardt (1989) in her article “Building theories from Case Study Research”<sup>144</sup>.

Case study research and the strategy implemented in this approach have always been a source of much debate in social sciences (Schwandt 2007)<sup>145</sup>. In fact, “there is little consensus on what constitutes a case study or how this type of research is done” (Merriam 1998, 26).

Besides the numerous understandings about what a case study entails, in the more general sense, doing case study research is ideal for investigating and explaining a contemporary phenomenon (a case) in its real-life context (Yin 2018)<sup>146</sup>. Perhaps oversimplifying is an in-depth case-based inquiry “useful in the study of humans affairs” (Stake 1978, 5).

In a case study, a case could be a child, a teacher, a classroom, a school, all the schools in a country, or an innovative program (Stake 1995). Cases can be as concrete as specific individuals, small groups, organizations, or projects, or more abstract such as communities,

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<sup>143</sup> Goulding (2002, 50) provides a list of publications in the management field where grounded theory was used and the nature of issues explored using its principles. These include but are not limited to systems development, managing understanding in organizations, organizational culture, competitive strategy, manufacturing process technology, marketing, rural women entrepreneurs, career development, strategic alliances, tourist behavior, and ideal business images for women.

<sup>144</sup> Eisenhardt (1989, 533, 535) proposes a step-by-step road map for building theory from case study research. The author also provides examples of research that have built theory from case studies.

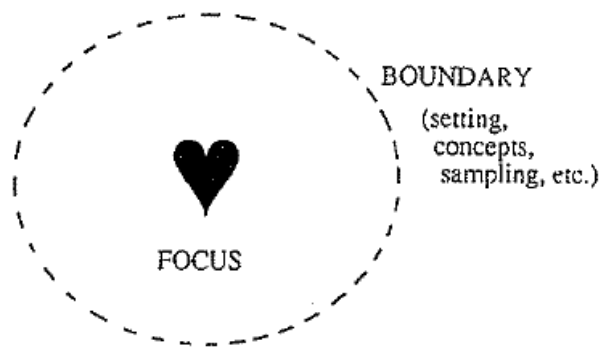
<sup>145</sup> Hammersley and Gomm (2000) compare case studies with experimental and survey approaches.

<sup>146</sup> Schwandt and Gates (1978) illustrate the variety of case study definitions and orientations in social and behavioral sciences.



relationships, decisions, or partnerships (Yin 2018). A case “[...] can be whatever bounded system [...] is of interest” (Stake 1978, 7) for a given research and where the focus is kept. However, it is a precise, well-defined, and bounded unit of analysis (Yin 2018). This is represented by the figure below. The heart is the study’s focus, delimited by defined considerations like settings, concepts, and sampling, to name a few. Boundaries establish the scope of the study.

**Figure 27. The Case as the Unit of Analysis**



Source: Miles and Huberman (1994)

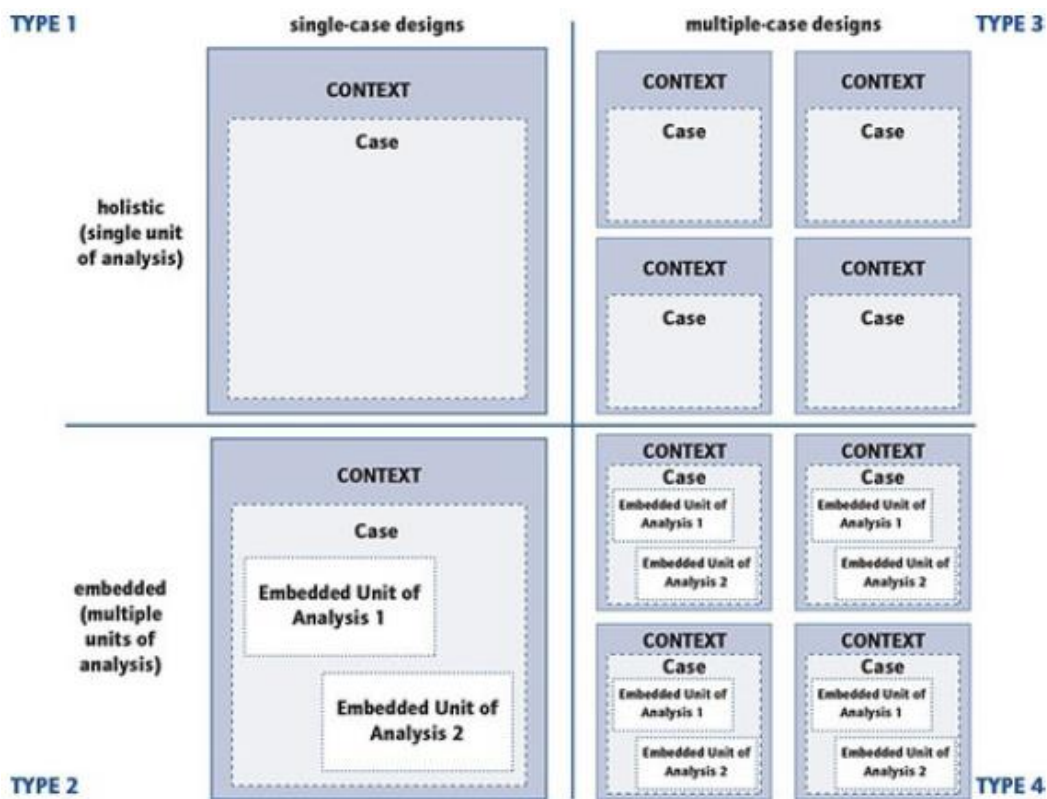
Case studies can be performed for single or multiple cases (see, e.g., Stake 2006). Single case studies are principally conducted in five particular situations: when a case is considered critical, extreme, unusual, revelatory, or when the objective of the research is to comprehend common everyday situations or changes over time—longitudinal cases— (Yin 2018). On the other hand, multiple or collective case studies will examine similarities and differences between several units of analysis; and provide, as many will highlight, more robust and reliable evidence from multiple sources of data (Baxter and Jack 2008; Miles, Huberman, and Saldaña 2014).

In a multiple case study, cases chosen must be more concerned about their representation of the population under study than single cases (see Stake 1995). This is because the population from which the sample is derived is vital, significantly when building theory from cases, as a way of minimizing “extraneous variations and help[ ] defin[ing] the limits for generalizing the finding” (Eisenhardt 1989, 537).

According to Yin (2018), the decision to conduct multiple case study research cannot be taken lightly because it requires substantial time and resources for one researcher (or student). Furthermore, the numerous ways a case study can be performed complexifies the research endeavor.

Another relevant aspect regarding the single and multiple case studies is whether they will be analyzed as whole units (holistic case study) or as units with several levels of analysis within them (embedded case study). This means that there are four types of case study designs, as shown in the figure below: holistic single-case study (type 1), embedded single-case study (type 2), holistic multiple-case study (type 3), and embedded multiple-case study (type 4). Each case under study is immersed in its context regardless of its design type.

**Figure 28. Basic Types of Designs for Case Studies**



Source: Yin (2018)

As presented in Yin's 2 x 2 matrix above, case study analysis transcends the simple notion of within-case or across cases analysis and complexifies it when the units of analysis within

the cases are taken into account—i.e., type 2 and type 4. This means that a case’s unit of analysis (or sub-unit) can be studied in several ways. Individually within the case, it belongs (within-case analysis), in comparison with other units in the same case (between case analysis), or across all units for all the cases in the research project (cross-case analysis) (Baxter and Jack 2008). Not to mention that each sub-unit can be analyzed using multiple sources of data—observations, interviews, focus groups, surveys, documents, and audiovisual and digital material. To illustrate, if the research aim in a single case study is to examine a public program (case) with numerous funded projects, each one of the projects can be embedded sub-units of analysis in the case (Yin 2018). Plus, each one will be analyzed using triangulation techniques (Flick 2018)—i.e., type 2 in the figure above. For multiple case studies, several public programs (cases) with their respective projects (sub-units) will be studied—i.e., type 4.

Whenever the objective is to analyze the global nature of a case or multiple cases, a holistic design will be used—i.e., type 1 or type 3—(Yin 2018). Nevertheless, this does not mean that everything in the case (or cases) chosen will be examined; otherwise, the research’s primary focus will be lost. Instead, the researcher’s relationship with the case(s) must be guided by well-defined research aims. Therefore, the case study research design includes the number of cases under consideration and how they will be analyzed.

This thesis holds a holistic multiple-case study design—i.e., type 3. Each of the ten (10) microenterprises selected (cases) is studied as a whole and subject to an inter-case analysis to generate theory about its financing specificities. “Building theory from case studies is a research strategy that involves using one or more cases to create theoretical constructs, propositions and/or midrange theory from case-based, empirical evidence” (Eisenhardt and Graebner 2007, 25). The overall process followed is inspired by the one proposed by Eisenhardt (1989); however, with different paradigms. The author’s proposal adopts a positivist view of research while this research subscribes to a constructivist paradigm (Guba and Lincoln 1985).

**Table 34. Process of Building Theory from Case Study Research**

<b>Step</b>	<b>Activity</b>	<b>Reason</b>
Getting Started	Definition of research question Possibly a priori constructs	Focuses efforts Provides better grounding of construct measures
Selecting Cases	Neither theory nor hypotheses Specified population  Theoretical, not random, sampling	Retains theoretical flexibility Constrains extraneous variation and sharpens external validity Focuses efforts on theoretically useful cases—i.e., those that replicate or extend theory by filling conceptual categories
Crafting Instruments and Protocols	Multiple data collection methods  Qualitative and quantitative data combined Multiple investigators	Strengthens grounding of theory by triangulation of evidence Synergistic view of evidence Fosters divergent perspectives and strengthens grounding
Entering the Field	Overlap data collection and analysis, including field notes Flexible and opportunistic data collection methods	Speeds analyses and reveals helpful adjustments to data collection Allows investigators to take advantage of emergent themes and unique case features
Analyzing Data	Within-case analysis  Cross-case pattern search using divergent techniques	Gains familiarity with data and preliminary theory generation Forces investigators to look beyond initial impressions and see evidence thru multiple lenses
Shaping Hypotheses	Iterative tabulation of evidence for each construct Replication, not sampling, logic across cases Search evidence for “why” behind relationships	Sharpens construct definition, validity, and measurability Confirms, extends, and sharpens theory  Builds internal validity
Enfolding Literature	Comparison with conflicting literature  Comparison with similar literature	Builds internal validity, raises theoretical level, and sharpens construct definitions Sharpens generalizability, improves construct definition, and raises theoretical level
Reaching Closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small

Source: Eisenhardt (1989)

## 5. Population and sampling

First of all, it is necessary to mention that there is no ideal strategy for choosing the “right” case nor the number of cases to evaluate in a case study research (Patton 2015). For example, Yin (2018) will agree that 6 to 10 individual cases are enough; Stake (2006) and Eisenhardt (1989) between 4 and 10; Creswell and Creswell (2018) 4 to 5; Miles et al. (2014) a minimum of 5 cases, and so on<sup>147</sup>. For others, such as grounded theorists, the number of cases is only

<sup>147</sup> Hlady Rispal illustrates the wide variety of applications in case study research by providing a table with numerous research project examples (2002, 60–61).

known at the end of the data analysis. Additional cases will be added until theoretical saturation is reached, meaning nothing else is learned from adding additional cases-i.e., theoretical sampling (see Glaser and Strauss 1967; Corbin and Strauss 2015; Charmaz 2014).

This research does not crown one sampling logic or method above all. Holding a relativist view of science, it all depends on the research objectives. Several sampling strategies and techniques are available to successfully fulfill the research aims with the scientific rigor required— e.g., internal and external validity. In addition, other considerations, such as time and the resources available for the project, must be wisely weighted as they can alter the research process and outcomes (Royer and Zarlowski 2014; Yin 2018).

A sample is a small representation of a population. “The sampling dilemma is simple. Time and cost prohibit a researcher from collecting data on the entire group or population that is of interest for a particular study” (Henry 1990, 21:9). If the targeted population is too small, then studying the entire population is possible and improves the reliability and credibility of the data collected (Henry 1990). However, this is rarely the case.

There are two approaches to selecting a sample: probability sampling and nonprobability sampling. Probability samples follow an empirical and statistical strategy (Schwandt 2007). This means that the sample is randomly selected, and every population unit has a chance of being represented (Henry 1990; Schwandt 2007; Royer and Zarlowski 2014). Probability sampling techniques are the “gold standard in sampling methodology” (Acharya et al. 2013, 330, 333) because they permit “a confident generalization from a sample to a larger population” (Patton 2015, 401). These techniques include simple random, systematic, stratified, cluster, multistage, and multiphase sampling (Henry 1990; Acharya et al. 2013).

On the other hand, nonprobability sampling relies on the researcher’s judgment to select a sample suited to achieve the research objective(s) and answer the research question(s). In this sense, not every population unit has a probability of being selected and is not statistically representative because it follows a theoretical and purposive strategy (Ritchie, Lewis, and El am 2003; Schwandt 2007). The idea behind the strategy is to select cases rich in information

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“Mason (2010) identified and analyzed 560 qualitative dissertations. The smallest sample was a single participant used in a life history study. The largest sample was 95. The median size was 28 (and the mean was 31). However, the most common sample sizes he found were 20 and 30 (followed by 40, 10, and 25)” (Patton 2015, 475).

and ideal for in-depth studies in the research project (Patton 2015). The six most frequently used non-probability sample designs are summarized in the table below<sup>148</sup>.

**Table 35. Nonprobability Sample Designs**

<i>Type of Sampling</i>	<i>Selection Strategy</i>
Convenience	Select cases based on their availability for the study.
Most Similar/Dissimilar Cases	Select cases that are judged to represent similar conditions or, alternatively, very different conditions.
Typical Cases	Select cases that are known beforehand to be useful and not to be extreme.
Critical Cases	Select cases that are key or essential for overall acceptance or assessment.
Snowball	Group members identify additional members to be included in sample.
Quota	Interviewers select sample that yields the same proportions as the population proportions on easily identified variables.

Source: Henry (1990)

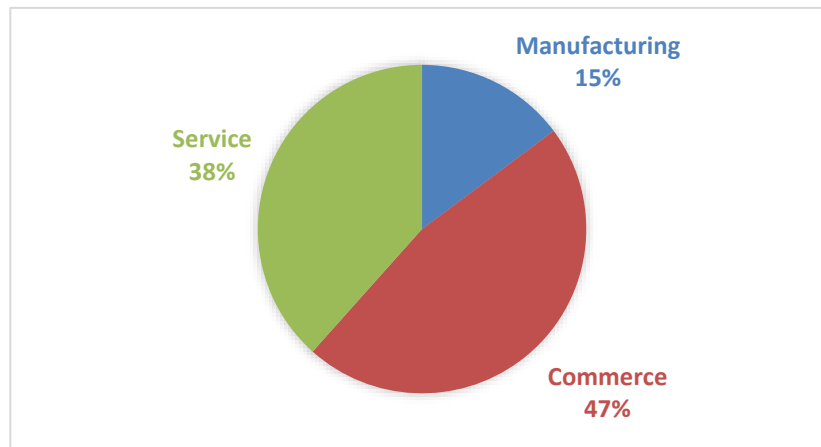
The cases in this thesis sample responded to purposive interests and were selected with a quota sampling strategy. Ten microenterprises (cases) were chosen, taking as guidance the Dominican law 488-08 (2008)<sup>149</sup> and literature review considerations. This translates to an enterprise with one (1) to ten (10) employees with up to RD\$ 6,000,000.00 (six million Dominican pesos) in annual revenues and no more than RD\$3,000,000.00 (three million Dominican pesos) in assets. Furthermore, the enterprise could be formal or informal, a family business or not, and carried out by a natural person or a legal entity as stated in the SMEs Dominican law. In addition, the case selection also respected the distribution of microenterprises' dominant economic activities in the Dominican Republic: commerce, service, and manufacturing. We recall this distribution with the figure below<sup>150</sup>.

<sup>148</sup> For a more extensive overview of the qualitative sampling strategies used, see Patton (2015, 401–10) and Miles and Huberman (1994, 28).

<sup>149</sup> The Dominican Republic Law 488-08 of Micro, Small and Medium Enterprises (2008) was modified in 2017 by the law 187-17. This last one changes paragraph I of Article 1 and Articles 2 and 22 of Law No. 488-08 (Congreso Nacional de la República Dominicana 2017a).

<sup>150</sup> See also “the universe or population” and “sample” in the general introduction of the thesis.

**Figure 29. Microenterprises Economic Activity Sector Distribution in the Dominican Republic for 2013**



Source: Ortiz, Cabal, and Mena (2014)

The sample cases were selected according to the statistical data displayed in the figure above manufacturing 14.8%, commerce 46.8%, and service 38.4%. Thus, the ten (10) microenterprises were divided the following way: one (1) from the manufacturing economic activities, five (5) from commerce activities, and the last four (4) from service activities. This also promoted a symbolic representation and the diversity of profiles in the sample ideal for comparative analysis (Ritchie, Lewis, and El am 2003)<sup>151</sup>. Furthermore, as Eisenhardt (1989) exposed, most researchers aiming to generate theory use between 4 to 10 cases as the ideal range. It must also be noted that time and resource constraints kept us with the 10 cases mark as the maximum number of enterprises to include in the sample. Therefore, choices were made with theoretical and pragmatic considerations.

The ten (10) enterprises comprising our sample applying the definitions and boundaries established are represented in the tables below.

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<sup>151</sup> Hlady Rispal corroborates this idea stating that “cases must retain a set of common features while seeking a wide range of diversity to allow the development of a conceptual infrastructure and the emergence of theoretical propositions” (2002, 88). In addition, Eisenhardt and Graebner (2007) agree that interviewing diverse and knowledgeable informants about the focal phenomena minimizes bias when building theory from cases. According to the authors, including multiple informants and cases is particularly advantageous when studying recent events.

**Table 36. Characteristics of the enterprises comprising the sample**

Case number	Company name	Economic activity sector	Year founded	Quantitative indicators				Location
				Permanent employees	Temporary employees	Annual Enterprise revenues	Enterprise assets market value	
Case #1	Colmado Charina	Commerce: grocery store	1992	7	1	≤ RD\$ 6,000,000.00	≤ RD\$ 3,000,000.00	Santo Domingo, DR
Case #2	Salón Ilusión	Service: beauty salon	1994	4	1	≤ RD\$ 6,000,000.00	≤ RD\$ 3,000,000.00	Santo Domingo, DR
Case #3	D'ílias alta costura	Manufacturing & service: confessions of clothes	1997	2	0	≤ RD\$ 6,000,000.00	≤ RD\$ 3,000,000.00	Santo Domingo, DR
Case #4	Invercolor	Commerce: stationery and supplies	2007	3	0	≤ RD\$ 6,000,000.00	≤ RD\$ 3,000,000.00	Santo Domingo, DR
Case #5	Sergen SRL	Commerce & service: security	2005	10	4	RD\$ 6,000,000.01 – RD\$ 40,000,000.00	≤ RD\$ 3,000,000.00	Santo Domingo, DR
Case #6	Escuela de choferes La Ideal	Service: driving schools	1987	2	0	≤ RD\$ 6,000,000.00	≤ RD\$ 3,000,000.00	Santo Domingo, DR
Case #7	Papelería MEL	Commerce: stationery and supplies	1987	3	0	≤ RD\$ 6,000,000.00	≤ RD\$ 3,000,000.00	Santo Domingo, DR
Case #8	Casa Cristina	Commerce & service: furniture store	2002	5	2	RD\$ 6,000,000.01 – RD\$ 40,000,000.00	RD\$ 12,000,000.01 – RD\$ 40,000,000.00	Santo Domingo, DR
Case #9	Alexis Centro Automotriz	Service: car workshop	2009	7	0	≤ RD\$ 6,000,000.00	RD\$ 3,000,000.01 – RD\$ 12,000,000.00	Santo Domingo, DR
Case #10	Salon estilo Gisel	Service: beauty salon	2016	2	1	≤ RD\$ 6,000,000.00	≤ RD\$ 3,000,000.00	Santo Domingo, DR

Source: Personal elaboration



**Table 37. Owner-managers demographic characteristics of the enterprises comprised the sample**

Case number	Company name	Owner-manager's name and last name	Sex	Date of birth	Marital status	Education	Nationality
Case #1	Colmado Charina	Carlos Julio Valdez Santiago	Man	April 14, 1968	Married	High school diploma	Dominican
Case #2	Salón Ilusión	Ana Luisa Garcia Familia	Woman	October 11, 1967	Married	Technical education (No high school diploma)	Dominican
Case #3	D'ílias alta costura	Ana Dilia Cruz Castillo	Woman	March 16, 1968	Married	Technical education	Dominican
Case #4	Invercolor	Evelyn Miguelina Ortiz Collado	Woman	May 15, 1967	Single	Master's degree	Dominican
Case #5	Sergen SRL	Eddy Enrique Diaz Ruiz	Man	June 22, 1960	Single	Higher education	Dominican
Case #6	Escuela de choferes La Ideal	María del Carmen Abud	Woman	April 04, 1946	Single	High school diploma	Dominican
Case #7	Papelería MEL	Mayra Núñez Matos	Woman	October 11, 1954	Single	Bachelor's degree	Dominican
Case #8	Casa Cristina	Cristina Antigua	Woman	July 24, 1965	Married	High School Diploma	Dominican
Case #9	Alexis Centro Automotriz	Alexis Santos Reyes	Man	May 10, 1970	Concubine	High School Diploma	Dominican
Case #10	Salon estilo Gisel	Gysel Ogando	Woman	February 28, 1987	Married	Technical education	Dominican

Source: Personal elaboration

Several considerations must be noted about this sample. These are the following:

- First, all enterprises in the sample operate in the Dominican Republic. Santo Domingo was chosen because it is the country's principal city and is where most economic activities are centralized<sup>152</sup>. It was also accessible for the researcher.
- Second, the quantitative criteria privileged to include an enterprise in the sample was the one (1) to ten (10) permanent employees. Meeting the annual revenues and the enterprise assets market valuation established by the Dominican law 488-08 were strongly desired but not imperative for the selection. This is true for cases #5, #8, and #9 in table 36.

The one (1) to ten (10) employees' prerequisite was used for three main reasons. First, it follows the literature review available on the subject. Second, it has been the main criterion used by SMEs scientific publications in the country since its beginnings in the early 1990s. The most recent publications of the leading institutions in the matter, FONDOMICRO (2019), the national statistics office (2016b), and the Ministry of Industry, Commerce, and MSMEs (translated from Spanish), still keep this criterion to this date. Last, its consistency enables a more precise comparison with the reliable data available in this sector and other countries. There are no currency exchanges or conflicting asset market valuations and revenue stream definitions as exposed in chapter one—see, e.g., table 14.

- Third, the Dominican MSMEs law was used as guidance to select the sample changed during the data collection stage of this research. The Dominican law 488-08 was modified in 2017 by law 187-17. This last one changes paragraph I of Article 1 and Articles 2 and 22 of Law 488-08 (Congreso Nacional de la República Dominicana 2017a), which includes the original SMEs definitions (Congreso Nacional de la República Dominicana 2008). To illustrate this change, the table below compares the microenterprise definitions under both laws.

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<sup>152</sup> 83.3% of Micro, Small, and Medium Enterprises (MSMEs) in the Dominican Republic are concentrated in urban areas (Ministerio de Industria, Comercio y Mipymes (MICM), Observatorio Mipymes, and Programa de las Naciones Unidas para el Desarrollo 2020).

**Table 38. Contrasting the legal framework for microenterprises definitions in the Dominican Republic 2008 vs. 2017**

Law	Year	Structure	Number of employees	Annual revenues	Assets market value	Characteristics
<b>488-08</b>	2008	Micro	1-15	≤ RD\$ 6,000,000.00	≤ RD\$ 3,000,000.00	Formal or informal economic unit carried out by a natural person or a legal entity performing rural or urban activities in business, agricultural, industrial, commercial, or service.
<b>187-17</b>	2017	Micro	1-10	≤ RD\$ 8,000,000.00	NS*	Any economic unit carried out by a natural person or a legal entity performing business, agricultural, industrial, commercial, or service activities.  Microenterprises can be classified as subsistence microenterprises and accumulation microenterprises.

NS: Not specified.

Source: Personal elaboration and translation from the Spanish language with bases on MSMEs laws 488-08 and 187-17 in the Dominican Republic

According to law 187-17, the MSMEs definition evolved to address better the needs, realities, and specificities of each enterprise type: micro, small, and medium. It may also facilitate the development of adapted programs, measures, services, public policies, projects, initiatives, and regulations to potentiate the sector. Additionally, it will serve as bases to elaborate, consistent records, databases, and publications.

As shown in the table, law 187-17 adds additional considerations for the microenterprise. It specifies that they can be classified as subsistence microenterprises or accumulation microenterprises. Even though no definition is found under this law, the Ministry of the law states as responsible for doing so (Ministry of Industry, Commerce, and MSMEs –translated from Spanish–) defines both microenterprise

types. The MSMEs classification and registration regulations of this entity define these microenterprises as follows (Ministerio de Industria, Comercio y Mipymes (MICM) 2018b, 7):

“Subsistence Microenterprises: are those economic units that seek to generate income to meet its owner’s immediate needs. They will have up to two (2) employees and RD\$360,000.00 of annual invoicing.”

“Accumulation Microenterprise: are those economic units with growth potential, financial capacity, and surplus generation. They will have more than two (2) employees and more than RD\$360,000.00 of annual invoicing, without exceeding the category of micro-enterprise dictated by the Law.”

This thesis did not include these sub-categories as part of the selection for the sample. Nevertheless, it considers them part of the Dominican Republic context where this research develops.

In addition, we highlight that the reason for choosing the 1-10 employees for microenterprises derived from the SMEs literature review considerations and not the 187-17 law. This decision was made before this law went into effect. The research primary data collection in the field started in 2017, the same year the law was passed. It is worth noting that the data collection in the Dominican Republic required careful organization in advance. In our view, law 488-08 evolved to better fit the existing reality in the matter. In this respect, the 1 to 10 employees criteria advanced in this thesis ended up following the current MSMEs legal framework in the country (187-17) even though it was not the original intent.

- Fourth, the quantitative definitions facilitated establishing the scope of the study. However, the case analysis and the research consider these enterprises’ qualitative characteristics. This research studies the microenterprise as a concept, not a miniature enterprise (Hertz 1982). This is inspired by the works of Pierre-André Julien, with a particular interest in his “typology on continuum” multi-criteria approach (1990). The

author synthesizes quantitative and qualitative notions of SMEs and considers their specificity, diversity, and possibility of growth—see figure 5, chapter 1.

Other influential works for this research quantitative-qualitative conceptual approach rely upon the landmark contributions of several authors in SME and SME financing research. Some of these include Hirigoyen (1981; 2008), Candau (1981), Marchesnay (1982; 2003; 1991), Pettit and Singer (1985), Levin and Travis (1987), Norton (1991), Ang (1991; 1992), Naffziger, Hornsby, and Kuratko (1994), LeCornu et al. (1996), Crevoisier (1997), Torrès (1997; 1998; 2002; 2003), Marchesnay and Fourcade (1997), St-Pierre (2000b; 2018), and Curran and Blackburn (2001).

- Fifth, this research acknowledges the specificity and diversity of microenterprises. It is also recognized that SMEs are too heterogeneous to be lumped into a single category (J. S. Ang 1991) which complexifies this research endeavor. Nevertheless, it seems evident that the owner-manager central role is a dominant factor for all small businesses (Marchesnay and Fourcade 1997; Marchesnay 1998), and the smaller they are, the more this will be true. Consequently, the owner-manager (in his/her natural setting) is the main focus for every enterprise in the sample. No demographic criteria were required to include an enterprise in the sample. Instead, these details manifest naturally from the field data collection and are represented in table 37.
- Sixth, to collect data, it was necessary to travel to Santo Domingo. As a precaution, data collection was performed for twelve Dominican microenterprises (cases) despite the ten cases ceiling. Two cases ended up discarded because they did not comply with the selection criteria and boundaries established (see Stake 1995; Ritchie, Lewis, and El am 2003). One case was a cake manufacturer and shop called *Españolerias*, a family business founded in 1987. It was excluded because it surpassed the criteria of 1-10 permanent employees with 19 workers. The second case was *Gustavo Estevez*, an independent architect who started providing services in 2008. He was taken out because he was not a very small business operating in the Dominican Republic but rather an architect providing services independently. This left us with 10 cases that complied with our chosen criteria and within the set boundaries.

Cases in the sample retained thus a set of common features while seeking a wide range of diversity to allow the development of a conceptual infrastructure and the emergence of theoretical propositions (see Hlady Rispal 2002).

The six considerations above demonstrate that research sampling is not limited to selecting a case or several cases. Instead, it must follow a well-thought-out strategy because it sets:

- The character of the research—i.e., purposive or statistical— (Ritchie, Lewis, and El am 2003, 83),
- The data collection boundaries, analysis, and the scope of the study (Miles, Huberman, and Saldaña 2014),
- The confidence of the conclusions. A multiple-case design, for instance, potentiates the analytic benefits in a case study research and can provide more robust and reliable evidence from multiple sources of data (see Eisenhardt and Graebner 2007; Baxter and Jack 2008; Yin 2018) and,
- The research’s rigor, robustness, and quality (Ritchie, Lewis, and El am 2003).

“Sampling is ultimately a practical means to an end” (Henry 1990, 21:14), but it cannot be taken lightly because it compromises the research outcomes.

## **6. Data sources and collection techniques**

Qualitative research is characterized by the collection and analysis of numerous sources of data such as interviews, focus groups, observations, documents, photos, videos, and social media information. “The role of data is to provide input to ‘raw’ or ‘first-order’ material for [...] interpretive, analytical, or pattern-seeking work” (Koro-Ljungberg, MacLure, and Ulmer 2018, 806)<sup>153</sup>. It is based on data and evidence that research can support its contributions.

There are two types of data: primary and secondary data. Primary data is raw data. It comes directly from the source without being processed or interpreted. For instance, interviews of entrepreneurs, focus groups with several employees in an enterprise, or observations performed by a researcher during contract negotiations. It can also come from customers’ reactions to an enterprise’s promotional post on social media, a product’s rating, or customer comments on a

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<sup>153</sup> Koro-Ljungberg, MacLure, and Ulmer (2018) provide in the appendix of their article several examples of the definitions and interpretations attached to the word “data” in the qualitative research domain.

company in its commercial website, among others. Once analyzed, interpreted, and processed, primary data becomes secondary data<sup>154</sup>. The latter can include bibliographic sources, publications, databases, documentaries, and films. This PhD thesis combines both data types.

Data without a systematic strategy or plan to reach the research aims is just data. Therefore, it is the researcher’s duty to collect and exploit the necessary data in ways that his/her research provides the contributions it promises. To do so, the researcher will use several methods and techniques guided by the research approach characteristics (i.e., quantitative or qualitative), the paradigm governing the research (e.g., positivism or constructivism), and the objective it seeks (e.g., testing or exploring).

The table below presents the most common data collection techniques available in qualitative research, including their advantages and disadvantages. These are observations, interviews, documents, and audiovisual digital materials.

**Table 39. Qualitative Data Collection Types, Options, Advantages, and Limitations**

Data collection types	Options within types	Advantages of the type	Limitations of the type
<b>Observations</b>	<ul style="list-style-type: none"> <li>• Complete participant –researcher conceals role.</li> <li>• Observer as participant–role of researcher is known</li> <li>• Participant as observer–observation role secondary to participant role</li> <li>• Complete observer–researcher observe without participating</li> </ul>	<ul style="list-style-type: none"> <li>• Researcher has a firsthand experience with participant.</li> <li>• Researcher can record information as it occurs.</li> <li>• Unusual aspects can be noticed during observation.</li> <li>• Useful in exploring topics that may be uncomfortable for participants to discuss.</li> </ul>	<ul style="list-style-type: none"> <li>• Researcher may be seen as intrusive.</li> <li>• Private information may be observed that researcher cannot record.</li> <li>• Research may not have good attending and observing skills.</li> <li>• Certain participants (e.g., children) may present special problems in gaining rapport.</li> </ul>
<b>Interviews</b>	<ul style="list-style-type: none"> <li>• Face-to-face–one-on-one, in-person interview</li> <li>• Telephone–researcher interviews by phone</li> <li>• Focus groups–researcher interviews participants in a group</li> <li>• E-mail Internet interview</li> </ul>	<ul style="list-style-type: none"> <li>• Useful when participants cannot be directly observed.</li> <li>• Participants can provide historical information.</li> </ul>	<ul style="list-style-type: none"> <li>• Provides indirect information filtered through the views of interviewees.</li> <li>• Provides information in a designated place rather than the natural field setting.</li> </ul>

<sup>154</sup> Baumard and Ibert (2014) present several tables that expose primary and secondary data implications. They analyze their ontological status, impacts on internal and external validity, accessibility, and flexibility. The authors also compare these data types’ collection and analysis challenges.

		<ul style="list-style-type: none"> <li>• Allows researcher control over the line of questioning.</li> </ul>	<ul style="list-style-type: none"> <li>• Researcher’s presence may bias responses.</li> <li>• Not all people are equally articulated and perceptive.</li> </ul>
<b>Documents</b>	<ul style="list-style-type: none"> <li>• Public documents—minutes of meetings or newspapers</li> <li>• Private documents—journals, diaries, or letters</li> </ul>	<ul style="list-style-type: none"> <li>• Enables a researcher to obtain the language and words of participants.</li> <li>• Can be accessed at a time convenient to researcher—an unobtrusive source of information.</li> <li>• Represents data to which participants have given attention.</li> <li>• As written evidence, it saves a researcher the time and expense of transcribing.</li> </ul>	<ul style="list-style-type: none"> <li>• Not all people are equally articulated and perceptive.</li> <li>• May be protected information unavailable to public or private access.</li> <li>• Requires the researcher to search out the information in hard-to-find places.</li> <li>• Requires transcribing or optically scanning for computer entry.</li> <li>• Materials may be incomplete.</li> <li>• The documents may not be authentic or accurate.</li> </ul>
<b>Audiovisual digital materials</b>	<ul style="list-style-type: none"> <li>• Photographs</li> <li>• Videotapes</li> <li>• Art objects</li> <li>• Computer messages</li> <li>• Sounds</li> <li>• Film</li> </ul>	<ul style="list-style-type: none"> <li>• May be an unobtrusive method of collecting data.</li> <li>• Provides an opportunity for participants to directly share their reality.</li> <li>• It is creative in that it captures attention visually.</li> </ul>	<ul style="list-style-type: none"> <li>• May be difficult to interpret.</li> <li>• May not be accessible publicly or privately.</li> <li>• The presence of an observer (e.g., photographer) may be disruptive and affect responses.</li> </ul>

Note: This table includes material adapted from Bogdan and Biklen (1998), Creswell and Poth (2018), and Merriam (1998)<sup>155</sup>.

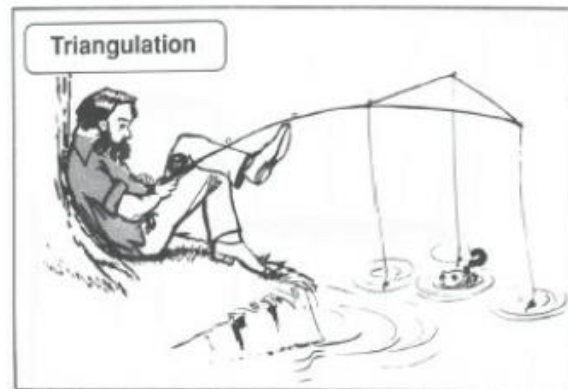
Source: Creswell and Creswell (2018)

This research gathered its data using observations, interviews, and documents. The idea was to strengthen the study’s validity (and legitimacy) through triangulation methods and data sources (see Patton 2015). In the sense of Hlady Rispal (2002), *multiangulation des données* (in French). Triangulation can be represented by the figure below.

<sup>155</sup> Yin (2018) and Hlady Rispal (2002) are other examples of this kind of table. The authors provide the strengths and weaknesses of several data collection methods for case study research. The authors also explain how to go about gathering data, as well as Stake (1995), Creswell & Poth (2018), and Patton (2015).



**Figure 30. Strengthening the study with triangulation**



Source: Michael Quinn and Michael Cochran (2002 in Patton 2015)

The idea behind using multiple methods and sources of data in qualitative research is to potentiate the chances of discovering the unknown and providing an accurate (or perhaps the most accurate) picture of reality. This is because one method fails to fully explain the studied phenomena given its limitations (Brewer and Hunter 2006). In simple terms, triangulation works like our man in the picture trying to catch a fish with his fishing hooks: “an issue of research is considered—or, in a constructivist formulation, is constituted—from (at least) two points or perspectives” (Flick 2018, 779). Generally, it is assumed that truth is revealed by conversing or aggregating data sources and methods—i.e., triangulation— (Schwandt 2007).

According to Denzin (1978), there are four types of triangulation. These include multiple data sources (which can include time, space, or person), several methods (e.g., observations, interviews, and documents), multiple investigators conducting or contributing to the research, and benefiting from different theoretical perspectives about what is studied. To these four strategies, Miles, Huberman, and Saldaña (2014) add data type triangulation (e.g., qualitative texts, audio/video recordings, quantitative data).

Applying triangulation strategies in qualitative research is not only advised; it is necessary and has become a common practice in social science research. However, it can also be agreed that accomplishing it is expensive (Patton 2015). Time and resources available for the research may limit the researcher’s capacity to fully accomplish this task—in particular—if all five triangulation strategies previously mentioned are considered, and the ideal of theoretical

saturation is in mind. Consequently, hard choices must be made for pragmatic reasons without jeopardizing the research quality.

This research uses methods, data sources, and data type triangulation to strengthen the grounding of theory and provide a systematic view of evidence (see Eisenhardt 1989). These strategies are the most traditional and commonly used ones, especially when conducting a comparative case study research such as this thesis work (see Hlady Rispal 2002).

The techniques used in this research were observations, interviews, and documents. Each one of them is presented in detail below.

## **6.1. Observations**

In the first instance, observations allowed the researcher to develop a primary interest in small business research and start getting familiar with the context of the study. At first glance, several elements caught our attention. For example, MSMEs are the most numerous enterprises regardless of the country, the ones that create the most jobs and hire the most employees in any economy, and one of the business types that contributes the most to the country's production and growth. The same is true for the Dominican Republic, where this thesis concentrates.

Further study revealed that the Dominican Republic lives a micro business reality where 98% of Small and Medium-sized enterprises (SMEs) are very small structures (Ortiz, Cabal, and Mena 2014)<sup>156</sup>. Additionally, most small businesses are created by necessity, as a solution to unemployment and not as a growth option, often falling under the category of informality with low productivity and lack of dynamism. Nine (9) out of ten (10) micro enterprises were operating informally in 2013, representing 89% of these enterprises total in the country (see Ortiz, Cabal, and Mena 2014; Fundación Reservas del País, FondoMicro, and Data Crédito 2019). These details contributed to guiding our focus on these enterprises type, given that they represent the economic and social fabric of the Dominican Republic.

Observational work provided valuable information during and after the field study phase. While in the enterprises and the interview process, the researcher opted for a complete observer standpoint with no participation (see table 39 and Creswell and Creswell 2018). Note-taking

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<sup>156</sup> SMEs represent 99% of companies in the Dominican Republic. Of these SMEs, 98% are micro-enterprises, and 2% are small and medium (Ortiz, Cabal, and Mena 2014).

was performed attentively and flexibly and was later considered for the analysis. Some aspects observed were the enterprise environment and organization and the interviewee's (entrepreneur) behavior in his/her natural setting. This last one included the entrepreneurs' actions, gestures, language, reactions, and expressions. After the interviews, additional observation aided the identification of themes, categories, and patterns which later contributed to this work's contributions. Throughout the process, the researcher's impressions and thoughts were also considered.

While observations provide excellent descriptive, contextual data, it comes short of fully grasping what is happening in the field. The researcher may privilege some aspects more than others would (or would not) and thus perceive a distorted picture of reality. Observations can be conditioned and considered subjective in addition to the researcher's existing social and cultural interpretations. In this respect, observations were complemented with other collection data techniques such as interviews and documents to minimize the observant bias.

## **6.2. Interviews**

Interviewing was a dominant collection strategy in this research work; given the context, the enterprises under study evolved.

Twelve face-to-face interviews were conducted with micro-entrepreneurs of the most relevant economic activities (manufacturing, commerce, and services) in the Dominican Republic. Nevertheless, two interviews were discarded because the enterprises the owner-manager belonged to did not comply with the sampling characteristics. Therefore, only ten interviews were transcribed and analyzed.

The interviews followed a pre-establish set of semi-structured and closed questions<sup>157</sup> that were prepared considering the research objectives and with the aim of discovery and theory generation. The researcher made sure that every entrepreneur answered each one of the questions in the interview guide and allowed the flexibility for the interviewees to speak their minds about what they considered relevant (Marie-Laure Gavard-Perret et al. 2012). The idea was to gather as much primary information as possible to comprehend the phenomena under study. In this sense, new conversation lines could have been introduced throughout the

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<sup>157</sup> See Dey (1993, 17) for the advantages of closed questions in an interview.

interview, regardless of the question. Additionally, the added flexibility encouraged interviewees to provide rich answers even when addressing closed questions comprising scales.

Following the same questions guide for all interviews facilitated comparing answers within the sample. We synthesized the data collected through the data analysis process and coding. Tables with detailed answers given by each one of the entrepreneurs for the questions asked were also included.

Before the interviews, several enterprises in Santo Domingo were contacted by phone or in person to see if they were interested in participating in this research project. Enterprises' contact information was taken from the yellow pages<sup>158</sup> in the Dominican Republic or contacted by applying networking techniques. This first contact with owner-managers allowed the researcher to explain the study's interest, what it entailed, and the benefits for their enterprise. It was stressed that the use of the information was strictly for academic purposes. Several enterprises declined immediately<sup>159</sup> because they thought the meeting was for governmental control. Some expressed not having enough time to sit and have an interview even though they found the topic exciting, and others were motivated to participate,<sup>160</sup> pointing out the lack of adapted support they have in the country regardless of being the majority of businesses. Once accepted, a date for a personal interview was set on the enterprise premises. Throughout the process, the researcher fulfilled the economic activities quotas established in the sampling (see Ritchie, Lewis, and El am 2003).

The interviews were conducted in Spanish (the country's official language) and used basic terminology so that entrepreneurs could clearly understand the questions. However, when they did not comprehend, a further explanation was given. Initially, the aim was to establish trust between the researcher and the entrepreneur. Therefore, the interview was structured to address the more general aspects at the beginning and progressively go over the more specific questions to finish with the demographics where the owner-manager was free to respond or not.

On average, interviews lasted about 1 hour and 15 minutes, the shortest being almost 34 minutes and the longest about 2 hours and 44 minutes. Interviews were recorded and transcribed, being as loyal as possible to what the entrepreneurs said. Five hundred and sixty-

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<sup>158</sup> <https://www.paginasamarillas.com.do/>

<sup>159</sup> "Most respondents' refusals occur before the interviewer has had time to explain fully the purposes of the survey" (Bradburn, Sudman, and Wansink 2004, 19).

<sup>160</sup> "Participation in surveys is more a function of the potential respondents' general attitude towards surveys than of the content of a specific survey" (Bradburn, Sudman, and Wansink 2004, 19).

four (564) pages of valuable primary data were collected and used for the analysis<sup>161</sup>. Notes taken during the interviews and visits were also compiled. The table below details the primary interviews performed for the sample enterprises.

**Table 40. Interviews details**

<b>Interview (I)#</b>	<b>Company name</b>	<b>Person interviewed</b>	<b>Interview date</b>	<b>Interview duration (h: min: s)</b>	<b>Interview transcripts (# of pages)</b>	<b>Interview guide + personal notes (# of pages)</b>
I 1	Colmado Charina	Owner-manager	December 21 <sup>st</sup> , 2017	01:29:50	64	17
I 2	Salón Ilusion	Owner-manager	December 26 <sup>th</sup> , 2017	01:35:35	50	15
I 3	D'ílias alta costura	Owner-manager	December 27 <sup>th</sup> , 2017	01:11:45	61	16
I 4	Invercolor	Owner-manager	December 27 <sup>th</sup> , 2017	00:57:40	71	16
I 5	Sergen SRL	Owner-manager	December 28 <sup>th</sup> , 2017	01:12:19	48	16
I 6	Escuela de choferes La Ideal	Owner-manager	December 28 <sup>th</sup> , 2017	00:36:39	39	16
I 7	Papelería MEL	Owner-manager	December 28 <sup>th</sup> , 2017	00:33:42	38	16
I 8	Casa Cristina	Owner-manager	December 30 <sup>th</sup> , 2017	02:43:24	88	16
I 9	Alexis Centro Automotriz	Owner-manager	January 9 <sup>th</sup> , 2018	00:53:05	49	16
I 10	Salon estilo Gisel	Owner-manager	January 9 <sup>th</sup> , 2018	00:56:13	56	16
<b>TOTAL</b>				<b>12:10:12</b>	<b>564</b>	<b>160</b>

Source: Personal elaboration

The interview guide and process followed three (3) main phases: introduction, development, and closure.

<sup>161</sup> The raw interview transcripts totaled 287 pages. However, once formatted to include them in the annexes, they amounted to 564 pages.

- Phase 1: Introduction. This phase was the opening of the interview. The interviewee was thanked for his/her participation and trust in the research project. The researcher urged the interviewee to answer the questions spontaneously as there were no right or wrong answers. Only the interviewee's opinion counted, and the final analysis was going to be at a general level, including several enterprises, and not at an individual level. Furthermore, the interviewee could access his/her information anytime by contacting the researcher.

During this phase, the general and contextual questions began the interview. The objective was to establish a trusting bond between the researcher and the interviewee. Thus, questions owner-managers were passionate about were covered first, such as the history of the enterprise and what it does. It then continued with the enterprise's characteristics questions to ensure it responded to the MSME Dominican law specifications.

- Phase 2: Development. During this phase, the researcher introduced questions regarding the study's main themes and progressively reached the most specific questions. First, it began with general notions of the enterprise's financing regarding its start-up, operations, and investments. Then, as the interview progressed, more precise questions were introduced and addressed. These last ones took most of the interview time and were about the financing usage, access, and decision-making of the enterprise (and thus the owner-manager).
- Phase 3: Closure. Completing the interview, the researcher reviewed demographic questions to understand the owner-manager characteristics such as sex, date of birth, marital status, and educational background. To finish, it asked for the owner-managers final thoughts and remarks about the study and thanked them for their precious time and input.

The original Spanish interview guide (and English version) used for this research work are in the annexes. In addition, interview transcriptions can be found in volume 2.

The second round of phone interviews, however shorter, was performed with a few cases in the sample to clarify specific points of the initial interview and explore others that emerged

during the analysis process. These enterprises were: Colmado Charina, Salón Ilusión, D'ílias alta costura, Invercolor, Sergen SRL, and Casa Cristina.

### **6.3. Documents**

The documents used in this research project were primarily secondary sources. These mainly rely on FONDOMICRO, the National Statistics Office, the Ministry of Industry, Trade, and MSMEs (translated from Spanish), press publications, and laws in the Dominican Republic.

FONDOMICRO remains the leading institution in scientific publications regarding micro, small and medium enterprises in the country. Since the early 1990s, it has contributed to 16 national surveys (Ortiz, Cabal, and Mena 2014) and more than 30 publications, including socio-economic, anthropological, sectoral, gender, legal, and econometric studies (FondoMicro 2022). In addition, it serves as bases for other institutions in the public or private sector.

Data from academic and non-academic sources were also studied.

## **7. Data analysis founded on an informed constructivist grounded theory approach**

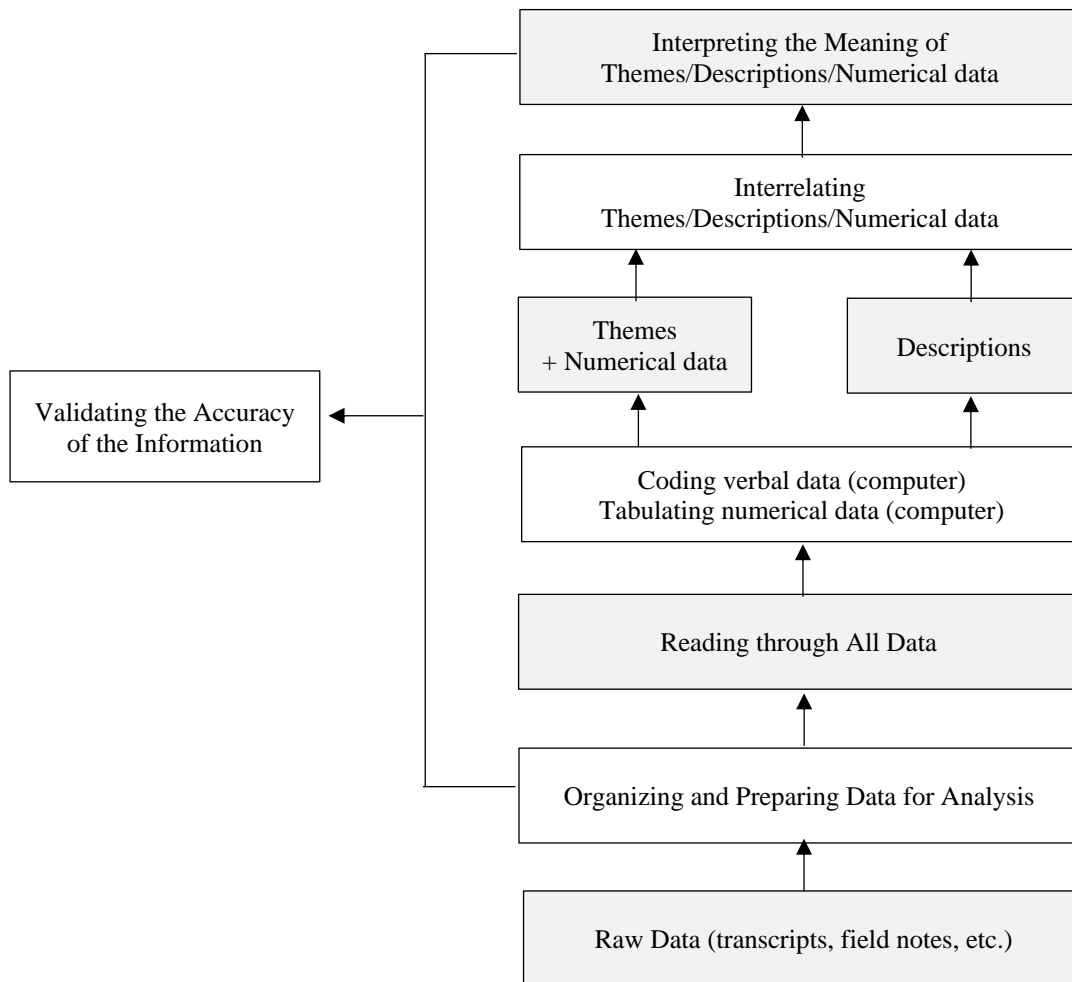
Data analysis is “the process of making sense out of the data” (Merriam 1998, 178). There is no right or single way to perform data analysis in qualitative research (Coffey and Atkinson 1996). Instead, there are as many approaches as there are researchers (Eisenhardt 1989). Data analysis “involves examining, classifying, and tabulating the information gathered to enrich the initial propositions and promote the emergence of new concepts” (Hlady Rispal 2002, 138).

This research uses the experience collected from ten (10) case studies to generate theory (see Eisenhardt 1989) about Dominican microenterprises and their financing under a constructivist paradigm (see Guba and Lincoln 1985; Charmaz 2006; 2014). Using a replication logic, multiple lived experiences and realities were gathered and examined to understand the phenomenon under study (Yin 2018). This means that each one of the cases was considered a unique experiment. Nevertheless, they followed the same procedure and were compared with each other in search of patterns.

As for grounded theorists, the analysis in this research work is founded on raw data from the field (Glaser and Strauss 1967) to reach analytic or naturalistic generalizations (Stake 1978; Yin 2014). Thanks to data, theory and concepts emerge, and this thesis contribution can be constituted. “Stated simply, grounded theory methods consist of systematic, yet flexible guidelines for collecting and analyzing qualitative data to construct theories from the data themselves. Thus researchers construct a theory ‘grounded’ in their data” (Charmaz 2014, 33).

In the most general sense, this thesis data analysis can be best summarized by the adapted version of Creswell and Creswell’s (2018) diagram below.

**Figure 31. Data Analysis in Qualitative Research (adapted)**



Source: Adapted from Creswell and Creswell (2018)



The first data analysis in this research project began with the first immersion in the field (Gibbs 2007). Then, the researcher began reflecting on what was happening during the enterprise visits and meetings with owner-managers. She constantly asked herself questions such as: what is this? What is happening, and what has happened? What is going on here?

Throughout the interviews' transcriptions, the researcher wrote her impressions of each entrepreneur's words and the emerging general tendencies. This allowed the researcher to have her first contact and explore the primary data. Analytical memo writing continued throughout the entire analysis process-including the final phases of this thesis contributions' elaboration.

Once the interviews were transcribed, all raw data was gathered and organized, including field notes. The researcher then proceeded to read the data and personal memos for each one of the cases to continue to get familiar with the information.

This research draws primarily on data generated from interviews due to several reasons:

- First, the owner-manager is the main focus for each one of the enterprises in the sample, given their dominant role in small structures (see Marchesnay and Fourcade 1997; Marchesnay 1998).
- Second, the enterprise is an extension of the owner-manager rather than an independent unit where the dividing line between the personal life and the business is quite blurry (see Levin and Travis 1987; J. S. Ang 1991; 1992; Petty and Bygrave 1993; Naffziger, Hornsby, and Kuratko 1994; LeCornu et al. 1996). Small businesses need their financial theory (Pettit and Singer 1985); however, separating the enterprise and the owner-manager is impossible if real progress is wanted in entrepreneurial finance (see St-Pierre 2018).
- Third, there is a need to explore and analyze crucial questions about SME finance with interviews and case studies to gather the experiences and opinions of entrepreneurs to improve our understanding of what is happening in SMEs (St-Pierre 2018). When analyzing interviews, participants' data is prioritized because we study their perceptions based on their experiences and not the researcher's (Saldaña 2016). The investigator's contributions come with the data analysis and its interpretation.

- Fourth, most micro businesses in the Dominican Republic operate informally<sup>162</sup>. If they are formally registered, many internal procedures remain informal such as manually kept accounting (see, e.g., Aybar Jiménez 2020). Furthermore, there is often resistance from owner-managers to share personal/enterprise documents with sensitive information. Therefore, the researcher's access to internal documents regarding the enterprises' financing was limited.
- Fifth, access to reliable databases and formal documents about micro businesses financing is limited in the Dominican Republic. Thus, the available information enriches the analysis and context and is an additional source. This also includes the field notes taken while on the enterprise premises.
- Sixth, according to Eisenhardt and Graebner (2007, 28), interview data is often the primary source when building theories from cases because it is a “highly efficient way to gather rich, empirical data” on the phenomenon of interest.

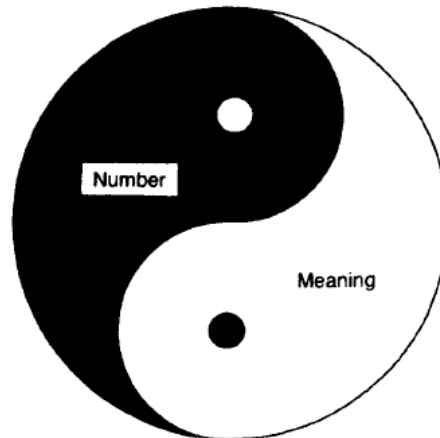
Once the information was compiled, raw data were synthesized and analyzed using computer software. On the one hand, the verbatim transcriptions (narrative data) coding was performed with the computer software NVivo. On the other hand, the tabulation of numeric responses was made with Excel. Combining both techniques enhanced the analysis potential and provided, in our view, more robust conclusions. It also permitted more adapted visualizations synthesizing the data. Furthermore, some authors advocate using several analytic approaches and operations with the data to improve understanding and increase the possibility of valid findings (e.g., Coffey and Atkinson 1996; Mello 2002).

Dey (1993) corroborates our position defending that numerical and qualitative data complement each other and are mutually dependent. He remarks and illustrates with a yin and yang symbol that “meanings cannot be ignored when we are dealing with numbers, and numbers cannot be ignored when we are dealing with meaning” (1993, 29). It is what he calls the dynamic balance between quantitative and qualitative data.

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<sup>162</sup> Nine (9) out of ten(10) microenterprises were operating informally in 2013, which represents 89% of the total micro enterprises in the country (Ortiz, Cabal, and Mena 2014; Fondomicro and Data Credito 2019).

**Figure 32. Quantitative and qualitative data in dynamic balance**



Source: Dey (1993)

Regardless of this complementarity, this research is qualitative because it constantly searches for meaning in the analysis. It does not limit to numerical responses and seeks to understand what is happening with the data and what it truly signifies.

Each case underwent the same process of coding and tabulation in an intra-case study first to perform an inter-case analysis using constant comparative methods and present it in this final report. This means that “all elements of the analysis—data, codes, categories and concepts—[were] constantly compared within and between each other,” looking for “similarities, differences and nuances” to “generate a more abstract understanding of the material” (Tweed and Charmaz 2012)<sup>163</sup>. This interpretative study among the units of analysis is the essence of this qualitative research.

While the primary focus of this thesis remains on data to generate theory, there is no *tabula rasa* of knowledge as the more classic GT versions would advise (see Glaser 1978; 1998; 2001; 2005). For this research, the empirical application encourages the emergence of theory from the data. It also explores pre-established concepts derived from the existing literature to see to what extent they are enriched, modified, or confirmed by empirical facts. In the sense of Pierce (1958), this combination falling between induction and deduction, otherwise known as

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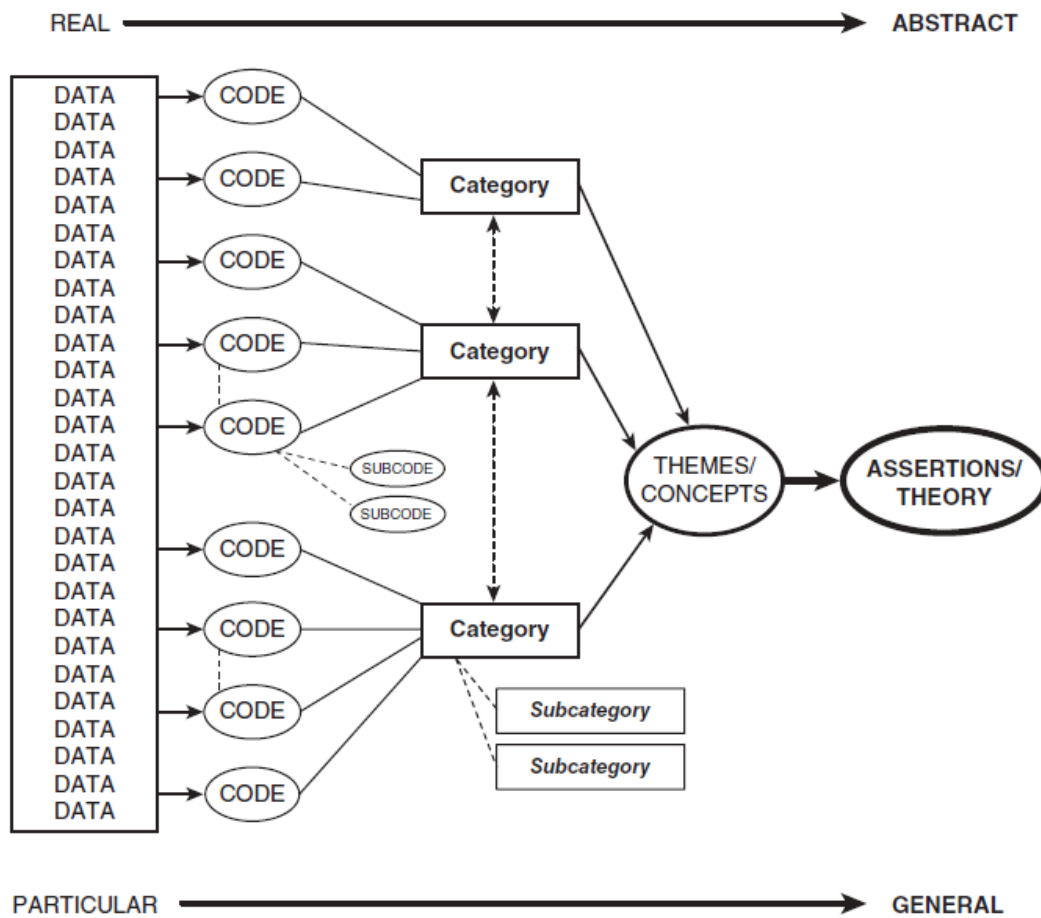
<sup>163</sup> Dey (1993) points out that researchers must deal with several paradoxes in qualitative research. He adds: “Thus, we want to use existing ideas, but not prejudge the data. We want to break the data up into bits, but also to analyze it. We want to consider data in context, but also to make comparisons. We want to divide data into categories, but also to consider how these relate. We want to be comprehensive, but also selective. We want to analyze singularities, but also to generalize. We want our accounts to be accessible, but also acceptable. We want to be rigorous, but also creative” (1993, 273–74).

abduction, is the only way new, well-founded contributions can be made and provide the best possible explanations given the information and evidence available. In this respect, the researcher relates to the data with a conceptual framework but remains open-minded—grounded on data—allowing her to generate theory, explore what is happening, and, if possible, complement, modify, or verify pre-existing concepts. It is an integrated approach—in the research process and product—that goes beyond theory and data to provide patterns that most likely explain the phenomena studied. This is what Thornberg (2012) calls informed grounded theory.

For the data analysis, coding responded to this integrated approach comprising codes emerging from the narrative data itself—grounded theory—and codes already pre-established from the existing literature—framework analysis.

In qualitative inquiry, a code is “a word or short phrase that symbolically assigns a summative, salient, essence-capturing, and/or evocative attribute for a portion of language-based or visual data” (Saldaña 2016, 4). Coding is thus the process of labeling data segments with keywords or phrases that capture their essence in some way. This procedure organizes large volumes of data into manageable units of analysis to engage in analytic pattern-seeking work. The idea is to comprehend what is happening with the data by comparing the codes, data, categories, and concepts—looking for similarities, differences, and relationships with all components to work towards a more general, theoretical understanding. “Through reassembly of the parts, one comes to understand the integrity of the whole” (Schwandt 2007, 6). The general overview of the process usually followed can be best pictured by the diagram below.

**Figure 33. A streamlined codes-to-theory model for qualitative inquiry**



Source: Saldaña (2016)

Regardless of Saldaña’s codes-to-theory model clarity, the author explains that the coding process is more complex than what is shown in the picture. He offers his book as a reference manual with a diverse repertoire of coding methods often used in qualitative data analysis. He stresses that there is no “one best way” of coding or analyzing the data in qualitative research. It all depends on the research project context. That is to say, the “research questions, methodologies, conceptual frameworks, fieldwork” and the researchers’ “value, attitude, and belief systems” (Saldaña 2016, 2). Furthermore, he emphasizes that “coding is not a precise science; it is primarily an interpretative act” (Saldaña 2016, 5).

This research analysis is inspired by the ideas advanced by Kathy Charmaz (2006; 2014). The author proposes a modern version of the original, objectivist, grounded theory (Glaser and

Strauss 1967) and Glaser's (1978; 1998; 2013) GT versions<sup>164</sup>. She defends a GT under a constructivist paradigm approach that searches for meaning in the participants' actions and narratives (Inaba and Kakai 2019), keeping close attention to the data. Emerging codes are constructed, not discovered, by actively naming data. Therefore, it is the researcher's view of the data because he/she chooses the words that constitute the codes and make sense of the data (Charmaz 2014). Pre-established codes were also examined grounded on data and with the researcher's analytic lenses.

For this research, coding was a dynamic<sup>165</sup>, non-linear process comparing data, codes (sub-codes), categories (sub-categories), and concepts among them as they were refined. To illustrate, at first, one may have codes that emerge from the data, and several of these codes become categories. Nevertheless, further analysis suggests that specific codes should become sub-codes or combine to make one code. Likewise, particular categories might work best as sub-categories or should unite for a more abstract view of the data. The units of analysis constantly evolve as the process continues and until the study finishes. It is an operation of going back and forth with the existing elements and confronting them with new ones as more data is analyzed and new codes are created. It is, thus, a dynamic, non-linear, intense, analytic, and interpretative work.

As mentioned earlier, this thesis used emerging and pre-established codes in the analysis. Both approaches responded to Saldaña's ideal coding procedure scheme presented in figure 33 (above); however, each had its peculiarities.

For emerging codes, verbal data was coded as a "lumper" (see Saldaña 2016). Chunks of data were coded to capture the general ideas and essence of the data. This "holistic coding"<sup>166</sup> was the first coding cycle to prepare the grounds for more detailed data coding and analysis (see Dey 1993). Furthermore, it permitted examining the codes regarding their direct coding references and thus visualize which ideas were developed the most by entrepreneurs—see, e.g., figure 44, chapter 3. For us, this is important because more time was spent detailing these ideas by interviewees.

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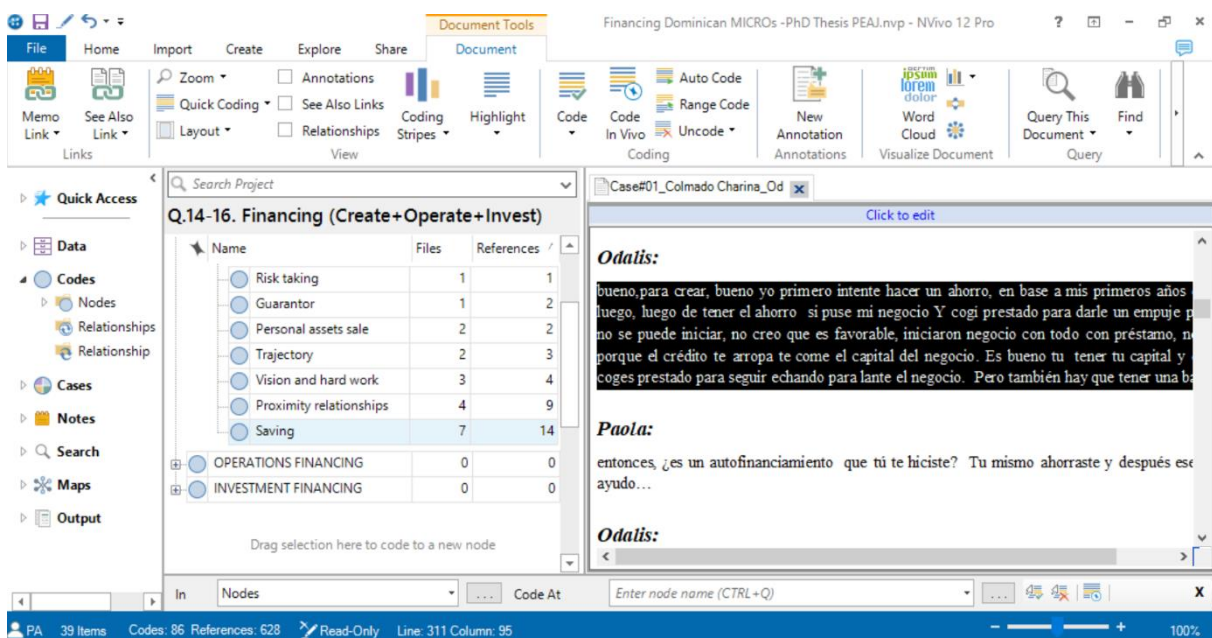
<sup>164</sup> See Linda and Kapriskie (2019) for details and practical applications of the five major GT approaches to coding: (1) Glaser and Strauss, (2) Glaser, (3) Strauss and Corbin, (4) Charmaz/Bryant, and (5) Clarke.

<sup>165</sup> Dey (1993) considers data analysis as an interactive process. Qualitative research analysis is often presented as a sequential process; however, in practice, it is a non-linear procedure. In reality, the researcher goes back and forth between five phases: reading and annotating, categorizing, linking and connecting, corroborating and producing an account (1993, 273).

<sup>166</sup> "Holistic Coding applies a single code to each large unit of data in the corpus to capture a sense of the overall contents and the possible categories that may develop" (Saldaña 2016, 165).

Figure 34 (below) is an example of the holistic coding for the interview performed with case #1, *Colmado Charina*. The main idea capturing the essence of what the entrepreneur said was “saving.” Therefore, coding as a lumpner, the whole paragraph was coded under “saving.” The example also shows each code’s number of direct coding references and the number of sources from which references emanate. In this sense, the example elucidates that “saving” is a well-developed idea by entrepreneurs with fourteen (14) references and seven (7) sources. At the same time, “risk-taking” appear just slightly in the data with one (1) reference from one (1) source.

**Figure 34. Example of the coding process for emerging codes in NVivo (excerpt)**



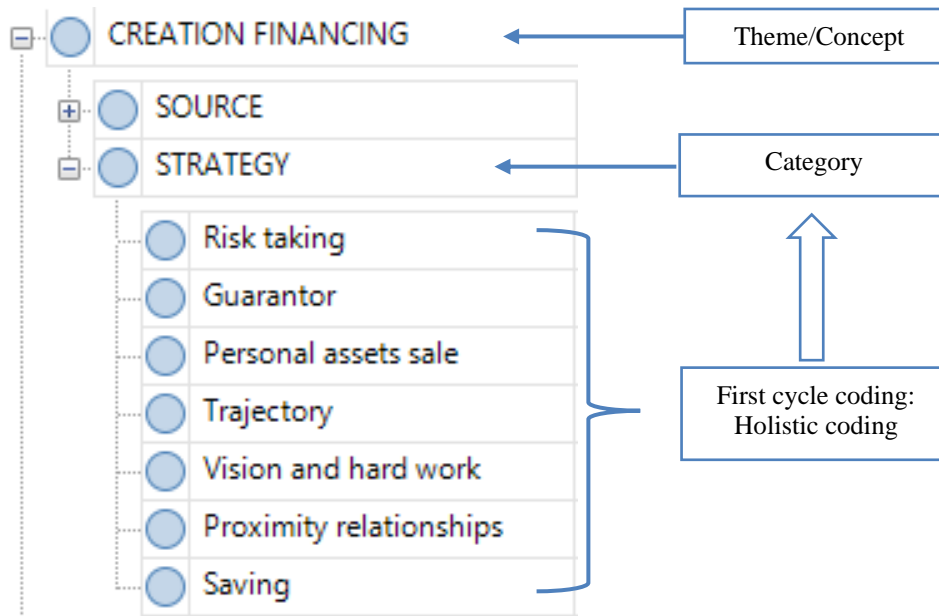
Source: Personal elaboration

The example above shows that the original Spanish versions of the data sources were the ones used for the analysis. However, the actual coding was in English. This is because of two main reasons. First, meanings would have gotten lost in translations (Hoffman 1990) if all the research material were to be translated from Spanish to English. Second, for pragmatic reasons. Once the data analysis was finished, key sources supporting the coding structure and categories were translated into English as close as possible to the originals to include them in this report.

Searching patterns with the codes and the data contributed to the emergence of categories. Concepts and themes were identified as the analysis progressed towards higher levels of

abstraction and theory-building. The process provided a hierarchy of codes and categories, as shown below.

**Figure 35. Example of a hierarchy of emerging codes and categories in Nvivo (excerpt)**



Source: Personal elaboration

Data within the first cycle codes were analyzed further with all cases to comprehend in-depth what was happening within each one of the codes and make data interpretation as efficient and grounded as possible. The table below provides an example of the coding performed after the first holistic coding for case #1. The column in the center offers the word-for-word quoted speech verbatim for the owner-manager of *Colmado Charina* that was first coded as a lumper. It presents three (3) paragraphs that, at the same time, represent three (3) references that relate to “saving” (holistic coding). The third column, from left to right, shows the detailed line-by-line “in vivo”<sup>167</sup> coding performed, capturing more in-depth what is happening with the data. They are in capital letters and quotation marks because they represent a code with the exact words or phrases said by the interviewee. They can also be spotted in bold in the verbatim column with their number. From these codes, the fundamental ideas were

<sup>167</sup> *In vivo code*: Concepts using the actual words of research participants. “When we think about it, this concept is very descriptive of what happens, and it would be difficult for the analyst to find a better term. When we use the words of respondents as a code, we call this an *in vivo code*, indicating that a concept is a term used by the participant. Language is often rich and very descriptive and worth paying attention to” (Corbin and Strauss 2015, 103, 116).

For more definitions and practical applications, see Saldaña (2016)



derived for interpretation. Detailed coding was conducted for the most relevant codes and followed their amount of coding references.

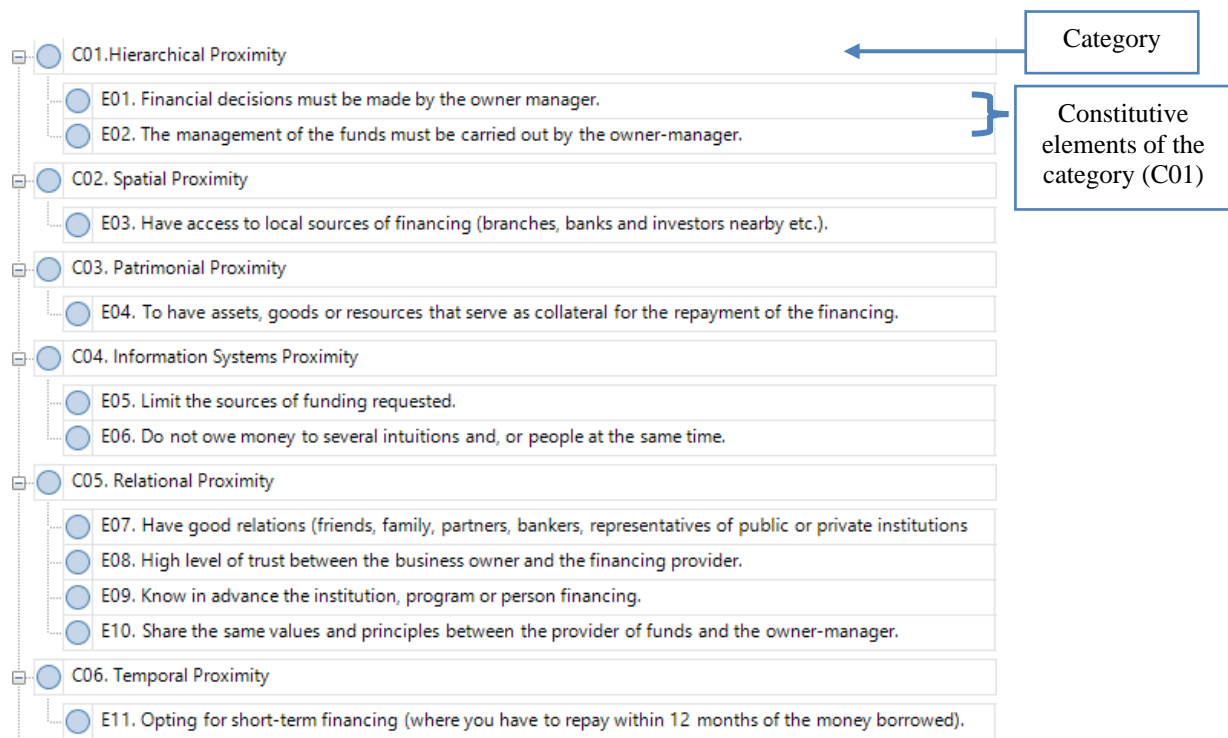
**Table 41. Example detailed coding for the emerging code “saving.” Excerpt Case #1: Colmado Charina**

CASE	VERBATIM: BUSINESS CREATION FINANCING STRATEGY: SAVING	DETAILED CODING
<p>Case#1: Colmado Charina</p>	<p>“Well, to create my business, well, I <sup>1</sup>first tried to save, to <sup>2</sup>create a base on my first years of work, then, after having the savings, I <sup>3</sup>launched my business and I <sup>4</sup>borrowed some more to give it a push. I think starting a business is <sup>5</sup>not favorable to start everything with loans. It does not work because the <sup>6</sup>credit eats the capital of the business. It’s good to have your <sup>7</sup>own capital, and then you borrow to continue moving forwards with the business. But you also ought to <sup>8</sup>have a money base.”</p> <p>“First, I <sup>9</sup>saved money to start my business. <sup>10</sup>Every time I start a business, I ought to have a <sup>11</sup>starting balance to get started and then <sup>12</sup>if I need credit, I take it to keep going.”</p> <p>“I saved and my first few years of work. I made a base, and then I bought my little grocery store, and from there, I have moved on. <sup>13</sup>But now is, on a loan-to-loan basis, I have over 20 years borrowing from banks. I <sup>14</sup>never stop borrowing for my current operations.”</p>	<p><sup>1</sup>“FIRST TRIED TO SAVE”  <sup>2</sup> “CREATE A BASE ON MY FIRST YEARS OF WORK”  <sup>3</sup>“LAUNCHED MY BUSINESS”  <sup>4</sup>“BORROWED SOME MORE TO GIVE IT A PUSH”  <sup>5</sup>“NOT FAVORABLE TO START EVERYTHING WITH LOANS”  <sup>6</sup> “CREDIT EATS THE CAPITAL OF THE BUSINESS”  <sup>7</sup> “OWN CAPITAL, AND THEN YOU BORROW”  <sup>8</sup>“HAVE A MONEY BASE”  <sup>9</sup>“SAVED MONEY TO START”  <sup>10</sup>“EVERY TIME”  <sup>11</sup> “STARTING BALANCE TO GET STARTED”  <sup>12</sup>“IF I NEED CREDIT, I TAKE IT TO KEEP GOING”  <sup>13</sup>“BUT NOW IS ON A LOAN TO LOAN BASIS”  <sup>14</sup> “NEVER STOP BORROWING FOR MY CURRENT OPERATIONS”.</p> <p><b>Key idea(s): launched the business with personal savings. Then borrowed to develop it.</b></p>

Source: Personal elaboration

Pre-established codes, commonly known as structural codes<sup>168</sup>, responded to a start list of codes that, instead of being a catalog of disjointed descriptors, represented a cohesive conceptual web that included more significant meanings and their characteristics (see Miles, Huberman, and Saldaña 2014). The scheme of codes was operationalized in two major ways. First, categories were specified, including their constitutive elements. Second, a rating scale from zero (0) to ten (10) was applied to each one of the category components.

**Figure 36. Example of a start list of codes in Nvivo (excerpt)**



C: Category  
E: Element

Source: Personal elaboration

<sup>168</sup> “Structural Coding applies a content-based or conceptual phrase representing a topic of inquiry to a segment of data to both code and categorize the data corpus. Structural Codes are generally foundation work for further detailed coding” (Saldaña 2016, 97).

**Table 42. Example operationalization of start list of codes. Excerpt question 24: “Indicate which of these criteria are determinant to access financing for micro or small businesses. 0 being unessential and 10 being indispensable”**

Criterion	0 It is not decisive	1	2	3	4	5	6	7	8	9	10 Indispensable
1. The owner-manager must make the financial decisions.	0	1	2	3	4	5	6	7	8	9	10
2. The owner-manager must carry out the management of the funds.	0	1	2	3	4	5	6	7	8	9	10
3. To have access to local sources of financing (branches, banks, investors nearby, etc.).	0	1	2	3	4	5	6	7	8	9	10
4. To have assets, goods, or resources that serve as collateral for the financing repayment.	0	1	2	3	4	5	6	7	8	9	10
5. Limit the sources of funding requested.	0	1	2	3	4	5	6	7	8	9	10
6. Do not simultaneously owe money to several intuitions and/or people.	0	1	2	3	4	5	6	7	8	9	10
7. Have good relations (friends, family, partners, bankers, and representatives of public or private institutions).	0	1	2	3	4	5	6	7	8	9	10
8. Have a high level of trust between the business owner and the financing provider.	0	1	2	3	4	5	6	7	8	9	10
9. Know in advance the institution, program, or person financing.	0	1	2	3	4	5	6	7	8	9	10
10. Share the same values and principles between the provider of funds and the owner-manager.	0	1	2	3	4	5	6	7	8	9	10

Source: Personal elaboration

The excerpt of question twenty-four (24) presented in table 42 shows the items corresponding to categories one (1) to five (5) in figure 36. These are hierarchical, spatial, patrimonial, information systems, and relational proximity.

During the interviews, the owner-manager did not know to which category the covered elements belonged. The idea was to focus on what they had to say spontaneously and without anything that might condition their responses. Furthermore, any input interviewees added for elements were recorded, transcribed, and studied. Thus, this type of structured questions provided numerical data concerning well-defined areas of interest and furnished narrative data, enriching the numbers and the various categories and elements with further coding and analysis. It is Dey’s (1993) number-meaning yin yang mentioned earlier—see figure 32.

The tabulation of numerical data was done in excel. Participants’ responses were entered in spreadsheets to compare them with one another and make frequency tables and graphs.

**Figure 37. Example tabulation of primary data in excel. Excerpt question 13: “Indicate from 0 to 10 if you manage your company based on the following criteria. 0 being never and 10 being always”.**

Q.13 ENTERPRISE MANAGEMENT BASED UPON		TOTAL	1	2	3	4	5	6	7	8	9	10	COMMENTS (SPECIFY CASES)
Hierarchical proximity	01. Beliefs	10	10	10	10	0	0	10	9	2			Case#05: No. I need numbers. I need data. Case#01: Takes into account team and employees' preferences, ideas and opinions if he sees potential. Case#02: Has preferences but does everything. She adapts. Case#05: No. It is not about what I prefer but rather what you have to do depending on the project. You are doing business.
	02. Preferences	10	5	9	10	6	0	0	0	8	5		Case#05: Has no preference. Case#08: I could have preferences, but I am rather towards what people are looking for. Nevertheless, there are direction and choices I make that are tied to my preferences and my taste instead of the market's tendencies. Case#02: 100%. To develop the zagon with massages and a wide range of services. Case#03: I want to grow more and more. Can be set at 20. Case#05: It is all about numbers. You must analyze the market and make decisions. Case#03: Important to progress.
	03. Desires	10	10	10	10	0	10	7	8	10			Case#07: Hard in this country. No expectations here. Case#08: How the business does depends on the owner-manager how he/she project himself or herself in the future. A business can have a lot of potential but depends on who manages it. Case#07: Want to progress.
	04. Expectations	10	9	10	10	8	10	4	7	10			Case#05: Essential sometimes you have to leave the project because there is no way to make it happen given the conditions you are facing. Case#05: Important because you have to consider them and try to overcome your limitations to progress and be better.
	05. Goals	10	10	8	10	10	3	10	7	8	9		Case#02: Risky woman to win. Case#05: Risk is important. You lend people and they don't pay you. So, it is important. Case#05: Risk is not necessarily yours but can also be external risk, and you have no control over. A bad politician, a bad economy, a weather catastrophe, a bad government comes and raises the dollar and you have debt in dollar you have to assume that responsibility and all these factors are risk. Case#10: You have to take risk to progress because sometimes we are the ones that limits ourselves and it really depends on each person's personality.
	06. Conditions	10	5	8	10	10	10	10	8	6	9		Case#01: Borrow to grow and to achieve goals otherwise there is no other way. Case#03: Does not like to borrow at all. Does not sleep. Case#04: Is not that I do not want, is that I have to because you have a reality you have to face. Case#05: I do not like to borrow. Case#05: No, but I'll have to, I do it. Case#05: I don't like to borrow but I'll have to do it. Whenever I have to buy merchandise and the capital is not there
	07. Degree of risk	10	9	10	6	8	10	10	8	7	10		
	08. Debt aversion	10	0	10	10	3	10	10	10	5	0		

Source: Personal elaboration

The figure above presents an extract of interviewees' responses tabulation for question thirteen (13). A total of ten (10) cases provided an answer for each one of the elements addressed. The table comprises entrepreneurs' ranking from zero (0) to ten (10) for the corresponding elements and synthesizes what they said about them. Taking the first criterion as an example, "beliefs," five (5) cases responded with ten (10), two (2) cases responded with nine (9), two (2) cases with zero (0), and one (1) with two (2). Case #5 was the only owner-manager who commented that he does not manage his enterprise based on his beliefs but with facts and numerical data. The exact working logic was applied to all elements. This organization facilitated comparisons and more efficiently picture what was happening with the data.

Once the tabulation was completed, frequency tables were created, synthesizing the data such as the one presented below.

**Table 43. Example frequency table question 13**

Q.13	ENTERPRISE MANAGEMENT BASED UPON	SCORE										TOTAL	
		0	1	2	3	4	5	6	7	8	9		10
Hierarchical proximity	01. Beliefs	2	0	1	0	0	0	0	0	0	2	5	10
	02. Preferences	2	0	0	0	0	2	1	0	1	2	2	10
	03. Desires	1	0	0	0	0	0	0	1	1	0	7	10
	04. Expectations	0	0	0	0	1	0	0	1	2	1	5	10
	05. Goals	0	0	0	1	0	0	0	1	2	1	5	10
	06. Conditions	0	0	0	0	0	1	1	0	2	1	5	10
	07. Degree of risk	0	0	0	0	0	0	1	2	2	1	4	10
	08. Debt aversion	2	0	0	1	0	1	1	0	0	0	5	10
	09. Strategy	0	0	0	0	1	0	0	1	0	2	6	10
	10. Other(s)	3	0	0	0	0	0	0	0	1	0	6	10

Source: Personal elaboration

From frequency tables, it was possible to identify the number of cases, or percentages of cases, responding in the different scale intervals: high, medium, and low. It also allowed putting together visualizations of the information to exhibit general and specific tendencies of the data.

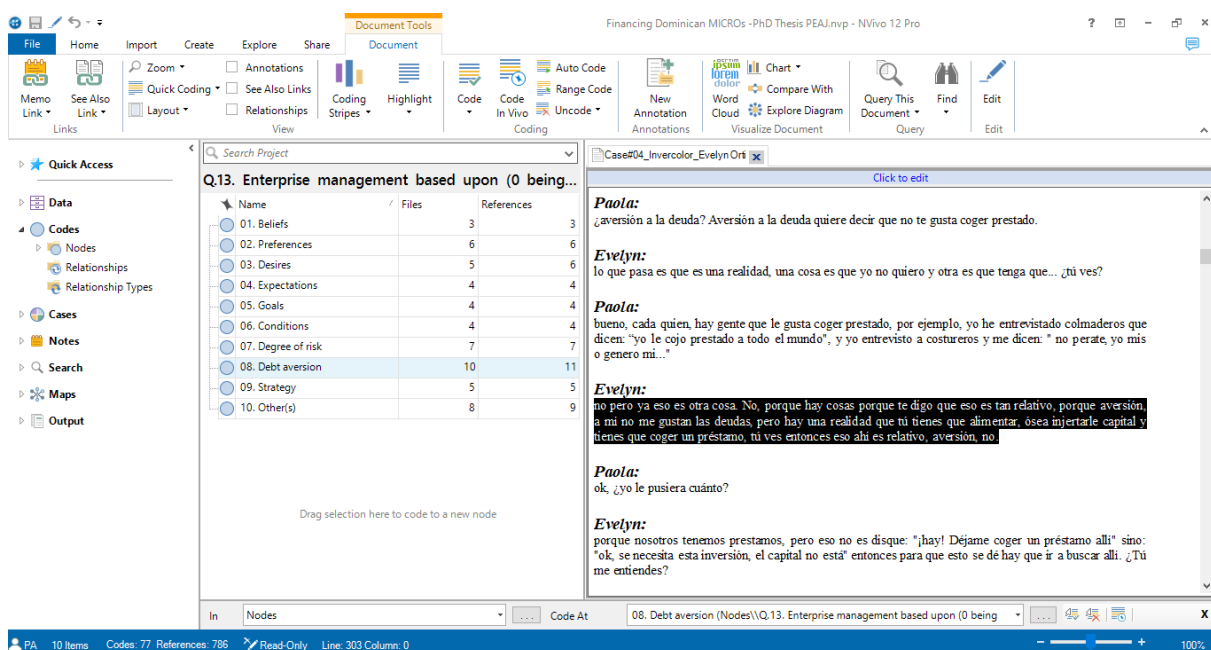
A wide variety of interpretations can be made from this frequency table. For instance, at first sight, it can be perceived that scores are towards the higher scale numbers. At least five (5) cases (or more) responded ten (10) on the scale for all elements except for preferences and degree of risk. 50% of the cases or more are found within the seven (7) to ten (10) intervals. This indicates that the elements addressed influence the enterprise's management from the

owner-managers perspective and experience. The same type of examination can be performed for the middle and lower ranges in the scale.

The analysis of the scaled questions did not limit itself to numeric responses. The entrepreneur’s comments were studied to gain a better understanding of what lay behind the numbers on the scale. This included coding the narrative data for each one of the pre-established elements. A holistic coding organization of the data within the structural codes (elements) prepared the grounds for a more detailed analysis. It highlighted the number of direct coding references for the elements. The interpretation came to be by combining numbers and meaning plus making constant comparisons with all units of analysis.

The figure below displays the coding performed in NVivo for pre-established codes. Owner-managers’ comments were coded holistically under the corresponding code as a lumpers. For example, in the image, the paragraph highlighted referring to the structural code “debt aversion” was coded as such. From this first coding cycle, the number of coding references for each code is displayed and the number of sources (“files” in the image) that support those references. After this first process, a more detailed line-by-line in vivo coding was performed for the most relevant codes—see, e.g., table 44.

**Figure 38. Example of the coding process for pre-established codes in NVivo (excerpt)**



Source: Personal elaboration

**Table 44. Example detailed coding for the structural code “debt aversion.” Excerpt Case #4: Invercolor**

CASE	VERBATIM: DEBT AVERSION AS A CRITERION USED TO MANAGE THE MICROENTERPRISE	DETAILED CODING
Case #4: Invercolor	<p>“It’s just that <sup>15</sup><b>it’s a reality</b>. One thing is that I <sup>16</sup><b>don’t want to borrow</b>, and another thing is that I <sup>17</sup><b>have to</b>. You see what I mean?”</p> <p>“No, because there are things that I tell you that <sup>18</sup><b>it is so relative</b>, because aversion, I <sup>19</sup><b>don’t like debt</b>, to borrow but there is a <sup>20</sup><b>reality that forces you to inject capital and feed the business</b>. You have to, then, take a loan, you see? So then that is so relative, but aversion, no. Because we <sup>21</sup><b>have loans now, but</b> that is not like: “hey! Let me go take a loan here or there”. It is more like: “ok, we <sup>22</sup><b>need to make this investment, and there is no capital available</b>,” so <sup>23</sup><b>for that to happen, we need to go get the funding needed</b>. Do you understand me?”</p>	<p><sup>15</sup> “IT’S A REALITY”</p> <p><sup>16</sup> “DON’T WANT TO BORROW”</p> <p><sup>17</sup> “HAVE TO”</p> <p><sup>18</sup> “IT IS SO RELATIVE”</p> <p><sup>19</sup> “DON’T LIKE DEBT”</p> <p><sup>20</sup> “REALITY THAT FORCES YOU TO INJECT CAPITAL AND FEED THE BUSINESS”</p> <p><sup>21</sup> “HAVE LOANS NOW, BUT”</p> <p><sup>22</sup> “NEED TO MAKE THIS INVESTMENT, AND THERE IS NO CAPITAL AVAILABLE”</p> <p><sup>23</sup> “FOR THAT TO HAPPEN, WE NEED TO GO GET THE FUNDING NEEDED”</p> <p><b>Key idea(s): dislike borrowing but has to borrow to develop the business.</b></p>

Source: Personal elaboration

In conclusion, the data analysis in this thesis followed four (4) major stages regardless of semi-structured or closed questions. These phases were organizing, reading, comparing, and interpreting the data. It aimed for theory generation grounded on data, constructing meaning from the participants’ worldviews, and informed by the existing literature to offer the most likely explanation given the evidence and information available.

### Section 3: Ensuring the research quality

The last section of this chapter aims to explain the quality system sustaining this research work.

It begins by reflecting on the challenges researchers face using qualitative methodologies instead of traditional, quantitative methods and objectivist philosophical stances. It is explained that despite the debates and rivalry existing on the matter, all scientific research must apply principles that assure its quality and ethics.

Next, the section focuses on how research quality is ensured in this thesis work and divides into four parts. First, it explains the research reliability. Second, it addresses validity, including construct, internal and external validity. Third, it discusses the research reflexivity, and last, it comments on crucial ethical considerations.

There has always been a challenge to defend the quality of qualitative research. Often marked as biased and ungeneralizable, qualitative research has been criticized for not adhering to positivists' traditional canons of reliability and validation (Margaret D. LeCompte and Goetz 1982)<sup>169</sup>. Quantitative researchers have undervalued qualitative research for many reasons. Some of these include (see Morse 2018, 1378–79):

- Absence of hypotheses,
- Absence of control groups,
- Lack of randomization,
- Small sample size and bias in purposeful sampling,
- Lack of standardized data collection protocol and instruments,
- Absence of standard analytic procedures for coding and scoring data,
- Lack of measurements for determining results,
- Apparently, arbitrary formation of results,
- Lack of reproducibility and,
- Absence of generalizability.

Any research must demonstrate rigor regardless of its methodology or philosophical paradigm. Aware of the widespread acceptance of quantitative data and objectivist standpoints

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<sup>169</sup> Shipman (1997) details the limitations and controversies in social research.



of science, some qualitative researchers may opt for utilizing traditional terms for research quality (Creswell and Poth 2018). However, several authors defend that validity and reliability cannot be addressed the same way in naturalistic work, which aims to generate an understanding of social phenomena in context-specific settings (see, e.g., Yonge and Stewin 1988; Stenbacka 2001; Horsburgh 2003; Golafshani 2003; Shenton 2004; Steinke 2004). Guba and Lincoln (1994) support that each research paradigm is governed by its quality terms<sup>170</sup>. Healy and Perry (2000) also defended this idea.

Creswell and Miller explain that a researcher's choice of validity is guided by "the lens researchers choose to validate their studies and the researchers' paradigm assumption" (2000, 124). In this sense, it is not surprising to see qualitative and quantitative researchers and positivists, and constructivists give each other their backs when evaluating the quality or "goodness" of research work. Each one keeps a defensive stance for its criteria; they differ. "The battles in this domain have been extensive, and they continue" (Miles, Huberman, and Saldaña 2014, 271). "The debate of who is right or wrong is not simple" (Yonge and Stewin 1988, 63).

Usually, qualitative researchers that adhere to positivist and quantitative equivalents of quality will opt for terms such as reliability and validity. On the other hand, constructivists will defend their research trustworthiness by alternative terms like credibility, transferability, dependability, confirmability, and authenticity (see Guba 1981; Guba and Lincoln 1981; 1982; 1985; Lincoln 1995). However, in practice, qualitative researchers have to find their way "through a mass of conflicting positions" (Seale 1999, 466).

Creswell and Poth (2018) urge researchers to comprehend the literature's traditional and contemporary quality perspectives to inform their work better. To this end, the authors provide some of the many viewpoints to validate researchers' use in qualitative research<sup>171</sup>. For them, the researcher needs to choose the criteria with which they feel more comfortable and agree that validation is a representation by the author. In sum, they "recommend [researchers] using multiple [accepted] validation strategies [to document the accuracy of their studies] regardless of type of qualitative approach [: narrative, phenomenological, grounded theory, ethnographic, or case study research]" (Creswell and Poth 2018, 339). For example, Miles and Huberman

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<sup>170</sup> See also Lincoln, Lynham, and Guba (2018).

<sup>171</sup> A comprehensive review of the strategies endorsed for "Good" qualitative research was provided by Cohen and Crabtree (2008), where the authors analyzed the Health Care Journals and Frequently Referenced Books and Book chapters from 1980 to 2005. The list is available online (<https://www.annfamned.org/content/suppl/2008/07/09/6.4.331.DC1>).

(1994) and Miles, Huberman, and Saldaña (2014)<sup>172</sup> subscribe to a broad approach to quality paring traditional and alternative terms. They discuss five (5) somewhat overlapping issues in the literature. These ones are: “the objectivity/confirmability of qualitative work, reliability/dependability/auditability, internal validity/credibility/authenticity; external validity/transferability/fittingness; and utilization/application/action orientation” (1994, 277–80; 2014, 271–75).

Despite being governed by a constructivist/naturalistic paradigm, this thesis does not subscribe to Guba and Lincoln’s quality criteria introduced by the author in the 1980s to the mid-1990 (Guba 1981; Guba and Lincoln 1981; 1982; 1985; Lincoln 1995). This is mainly because it does not comply precisely with the audit approach specifications required due to limited resources (see table below). In addition, the auditing process may be very demanding for the auditor given the extensive data sets (Bryman 2012), not to mention that several audits can be performed for one study. It is worthwhile mentioning that we do not discard the possibility of applying these criteria in future research.

According to Guba and Lincoln (1985), the techniques for establishing trustworthiness in a naturalistic inquiry are credibility, transferability, dependability, confirmability, and a reflexive journal. A detailed summary for each criterion is provided in the table below from the authors’ original writings (see Guba 1981; Guba and Lincoln 1985, 289–327).

**Table 45. A detailed summary of Guba’s (1981) and Guba and Lincoln’s (1985) criteria for evaluating naturalistic inquiry trustworthiness**

Quality criterion	Achieved by
Credibility (which parallels internal validity)	<p>1. <i>Activities increasing the probability that credible findings will be produced:</i></p> <ul style="list-style-type: none"> <li>• <i>Prolonged engagement:</i> learning the culture and context, building trust, getting involved with the site(s), and being an accepted group member. Provides scope.</li> <li>• <i>Persistent observation:</i> identifying (and focusing on detail in) the most relevant characteristics and elements to the problem or issue. Provides depth.</li> <li>• <i>Triangulation:</i> the use of multiple and different sources (e.g., multiple copies of one type of source –such as interview respondents– or different sources of the same information), methods (e.g., interview, questionnaire, observations, testing), and investigator (i.e., multiple investigators as part of the research team).</li> </ul> <p>2. <i>Peer debriefing:</i> analyzing with a disinterested peer helps the researcher remain “honest.” Playing the devil’s advocate. There is no formula for how the debriefing session should be conducted.</p>

<sup>172</sup> Miles, Huberman, and Saldaña (2014) reviewed 26 tactics for evaluating a qualitative research quality to position themselves in a broad perspective combining traditional and contemporary terms.

	<p>3. <i>Negative case analysis</i>: refining hypotheses until it accounts for all known cases without exceptions. Hypotheses must “fit” perfectly to all cases. Thus, exceptional cases are reduced to zero (whenever possible).</p> <p>4. <i>Referential adequacy</i>: Archiving raw data for later retrieval once tentative findings have been reached. It helps to test the validity of conclusions and demonstrate that further analysis can reach similar conclusions.</p> <p>5. <i>Member checks (in-process and terminal)</i>: Data, analytic categories, interpretations, and conclusions are tested by the members from whom the data were initially collected. Member checking is both informal and formal, and it occurs continuously. It is the most crucial technique for establishing credibility. The investigator is not bound to honor all of the criticism mounted, but he/she is bound to hear them and weigh their meaningfulness. As a result, checkers may agree that reconstructions are fair even if they do not agree with them.</p>
<p><i>Transferability</i> (which parallels external validity or generalizability)</p>	<p>Providing thick descriptions necessary to enable someone interested in making a transfer to conclude whether the transfer can be contemplated as a possibility. The criteria for determining a “proper” thick description in naturalistic inquiry are still to be defined.</p>
<p><i>Dependability</i> (which parallels reliability)</p>	<p>Having an auditor or several auditors perform two tasks. First, examine the process of the inquiry and attest to its <i>dependability</i>. Second, inspect the product of the inquiry—the data, findings, interpretations, and recommendations—and attest that the data support it and is internally coherent so that it may be accepted-i.e., confirmability.</p>
<p><i>Confirmability</i> (which parallels objectivity)</p>	<p>Indicating the extent to which the study’s data and interpretations are grounded in events rather than the inquirer’s constructions. Three techniques are advised: confirmability audit, triangulation, and keeping a reflexive journal. The authors develop in-depth the auditing process to be performed based upon Edward S. Halpern’s auditing concept operationalization presented in his dissertation at Indiana University in 1983. This auditing concept is called the Halpern algorithm. The information provided highlights two key points: the audit trail and the audit process.</p> <p>1. <i>The audit trail</i>: making available the records stemming from the inquiry for auditing. This includes raw data, data reduction and analysis products, data reconstruction and synthesis products, process notes, materials relating to intentions and dispositions, and instrument development information.</p> <p>2. <i>The audit process</i>: tasks to be performed by the auditee and the auditor. The auditing process follows five stages. These are:</p> <ul style="list-style-type: none"> <li>• <i>Pre-entry</i>: Selecting the desired and helpful auditor and reaching an agreement. The auditor must possess some rather unique characteristics. First, be sufficiently sophisticated to act in such a role (in the methodological and substantive arena). Have sufficient experience to be trustworthy, whose judgments can be accepted as valid, and who is a disinterested party. Must be sufficiently close in peer status to the auditee that one does not dominate the other (hold similar credentials and bases of power).</li> <li>• <i>Determination of auditability</i>: auditor gets familiar with the project (the problem investigated, paradigmatic and methodological approaches, findings, conclusions) and the audit trail. The auditor must be satisfied that the audit trail is complete, comprehensible, sound, and linked.</li> <li>• <i>Formal agreement</i>: formal written agreement on what is to be accomplished by the audit. It establishes the time limit for the audit, the goals, roles for auditor and auditee, logistics, outcomes, format, and renegotiation criteria.</li> <li>• <i>Determination of trustworthiness</i>: reaching assessment of <i>dependability</i> and <i>confirmability</i> and making a secondary–external–check on credibility. To assess confirmability, the auditor will evaluate whether findings are grounded in the data, whether inferences based on the data are logical, whether the category structure is clear and valuable, the degree and incidence of inquirer bias, and the auditee’s accommodation strategies. To assess dependability, the auditor will: evaluate the appropriateness of inquiry decisions and methodological shifts, inquirer bias is again reviewed, if the study may have been influenced by Pygmalion and Hawthorne effects sampling decisions, and triangulation process are reviewed as well as the overall design.</li> <li>• <i>Closure</i>: feedback, renegotiation, and writing of a final report. Review of the auditor’s findings with the auditee. The auditor must prepare a letter of attestation.</li> </ul>

<i>Reflexive journal:</i>	Broad-ranging application of all four areas above. Keeping a diary that registers information about self and method daily or as needed. This includes the following: (1) the daily schedule and logistics of the study, (2) a personal diary, and (3) a methodological log.
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Source: Personal elaboration with details derived from Guba (1981) and Guba and Lincoln (1985)

Regardless of the qualitative research undertaken, Hlady Rispal (2002) indicates that researchers must be aware of the advantages and disadvantages of the methods used and take the necessary measures to minimize their deficiencies. She elaborates by saying that a quality system in research is a must and highlights the terms of reliability and construct, internal and external validity to achieve it; plus, she includes practical advice. This thesis subscribes to these quality terms, also advanced by Yin (2018) and Drucker-Godard, Ehlinger, and Grenier (2014). Next, we address each criterion and explain the necessary precautions taken to ensure this research quality.

## **1. Reliability**

*Reliability* is generally defined as “the extent to which a measurement procedure yields the same answer however and whenever it is carried out” (Kirk and Miller 1986, 1:19). “The essence of reliability is consistency through repetition” (Dey 1993, 258).

Achieving reliable results is an issue for qualitative research because it is governed by human judgment (see Schutz 1958), and there are no standard procedures to follow (Steinke 2004). For example, how can the same results be obtained if the study was reproduced (using the same procedures and similar context) by another researcher (with different political views at a different time and place)? (see Shipman 1997). A study claiming to be reliable yields the same answer every time it is performed.

To mitigate this reliability dilemma, Yin (2018) advises documenting the procedures followed and making them as explicit as possible to facilitate other researchers to replicate the study.

This research provides details on each critical methodological aspect necessary if replication is to be performed in the future. It goes over the most general characteristics to the

most technical and specific ones<sup>173</sup>. It provides thick descriptions of the context studied, how cases were defined and selected, which enterprises comprise the sample, how inferences were made, and which sources were used. It includes the instruments and techniques employed for collecting data, the interview transcriptions, how data analysis was performed, what contributions the work promises, and its limitations.

Metaphorically, this thesis was performed as if an auditor was looking over our shoulders (Guba and Lincoln 1985; Yin 2018). Regardless of its emerging design, the whole research process was made as rigorously and explicitly as possible to facilitate replication and arrive at consistent conclusions.

## 2. Validity

Research claiming valid results asserts that they are true and certain (Schwandt 2007). This is because they are correct (Kirk and Miller 1986) and measure what they intend to measure (Carmines and Zeller 1979; Golafshani 2003)<sup>174</sup>. According to Schwandt (2007), this means that findings represent the phenomena studied and are backed by evidence. Therefore, the research results accurately reflect the truth (Shipman 1997)<sup>175</sup>.

It is relevant to highlight that reliability and validity are not the same. A reliable study that guarantees to arrive at the same results anytime it is conducted does not imply that results are valid—i.e., true and certain. Study results may be reliable but false. Thus, quality research must show the truth about the studied phenomenon constantly. This means the research is valid and reliable (even though traditional quality terms are used here to make this point).

As seen previously, no consensus or standard set of criteria can guarantee the validity of qualitative research. Each author advances the terms that make more sense to them, given the specificities of the study and the ones with which they will feel more comfortable (Steinke 2004; Creswell and Poth 2018). This thesis uses the terms construct, internal, and external validity.

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<sup>173</sup> For a synthesis, see table 46, “Paradigm, methodological, and quality considerations framing this research –in a nutshell” (pages 263-267).

<sup>174</sup> According to Creswell and Miller (2000), qualitative research validity can generally be achieved using nine techniques or procedures. These are: (1) doing triangulation; (2) examining disconfirming evidence; (3) detailing the researcher’s assumptions, beliefs, and biases; (4) doing member checking; (5) having a prolonged engagement in the field; (6) involving participants in the study to collaborate; (7) establishing an audit trail with clear documentation of all research decisions and activities; (8) providing thick, rich descriptions; (9) doing peer debriefing with someone familiar with the research or phenomenon.

<sup>175</sup> Campbell and Stanley (1963) list the threats to internal and external validity in research in the context of experimentation.

## **2.1. Construct validity**

Construct validity or theory validity is achieved when the researcher clearly defines the concepts used in the project and ensures adequate operational measures to assess and evaluate it (Hlady Rispal 2002; Yin 2018).

Defining the concepts used guarantees there is no misunderstanding and that everyone has the same bases on them. It is a way of making sure everyone is on the same page. To accomplish this, the researcher relies on well-recognized authors in the field of interest. This thesis does just that. For example, the term “small business” is not used deliberately in this research. Instead, it used the literature to clarify what a small business means and which definition was adopted. The same was true for these businesses financing practices.

Triangulation and maintaining a chain of evidence are other practices that ensure construct validity when conducting case studies (Hlady Rispal 2002; Yin 2018). This thesis uses triangulation of methods (e.g., observations, interviews, and documents), data sources (which include time, space, and person), and data types (e.g., qualitative texts, audio/video recordings, quantitative data) to strengthen its construct validity (see Denzin 1978; Miles, Huberman, and Saldaña 2014). In addition, the chain of evidence was maintained by exposing the path taken from beginning to end and the links between the research objectives, evidence, and findings.

## **2.2. Internal validity**

Internal validity and causal relationships between variables are primarily used in the experimental arena. For example, if a study suggests that variable  $x$  causes  $y$ , is there a certainty that this causality exists between these two variables, or is something else causing it (Bryman 2012)? Thus, internal validity will be concerned with the extent to which the causal relationship between an independent variable ( $x$ ) and a dependent variable ( $y$ ) is true and clear. No other variable or variables can cause  $y$  besides  $x$ .

In qualitative research, internal validity will deal with the trustfulness of representations about the phenomena under study (Miles and Huberman 1994). How do coherent findings represent or match the reality under investigation? Results make sense when compared to what is happening and where data was collected.

This research relied on four (4) principal tactics to strengthen the internal validity of the results. These are:

- Doing triangulation
- Analyzing disconfirming evidence or negative cases
- Seeking participants' feedback (in data and interpretations) and,
- Doing referential adequacy

As mentioned on several occasions, this thesis performs triangulation of methods, sources, and data types. Doing triangulation permitted arriving at corroborating evidence from multiple views to make interpretations (see Guba and Lincoln 1985; Miles and Huberman 1994; Creswell and Miller 2000; Hlady Rispal 2002; Gibbs 2007; Miles, Huberman, and Saldaña 2014; Patton 2015; Yin 2018).

Analyzing disconfirming evidence or negative cases allowed including all cases in the conclusions raising the theoretical level of results (see Guba and Lincoln 1985; Eisenhardt 1989; Miles and Huberman 1994; Creswell and Miller 2000; Ritchie, Lewis, and El am 2003; Patton 2015; Yin 2018).

Seeking participants' feedback was performed in two fundamental ways. First, during the interviews, the researcher summarized to entrepreneurs what she understood and recorded what had been said (see Hlady Rispal 2002). The idea was to obtain the participants' direct validation that accurate evidence was being collected. Second, once the data was examined, a detailed summary of the analysis and conclusions were sent to entrepreneurs for feedback (see Guba and Lincoln 1985; Miles and Huberman 1994; Creswell and Miller 2000; Hlady Rispal 2002; Gibbs 2007; Miles, Huberman, and Saldaña 2014). Finally, the analysis, findings, and final contributions were reviewed, considering participants' reactions.

According to Guba and Lincoln (1985), getting participants' confirmation that representations are accurate is one of the most crucial techniques to establish findings' credibility (internal validity) in naturalistic research. Yonge and Stewin (1988, 64) add that credibility is achieved when "participants involved in the research read descriptions and immediately recognize the lived experiences to be their own; the description may be of another participant, but it is believed it could be that of the reader himself."

Another appropriate technique to enhance internal validity in this research was referential adequacy (Guba and Lincoln 1985). Data collected from cases were archived for later retrieval.

Once tentative findings were reached, the researcher returned to the data several times to reaffirm the accuracy of interpretations.

Other procedures implemented included: prolonged engagement in the field, doing persistent observation, providing detailed and thick descriptions, clarifying possible biases, and doing peer debriefing—e.g., in research team meetings, doctoral workshops, and with thesis follow-up committee in the doctoral school—(see Guba and Lincoln 1985; Creswell and Miller 2000).

### **2.3. External validity**

External validity is concerned with generalizability (Campbell and Stanley 1963), a quantitative validity perspective. The question is: Can the sample generalize results to the whole population of interest or other relevant/similar settings?

No case study research can assert that its finding can be generalized in the same sense quantitative researchers would. This is because case study research is a qualitative approach that aims to analyze a limited number of cases in-depth. Sometimes there is only one case under study because the chosen case is critical, unusual, familiar, revelatory, or longitudinal (see Yin 2018). Cases are selected to understand a phenomenon and generate theory within specific contexts; for their theoretical relevance to accomplishing the research objectives (Ritchie, Lewis, and El am 2003). Generalizability in this sense is perceived instead as analytic or naturalistic generalizations (Stake 1978; Yin 2014; see also Lincoln and Guba 2000) and not generalizability in a quantitative sense.

With these considerations in mind, this research provides detailed and thick descriptions so that results can be transferred to similar or particular settings (see Guba and Lincoln 1985; Lincoln and Guba 2000; Creswell and Miller 2000).

The following section addresses the research reflexivity and ethical considerations, two relevant elements that can be added to the notions of quality in qualitative studies.



### 3. Research reflexivity

Qualitative research accepts the subjectivity of researchers, and the people studied (Baumard and Ibert 2014). It is research based on interpretations and human judgment and, therefore, tied to participants' idiosyncrasy. In this respect, practicing reflexivity in qualitative research is increasingly acknowledged in the literature of quality and rigor and can be used to improve transparency and legitimize the research procedures and findings (Pillow 2003; Darawsheh 2014).

In a methodological sense, it is advised for a qualitative researcher to reflect on the social, cultural, and historical forces shaping interpretations in addition to the personal values, assumptions, beliefs, biases, and theoretical predispositions that may influence the research (see Guba and Lincoln 1985; Creswell and Miller 2000; Schwandt 2007; Jootun, McGhee, and Marland 2009; Haynes 2012; Creswell and Creswell 2018).

This process of critical reflection is essential for a naturalistic inquirer because he/she is intimately involved in the research process and product (Horsburgh 2003). He/she "is one and [at] the same time instrument [creator and] administrator, data collector, data analyst, and data interpreter" (Guba and Lincoln 1981, 128). It is an exercise that allows self-awareness that a researcher is more than an investigator applying procedures mechanically. He/she is a human being, a thinking being. He/she has a personality, an identity, a history that has shaped him/her, and as human beings, quite often—not to say constantly—what we see and do is a manifestation of what we are. Our paradigms—and values—govern us, and we see and examine the world through our paradigmatic lenses regardless of our roles—e.g., personal, professional, family, and social.

It is a necessary consideration because "social research is about humans investigating humans," and thus, "there are [...] many routes to understanding the human condition" (Shipman 1997, 3). Not to mention that "complexity and contradiction are elemental to human existence and thus unavoidable" (Horsburgh 2003, 309).

Pillow (2003) raises some interesting questions reflexivity addresses in a qualitative study. These are related to the researcher's subjective role and his/her ability to represent what the research claims to portray. The questions are the following: "how does who I am, who I have been, who I think I am, and how I feel affect data collection and analysis?" and "can we truly represent another? Should this even be a goal of research? Whose story is it—the researcher or

the researched? How do I do representation knowing that I can never quite get it right?” (2003, 176). Reflexivity “provides insight on how knowledge [...] is produced” and “questions [the research] own interpretations” (Pillow 2003, 178).

This research was carried out reflecting on these matters. It was a task performed with high sensitivity and open-mindedness. The primary objective was to understand where participants—including the researcher—were coming from and minimize the research biases.

When encountering entrepreneurs, the fundamental goal was to build and sustain an atmosphere of mutual trust, where they felt comfortable and wanted to engage in the project genuinely and share their honest lived experiences. With no judging, no evaluation, to avoid narrow responses or implications on their part—i.e., participant bias—or any possible alteration on how they will perform in the interviews and other exchanges—i.e., participant error.

The researcher remained broad-minded absorbing information without prejudice (Corbin and Strauss 2015) and comprehending what was being said, presented, or evidenced. Questions were designed as straightforward and unbiased as possible (Bradburn, Sudman, and Wansink 2004). During the interviews, queries were rephrased when needed. Furthermore, direct confirmation of what was being understood was obtained from entrepreneurs on the spot (Hlady Rispal 2002). Additional formal and informal exchanges were carried out to validate ideas and proposals from interviewees. Field notes and recordings were reviewed on several occasions as well. These measures avoided any factors that could have altered the researcher’s interpretation—i.e., research error. Moreover, interviews were recorded and transcribed to register without faults entrepreneurs’ responses and escape research bias.

Practicing reflexivity in qualitative research is a complex exercise. Besides, there are no standardized practical guidelines on how or when to employ it (Pillow 2003; Darawsheh 2014)<sup>176</sup>. Detaching oneself from preconceptions is not a simple task regardless of how open-minded and tactful one can be as a human being, how rigorously one attaches to the researcher’s role, and how distant and objective one would like to be. Stepping outside of our own beliefs or worldviews is perhaps impossible. In management research, for instance, no researcher can disengage from his/her own ontological and epistemological positions (see P. Johnson and Duberley 2003). At the same time, it is unrealistic to acknowledge that researchers do not

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<sup>176</sup> Jootun, McGhee, and Marland (2009) provide several key actions to promote reflexivity in qualitative research. Haynes (2012), on her part, specifies some strategies that can be implemented for reflexive awareness.

influence and get influenced by participants and the experience of doing the research (see Guba and Lincoln 1989; Dowling 2006; Jootun, McGhee, and Marland 2009).

Reflexivity transcends the mere reflection of the research process and its outcomes and enables us to “think about [the] thinking” (Haynes 2012) that is framing our research. It recognizes that researchers are inevitably part of the social world they study and contribute to the construction of meaning (Guba and Lincoln 1985; Horsburgh 2003; Jootun, McGhee, and Marland 2009; Palaganas et al. 2017), one that is value-bound (Guba and Lincoln 1985), and where an objective, “exteriorized” stand is questionable (Guba and Lincoln 1989).

#### **4. Ethical considerations**

Research ethics has become increasingly important in qualitative research in recent years. It is not intended here to go over the different philosophical approaches to ethics, the debates on the matter, or the ethical dilemmas or scandals generated by some qualitative studies<sup>177</sup>. It is acknowledged that there is more to say about ethics than what is discussed here. Instead, this section focuses on the ethical considerations framing this research.

Besides the different approaches to “ethics,” most people know what it should mean. Often, the notions of what is right or wrong or good or bad are evoked. However, of course, answering these questions is a highly complex task. It all depends on the context and the participants engaging in the conversation.

*Ethics* is defined as “the branch of philosophy which addresses questions about morality,” and “morality is concerned with [the] intentions and actions [that] are good (or the right thing to do) [and] with those that are bad or wrong” (Wiles 2013, 4). Research ethics is thus “concerned with moral behavior in research contexts” (Wiles 2013, 4)<sup>178</sup>.

According to Hammersley and Traianou (2012), research ethics in qualitative studies is a form of occupational ethics governed by intrinsic and extrinsic values. They add that intrinsic values are related to the fundamental goal of researchers: producing knowledge. One that is relevant, valid, and discloses the truth. Thereby, researchers must take the necessary measures to enhance the quality of their research findings. Concerning extrinsic values, the authors align

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<sup>177</sup> For some examples, see Hammersley and Traianou (2012).

<sup>178</sup> See Yin (2016) for examples of codes of ethics in qualitative research from six professional associations (excludes items on the protection of human subjects).

with what most writings in qualitative research ethics focus on: protecting the research participants through minimizing harm, obtaining informed consent, maintaining confidentiality, anonymity, and privacy, and developing trust<sup>179</sup>.

This research's ethical commitment builds upon the basis of intrinsic and extrinsic values, as indicated by the authors.

Besides, no perfect validity exists when doing research (see Drucker-Godard, Ehlinger, and Grenier 2014); precautionary measures were taken in this study to maximize arriving at valid results and facilitate their replication<sup>180</sup>. In addition, the intention was to produce value-relevant knowledge—for human beings—with dedication, objectivity, and independence (Hammersley and Traianou 2012).

Three measures were considered regarding the extrinsic values to protect research participants: obtaining informed consent, minimizing harm, and developing trust.

Informed consent is perhaps the most recurrent technique advanced in the research ethics literature and was central in this research. It “involves providing participants with clear information about what participating in [the] research project will [imply] and giving them the opportunity to decide whether or not they want to participate” (Wiles 2013, 6)<sup>181</sup>. Thus, it is consent that is (1) informed and (2) voluntary (Israel and Hay 2006).

This research respected the autonomy and freedom of the people studied (Hammersley and Traianou 2012) from start to end. Entrepreneurs were informed about the study's objectives, relevance, and implications when looking for Dominican microenterprises to participate. It was stressed that it was an academic work committed to providing relevant knowledge about microbusinesses' financing in the Dominican Republic and that no other use of the data would be made without their consent. This information was recalled before starting the interviews as well. Only entrepreneurs who agreed to participate were considered and were allowed to withdraw from the study if they changed their minds in the future. The information used was loyal to what owner-managers shared to strengthen transparency, including the enterprise and

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<sup>179</sup> Some examples include but are not limited to the following publications: Loue (2000), Laine (2000), Bradburn, Sudman, and Wansink (2004), Hopt (2004), Israel and Hay (2006), Gibbs (2007), Macfarlane (2009), Oliver (2010), Van den Hoonaard and Van den Hoonaard (2013), Wiles (2013), Tomas, Paoletti, and Menendez (2013), Miles, Huberman, and Saldaña (2014), Yin (2018), Patton (2015), Corbin and Strauss (2015), and Creswell and Creswell (2018). Other references to ethics are Long and Johnson (2007), Flynn and Goldsmith (2013), and Iphofen and Tolich (2018). Furthermore, Wiles (2013) provides a list of references and resources on research ethics at the end of her book.

<sup>180</sup> See previous sections on reliability and validity (pages 250-254).

<sup>181</sup> “When is consent ‘informed’? Unfortunately, there does not appear to be agreement on the answer to this question. It is generally thought that the amount of information supplied to the respondent should be proportional to the amount of risk involved” (Bradburn, Sudman, and Wansink 2004, 14).

demographic details<sup>182</sup>. Furthermore, they had the right to request the data concerning them at any time and could contact the researcher if needed or desired.

Informing entrepreneurs about the project (and making it voluntary) was vital because this research goal was to respect and do no harm to the research volunteers, as advanced by Sieber and Tolich (2013) and others. Participants' time and opinions were valued, and besides causing harm, the objective was to keep win-win relationships between the researcher and owner-managers.

Mutual trust was installed during the research process—mainly during interviews. This trust made participants comfortable with the researcher and the project itself. It was highlighted that there were no right or wrong answers and that only their honest feedback mattered. As a result, entrepreneurs did not feel judged and therefore felt more relaxed providing honest answers and enjoying the interviews.

As seen in this section, specific guidelines can be drawn from the literature to comply with ethical procedures that satisfy committees, such as informed consent, respecting autonomy, protecting privacy, and doing no harm. Nevertheless, while they aim to protect the individual subjects being investigated, these last ones fail to fully address ethical dilemmas that may arise in social research practice. Guillemin and Gillam (2004) start their paper with an example that pictures this situation. The authors say the following:

“Picture this scene. You are a researcher working on a study examining women’s experiences of heart disease. You are interviewing Sonia, a woman in her late 40s with diagnosed heart disease. Sonia lives on a remote farming property in a rural region. She is married and has one teenage daughter living at home with herself and her husband. The interview is progressing well. Over a cup of tea in Sonia’s kitchen, you inquire about the impact of heart disease on her life. Sonia stops and closes her eyes. After a few moments’ silence, you notice tears welling up in Sonia’s eyes. Sonia tells you that she is not coping—not because of her heart disease, but because she has just found out that her husband has been sexually abusing her daughter since she was a child” (Guillemin and Gillam 2004, 261).

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<sup>182</sup> “Indeed, in some types of research, identifying research participants is accepted practice” (Wiles 2013, 42). Plus, “there is an increasing trend in research towards research participants being identified rather than anonymized” (Wiles 2013, 54).

What is the ethical thing to do in this situation? Would you have stopped the recording and comforted Sonia? Would you have continued recording, comfort Sonia, and include this in your analysis? Would you have deleted this part from the interviews and the research? Would you have denounced Sonia's husband to the police? The "right thing" to do here is not simple, and it can destabilize any researcher with (or no) ethical frames of reference to find the "right answer."

Bringing this out highlights that practicing ethics is by no means an obvious task in social sciences research. However, aiming for research performed with integrity<sup>183</sup> and ethical reflexivity is necessary. The end cannot justify the means.

For our part, this section focused on the ethical principles that guided this inquiry under a procedural perspective to protect participants and produce relevant legitimate knowledge.

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<sup>183</sup> According to Macfarlane, the word "integrity" is used to "invoke an ideal of human behavior" (2009, 1).

## **Concluding remarks for chapter 2**

This chapter detailed the philosophical approach and methodological aspects from which knowledge is constructed and how the quality of the study findings is strengthened. This research is an exploratory, naturalistic inquiry that uses abductive reasoning and multiple data sources to build theory from cases.

First, the chapter started with the notion that the research paradigm is the foundation of research because it dictates how it will be conducted and conditions the researcher's choices based on his/her beliefs and worldviews. The ontological and epistemological stances of what is real and what is knowledge will guide the researcher's methodology, the methods he/she will use along the way, and, thus, the research contributions and limitations. A research paradigm is the lens through which the researcher sees, conceives, analyzes, and performs his/her research at all levels.

We remarked that this research is guided by a constructivist—also known as naturalistic—paradigm. This means that it holds a relativist position on science. Multiple realities may sometimes contradict each other, but they exist and can be confirmed. In this work, knowledge is created thanks to the researcher's interaction and participants and expressed as the investigator's interpretation. This understanding is relevant and valuable within the context and time it has been created.

We continued explaining the need for this research given the limited availability of reliable and valid information and the restrictions on access to databases about SMEs in Latin America and the Caribbean. This research nature is, therefore, exploratory.

Next, the methodology was addressed. The research focuses on creating meaning from multiple entrepreneurs lived experiences to achieve the objective of this research: to identify the key elements to obtain financing for microenterprises in the Dominican Republic. This can only be achieved by talking directly to Dominican entrepreneurs in their natural settings, going to their homes or places of work, and inviting them to collaborate in this research endeavor (see Creswell 2007; Creswell and Poth 2018). Therefore, this research is held by a qualitative research design using multiple data sources from ten (10) enterprises or case studies. Inferences were made using abductive reasoning to provide the best explanation possible given the literature background and empirical evidence. In this sense, the analysis is inspired by an informed grounded theory approach under a constructivist paradigm.

Last, the quality criteria framing this research, including the research reflexivity and ethical considerations, were discussed.

The table below synthesizes the paradigm, methodological, and quality considerations covered in the chapter and their implications for this research work.



**Table 46. Paradigm, methodological, and quality considerations framing this research –in a nutshell**

Aspect	Position	Implications for this research
<b>Research paradigm</b>	Naturalist Paradigm (Guba and Lincoln 1985)	<ul style="list-style-type: none"> <li>• Realities are multiple, constructed, and holistic.</li> <li>• Knower and known are interactive, inseparable.</li> <li>• Only time–and context–bound working hypothesis (idiographic statements) is possible.</li> <li>• All entities are in a state of mutual shaping, so it is impossible to distinguish causes from effects.</li> <li>• Inquiry is value bound.</li> <li>• Human-as-instrument.</li> <li>• “Truth” is the “most informed and sophisticated construction on which there is consensus among individuals” (Guba and Lincoln 1989, 86). It is socially and actively created and progresses over time as it is subject to continuous revisions with the accumulation of knowledge by individuals, and new or more refined constructions emerge (Guba and Lincoln 1989; 1994; Perkins 1999).</li> </ul>
<b>Research nature</b>	Exploratory	<ul style="list-style-type: none"> <li>• The objective was to gain familiarity with the phenomena studied or to achieve new insights into them (Kothari 2004).</li> <li>• The aim was to explore, discover, describe, and create knowledge capable of better understanding what was desired to study.</li> <li>• The investigator kept an open mind to what the inquiry process may have brought her way and considered all the work’s findings.</li> </ul>
<b>Research design</b>	Qualitative	<ul style="list-style-type: none"> <li>• It relied on multiple sources of rich non-numerical data (e.g., interview transcripts, notes from observations, documents).</li> <li>• It aimed to understand in-depth the phenomena studied in its natural settings.</li> <li>• It sought to derive meaning from participants’ points of view and generate theory.</li> <li>• The aim was to explore, discover, describe, and create knowledge capable of better understanding what was desired to study.</li> <li>• The researcher collected and interpreted data and was involved in the process as much as participants and the data they provided; plus, it had a flexible design (Corbin and Strauss 2015).</li> <li>• It involved complex reasoning going between inductive and deductive (see Creswell and Poth 2018).</li> <li>• It focused on participants’ multiple perspectives and meanings (see Creswell and Poth 2018).</li> <li>• It was situated within the context or setting of participants or sites (see Creswell and Poth 2018).</li> <li>• It involved an emergent and evolving design (see Creswell and Poth 2018).</li> <li>• It presented a holistic, complex picture (see Creswell and Poth 2018).</li> </ul>

<b>Research reasoning</b>	Abduction	<ul style="list-style-type: none"> <li>• It employed the inference to the best explanation.</li> <li>• It explored and built upon empirical data and the literature background to provide the best possible explanation—and solution—given the evidence available.</li> <li>• Results are plausible interpretations.</li> <li>• Conclusions are not absolute. However, they are the most probable and worthy candidates for further investigation (Douven 2021).</li> <li>• It proposed valid, however probable, laws, theories, or conceptualizations from particular observations, which could serve as a base for future testing to ensure certain explanatory and/or predictive conclusions (Charreire Petit and Durieux 2014).</li> <li>• It was conducted like the fictional detective Sherlock Holmes would: moving “...back and forth between new and prior data, as well as developing knowledge or theories, and [making] comparisons and interpretations in the search for patterns and the best possible theoretical explanations” (Thornberg 2012, 247).</li> <li>• It was inspired by informed grounded theory (Thornberg 2012) and constructivist grounded theory (by Charmaz 2006; 2014).</li> </ul>
<b>Research approach</b>	Case study	<ul style="list-style-type: none"> <li>• It studied in-depth ten (10) microenterprises (cases) in the Dominican Republic.</li> <li>• It built theory from cases (Eisenhardt 1989).</li> <li>• It was a multiple case study that examined similarities and differences between several units of analysis.</li> <li>• It held a holistic multiple-case study design (Yin 2018).</li> </ul>
<b>Population and sampling</b>	Nonprobability sampling (quota sampling)	<ul style="list-style-type: none"> <li>• It used nonprobability sampling. Thus, it relied on the researcher’s judgment to select a sample suited to achieve the research objective.</li> <li>• It followed a theoretical and purposive strategy. The idea behind the strategy was to select cases rich in information and ideal for in-depth studies in the research project (Patton 2015).</li> <li>• Type of nonprobability sampling used: quota sampling.</li> <li>• Ten microenterprises (cases) were chosen, sharing the definition under Dominican law 488-08 (2008)<sup>184</sup> and with literature review considerations. This translated to an enterprise with one (1) to ten (10) employees with up to RD\$ 6,000,000.00 (six million Dominican pesos) in annual revenues and no more than RD\$3,000,000.00 (three million Dominican pesos) in assets. Furthermore, the enterprise could be formal or informal, a family business or not, and carried out by a natural person or a legal entity as stated in the SMEs Dominican law. In addition, the case selection also respected the distribution of the dominant economic activities in the Dominican Republic: commerce (46.8%), service (38.4%), and manufacturing (14.8%). Thus, the ten (10) microenterprises were divided the following way: one (1) from the manufacturing economic activities, five (5) from commerce activities, and the last (4) from service activities.</li> </ul>

<sup>184</sup> The Dominican Republic Law 488-08 of Micro, Small and Medium Enterprises (2008) was modified in 2017 by law 187-17. This last one changes paragraph I of Article 1 and Articles 2 and 22 of Law No. 488-08 (Congreso Nacional de la República Dominicana 2017a). See the population and sampling sections in the general introduction (pages 15-24) and chapter 2 (pages 210-220) for more details on this change and how it impacted the research.

		<ul style="list-style-type: none"> <li>• The selection promoted a symbolic representation and the diversity of profiles in the sample ideal for comparative analysis (Ritchie, Lewis, and El am 2003).</li> <li>• In addition, the 4 to 10 cases is an ideal range for researchers aiming to generate theory, according to Eisenhardt (1989).</li> </ul>
<b>Data sources and collection techniques</b>	Multiple sources of data	<ul style="list-style-type: none"> <li>• It used primary data and secondary data.</li> <li>• It utilized methods (observations, interviews, and documents), data sources (cases), and data type triangulation (<u>qualitative text, audio recordings, quantitative data</u>) (see Denzin 1978; Miles, Huberman, and Saldaña 2014).</li> <li>• Key details about observations: <ul style="list-style-type: none"> <li>- It allowed the researcher to develop a primary interest in small business research and start getting familiar with the context of the study.</li> <li>- In the enterprises and the interview process, the researcher opted for a complete observer standpoint with no participation. Instead, careful but flexible note-taking was performed and was later considered for the analysis. Some aspects observed were the enterprise environment and organization and the interviewee's (entrepreneur) behavior in his/her natural setting. This last one included the entrepreneurs' actions, gestures, language, reactions, and expressions.</li> <li>- After the interviews, further observation aided the identification of themes, categories, and patterns which later contributed to this work's contributions.</li> <li>- Observations provided excellent descriptive, contextual data.</li> </ul> </li> <li>• Key details about the interviews: <ul style="list-style-type: none"> <li>- It was a dominant collection strategy in this research work, given the context the enterprises under study evolve.</li> <li>- Face-to-face interviews were performed.</li> <li>- Interviews followed a pre-establish set of semi-structured and closed questions.</li> <li>- It allowed the needed flexibility for the interviewee to speak his/her mind about what he/she considered relevant (Marie-Laure Gavard-Perret et al. 2012).</li> <li>- A second round of phone interviews was performed with a few cases to clarify specific points of the initial face-to-face interview and explore others that emerged during the analysis.</li> <li>- Interviews were conducted in Spanish (the country's official language).</li> <li>- Interviews were recorded and transcribed.</li> </ul> </li> <li>• Key details about documents: <ul style="list-style-type: none"> <li>- It relied on secondary sources such as FONDOMICRO, the National Statistics Office, the Ministry of Industry, Trade, and SMEs (translated from Spanish), press publications, and laws in the Dominican Republic.</li> <li>- Data from academic and non-academic sources were also studied.</li> </ul> </li> </ul>
<b>Data analysis</b>	Informed constructivist grounded theory	<ul style="list-style-type: none"> <li>• Cases were compared with each other in search of patterns.</li> <li>• The analysis was founded on raw data obtained from the field (Glaser and Strauss 1967) to reach analytic or naturalistic generalizations (Stake 1978; Yin 2014). However, there was no tabula rasa of knowledge as the more classic GT versions would advise (see Glaser</li> </ul>

		<p>1978; 1998; 2001; 2005). It is inspired by informed grounded theory (Thornberg 2012) under a constructivist paradigm approach (Charmaz 2006; 2014).</p> <ul style="list-style-type: none"> <li>• Flexible use of the original GT strategies under a constructivist paradigm approach.</li> <li>• “Data and analysis [were] created from shared experiences and relationships with participants” (Charmaz 2006, 130).</li> <li>• This research drew primarily on data generated from interviews.</li> <li>• Raw data were synthesized and analyzed using computer software. The verbatim transcriptions (narrative data) coding was performed with the computer software NVivo, and the tabulation of numeric responses was made with Excel.</li> <li>• Each case underwent the same process of coding and tabulation in an intra-case study first to perform an inter-case analysis using constant comparative methods and present it in the final report.</li> <li>• Coding responded to an integrated approach comprising codes emerging from the narrative data–grounded theory–and codes already pre-established from existing literature–framework analysis. For emerging codes, verbal data was coded as a “lumper” (Saldaña 2016) to prepare the grounds to perform a more detailed coding and analysis of the data (Dey 1993). A detailed line-by-line in vivo coding was performed afterward for the most relevant codes to capture more in-depth what was happening with the data. Pre-established codes responded to a start list of codes operationalized specifying categories and their constitutive elements and by applying a rating scale from 0 to 10 to each one of the elements. In addition, any input interviewees added for any elements were recorded, transcribed, and studied. This narrative data was coded holistically as a lumper, and then a more detailed analysis with line-by-line in vivo coding was performed for the most relevant codes.</li> <li>• For this research, coding was a dynamic, nonlinear process comparing data, codes (sub-codes), categories (sub-categories), and concepts among them as they were refined.</li> <li>• The original Spanish versions of the data sources were used for the analysis. However, the actual coding was in English (1) to avoid losing meaning with translations and (2) for pragmatic reasons. Therefore, once the data analysis was finished, the sources supporting the coding structure and categories were translated into English to include them in this report.</li> <li>• The global data analysis in this research followed four stages: organizing, reading, comparing, and interpreting the data.</li> </ul>
<p><b>Research quality</b></p>	<p>-Reliability -Validity -Research reflexivity -Ethical considerations</p>	<ul style="list-style-type: none"> <li>• This thesis did not subscribe to Guba and Lincoln’s (Guba 1981; Guba and Lincoln 1981; 1982; 1985; Lincoln 1995) quality criteria mainly because it does not comply rigorously with the audit approach specifications required due to limited resources. However, it subscribes to the quality terms of reliability, construct validity, internal validity, and external validity (Hlady Rispal 2002; Drucker-Godard, Ehlinger, and Grenier 2014; Yin 2018).</li> <li>• Research reliability was supported by documenting the procedures followed and making them explicit to facilitate other researchers’ replication of the study.</li> <li>• Research validity was comprised of construct, internal, and external validity. <ul style="list-style-type: none"> <li>- <i>Construct validity</i> was ensured by defining the concepts utilized using well-recognized authors in the field (such as small businesses and their financial practices), doing triangulation, and maintaining a chain of evidence.</li> <li>- <i>Internal validity</i> was strengthened by performing triangulation, analyzing disconfirming evidence or negative cases, seeking participants’ feedback (in data and interpretation), doing referential adequacy, providing detailed and tick descriptions, clarifying possible biases, and doing peer debriefing–e.g., in research team meetings, doctoral workshops, and with thesis follow-up committee in the doctoral school.</li> </ul> </li> </ul>

		<ul style="list-style-type: none"><li>- <i>External validity</i> in this case study research was achieved by providing analytic or naturalistic generalizations and not generalizability in a quantitative sense. Furthermore, providing detailed and thick descriptions can facilitate transferring results to similar settings.</li><li>• Research reflexivity was aimed at understanding participants' backgrounds and acknowledging that it can influence how the research was performed and its outcomes. Reflexivity was a task performed with high sensitivity and open-mindedness focused on minimizing the research biases.</li><li>• Ethical considerations comprised intrinsic and extrinsic values (see Hammersley and Traianou 2012). Intrinsic values were related to the commitment of the researcher to produce relevant and valid knowledge, and extrinsic values aimed to protect the research participants by obtaining informed consent, minimizing harm, and developing trust.</li></ul>
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Source: Personal elaboration

## **PART II: EXPLORATION AND EMPIRICAL STUDY OF DOMINICAN MICROENTERPRISES FINANCING**

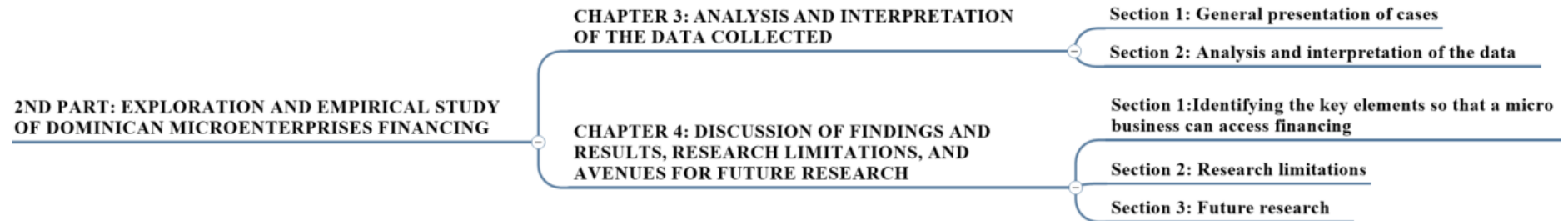
The second part of this thesis goes over the data analysis and discusses the works' findings, indicates its limitations, and proposes avenues for future research. The content assembles chapters three and four.

**Chapter three** seeks to analyze and interpret the data collected clearly and precisely to achieve the research objectives. It uses plain language, visualizations, and tables to tabulate the information during the process. The chapter comprises two sections. The first presents the ten (10) cases studied to familiarize the reader with the microenterprises and their owner-manager(s). The second exposes and analyzes the data.

**Chapter four** aims to discuss the research results, explain the study's limitations, and propose avenues for future research. To this end, the chapter divides into three parts. Section one explains what was found and what was expected to be found. Thus, it establishes a dialogue with the literature where results corroborate previous studies, where they contradict them, and where current knowledge extends. Additionally, the discussion relates to the research objectives. Section two clarifies the limitations of the research project, and finally, section three suggests inquiries awaiting future research.

The diagram below shows the structure of the second part of this research project.

**Figure 39. Structure of Part II**



## **CHAPTER 3: ANALYSIS AND INTERPRETATION OF THE DATA COLLECTED**

The objective of chapter three is to present and analyze the data collected in an orderly and concise manner allowing us to reach this research's conclusions. Therefore, the chapter divides into two sections.

The chapter begins with a general presentation of each one of the enterprises that participated in the study (section one). First, it includes the name of the enterprise and the owner-manager(s), when it was founded, where it is located, its economic activity, how many permanent and temporary employees it has, and the amount of the enterprise's yearly revenues and assets values. Next, it provides a brief history of the enterprise and the owner-manager(s) demographic information—i.e., name, sex, date of birth, marital status, and education. Furthermore, it presents a general outlook of some characteristics shared among enterprises in the sample.

After the enterprises' general introduction, the chapter moves to section two. It analyzes and presents a synthesis of the data collected using graphs, scales, percentages, hierarchical and detailed coding, categories (sub-categories), tree maps, references, and tables with verbatim accounts. It obeys the following order:

First, it studies enterprises' management based on Norton's managerial choice theory (1991).

Second, it outlines and analyzes the strategies and financing sources for starting the business, operating, and investing. Moreover, it presents and examines the general micro-business financing outlook in the different stages of the enterprises' development.

Third, it goes over the internal and external (debt and equity) financing sources used by owner-managers for their businesses, plus some alternative options available in the Dominican market, such as cooperatives, associations, and other individuals or institutional moneylenders. In addition, it evaluates owner-managers knowledge of some public, private, and not-for-profit institutions for small businesses' technical and financial support in the Dominican Republic.



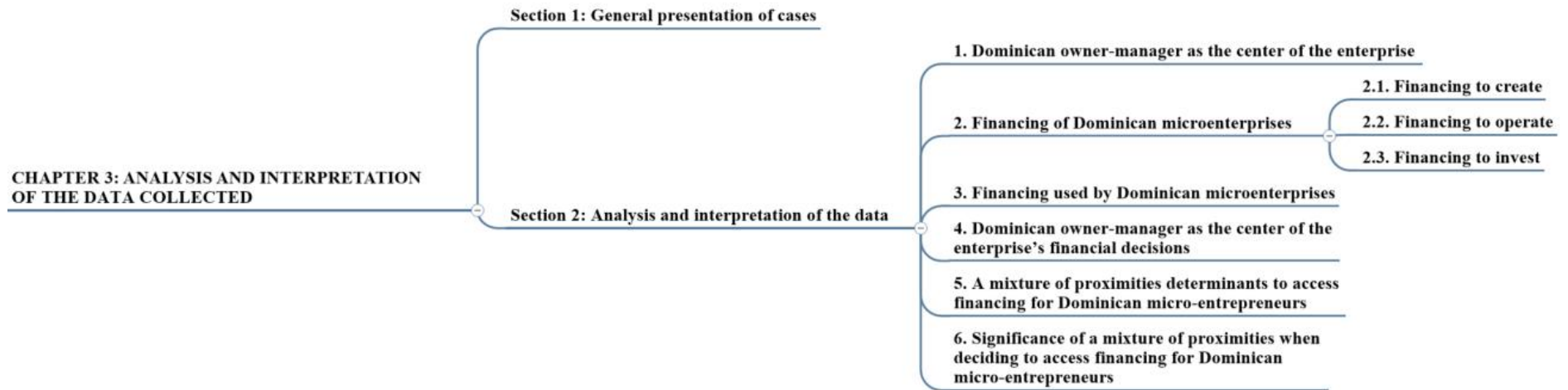
Fourth, it assesses owner-managers financing decisions based on Norton's managerial choice (1991).

Fifth, it studies the mixture of proximities and their constituents as determinants to access financing. Moreover, it analyzes additional elements considered in the literature and tied to the Dominican Republic context—i.e., the business plan, team, profitability, formality, and pitch.

Last, it examines the influence of proximities on the owner-managers financing decision-making. In other words, if a *phénomène de paroi* exists, and if it does, to what extent does it occur, and what can be learned from it?

The diagram below exhibits the chapter three structure.

**Figure 40. Structure of Chapter 3**



## **Section 1: General presentation of cases**

Section one presents the sample's ten (10) microenterprises. It includes the general enterprise's details, description, history, and owner-managers demographic information. After reviewing each case, a synthesis of the characteristics shared among cases is provided to get a broad perspective of the cases under study. Microenterprises are presented in the following order:

- Case #1: Colmado Charina
- Case #2: Salón Ilusión
- Case #3: D'ílias atelier alta costura
- Case #4: Invercolor
- Case #5: Sergen SRL
- Case #6: Escuela de choferes La Ideal
- Case #7: Papelería MEL
- Case #8: Casa Cristina
- Case #9: Alexis Centro Automotriz
- Case #10: Salón estilo Gysel

## Case #1: Colmado Charina

**Table 47. Enterprise details of Case #1: Colmado Charina**

<b>ENTERPRISE DETAILS</b>	
<b>Name of the enterprise</b>	Colmado Charina
<b>Owner-manager</b>	Carlos Julio Valdez Santiago
<b>Founded in</b>	1992
<b>Location</b>	Santo Domingo, Dominican Republic
<b>Economic activity</b>	Commerce: grocery store
<b>Permanent employees</b>	7
<b>Temporary employees</b>	1
<b>Enterprise revenues</b>	Less than RD\$ 6,000,000.00 per year
<b>Enterprise assets market value</b>	Less than RD\$ 3,000,000.00

Source: Personal elaboration

### **General description and history of the enterprise**

Colmado Charina is a retail business that sells groceries and alcoholic beverages to the final consumer. It was created by Mr. Carlos Julio Valdez Santiago in Santo Domingo, Dominican Republic.

Starting as an employee in a grocery store in 1987 and always wanting to progress, Mr. Valdez Santiago opened his small grocery store in 1992. As his business progressed, he started opening, under his name, other grocery stores and small businesses in Santo Domingo. Today, he owns and formally manages two (2) small grocery stores and a barbershop. He details that most of his progress is due to financing facilities given by the Dominican government in the early stages of the business's development. However, once businesses are running, the assistance and financing access is taken away, making him consider other financing sources such as the Banreservas Bank, BHD, and Scotiabank.

The business is Mr. Valdez Santiago's primary income.

**Table 48. Owner-manager's demographic details for Case #1: Colmado Charina**

<b>DEMOGRAPHIC DETAILS</b>	
<b>Owner-manager interviewed</b>	Carlos Julio Valdez Santiago
<b>Sex</b>	Man
<b>Date of birth</b>	April 14, 1968
<b>Marital status</b>	Married
<b>Education</b>	High school diploma

Source: Personal elaboration

### Case #2: Salón Ilusión

**Table 49. Enterprise details of Case #2: Salón Ilusión**

<b>ENTERPRISE DETAILS</b>	
<b>Name of the enterprise</b>	Salón Ilusión
<b>Owner-manager(s)</b>	Ana Garcia Rafaelina Liberata
<b>Founded in</b>	1994
<b>Location</b>	Santo Domingo, Dominican Republic
<b>Economic activity</b>	Service: beauty
<b>Permanent employees</b>	4
<b>Temporary employees</b>	1
<b>Enterprise revenues</b>	Less than RD\$ 6,000,000.00 per year
<b>Enterprise assets market value</b>	Less than RD\$ 3,000,000.00

Source: Personal elaboration

### General description and history of the enterprise

Salón Ilusión is a beauty salon dedicated to enhancing the beauty of its customers. They cut, die, style hair, do makeup, pedicure and manicure, and other beauty-related services.

Mrs. Garcia was employed in a well-known beauty salon in Santo Domingo called *Divino* for years. However, after having twins and another son to support, she decides to open her beauty salon. The enterprise was created in 1994 thanks to a parentship made with a friend, and they are still together. The current owner-mangers are Mrs. Ana Garcia and Mrs. Rafaelina Liberata.

Since founded, the beauty salon has represented the primary income of both founders' families. Mrs. Garcia raised four (4) children, bought her home and car, and paid for her children's education with what the business generates. Mrs. Liberata raised her daughter and bought her house and car.

According to Mrs. Garcia, one of the main success factors of her business is God and her clients. She managed to build well-founded and trusting relationships, which allowed her to keep clients for over thirty (30) years since she started working in her first beauty salon in 1988.

**Table 50. Owner-manager's demographic details for Case #2: Salón Ilusión**

<b>DEMOGRAPHIC DETAILS</b>	
<b>Owner-manager interviewed</b>	Ana Luisa Garcia Familia
<b>Sex</b>	Woman
<b>Date of birth</b>	October 11, 1967
<b>Marital status</b>	Married
<b>Education</b>	Technical education No high school diploma

Source: Personal elaboration

**Case #3: D'ilias atelier alta costura**

**Table 51. Enterprise details of Case #3: D'ilias atelier alta costura**

<b>ENTERPRISE DETAILS</b>	
<b>Name of the enterprise</b>	D'ilias atelier alta costura
<b>Owner-manager</b>	Ana Dilia Cruz Castillo

<b>Founded in</b>	1997
<b>Location</b>	Santo Domingo, Dominican Republic
<b>Economic activity</b>	Manufacturing and service: confessions of clothes
<b>Permanent employees</b>	2
<b>Temporary employees</b>	0
<b>Enterprise revenues</b>	Less than RD\$ 6,000,000.00 per year
<b>Enterprise assets market value</b>	Less than RD\$ 3,000,000.00

Source: Personal elaboration

### General description and history of the enterprise

D'iliat atelier alta costura is an enterprise dedicated to making ladies' suits and dresses and fixing clothing measurements when customers require it, whether they are women, men, or children.

Since Mrs. Dilia was a little girl, she always wanted to sew. So she left her hometown in the countryside of the Dominican Republic when she was seventeen (17) years old to study fashion and design in Santo Domingo. Living in a shared room with friends, she enrolled in the prestigious technological institute *Mercy Jácquez*.

Mrs. Dilia always worked from home, making and designing clothing for a restricted number of clients. However, as her number of clients grew and she acknowledged the need people had and still have for fashion and design in the Dominican Republic, she decided to launch her enterprise in 1997. The business is her primary income.

She considers God and her clients as her business's crucial success factors. Besides having countless fashionable clothing options in stores nationwide and online, clients have remained loyal. Even when clients buy a piece, they request her services to make adequate adjustments to fit the client's measurements.

**Table 52. Owner-manager's demographic details for Case #3: D'iliat atelier alta costura**

<b>DEMOGRAPHIC DETAILS</b>	
<b>Owner-manager interviewed</b>	Ana Dilia Cruz Castillo

<b>Sex</b>	Woman
<b>Date of birth</b>	March 16, 1968
<b>Marital status</b>	Married
<b>Education</b>	Technical education

Source: Personal elaboration

#### Case #4: Invercolor SRL

**Table 53. Enterprise details of Case #4: Invercolor SRL**

<b>ENTERPRISE DETAILS</b>	
<b>Name of the enterprise</b>	Invercolor SRL
<b>Owner-manager(s)</b>	Evelin Ortiz Miguelina Ortiz
<b>Founded in</b>	2007
<b>Location</b>	Santo Domingo, Dominican Republic
<b>Economic activity</b>	Commerce: stationery and supplies
<b>Permanent employees</b>	3
<b>Temporary employees</b>	0
<b>Enterprise revenues</b>	Less than RD\$ 6,000,000.00 per year
<b>Enterprise assets market value</b>	Less than RD\$ 3,000,000.00

Source: Personal elaboration

#### General description and history of the enterprise

Invercolor imports and sells merchandise for arts and craft making. This includes but is not limited to haberdashery, birthday articles, and stationery.

It was created in 2007 by Ms. Evelin and Mrs. Miguelina Ortiz. Both sisters dedicated most of their time to art and craft making, and from this passion, Invercolor was born. The business is the primary income for one of the sisters: Evelin.



They consider the study of market tendencies and their import strategies to be the leading business factors of success. Today, they import from countries such as Colombia and the United States.

**Table 54. Owner-manager’s demographic details for Case #4: Invercolor SRL**

<b>DEMOGRAPHIC DETAILS</b>	
<b>Owner-manager interviewed</b>	Evelyn Miguelina Ortiz Collado
<b>Sex</b>	Woman
<b>Date of birth</b>	May 15, 1967
<b>Marital status</b>	Single
<b>Education</b>	Master’s degree

Source: Personal elaboration

**Case #5: Sergen Servicio General SRL**

**Table 55. Enterprise details of Case #5: Sergen Servicio General SRL**

<b>ENTERPRISE DETAILS</b>	
<b>Name of the enterprise</b>	Sergen Servicio General SRL
<b>Owner-manager</b>	Eddy Enrique Diaz Ruiz
<b>Founded in</b>	2005
<b>Location</b>	Santo Domingo, Dominican Republic
<b>Economic activity</b>	Commerce and service: security and energy
<b>Permanent employees</b>	10
<b>Temporary employees</b>	4
<b>Enterprise revenues</b>	Between RD\$ 6,000,000.01 and RD\$ 40,000,000.00 per year
<b>Enterprise assets market value</b>	Less than RD\$ 3,000,000.00

Source: Personal elaboration

## General description and history of the enterprise

Sergen Servicios General SRL is an enterprise that supplies and installs safety and energy-saving products and technology to hotels or other interested entities. This entails, for instance, access control in rooms with electronic locks, safety boxes, and surveillance cameras. Regarding saving energy, they propose, for example, systems that detect the customer's presence in the room, turn on the lights, and turn them off when the customer is out. The enterprise also ensures reparation services if needed, in or out of the warranty of its products.

Mr. Eddy Diaz Ruiz formally created the enterprise in 2005. After working as an employee for five (5) years in a company that provided similar products and services to what his enterprise offers now, he decided to launch the same type of business.

**Table 56. Owner-manager's demographic details for Case #5: Sergen Servicio General SRL**

DEMOGRAPHIC DETAILS	
Owner-manager interviewed	Eddy Enrique Diaz Ruiz
Sex	Man
Date of birth	June 22, 1960
Marital status	Single
Education	Higher education

Source: Personal elaboration

## Case #6: Escuela de choferes La Ideal

**Table 57. Enterprise details of Case #6: Escuela de choferes La Ideal**

ENTERPRISE DETAILS	
Name of the enterprise	Escuela de choferes La Ideal
Owner-manager	María del Carmen Abud
Founded in	1987
Location	Santo Domingo, Dominican Republic

<b>Economic activity</b>	Service: Driver School
<b>Permanent employees</b>	2
<b>Temporary employees</b>	0
<b>Enterprise revenues</b>	Less than RD\$ 6,000,000.00 per year
<b>Enterprise assets market value</b>	Less than RD\$ 3,000,000.00

Source: Personal elaboration

### General description and history of the enterprise

Escuela de choferes La Ideal is an enterprise that provides practical and theoretical courses to teach individuals how to drive and obtain their licenses.

Ms. María del Carmen Abud has owned and managed the enterprise since 1995. It was formally created in 1987 by Ms. Abud's close friend, who left her the enterprise ownership and management before living abroad. The enterprise services have remained unchanged since it was created.

Ms. Abud continues to lead the enterprise because it is her primary income. It has also allowed her to keep herself active and occupied.

**Table 58. Owner-manager's demographic details for Case #6: Escuela de choferes La Ideal**

<b>DEMOGRAPHIC DETAILS</b>	
<b>Owner-manager interviewed</b>	María del Carmen Abud
<b>Sex</b>	Woman
<b>Date of birth</b>	April 04, 1946
<b>Marital status</b>	Single
<b>Education</b>	High school diploma

Source: Personal elaboration

## Case #7: Papelería MEL

**Table 59. Enterprise details of Case #7: Papelería MEL**

<b>ENTERPRISE DETAILS</b>	
<b>Name of the enterprise</b>	Papelería MEL
<b>Owner-manager(s)</b>	Mayra Núñez Matos Luisa Eduvinis
<b>Founded in</b>	1987
<b>Location</b>	Santo Domingo, Dominican Republic
<b>Economic activity</b>	Commerce: stationery and supplies
<b>Permanent employees</b>	3
<b>Temporary employees</b>	0
<b>Enterprise revenues</b>	Less than RD\$ 6,000,000.00 per year
<b>Enterprise assets market value</b>	Less than RD\$ 3,000,000.00

Source: Personal elaboration

### **General description and history of the enterprise**

Papelería MEL is an enterprise that sells office supplies to businesses and final consumers.

The enterprise was formally created in 1987 by three (3) friends: Mayra, Luisa, and Eduvinis. With the sector and professional experience, this last one convinced Mayra and Luisa to launch the business. Each one invested RD\$2,000.00 to gather the capital necessary to start the business activity and named it MEL, taking the initials of every founder's name.

Today, the enterprise is managed by Ms. Mayra Núñez Matos. Luisa and Eduvinis remain owners but have no direct involvement with the management and operations of the business.

Ms. Núñez Matos thinks she will be closing the enterprise because the market is not as prosperous as it was when the enterprise was created. Other enterprises in the market, regardless of size, import merchandise from other countries at a low cost helping them offer high-quality supplies at lower selling prices than she does. Today, Ms. Núñez Matos buys from local suppliers for reselling, which does not allow her to be as competitive. However, being

aware of her situation and knowing the solution, she is unwilling to make the change and prefers to cease business operations instead.

**Table 60. Owner-manager’s demographic details for Case #7: Papelería MEL**

<b>DEMOGRAPHIC DETAILS</b>	
<b>Owner-manager interviewed</b>	Mayra Núñez Matos
<b>Sex</b>	Woman
<b>Date of birth</b>	October 11, 1954
<b>Marital status</b>	Single
<b>Education</b>	Bachelor’s degree

Source: Personal elaboration

**Case #8: Casa Cristina SRL**

**Table 61. Enterprise details of Case #8: Casa Cristina SRL**

<b>ENTERPRISE DETAILS</b>	
<b>Name of the enterprise</b>	Casa Cristina SRL
<b>Owner-manager(s)</b>	Cristina Antigua Ramon Alberto Martínez
<b>Founded in</b>	2002
<b>Location</b>	Santo Domingo, Dominican Republic
<b>Economic activity</b>	Commerce and service: furniture store
<b>Permanent employees</b>	5
<b>Temporary employees</b>	2
<b>Enterprise revenues</b>	Between RD\$ 6,000,000.01 and RD\$ 40,000,000.00 per year
<b>Enterprise assets market value</b>	Between RD\$ 12,000,000.01 and RD\$ 40,000,000.00

Source: Personal elaboration

## General description and history of the enterprise

Casa Cristina is a family-owned business dedicated to selling furniture and providing home decoration guidance and assistance.

The enterprise was formally founded in 2002 by Mrs. Cristina Antigua after three (3) years of testing the Dominican market potential in the sector.

Before entering her current furniture retailing business, Mrs. Antigua owned a food-selling business. One day a man passed by her business selling three (3) little tables at RD\$1,000.00 each. Motivated by the profit potential of reselling the tables and tired of her business, she decides to buy them. She borrows RD\$3,000.00 from a friend working in a nearby pharmacy and buys the three (3) tables. By the end of the afternoon, she had them sold with an extra RD\$3,000.00 to buy more tables if she wanted to. That is how the business was born.

Little by little, she started growing and winning market share as she acquired furniture in the local market and participated in furniture fairs. As a result, people started getting to know her and her business, and she progressively positioned herself in the market, opening her formal furniture and decoration business. Today, she buys from local producers and imports from countries such as the United States, China, and Panama, offering a selection for all customers' preferences and tastes.

Mrs. Antigua's essential success factors rely on a client-centered service and her business trajectory. A client-centered service where the client feels listened to, understood, and well advised. If this happens, clients will return. One remains in business as long as one has clients. The more clients are satisfied, the more convenient for the company to continue operating and building a trajectory, a well-known image, and a brand, not only nationwide but worldwide. Selling just for selling is not the objective for Mrs. Antigua but doing what is necessary to satisfy the customers' needs.

**Table 62. Owner-manager's demographic details for Case #8: Casa Cristina SRL**

DEMOGRAPHIC DETAILS	
Owner-manager interviewed	Cristina Antigua
Sex	Woman
Date of birth	July 24, 1965

<b>Marital status</b>	Married
<b>Education</b>	High School Diploma

Source: Personal elaboration

### Case #9: Alexis Centro Automotriz

**Table 63. Enterprise details of Case #9: Alexis Centro Automotriz**

<b>ENTERPRISE DETAILS</b>	
<b>Name of the enterprise</b>	Alexis Centro Automotriz
<b>Owner-manager</b>	Alexis Santos Reyes
<b>Founded in</b>	2009
<b>Location</b>	Santo Domingo, Dominican Republic
<b>Economic activity</b>	Service: car workshop
<b>Permanent employees</b>	7
<b>Temporary employees</b>	0
<b>Enterprise revenues</b>	Less than RD\$ 6,000,000.00 per year
<b>Enterprise assets market value</b>	Between RD\$ 3,000,000.01 and RD\$ 12,000,000.00

Source: Personal elaboration

### General description and history of the enterprise

Alexis Centro Automotriz is an enterprise that provides automobile repair and maintenance services. This means, for instance, repairing automatic transmissions, electrical systems, and engines. It also includes vehicle denting and painting.

It was formally created in 2009 by Mr. Alexis Santos Reyes after testing his initiative with a partner for four (4) years in the Dominican market. Before launching his own business, Mr. Santos Reyes was an employee in the car repairing sector for over eighteen (18) years. Having the technical and business experience and desiring to progress in life, he decided to create an

activity on his own where he adds that it has not been easy, but in the end, all the effort is worth it. The business is his primary income.

The enterprise's key success aspect is to provide a well-diversified set of services where the client can solve all his problems in one place without having to go somewhere else. Plus, taking care of the customer is essential for the business, adds Mr. Santos Reyes.

**Table 64. Owner-manager's demographic details for Case #9: Alexis Centro Automotriz**

<b>DEMOGRAPHIC DETAILS</b>	
<b>Owner-manager interviewed</b>	Alexis Santos Reyes
<b>Sex</b>	Man
<b>Date of birth</b>	May 10, 1970
<b>Marital status</b>	Concubine
<b>Education</b>	High School Diploma

Source: Personal elaboration

#### **Case #10: Salón estilo Gysel**

**Table 65. Enterprise details of Case #10: Salón estilo Gysel**

<b>ENTERPRISE DETAILS</b>	
<b>Name of the enterprise</b>	Salón estilo Gysel
<b>Owner-manager</b>	Gysel Ogando
<b>Founded in</b>	2016
<b>Location</b>	Santo Domingo, Dominican Republic
<b>Economic activity</b>	Service: beauty
<b>Permanent employees</b>	2
<b>Temporary employees</b>	1
<b>Enterprise revenues</b>	Less than RD\$ 6,000,000.00 per year
<b>Enterprise assets market value</b>	Less than RD\$ 3,000,000.00

Source: Personal elaboration



## General description and history of the enterprise

Salón estilo Gisel is a beauty salon dedicated to enhancing women's beauty and raising their self-esteem in many cases.

The enterprise was launched in 2016 by its only owner-manager, Mrs. Gisel Ogando. Mrs. Ogando always loved beauty and studied it to make it her profession. She started providing beauty enhancement services at her client's homes, and after five (5) years, she considered having enough experience to create her beauty salon. This would allow her to progress while being her boss in an area she loves. The business is her primary income.

The crucial enterprise success factor is a client-centered service. Her business would be nothing without her loyal clients, she adds. They support everything she does, so she takes care of them in the best way possible.

**Table 66. Owner-manager's demographic details for Case #10: Salón estilo Gysel**

<b>DEMOGRAPHIC DETAILS</b>	
<b>Owner-manager interviewed</b>	Gysel Ogando
<b>Sex</b>	Woman
<b>Date of birth</b>	February 28, 1987
<b>Marital status</b>	Married
<b>Education</b>	Technical education

Source: Personal elaboration

### ➤ **Common ground in the Dominican microenterprises studied**

At first glance at the data collected, several common characteristics emerge despite the diversity of the sample. First, it is found that owner-managers are at the center of business operations and business decisions. Second, the business benefits are the primary income in all cases where its supporting body is mainly family or friends. Third, despite the informality in the Dominican Republic economy, 80% of the selected cases operate formally<sup>185</sup>. In addition, businesses were launched because of a desire to progress and improve living conditions, for passion, or thanks to trusting partnerships with family or friends. Finally, entrepreneurs became business owners after being employees (in 40% of cases) or on their own (in 20% of cases).

According to the owner-managers interviewed, the crucial success factors are client-centered services, market-based strategies, trajectory, and even the willingness of God, showing the important place religion has in this country's society.

70% of enterprises in the sample are owned and managed by women. This could indicate women's empowerment as they take more crucial and decisive roles in Dominican society.

The table below details and summarizes the common characteristics observed in the sample.

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<sup>185</sup> To consider an enterprise formal, what owner-managers said about the formality and registration of their enterprise was taken into account. However, no further confirmation was made in governmental institutions such as the general directory of internal taxes (*Dirección General de Impuestos Internos*, DGII in Spanish), the national industrial property office (*Oficina Nacional de la Propiedad Industrial*, ONAPI), and social security.

**Table 67. Common ground in the Dominican microenterprises interviewed**

Cases	1. Formality (one option)		2. Income	3. Supporting body (multiple options)		4. Primary reason for launching (multiple options)			5. Situation before launching (one option if applied)			6. Key success factor (multiple options)				7. Sex (one option)	
	Formal	Informal	Primary Income	Family business	Friendship based	Progress	Partnership (trust)	Passion	Employee	On his/her own	Owned another business	Client-centered	Market-based	God	Trajectory	Man	Woman
<b>Case #1:</b> Colmado Charina	X		X			X			X				X			X	
<b>Case #2:</b> Salón Ilusión	X		X	X	X	X	X	X	X			X		X			X
<b>Case #3:</b> D'ílias atelier alta costura		X	X	X	X	X		X		X		X		X			X
<b>Case #4:</b> Invercolor	X		X	X			X	X					X				X
<b>Case #5:</b> Sergen SRL	X		X	X		X			X				X			X	
<b>Case #6:</b> Escuela de choferes La Ideal	X		X		X		X	X				X					X
<b>Case #7:</b> Papelería MEL	X		X		X		X	X					X				X
<b>Case #8:</b> Casa Cristina	X		X	X		X					X	X	X	X	X		X
<b>Case #9:</b> Alexis Centro Automotriz	X		X			X			X			X				X	
<b>Case #10:</b> Salón estilo Gysel		X	X	X		X		X		X		X		X			X
<b>TOTAL</b>	8	2	10	6	4	7	4	5	4	2	1	6	5	4	1	3	7

Source: Personal elaboration

## **Section 2: Analysis and interpretation of the data**

This section aims to analyze and interpret the data collected from the ten (10) microenterprises studied. It seeks to examine, understand, and identify the truth revealed by the data—key to arrive at this thesis’s contributions. Furthermore, it provides visualizations and tables to synthesize the information comprehensively and potentiate determining patterns and trends.

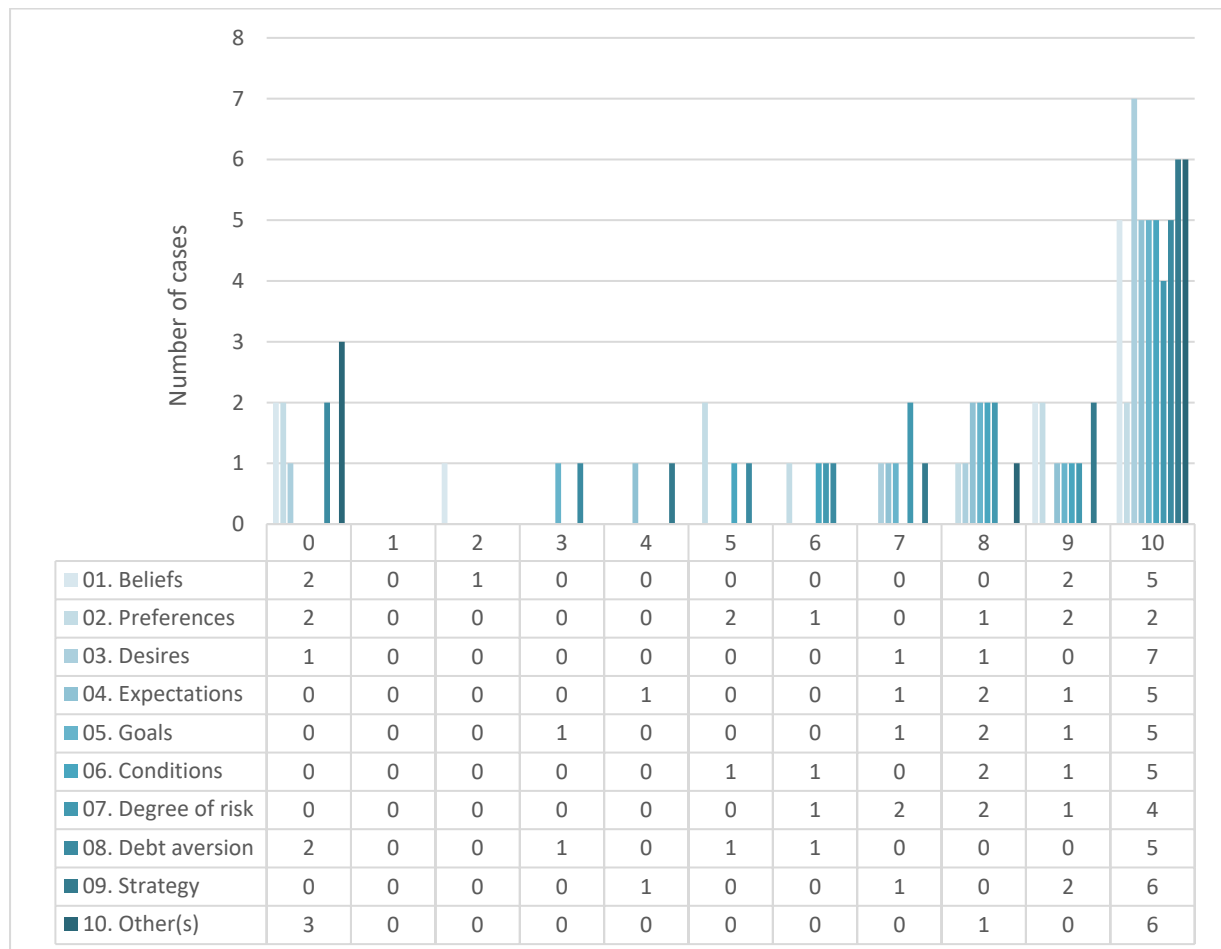
The section divides into six (6) parts. First, it goes over the owner-manager’s character role in the enterprise. Second, it covers the financing to create, operate and invest in the microenterprise and finishes with a general outlook of financing strategies and sources for each one of these purposes. Third, it evaluates the fund options used by entrepreneurs interviewed and their general knowledge about public, private and not-for-profit institutions for small businesses’ technical and financial support in the Dominican Republic. Fourth, it studies owner-managers financing decisions, primarily mobilizing Norton’s managerial choice theory (1991). Fifth, it examines the mixture of proximities as determinants to access financing for the microenterprise. Last, it analyses the extent to which owner-managers financing decisions are influenced by their proximity preferences.

### **1. Dominican owner-manager as the center of the enterprise**

It seems evident that the central owner-manager role is a dominant factor in all the sample microenterprises. The small business becomes, in this case, an extension of the owner-manager where everything the business does is a manifestation of the owner-managers beliefs, preferences, desires, expectations, goals, conditions, degree of risk, debt aversion, and strategy. Moreover, the line dividing the physical individual and the moral entity is quite blurry.

Based upon the Norton managerial choice theory (1991), the entrepreneurs interviewed ranked a set of elements from zero (0) to ten (10) to understand how strong the owner-manager’s characteristics influence the management of the enterprise in general. Zero (0) was considered in this case as never used for the management of the enterprise, and ten (10) as highly used. The data gathered from our sample shows that the owner-manager nature conditions how the enterprise operates. The graph below summarizes the results.

**Figure 41. Enterprise management is based upon Norton’s managerial choice theory criteria (1991)**



Source: Personal elaboration

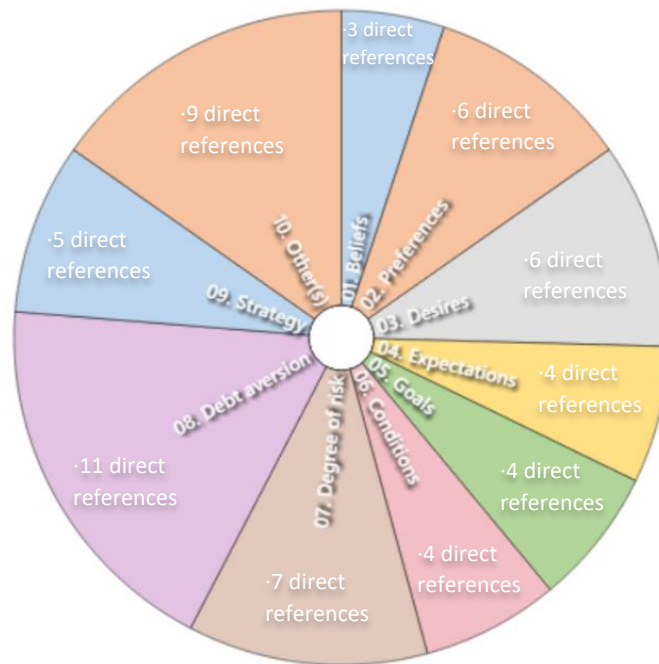
Most of the owner-managers placed themselves closer to ten (10) than zero (0), giving each of the elements mentioned an important influence in the management of their enterprise. For example, 90% of owner-managers placed their desires, expectations, goals, degree of risk, and strategy between seven (7) and ten (10) in the ranking. In the same range were conditions with 80% of cases, belief with 70%, and 50% for preferences and debt aversion.

At zero (0) were placed belief, preferences, debt aversion, and other(s) by 20% of cases and desires by 10%.

Furthermore, in the ranges of five (5) and six (6), being indifferent were preferences with 30%, conditions and debt aversion with 20%, and degree of risk with 10% of cases.

Regarding the comments and reactions made for each one of the elements ranked by the entrepreneurs, we observe the following:

**Figure 42. Hierarchical order of coding references for Enterprise management based upon Norton’s managerial choice theory criteria (1991)**



Source: Personal elaboration

Even though every element was ranked from zero (0) to ten (10), we perceive that more reactions were made when talking about specific elements. For instance, when ranking debt aversion, entrepreneurs made eleven (11) comments. For the degree of risk, seven (7), and for preferences, desires, and strategy, six (6) direct references were recorded. Entrepreneurs interviewed also added other elements outside of the ones asked that influence how they manage their enterprise. According to the nine (9) direct references, these last ones were quality service, close and good relationships, care and affection for clients, market demand, and follow-up. The least commented element was beliefs.

The verbatim and detailed coding for the most commented elements are found in the tables below. Debt aversion indicates that owner-manager do not like to borrow or to owe, and some even avoid it at all costs. However, others point out that they have no choice but to borrow if

they want to remain in the market and grow their business. Concerning other elements mentioned, clients and relationships seem to be essential.

**Table 68. Verbatim and detailed coding for the structural code “Debt aversion”**

CASE	VERBATIM: DEBT AVERSION AS A CRITERION USED TO MANAGE THE MICROENTERPRISE	DETAILED CODING
Case#1: Colmado Charina	<p>“Well, that’s, uh, that’s <sup>1</sup><b>what helps you grow</b> up. The <sup>2</sup><b>poor little merchant</b> who doesn’t borrow...It is true that one has to <sup>3</sup><b>know where one invests</b> his money, but one has to borrow to <sup>4</sup><b>develop the businesses</b>. All the businesses I have had are <sup>5</sup><b>all on a loan basis</b>, and thank God <sup>6</sup><b>it has worked out</b> for me”.</p>	<p><sup>1</sup>“WHAT HELPS YOU GROW”  <sup>2</sup>“POOR LITTLE MERCHANT”  <sup>3</sup>“KNOW WHERE ONE INVESTS”  <sup>4</sup>“DEVELOP THE BUSINESSES”  <sup>5</sup>“ALL ON A LOAN BASIS”  <sup>6</sup>“IT HAS WORKED OUT”</p> <p><b>Key idea(s): having no choice but to borrow to develop the business.</b></p>
Case #2: Salón Ilusión	<p>“Yes, <sup>7</sup><b>of course, I borrow!</b> I mean me, me, me. But, tell me, <sup>8</sup><b>if one doesn’t have capital</b>, I like to <sup>9</sup><b>borrow from banks</b>. <sup>10</sup><b>It’s not that I like it</b>. If I can get a loan, <sup>11</sup><b>it will help me improve</b>. I’m going to take out a loan in a year so that this dream I have can come true. I <sup>12</sup><b>borrow when it is necessary</b>. So, debt aversion for me is zero”.</p>	<p><sup>7</sup>“OF COURSE, I BORROW”  <sup>8</sup>“IF ONE DOESN’T HAVE CAPITAL”  <sup>9</sup>“BORROW FROM BANKS”  <sup>10</sup>“IT’S NOT THAT I LIKE IT”  <sup>11</sup>“IT WILL HELP ME IMPROVE”  <sup>12</sup>“BORROW WHEN IT IS NECESSARY”</p> <p><b>Key idea(s): having no choice but to borrow when needed to develop the business.</b></p>
Case #3: D’ilias atelier alta costura	<p>“I <sup>13</sup><b>don’t like to borrow</b>. I don’t like it, I don’t like to owe, or anything. I don’t sleep, I <sup>14</sup><b>don’t sleep</b>, my friend, I really don’t sleep”.</p>	<p><sup>13</sup>“DON’T LIKE TO BORROW”  <sup>14</sup>“DON’T SLEEP”</p> <p><b>Key idea(s): dislike borrowing.</b></p>
Case #4: Invercolor	<p>“It’s just that <sup>15</sup><b>it’s a reality</b>; one thing is that I <sup>16</sup><b>don’t want to borrow</b>, and another thing is that I <sup>17</sup><b>have to...</b> you see what I mean?”</p> <p>“No, because there are things that I tell you that <sup>18</sup><b>it is so relative</b> because aversion, I <sup>19</sup><b>don’t like debt</b>, to borrow, but there is a <sup>20</sup><b>reality that forces you to inject capital and feed the business</b>. You have to, then, take a loan, you see? So then that is so relative, but aversion, no. Because we <sup>21</sup><b>have</b></p>	<p><sup>15</sup>“IT’S A REALITY”  <sup>16</sup>“DON’T WANT TO BORROW”  <sup>17</sup>“HAVE TO”  <sup>18</sup>“IT IS SO RELATIVE”  <sup>19</sup>“DON’T LIKE DEBT”</p>

	<p><b>loans now, but</b> that is not like: ‘hey! Let me go take a loan here or there’. It is more like: ‘ok, we <sup>22</sup><b>need to make this investment, and there is no capital available, so <sup>23</sup>for that to happen, we need to go get the funding needed</b>’. Do you understand me?”</p>	<p><sup>20</sup>“REALITY THAT FORCES YOU TO INJECT CAPITAL AND FEED THE BUSINESS”</p> <p><sup>21</sup>“HAVE LOANS NOW, BUT”</p> <p><sup>22</sup> “NEED TO MAKE THIS INVESTMENT, AND THERE IS NO CAPITAL AVAILABLE”</p> <p><sup>23</sup> “FOR THAT TO HAPPEN, WE NEED TO GO GET THE FUNDING NEEDED”</p> <p><b>Key idea(s): dislike borrowing but has to borrow to develop the business.</b></p>
<p>Case #5: Sergen SRL</p>	<p>“Well, if it is financial, I <sup>24</sup><b>do not like to borrow</b>. Not at all; I <sup>25</sup><b>do not want to owe</b> anyone. Obviously, I <sup>26</sup><b>had a line of credit</b> and everything, but no, I rarely used it because I <sup>27</sup><b>did not like it at all</b>. It is <sup>28</sup><b>just a problem</b> for me”.</p>	<p><sup>24</sup>“DO NOT LIKE TO BORROW”</p> <p><sup>25</sup>“DO NOT WANT TO OWE”</p> <p><sup>26</sup>“HAD A LINE OF CREDIT”</p> <p><sup>27</sup>“DID NOT LIKE IT AT ALL”</p> <p><sup>28</sup>“JUST A PROBLEM”</p> <p><b>Key idea(s): dislike borrowing.</b></p>
<p>Case #7: Papelería MEL</p>	<p>“I <sup>29</sup><b>do not like to borrow</b> at all”.</p>	<p><sup>29</sup>“DO NOT LIKE TO BORROW”</p> <p><b>Key idea(s): dislike borrowing.</b></p>
<p>Case #8: Casa Cristina</p>	<p>“In my case, I could <sup>30</sup><b>never manage the business with my personal funds</b> because I <sup>31</sup><b>never had them</b>. My <sup>32</sup><b>business has grown thanks to suppliers, banks...</b> because I <sup>33</sup><b>started a business without capital</b>, as I told you at the beginning, I cannot say that it was with my personal funds. Yes, what I have achieved is due to the fact that I <sup>34</sup><b>have invested everything in my own business</b>”.</p> <p>“If it is necessary, <sup>35</sup><b>if it is necessary</b>, not for please, to borrow just to borrow...no. If it is necessary, <sup>36</sup><b>if you need to buy merchandise, you borrow</b> and stuff like that. Every time we have borrowed, it is for <sup>37</sup><b>something we are going to do, not for fun</b>”.</p>	<p><sup>30</sup> “NEVER MANAGE THE BUSINESS WITH MY PERSONAL FUNDS”</p> <p><sup>31</sup>“NEVER HAD THEM”</p> <p><sup>32</sup> “BUSINESS HAS GROWN THANKS TO SUPPLIERS, BANKS”</p> <p><sup>33</sup> “STARTED A BUSINESS WITHOUT CAPITAL”</p> <p><sup>34</sup> “HAVE INVESTED EVERYTHING IN MY OWN BUSINESS”</p> <p><sup>35</sup>“IF IT IS NECESSARY”</p> <p><sup>36</sup> “IF YOU NEED TO BUY MERCHANDISE, YOU BORROW”</p> <p><sup>37</sup>“SOMETHING WE ARE GOING TO DO, NOT FOR FUN”</p>



		<b>Key idea(s): borrowing contributes to business development when needed.</b>
Case #9: Alexis Centro Automotriz	“Well, <sup>38</sup> <b>you have to borrow</b> , my dear. <sup>39</sup> <b>If you do not, it does not flow.</b> The man who, <sup>40</sup> <b>the poor man who does not borrow unfortunately doesn’t grow.</b> No, for me, it is zero, <sup>41</sup> <b>imagine a business without borrowing</b> ”.	<sup>38</sup> “YOU HAVE TO BORROW” <sup>39</sup> “IF YOU DO NOT, IT DOES NOT FLOW” <sup>40</sup> “THE POOR MAN WHO DOES NOT BORROW UNFORTUNATELY DOESN’T GROW” <sup>41</sup> “IMAGINE A BUSINESS WITHOUT BORROWING”  <b>Key idea(s): having no choice but to borrow to develop the business.</b>
Case #10: Salón estilo Gysel	“No, I <sup>42</sup> <b>do not like to borrow.</b> But there are times when you <sup>43</sup> <b>have to</b> , even if you do not want to, to <sup>44</sup> <b>get the business going</b> ”.	<sup>42</sup> “DO NOT LIKE TO BORROW” <sup>43</sup> “HAVE TO” <sup>44</sup> “GET THE BUSINESS GOING”  <b>Key idea(s): dislike borrowing.</b>

Source: Personal elaboration

**Table 69. Verbatim and detailed coding for the structural code “other elements”**

CASE	VERBATIM: OTHER ELEMENTS OUTSIDE OF THE ONES ASKED AS A CRITERION USED TO MANAGE THE MICROENTERPRISE BY THE OWNER-MANAGER	DETAILED CODING
Case #2: Salón Ilusión	<p>“I think that the <sup>1</sup><b>service provided.</b> The <sup>2</sup><b>quality of the service</b> is important, <sup>3</sup><b>essential</b> because if you, for example, <sup>4</sup><b>come here and above all what I like is how the service is given,</b> <sup>5</sup><b>how truthful it is,</b> to give a <sup>6</sup><b>good service to the customer</b> obviously and <sup>7</sup><b>respect</b> him/her. You see, I like that. Now, the customer... look, your mom and I met through Marina, Mrs. Marina, may God give her much health, and now your mom and I have about a year knowing each other, and I have a <sup>8</sup><b>great appreciation for</b> your mom and you girl”.</p> <p>“And where you live, there lives Josephine, who is the old one, and Alfida and Alexander. My dear. Alexander and I <sup>9</sup><b>love each other.</b> One day I saw the sister, and I said: ‘but wait for a second, do you live here, and you are</p>	<sup>1</sup> “SERVICE PROVIDED” <sup>2</sup> “QUALITY OF THE SERVICE” <sup>3</sup> “ESSENTIAL” <sup>4</sup> “HOW THE SERVICE IS GIVEN” <sup>5</sup> “HOW TRUTHFUL IT IS” <sup>6</sup> “GOOD SERVICE TO THE CUSTOMER” <sup>7</sup> “RESPECT” <sup>8</sup> “GREAT APPRECIATION FOR” <sup>9</sup> “LOVE EACH OTHER” <sup>10</sup> “LOVE” <sup>11</sup> “AFFECTION”

	all neighbors?'. 'Oh, yes, sister.' And what I mean is that <sup>10</sup> love, <sup>11</sup> affection, and respect that is important. You can rank it more than 10 if you want".	<b>Key idea(s): ensuring quality service, close relationships, care, and affection to clients.</b>
Case #3: D'illas atelier alta costura	"Ah! Yes, of course! I <sup>12</sup> count on my clients because I have a very good client list. They are <sup>13</sup> regular customers; you know what I mean? My clients are very good. I could say that they are... My clients are a 10. Of course, some people do not continue with me. Look, I am taking a vacation soon, and they are already waiting for the 12th when I come in... crazy woman, leave me alone. Do you understand me? It is just that they are <sup>14</sup> loyal. I have 20 years operating because these women are loyal to us. So how I <sup>15</sup> manage my business is mainly based on considering my clients".	<sup>12</sup> "COUNT ON MY CLIENTS" <sup>13</sup> "REGULAR CUSTOMERS" <sup>14</sup> "LOYAL" <sup>15</sup> "MANAGE MY BUSINESS IS MAINLY BASED ON CONSIDERING MY CLIENTS" <b>Key idea(s): counting on clients.</b>
Case #4: Invercolor	"Yes! <sup>16</sup> Market demand. And the market demand is perhaps related to <sup>17</sup> strategies, but yes, market demand because this business has gone, <sup>18</sup> just as the demand goes because the public has always taken it this way. You see? You can rank it at 10 or even more because, at the end of the day, <sup>19</sup> they are the ones that rule".	<sup>16</sup> "MARKET DEMAND" <sup>17</sup> "STRATEGIES" <sup>18</sup> "JUST AS THE DEMAND GOES" <sup>19</sup> "THEY ARE THE ONES THAT RULE" <b>Key idea(s): following markets' demand.</b>
Case #7: Papelería MEL	"Oh! Yes! You need to have <sup>20</sup> good relations. I am very good at that; if I didn't have that, I wouldn't have anything. The <sup>21</sup> people that are with me are because I <sup>22</sup> love them too. You can put it at 10. I <sup>23</sup> like to work; I do not like to go looking for people on the streets; that is not my problem".	<sup>20</sup> "GOOD RELATIONS" <sup>21</sup> "PEOPLE THAT ARE WITH ME" <sup>22</sup> "LOVE THEM" <sup>23</sup> "LIKE TO WORK" <b>Key idea(s): having good relations.</b>
Case #8: Casa Cristina	"Because, I see, I see, a, as I said, a potential, a <sup>24</sup> super potential in this company, I have always seen it that way, always, always. I understand that you have that; this has a <sup>25</sup> good support system because look, having so <sup>26</sup> many years in the market, you already <sup>27</sup> have a clientele, besides the one that you continue to acquire, <sup>28</sup> plus the potential that you can bring, <sup>29</sup> what you can implement, <sup>30</sup> the structure plus the location this local has. I find that it has a good, a <sup>31</sup> good positioning, that I see, of course, from my point of view. I know that I also speak out of <sup>32</sup> passion, and there is the detail, the detail of things. You know what happens, Paola? When you have a business that has been successful, well, I told you the story that started with three little tables; it is a story that people say: <sup>33</sup> wow! with three little tables, and you made it a business'. Yes, <sup>34</sup> it is an incredible thing. Three tables, and I always say it with <sup>35</sup> pride. This business <sup>36</sup> began with three tables, so you do not need to have millions to implement anything, but what you <sup>37</sup> need is passion, the <sup>38</sup> desire to do, and <sup>39</sup> perseverance, and it gives me a lot, and that is why I say...because for me, when people talk about	<sup>24</sup> "SUPER POTENTIAL IN THIS COMPANY" <sup>25</sup> "GOOD SUPPORT SYSTEM" <sup>26</sup> "MANY YEARS IN THE MARKET" <sup>27</sup> "HAVE A CLIENTELE" <sup>28</sup> "PLUS THE POTENTIAL THAT YOU CAN BRING" <sup>29</sup> "WHAT YOU CAN IMPLEMENT" <sup>30</sup> "THE STRUCTURE PLUS THE LOCATION" <sup>31</sup> "GOOD POSITIONING" <sup>32</sup> "PASSION"

	<p>Casa Cristina for me is something so, so, I do not know if it is good or bad. It is like something too; a <sup>40</sup><b>very special love</b> is <sup>41</sup><b>like part of my children. I saw it grow</b>".</p> <p>"Well, I also think. I think that the <sup>42</sup><b>follow-up</b> is important in the management of the enterprise. The follow-up, I mean that, could also entail the same <sup>43</sup><b>strategy</b> of the <sup>44</sup><b>clients</b>. For instance, we <sup>45</sup><b>handle so many people</b> on social networks, <sup>46</sup><b>so many questions</b>. So, the follow-up of the, well, so many people who write to us on my cell phone to <sup>47</sup><b>get quotes or information</b>. Well, I think that is one of the most important things for us right now, the follow-up, <sup>48</sup><b>strengthening and providing an effective follow-up</b>, then it is also tied to financing, cooperatives, etc."</p>	<p><sup>33</sup> "WOW! WITH THREE LITTLE TABLES AND YOU MADE IT A BUSINESS"  <sup>34</sup> "IT IS AN INCREDIBLE THING"  <sup>35</sup> "PRIDE"  <sup>36</sup> "BEGAN WITH THREE TABLES"  <sup>37</sup> "NEED IS PASSION"  <sup>38</sup> "DESIRE TO DO"  <sup>39</sup> "PERSEVERANCE"  <sup>40</sup> "VERY SPECIAL LOVE"  <sup>41</sup> "LIKE PART OF MY CHILDREN. I SAW IT GROW"  <sup>42</sup> "FOLLOW-UP"  <sup>43</sup> "STRATEGY"  <sup>44</sup> "CLIENTS"  <sup>45</sup> "HANDLE SO MANY PEOPLE"  <sup>46</sup> "SO MANY QUESTIONS"  <sup>47</sup> "GET QUOTES OR INFORMATION"  <sup>48</sup> "STRENGTHENING AND PROVIDING AN EFFECTIVE FOLLOW-UP"</p> <p><b>Key idea(s): having a sound support system, taking advantage of the potential one can bring, having passion and strengthening, and providing an effective follow-up.</b></p>
<p>Case #9: Alexis Centro Automotriz</p>	<p>"Yes, yes, yes. A <sup>49</sup><b>personalized service</b>. You know it is not the same when you come in, and I fix the car than when I am <sup>50</sup><b>committed and focused on you</b> that say how is your <sup>51</sup><b>family</b>, your mom, to <sup>52</sup><b>genuinely help you</b> and you see, <sup>53</sup><b>being friends</b>, friends. To become friends, of course. A personalized service is really important. The <sup>54</sup><b>clients</b>, because if they do not come, there is nothing. There is no business".</p>	<p><sup>49</sup> "PERSONALIZED SERVICE"  <sup>50</sup> "COMMITTED AND FOCUSED ON YOU"  <sup>51</sup> "FAMILY"  <sup>52</sup> "GENUINELY HELP YOU"  <sup>53</sup> "BEING FRIENDS"  <sup>54</sup> "CLIENTS"</p> <p><b>Key idea(s): ensuring personalized service, genuinely helping clients, and developing friendships.</b></p>
<p>Case #10: Salón estilo Gysel</p>	<p>My <sup>55</sup><b>clients</b>. The <sup>56</sup><b>service I provide to my clients</b> is indispensable. The customer is always the <sup>57</sup><b>priority</b>.</p>	<p><sup>55</sup> "CLIENTS"  <sup>56</sup> "SERVICE I PROVIDE TO MY CLIENTS"  <sup>57</sup> "PRIORITY"</p>

		Key idea(s): prioritizing clients and the service provided.
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Source: Personal elaboration

## 2. Financing of Dominican microenterprises

Six (6) major semi-directed questions were asked to explore how Dominican microenterprises finance in the different circumstances of the business development and what strategies they use to access funds. These were:

### I- Financing to create the enterprise:

1. How did you get the funding to start your business?
2. What did you have to do to get the funds?

### II- Financing to operate the enterprise:

3. How do you obtain financing to operate your business, carry out enterprise projects, and do your day-to-day work?
4. What do you do to get the funds?

### III- Financing to invest in and/or out of the enterprise:

5. How do you get financing for your business' growth and make investments?
6. What do you do to get the funds?

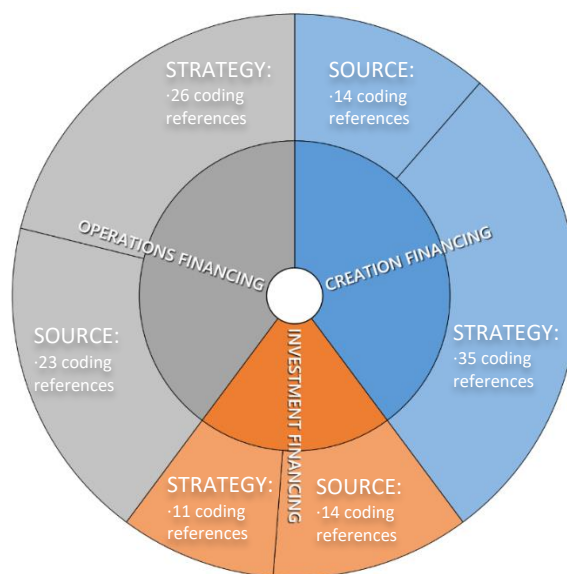
These questions allowed us to identify critical phenomena in our sample and essential elements to consider when accessing funds for creating, operating and investing in and outside the enterprise boundaries. As an illustration, compared to the number of coding references, the information gathered shows that entrepreneurs express more details about financing to launch and operate their businesses than the financing guided towards making investments. Forty-nine (49) references were coded as a lump for each creation and operations financing and twenty-five (25) for investment financing.

Even though creation and operations financing presented the same coding references, they were distributed differently between the main categories identified: sources used and the strategies implemented to access the sources of funds. Data shows that the strategy used to

access sources is more significant to Dominican entrepreneurs when launching the activity than having many financing sources. For example, the start-up financing strategy added up to thirty-five (35) coding references, whereas its sources were only fourteen (14). Nevertheless, both totaled forty-nine (49) coding references. On the other hand, operations financing presented more balanced results, with twenty-three (23) coding references for sources and twenty-six (26) for strategy.

This hierarchical order of coding references allows the following visualization—see below.

**Figure 43. Hierarchical order of coding references for creation, operations, and investment financing**



Source: Personal elaboration

This sunburst is not to provide an absolute truth but a set of fundamentals to consider and analyze to get a clearer picture of Dominican micro businesses financing. In this sense, it can be said, for instance, that maybe the financing strategy when launching a business is more important than the actual financing source to fund the initiative. Alternatively, financing sources available when starting this type of business in the Dominican Republic are limited, forcing entrepreneurs to emphasize the financing strategy instead. Furthermore, making investments to grow the business may not be these owner-managers major incentive but rather generating enough cash to ensure an income and support their household. Along these lines, it is crucial to highlight that the business is the primary income of all the entrepreneurs comprised

in our sample, from which, in most cases, a family is supported. Therefore, a centralized and controlled risk day-to-day management is expected, making operations financing sources and strategy essential. Furthermore, in a more general sense, putting operations ahead of investments could explain the short-term survival strategy owner-managers experience in these businesses.

Next, we will analyze in more detail each one of the financings mentioned starting from business creation financing, followed by operations, and finishing with investments.

## **2.1. Financing to create**

Launching an enterprise is delicate. For a business to work, it needs a transparent business model with a detailed but straightforward description of the business offerings and how it is organized to provide its value propositions to customers and make a profit—a clear synthetic picture of a business value creation.

A business model is a vital tool to attract investment and facilitate access to funds for any business initiative. The same is true for a business plan. A formal document that details the commercial, financial, and operational strategy to achieve the business goals, as explained in chapter one of this thesis work.

Regardless of the importance of these tools to access financing, entrepreneurs from our sample never mentioned one or the other. Instead, when creating their businesses, they were guided by intuitive feelings, how the business felt to them, how familiar they were with the activity to launch and what resources they had at hand. As a result, no formal business model or plan was prepared for the enterprise. On the contrary, an intuitive strategy led their venture and, in consequence, its financing.

This intuition could explain the high informality among these businesses in the Dominican Republic and the Latin American region. Enterprises are continuously created as a solution to unemployment or a means of survival to support their creators, family, and friends. Businesses are driven by necessity. It could also explain how emotional and attached these entrepreneurs could be or become with their businesses. Thus, developing a strong sense of control and an unwillingness to let go, delegate significant business activities to other employees, sell business shares to finance their business, and affiliate with partners outside their comfort zone.

The Dominican entrepreneur identifies with his/her own business to such a degree that the dividing line distinguishing the owner-manager and the business gets quite blurry. Only faint lines between the physical individual and the moral entity can be drawn. The business becomes, therefore, an extension of the owner-manager self influencing the financing sources to create the business and the strategy to obtain it.

According to the direct coding references within our sample, the primary financing source to create a business is self-financing. Other sources are proximity capital, family funds, and bank financing.

The main strategies to access these sources of funds are utilizing the creator’s savings and capitalizing on their proximity relationships. Other approaches are having a clear vision of what the creator wants to do and working hard for it, selling the founder’s assets to raise capital. In addition, the data suggest that having a trusted personal trajectory and a guarantor who can ensure the borrowed funds and taking risks is useful.

Below is the verbatim specifying the usage of personal savings to launch the business.

**Table 70. Verbatim and detailed coding for the emerging code “saving”**

CASE	VERBATIM: BUSINESS CREATION FINANCING STRATEGY: SAVING	DETAILED CODING
Case#1: Colmado Charina	<p>“Well, to create my business, well, I <sup>1</sup><b>first tried to save</b>, to <sup>2</sup><b>create a base on my first years of work</b>, then, after having the savings, I <sup>3</sup><b>launched my business</b>, and I <sup>4</sup><b>borrowed some more to give it a push</b>. I think that to start a business, it is <sup>5</sup><b>not favorable to start everything with loans</b>. It does not work because the <sup>6</sup><b>credit eats the capital of the business</b>. It’s good to have your <sup>7</sup><b>own capital, and then you borrow</b> to continue moving forwards with the business. But you also ought to <sup>8</sup><b>have a money base</b>”.</p> <p>“First, I <sup>9</sup><b>saved money to start</b> my business. <sup>10</sup><b>Every time</b> I start a business, I ought to have a <sup>11</sup><b>starting balance to get started</b>, and then <sup>12</sup><b>if I need credit, I take it to keep going</b>”.</p> <p>“I saved my first few years of work. I made a base, and then I bought my little grocery store, and from there, I have moved on. <sup>13</sup><b>But now is on a loan-to-loan basis</b>; I have over 20 years borrowing from banks. I <sup>14</sup><b>never stop borrowing for my current operations</b>”.</p>	<p><sup>1</sup>“FIRST TRIED TO SAVE”</p> <p><sup>2</sup>“CREATE A BASE ON MY FIRST YEARS OF WORK”</p> <p><sup>3</sup>“LAUNCHED MY BUSINESS”</p> <p><sup>4</sup>“BORROWED SOME MORE TO GIVE IT A PUSH”</p> <p><sup>5</sup>“NOT FAVORABLE TO START EVERYTHING WITH LOANS”</p> <p><sup>6</sup>“CREDIT EATS THE CAPITAL OF THE BUSINESS”</p> <p><sup>7</sup>“OWN CAPITAL, AND THEN YOU BORROW”</p> <p><sup>8</sup>“HAVE A MONEY BASE”</p> <p><sup>9</sup>“SAVED MONEY TO START”</p> <p><sup>10</sup>“EVERY TIME”</p> <p><sup>11</sup>“STARTING BALANCE TO GET STARTED”</p> <p><sup>12</sup>“IF I NEED CREDIT, I TAKE IT TO KEEP GOING”</p>

		<p><sup>13</sup> “BUT NOW IS ON A LOAN TO LOAN BASIS”</p> <p><sup>14</sup> “NEVER STOP BORROWING FOR MY CURRENT OPERATIONS”</p> <p><b>Key idea(s): launched the business with personal savings and then borrowed to develop it.</b></p>
Case #4: Invercolor	<p>“No, no, it was with <sup>15</sup><b>my savings, and from there, I continued</b>”.</p> <p>“Yes, of course, at first it was like that because of my savings, but then on <sup>16</sup><b>it came a time where it grew, you see? And I <sup>17</sup>had to go somewhere else</b>”.</p>	<p><sup>15</sup> “MY SAVINGS, AND FROM THERE I CONTINUED”</p> <p><sup>16</sup> “IT CAME A TIME WHERE IT GREW”</p> <p><sup>17</sup> “HAD TO GO SOMEWHERE ELSE”</p> <p><b>Key idea(s): launched the business with personal savings and then borrowed to develop it.</b></p>
Case #5: Sergen SRL	<p>“No, <sup>18</sup><b>with personal funds. You always <sup>19</sup>start with three cents. <sup>20</sup>At least this type of business, small ones</b>”.</p> <p>“Right now, for instance, I am involved in a new business, a totally different kind of business in communications, and I <sup>21</sup><b>had to take my few cents out. I <sup>22</sup>didn’t want to take out a loan</b>”.</p> <p>“Yes, I <sup>23</sup><b>saved money</b> for that. You always have three cents, and you tuck up to where, how do they say? You <sup>24</sup><b>tuck in as far as the sheet allows you to</b>”.</p>	<p><sup>18</sup> “WITH PERSONAL FUNDS”</p> <p><sup>19</sup> “START WITH THREE CENTS”</p> <p><sup>20</sup> “AT LEAST THIS TYPE OF BUSINESS, SMALL ONES”</p> <p><sup>21</sup> “HAD TO TAKE MY FEW CENTS OUT”</p> <p><sup>22</sup> “DIDN’T WANT TO TAKE OUT A LOAN”</p> <p><sup>23</sup> “SAVED MONEY”</p> <p><sup>24</sup> “TUCK IN AS FAR AS THE SHEET ALLOWS YOU TO”</p> <p><b>Key idea(s): launched the business with personal savings. Avoided borrowing.</b></p>
Case #6: Escuela de choferes La Ideal	<p>“It was with <sup>25</sup><b>few savings I had, yes. My <sup>26</sup>own capital</b>”.</p> <p>“I <sup>27</sup><b>had a business in my house. In the house, I <sup>28</sup>used to sell clothes. Yes, <sup>29</sup>from that clothing sale, I had some savings. We <sup>30</sup>were partners with other people and had debts that we could not reimburse to the bank, and the <sup>31</sup>bank took my savings, and I became the business owner. I was so sorry for the business partners, but anyways, you <sup>32</sup>have to save, sweetheart, you have to save</b>”.</p>	<p><sup>25</sup> “FEW SAVINGS I HAD”</p> <p><sup>26</sup> “OWN CAPITAL”</p> <p><sup>27</sup> “HAD A BUSINESS IN MY HOUSE”</p> <p><sup>28</sup> “USED TO SELL CLOTHES”</p> <p><sup>29</sup> “FROM THAT CLOTHING SALE, I HAD SOME SAVINGS”</p> <p><sup>30</sup> “WERE PARTNERS WITH OTHER PEOPLE AND HAD</p>



		<p>DEBTS THAT COULD NOT REIMBURSE TO THE BANK”</p> <p><sup>31</sup> “BANK TOOK MY SAVINGS, AND I BECAME THE BUSINESS OWNER”</p> <p><sup>32</sup> “HAVE TO SAVE”</p> <p><b>Key idea(s): launched the business with personal savings.</b></p>
Case #7: Papelería MEL	“I had it at the beginning. <sup>33</sup> Personal savings”.	<p><sup>33</sup> “PERSONAL SAVINGS”</p> <p><b>Key idea(s): launched the business with personal savings.</b></p>
Case #9: Alexis Centro Automotriz	“I <sup>34</sup> saved money to start”.	<p><sup>34</sup> “SAVED MONEY”</p> <p><b>Key idea(s): launched the business with personal savings.</b></p>
Case #10: Salón estilo Gysel	<p>“I started with <sup>35</sup>my savings. I saved, and after I had my savings, I launched it. I <sup>36</sup>did not have to borrow anything”.</p> <p>“I <sup>37</sup>had to work very hard. I decided to do it like that, so I <sup>38</sup>had to inhibit myself from buying a lot of things to achieve my goal”.</p>	<p><sup>35</sup> “MY SAVINGS”</p> <p><sup>36</sup> “DID NOT HAVE TO BORROW ANYTHING”</p> <p><sup>37</sup> “HAD TO WORK VERY HARD”</p> <p><sup>38</sup> “HAD TO INHIBIT MYSELF FROM BUYING A LOT OF THINGS TO ACHIEVE MY GOAL”</p> <p><b>Key idea(s): launched the business with personal savings.</b></p>

Source: Personal elaboration

According to the number of coding references within our sample, the second most crucial element to access funds when launching a business is capitalizing on proximity relationships to access financing thanks to the collaboration and support of friends and family members or well-known individuals to the entrepreneur. Below is the verbatim accentuating proximity relationships as a crucial driver of accessing funds to start a micro business in the Dominican Republic.

**Table 71. Verbatim and detailed coding for the emerging code “proximity relationships”**

CASE	VERBATIM: BUSINESS CREATION FINANCING STRATEGY: PROXIMITY RELATIONSHIPS	DETAILED CODING
<p>Case#1: Colmado Charina</p>	<p>“No, well, the first time, I <sup>1</sup><b>saved</b>, and I was then <sup>2</sup><b>helped by a guarantor</b>. I started with RD\$50 000.00 pesos. I found a guarantor. But it is very <sup>3</sup><b>difficult</b>. The <sup>4</sup><b>guarantor was a friend of mine</b>. But it is very tough when you come from the bottom and <sup>5</sup><b>you do not have any help</b>. For example, in my case, my <sup>6</sup><b>family had nothing</b>, I had no one to help me, and what I did was with <sup>7</sup><b>a lot of work</b>. Now, the bank lends me because they <sup>8</sup><b>know me</b>, so I am in a <sup>9</sup><b>comfortable situation now</b>”.</p>	<p><sup>1</sup>“SAVED” <sup>2</sup>“HELPED BY A GUARANTOR” <sup>3</sup>“DIFFICULT” <sup>4</sup>“GUARANTOR WAS A FRIEND OF MINE” <sup>5</sup>“YOU DO NOT HAVE ANY HELP” <sup>6</sup>“FAMILY HAD NOTHING” <sup>7</sup>“A LOT OF WORK” <sup>8</sup>“KNOW ME” <sup>9</sup>“COMFORTABLE SITUATION NOW”</p> <p><b>Key idea(s): launched the business with personal savings and a friend’s help.</b></p>
<p>Case #2: Salón Ilusión</p>	<p>“We <sup>10</sup><b>started with my husband and me</b>. He helped me”.</p> <p>“We <sup>11</sup><b>took out a loan</b> so we could buy the plant. We <sup>12</sup><b>borrowed it from a lady</b>. <sup>13</sup><b>A client of ours</b> that had that kind of business and she <sup>14</sup><b>lent me the money</b>. It was <sup>15</sup><b>so costly, even more expensive than the bank</b> because banks don’t charge as much <sup>16</sup><b>interest</b> and stuff, but she lent us the money, and <sup>17</sup><b>everything went well</b>. I had the money, and we continued making the payments”.</p> <p>“I <sup>18</sup><b>didn’t have to convince my husband</b>, and <sup>19</sup><b>the lady came to us</b> and told us that she lent money. We went to her office, and we talked. She <sup>20</sup><b>lent us the money</b>, and then we went and bought used hair washers and all the stuff we needed on credit, and then we <sup>21</sup><b>paid it little by little</b>. We went to another place as well and continued making the payments needed. We financed ourselves”.</p> <p>“We had to <sup>22</sup><b>explain why we needed the money for</b>, not to the lady but to the sir that was letting us on credit what we needed. We <sup>23</sup><b>knew each other</b> because he was the <sup>24</sup><b>husband of a co-worker’s daughter</b>. They sold us everything we needed. We <sup>25</sup><b>took it on credit</b> and <sup>26</sup><b>gave him our word</b>, and we <sup>27</sup><b>paid everything back working</b>”.</p>	<p><sup>10</sup> “STARTED WITH MY HUSBAND AND ME” <sup>11</sup>“TOOK OUT A LOAN” <sup>12</sup> “BORROWED IT FROM A LADY” <sup>13</sup>“A CLIENT OF OURS” <sup>14</sup>“LENT ME THE MONEY” <sup>15</sup> “SO COSTLY, EVEN MORE EXPENSIVE THAN THE BANK” <sup>16</sup>“INTEREST” <sup>17</sup>“EVERYTHING WENT WELL” <sup>18</sup> “DIDN’T HAVE TO CONVINC MY HUSBAND” <sup>19</sup>“THE LADY CAME TO US” <sup>20</sup>“LENT US THE MONEY” <sup>21</sup> “PAID IT LITTLE BY LITTLE” <sup>22</sup> “EXPLAIN WHY WE NEEDED THE MONEY FOR” <sup>23</sup>“KNEW EACH OTHER” <sup>24</sup> “HUSBAND OF A CO-WORKER’S DAUGHTER” <sup>25</sup>“TOOK IT ON CREDIT” <sup>26</sup>“GAVE HIM OUR WORD” <sup>27</sup> “PAID EVERYTHING BACK WORKING”</p>

		<p><b>Key idea(s): launched the business with the help of her husband, a loan provided by a client and friend. The loan was expensive, but there was trust. No convincing was necessary. Furthermore, she got helped by her husband and a co-worker's daughter.</b></p>
<p>Case #3: D'ílias atelier alta costura</p>	<p>“Well, those <sup>28</sup><b>funds were loaned</b> to me by Osiris, <sup>29</sup><b>a brother of mine</b>. Do you remember Jose (an employee who is working with her)? He <sup>30</sup><b>lent it to me</b>, so I could have the deposit <sup>31</sup><b>to get in here</b> with the <sup>32</sup><b>help of a brother</b>. He offered it to me. He <sup>33</sup><b>offered it to me</b>. I did not have to tell him. He said to count on him. He said: ‘I’ll help you, oh, oh, at least once.’ He <sup>34</sup><b>showed up with the money right away</b>”.</p> <p>“Ha ha ha ha! Yes, I <sup>35</sup><b>really appreciate it</b>, from the bottom of my heart, because I used to work in my house, and in the house, it’s not the same”.</p>	<p><sup>28</sup>“FUNDS WERE LOANED”  <sup>29</sup>“A BROTHER OF MINE”  <sup>30</sup>“LENT IT TO ME”  <sup>31</sup>“TO GET IN HERE”  <sup>32</sup>“HELP OF A BROTHER”  <sup>33</sup>“OFFERED IT TO ME”  <sup>34</sup>“SHOWED UP WITH THE MONEY RIGHT AWAY”  <sup>35</sup>“REALLY APPRECIATE IT”</p> <p><b>Key idea(s): launched the business with the help of her brother, who loaned her the money.</b></p>
<p>Case #8: Casa Cristina</p>	<p>“A <sup>36</sup><b>good friend of mine</b> lent me RD\$ 3 000.00 pesos. Mrs. Carmen. Mrs. Carmen and I were like, how can I say it like, like, this, really <sup>37</sup><b>close friends</b> and with a <sup>38</sup><b>strong relationship</b>. Friends that I would tell her that I did not have the RD\$3 000.00 pesos at a given moment and if Mrs. Carmen had it available, she would tell me to <sup>39</sup><b>take it</b>. Yes, my dear, and I would take it because we were <sup>40</sup><b>always lending each other</b> and <sup>41</sup><b>helping each other out</b>. And when I wanted to buy the three little tables that started the business I have today, it was <sup>42</sup><b>no exception</b>. She <sup>43</sup><b>lent me the money</b> because I <sup>44</sup><b>didn’t have it at the time to take the opportunity</b>”.</p> <p>“I used to have a food business in the front, in front of the pharmacy, and that was where Mrs. Carmen was, so these were like the businesses that have... <sup>45</sup><b>I was lending her, and she was lending me</b>. We are <sup>46</sup><b>always helping each other</b>. It was a <sup>47</sup><b>close longstanding relationship based on trust</b>”.</p>	<p><sup>36</sup>“GOOD FRIEND OF MINE”  <sup>37</sup>“CLOSE FRIENDS”  <sup>38</sup>“STRONG RELATIONSHIP”  <sup>39</sup>“TAKE IT”  <sup>40</sup>“ALWAYS LENDING EACH OTHER”  <sup>41</sup>“HELPING EACH OTHER OUT”  <sup>42</sup>“NO EXCEPTION”  <sup>43</sup>“LENT ME THE MONEY”  <sup>44</sup>“DIDN’T HAVE IT AT THE TIME TO TAKE THE OPPORTUNITY”  <sup>45</sup>“I WAS LENDING HER, AND SHE WAS LENDING ME”  <sup>46</sup>“ALWAYS HELPING EACH OTHER”  <sup>47</sup>“CLOSE LONGSTANDING RELATIONSHIP BASED ON TRUST”</p> <p><b>Key idea(s): launched the business with the help of a good friend who loaned her the money.</b></p>

Vision and hard work also stood out in the interviews evidencing that it is not only about having enough capital to launch a business but also about having a clear vision, a strong desire to succeed, and believing in oneself that determines how successful a business will be. One of the entrepreneurs expresses it quite clearly—see below.

**Table 72. Verbatim and detailed coding for the emerging code “vision and hard work”**

CASE	VERBATIM: BUSINESS CREATION FINANCING STRATEGY: VISION AND HARD WORK	DETAILED CODING
Case #8: Casa Cristina	<p>“Look, Paola, I like to <sup>1</sup><b>tell the story</b> because it helps a lot, as I say, it gives many people, who will be at home today saying: ‘Oh my God, what am I doing? What I have is RD\$ 1 000.00 pesos’, an example, ‘and what do I do with that?’. <sup>2</sup><b>It is not about the money;</b> <sup>3</sup><b>it is the desire,</b> <sup>4</sup><b>the vision that you have for what you want, and how you visualize what you have to do.</b> I have never seen my business small. I have never seen it like this. All my life, I have seen it with <sup>5</sup><b>potential.</b> Circumstances that have arrived have <sup>6</sup><b>not always</b> allowed me to take it to the <sup>7</sup><b>ideal state</b> or point, but I have <sup>8</sup><b>never seen my business small.</b> I have never seen it like this, and I tell you that because there are people that. Oh Gosh! When I think for a minute and I analyze. I <sup>9</sup><b>used RD\$ 3 000.00 pesos to launch the business,</b> and I <sup>10</sup><b>educated my three children at a university</b> and so many more things. <sup>11</sup><b>So many things have come from those RD\$3 000.00 pesos”.</b></p> <p>“So, when you <sup>12</sup><b>see yourself in certain situations in your life</b> that you say: ‘Oh my God!’ and you are <sup>13</sup><b>ready to throw in the towel,</b> to <sup>14</sup><b>give up for given circumstances,</b> of <sup>15</sup><b>many factors</b> that you look back on and it is <sup>16</sup><b>not that you stick to things</b> because in truth the human being should not stick to anything material on this earth because that is something so... and God sends us to this earth not knowing why, you know because the truth is that God is the greatest thing there is, but <sup>17</sup><b>there are things that you have like, like love</b> and you say: ‘see, you see’ ... So, these are the <sup>18</sup><b>things that give you day in and day out the strength to not struggle to get up in the morning and do things</b> and say: <sup>19</sup><b>Yes, yes you can’</b> and <sup>20</sup><b>continue moving forward”.</b></p>	<p><sup>1</sup>“TELL THE STORY”  <sup>2</sup> “IT IS NOT ABOUT THE MONEY”  <sup>3</sup>“IT IS THE DESIRE”  <sup>4</sup>“THE VISION THAT YOU HAVE FOR WHAT YOU WANT, AND HOW YOU VISUALIZE WHAT YOU HAVE TO DO”  <sup>5</sup>“POTENTIAL”  <sup>6</sup>“NOT ALWAYS”  <sup>7</sup>“IDEAL STATE”  <sup>8</sup> “NEVER SEEN MY BUSINESS SMALL”  <sup>9</sup> “USED RD\$ 3 000.00 PESOS TO LAUNCH THE BUSINESS”  <sup>10</sup> “EDUCATED MY THREE CHILDREN AT A UNIVERSITY”  <sup>11</sup> “SO MANY THINGS HAVE COME FROM THOSE RD\$3 000.00 PESOS”  <sup>12</sup> “SEE YOURSELF IN CERTAIN SITUATIONS IN YOUR LIFE”  <sup>13</sup> “READY TO THROW IN THE TOWEL”  <sup>14</sup> “GIVE UP FOR GIVEN CIRCUMSTANCES”  <sup>15</sup>“MANY FACTORS”  <sup>16</sup> “NOT THAT YOU STICK TO THINGS”  <sup>17</sup> “THERE ARE THINGS THAT YOU HAVE LIKE, LIKE LOVE”  <sup>18</sup> “THINGS THAT GIVE YOU DAY IN AND DAY OUT THE</p>

		<p>STRENGTH TO NOT STRUGGLE TO GET UP IN THE MORNING AND DO THINGS”</p> <p><sup>19</sup> “YES, YES YOU CAN”</p> <p><sup>20</sup> “CONTINUE MOVING FORWARD”</p> <p><b>Key idea(s): having desire and vision, seeing the potential, and working hard regardless of the challenges.</b></p>
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Source: Personal elaboration

The treemap below synthesizes the results for the financing to create the business by providing a nested set of rectangles. The data is hierarchically ordered by the amount of coding references performed as a lumpers for each node or topic. Thus, bigger rectangles at the top left contain more coding references, whereas smaller rectangles at the bottom right comprise a lower number of coding references. Furthermore, child codes are found within parent nodes going from the inside out, reaching the main category: creation financing.

The chart permits an easier visualization of the data gathered where prominent themes emerge and others needing further research can be identified. The idea here is not to provide absolute weighted results or an ultimate truth but rather a set of crucial elements to understand better how very small Dominican businesses finance their creation. The same treemap is provided for operations and investment financing in the upcoming sections. A general micro-business financing outlook will also be supplied.

Additional valuable information was added to each one of the child nodes. These are the number of references (coding as a lumpers) that determines the size of the square (A), the cases where these references were found (B), and the total amount of cases present in the given node (C). If the child node “saving” is taken as an example, the total amount of references coding as a lumpers is 14; the cases comprised in these references are cases 1, 4, 5, 6, 7, 9, and 10; and lastly, the number of cases present are 7. For this thesis work, case order is always consistent. The order is as follows:

- Case #1: Colmado Charina.
- Case #2: Salón Ilusión.

- Case #3: D'ílias atelier alta costura.
- Case #4: Invercolor.
- Case #5: Sergen SRL.
- Case #6: Escuela de choferes La Ideal.
- Case #7: Papelería MEL.
- Case #8: Casa Cristina.
- Case #9: Alexis Centro Automotriz.
- Case #10: Salón estilo Gysel.

**Figure 44. Hierarchical order of coding references for creation financing**

CREATION FINANCING			
STRATEGY		SOURCE	
<b>Saving</b> A. Total coding references (as a lump): 14. B. Cases present: 1, 4, 5, 6, 7, 9, and 10. C. Total number of cases: 7.	<b>Vision and hard work</b> A. 4. B. 8, 9, and 10. C. 3.	<b>Trajectory</b> A. 3. B. 1 and 4. C. 2.	<b>Self-financing</b> A. 8. B. 1, 4, 5, 6, 7, and 10. C. 6.
	<b>Proximity relationships</b> A. 9. B. 1, 2, 3, and 8. C. 4.	<b>Personal assets sale</b> A. 2. B. 6 and 9. C. 2.	<b>Risk taking</b> A. 1. B. 2. C. 1.
	<b>Guarantor</b> A. 2. B. 1. C. 1.		<b>Bank</b> A.2. B. 1 and 4. C. 2.
			<b>Family funds</b> A. 2. B. 2 and 3. C. 2.

- A: Number of references (coding as a lump)  
 B: Cases where references derived from  
 C: Total amount of cases present in the node

Source: Personal elaboration

It is essential to point out that coding references for each one of the nodes were explicit comments made by owner-managers for each of the enterprises to stay as close to the data as possible. Therefore, references are direct and, therefore, their conclusions. This minimizes researcher bias and emphasizes inferences strictly derived from entrepreneurs' comments and appreciations.

## 2.2. Financing to operate

Business operations are essential to keep the business running for profit-making purposes. These activities vary from one business to another depending on the goods and services the enterprise provides and the sector it operates in. In our sample, regardless of its diversity, it can be said that the main operating activity is finished product acquisitions for resale or providing the actual service. These include small grocery, stationery, furniture stores, hair salons, custom-made clothing, car workshops, and security installations enterprises. Other operating activities include but are not limited to accounting and marketing.

Financing sources to operate the business within our sample rely on the money the business can generate, bank loans, accounts payable delays, and to a lower extent, the business reserves.

The strategies used to access these sources of funds are building and keeping a good trajectory throw-out the years with the companies' stakeholders, being proactive, controlling expenses, negotiating accounts payable delays, prioritizing debt obligations, and lastly, taking advantage of the benefits of a mixture of financing sources available to the entrepreneurs.

Keeping a good record and reputation among stakeholders, especially creditors and suppliers, allows Dominican microenterprises entrepreneurs to access loan offers and negotiate payment delays. However, enjoying this trajectory positioning takes time. Owner-managers must be cautious with the company's cash flows, commitments, and notoriety, particularly within the first few years of starting the business. In other words, the owner-manager or the moral entity must build trust to count on the few available financing sources. A trust that is not necessarily amical but professional trust built by delivering high-quality work, goods, and services throughout the years, settling thus a reliable record or trajectory. Below is the verbatim detailing business trajectory's importance for accessing funds to operate.

**Table 73. Verbatim and detailed coding for the emerging code "Trajectory"**

CASE	VERBATIM: BUSINESS OPERATIONS FINANCING STRATEGY: TRAJECTORY	DETAILED CODING
Case#1: Colmado Charina	"They <sup>1</sup> already know me. I <sup>2</sup> do not even need to go and ask them for funds. The <sup>3</sup> time I have been working with them, <sup>4</sup> in many cases, they come to me making me offers or they call me".	<sup>1</sup> "ALREADY KNOW ME" <sup>2</sup> "DO NOT EVEN NEED TO GO AND ASK"

		<p><sup>3</sup> “TIME I HAVE BEEN WORKING WITH THEM”</p> <p><sup>4</sup> “IN MANY CASES, THEY COME TO ME MAKING ME OFFERS”</p> <p><b>Key idea(s): established relationship and trajectory.</b></p>
<p>Case #4: Invercolor</p>	<p>“Yes, that is right. What happens, yes, what happens is that the bank, in those cases what it does is that it <sup>5</sup><b>asks you for a bank statement</b>, and since it is the <sup>6</sup><b>bank that handles your account</b>, those who handle your account know <sup>7</sup><b>what movements you make</b>, you see? They <sup>8</sup><b>have the records and the history</b>. So, <sup>9</sup><b>based on the client’s history</b>, that is like a <sup>10</sup><b>guarantee</b>. I think <sup>11</sup><b>your seriousness</b>, <sup>12</sup><b>your credit history</b>. Yes, yes, and the <sup>13</sup><b>punctuality of payments</b>”.</p>	<p><sup>5</sup> “ASKS YOU FOR A BANK STATEMENT”</p> <p><sup>6</sup> “BANK THAT HANDLES YOUR ACCOUNT”</p> <p><sup>7</sup> “WHAT MOVEMENTS YOU MAKE”</p> <p><sup>8</sup> “HAVE THE RECORDS AND THE HISTORY”</p> <p><sup>9</sup> “BASED ON THE CLIENT’S HISTORY”</p> <p><sup>10</sup> “GUARANTEE”</p> <p><sup>11</sup> “YOUR SERIOUSNESS”</p> <p><sup>12</sup> “YOUR CREDIT HISTORY”</p> <p><sup>13</sup> “PUNCTUALITY OF PAYMENTS”</p> <p><b>Key idea(s): having records and history in financial matters that speak for themselves and being responsible.</b></p>
<p>Case #5: Sergen SRL</p>	<p>“Banks will always <sup>14</sup><b>offer you if they see your operations</b>, right. It is like credit cards; you do not even know how they find out, but <sup>15</sup><b>if you are paying well, they call you</b> from 15 or 20 different banks because <sup>16</sup><b>you have one, and you manage it well</b>, with only that one. I have a checking account; <sup>17</sup><b>people are looking at it</b>, and then <sup>18</sup><b>based on that, they start offering</b>”.</p>	<p><sup>14</sup> “OFFER YOU IF THEY SEE YOUR OPERATIONS”</p> <p><sup>15</sup> “IF YOU ARE PAYING WELL, THEY CALL YOU”</p> <p><sup>16</sup> “YOU HAVE ONE, AND YOU MANAGE IT WELL”</p> <p><sup>17</sup> “PEOPLE ARE LOOKING AT IT”</p> <p><sup>18</sup> “BASED ON THAT, THEY START OFFERING”</p> <p><b>Key idea(s): having records and history in financial matters that speak for themselves and having a well-established trajectory.</b></p>



<p>Case #8: Casa Cristina</p>	<p>“The history. I mean, it is the <sup>19</sup><b>history that the company has so far.</b> <sup>20</sup><b>Payments consistency and responsibility</b> are what have allowed us to... Well, and <sup>21</sup><b>one thing leads to the other.</b> I mean, that <sup>22</sup><b>happens nationally or internationally.</b> If you have <sup>23</sup><b>had credits or deals with a company or several</b> and you have <sup>24</sup><b>always been responsible</b> and <sup>25</sup><b>did what you had to do, and right,</b> that is like the <sup>26</sup><b>letter that opens you the possibility to work with other companies and institutions;</b> it is like your <sup>27</sup><b>reference letter</b> as I understand it”.</p> <p>“Yes, that’s what it is; the <sup>28</sup><b>years and years in the market</b> and <sup>29</sup><b>delivering great work,</b> and <sup>30</sup><b>working well with suppliers.</b> That is the <sup>31</sup><b>key to the matter: satisfying suppliers.</b> If you please suppliers, you will have the products you need. Your <sup>32</sup><b>whole supply is there.</b> You deliver, they sell you, you buy, they sell you and so on, so you can manage yourself like that and you do not have to take out... It is an <sup>33</sup><b>impeccable control over the years between all that buying, selling, buying, selling”.</b></p>	<p><sup>19</sup> “HISTORY THAT THE COMPANY HAS SO FAR”</p> <p><sup>20</sup> “PAYMENTS CONSISTENCY AND RESPONSIBILITY”</p> <p><sup>21</sup> “ONE THING LEADS TO THE OTHER”</p> <p><sup>22</sup> “HAPPENS NATIONALLY OR INTERNATIONALLY”</p> <p><sup>23</sup> “HAD CREDITS OR DEALS WITH A COMPANY OR SEVERAL”</p> <p><sup>24</sup> “ALWAYS BEEN RESPONSIBLE”</p> <p><sup>25</sup> “DID WHAT YOU HAD TO DO, AND RIGHT”</p> <p><sup>26</sup> “LETTER THAT OPENS YOU THE POSSIBILITY TO WORK WITH OTHER COMPANIES AND INSTITUTIONS”</p> <p><sup>27</sup> “REFERENCE LETTER”</p> <p><sup>28</sup> “YEARS AND YEARS IN THE MARKET”</p> <p><sup>29</sup> “DELIVERING GREAT WORK”</p> <p><sup>30</sup> “WORKING WELL WITH SUPPLIERS”</p> <p><sup>31</sup> “KEY TO THE MATTER: SATISFYING SUPPLIERS”</p> <p><sup>32</sup> “WHOLE SUPPLY IS THERE”</p> <p><sup>33</sup> “IMPECCABLE CONTROL OVER THE YEARS BETWEEN ALL THAT BUYING, SELLING, BUYING, SELLING”</p> <p><b>Key idea(s): having records and history in financial matters that speak for themselves and having a well-established trajectory.</b></p>
<p>Case #9: Alexis Centro Automotriz</p>	<p>“You start <sup>34</sup><b>growing litter by litter.</b> They start <sup>35</sup><b>getting to know you;</b> they will <sup>36</sup><b>support and allow you</b> to do your work <sup>37</sup><b>asking you for fewer prerequisites to lend you.</b> They let you go on and so on. Usually, I <sup>38</sup><b>do not have to convince them. Before, I had to.</b> But <sup>39</sup><b>now you know that you have a record,</b> and you have your account officer, and he/she will <sup>40</sup><b>look if you are responsible,</b> <sup>41</sup><b>if you make your payments on time.</b> The <sup>42</sup><b>bank also knows you.</b> You <sup>43</sup><b>have a trajectory with them.</b> In my case, for instance, it is 12 years. Imagine! They know me by now. <sup>44</sup><b>They know”.</b></p>	<p><sup>34</sup> “GROWING LITTER BY LITTER”</p> <p><sup>35</sup> “GETTING TO KNOW YOU”</p> <p><sup>36</sup> “SUPPORT AND ALLOW YOU”</p> <p><sup>37</sup> “ASKING YOU FOR FEWER PREREQUISITES TO LEND YOU”</p>

	<p><sup>45</sup><b>At the beginning, it was really difficult.</b> For example, when I went to borrow money for the first time, I got a credit card first. I had my own credit card with a low limit. But later on, you know, <sup>46</sup><b>with the business here</b> at the Automobile Center, <sup>47</sup><b>there were many relationships and contacts.</b> So I <sup>48</sup><b>once had a guy who worked at the Bank Popular, who is now a very good friend of mine,</b> and from then on, he introduced me to a bank officer. I had an account officer, and that is <sup>49</sup><b>how they got to know me and started allowing me access to more things.</b> They raised my credit card limit, then a little loan here, another there, and then you know, you grow up...”.</p>	<p><sup>38</sup> “DO NOT HAVE TO CONVINCING THEM. BEFORE, I HAD TO”</p> <p><sup>39</sup> “NOW YOU KNOW THAT YOU HAVE A RECORD”</p> <p><sup>40</sup> “LOOK IF YOU ARE RESPONSIBLE”</p> <p><sup>41</sup> “IF YOU MAKE YOUR PAYMENTS ON TIME”</p> <p><sup>42</sup> “BANK ALSO KNOWS YOU”</p> <p><sup>43</sup> “HAVE A TRAJECTORY WITH THEM”</p> <p><sup>44</sup> “THEY KNOW”</p> <p><sup>45</sup> “AT THE BEGINNING, IT WAS REALLY DIFFICULT”</p> <p><sup>46</sup> “WITH THE BUSINESS HERE”</p> <p><sup>47</sup> “THERE WERE MANY RELATIONSHIPS AND CONTACTS”</p> <p><sup>48</sup> “ONCE HAD A GUY WHO WORKED AT THE BANK POPULAR, WHO IS NOW A VERY GOOD FRIEND OF MINE”</p> <p><sup>49</sup> “HOW THEY GOT TO KNOW ME AND STARTED ALLOWING ME TO ACCESS TO MORE THINGS”</p> <p><b>Key idea(s): having records and history in financial matters that speak for themselves and having a well-established trajectory.</b></p>
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Source: Personal elaboration

Another recurrent strategy to access funds to operate in the micro business sample is being proactive<sup>186</sup>. This means generating as many revenue streams as possible by seizing market opportunities, being creative, innovating, achieving specific money-making goals, and increasing the number of customers. The main objective is to generate enough cash to keep the business running without external financing.

<sup>186</sup> According to the Cambridge dictionary, proactive is an adjective that can be defined in three main ways. First, “taking action by causing change and not only reacting to change when it happens.” Second, it is “intending or intended to produce a good result or avoid a problem, rather than waiting until there is a problem” (intermediate English). Last, “taking action to make changes yourself rather than reacting to things that happen” (business English) (Cambridge University Press 2022).

**Table 74. Verbatim and detailed coding for the emerging code “Proactivity”**

CASE	VERBATIM: BUSINESS OPERATIONS FINANCING STRATEGY: PROACTIVITY	DETAILED CODING
<p>Case #2: Salón Ilusión</p>	<p>“I <sup>1</sup><b>set myself a goal</b>. For example, we have to produce, for example, I <sup>2</sup><b>have to produce at least RD\$60 000.00 pesos</b> to <sup>3</sup><b>pay for the expenses here</b> at the salon. The payroll, let’s say, operating expenses, payroll, inventory... I <sup>4</sup><b>get my operating expenses from what I make with the business</b>. But I <sup>5</sup><b>have to put out the bank’s share; I have to put in my share, and so on</b>. For example, we bought that new air conditioning for RD\$100 000.00 pesos that has to be paid back. It was financed with a loan from a bank, you know, and so on. You know that you <sup>6</sup><b>have to make money</b> and <sup>7</sup><b>innovate</b> and <sup>8</sup><b>find the way to move forward</b>, <sup>9</sup><b>figure it out</b>. I sell clothes; we sell products, we sell so many clothes and products, my dear, new clothes, used ones. I sell it here in the salon, so I provide beauty and hair salon services, but I also <sup>10</sup><b>have to do other things or businesses on the side</b> even though if it is here at the salon”.</p> <p>“Here, look here. Look there, I am selling. Look at that hamper, it is full. Look at that display case is full of beauty products for sale”.</p>	<p><sup>1</sup>“SET MYSELF A GOAL”  <sup>2</sup> “HAVE TO PRODUCE AT LEAST”  <sup>3</sup> “PAY FOR THE EXPENSES HERE”  <sup>4</sup> “GET MY OPERATING EXPENSES FROM WHAT I MAKE WITH THE BUSINESS”  <sup>5</sup> “HAVE TO PUT OUT THE BANK’S SHARE; I HAVE TO PUT IN MY SHARE, AND SO ON”  <sup>6</sup>“HAVE TO MAKE MONEY”  <sup>7</sup>“INNOVATE”  <sup>8</sup> “FIND THE WAY TO MOVE FORWARD”  <sup>9</sup>“FIGURE IT OUT”  <sup>10</sup> “HAVE TO DO OTHER THINGS OR BUSINESSES ON THE SIDE”</p> <p><b>Key idea(s): setting money-making goals, innovating, and finding alternatives to make money.</b></p>
<p>Case #3: D’ilias atelier alta costura</p>	<p>“<sup>11</sup><b>Handling cash flows</b>, to <sup>12</sup><b>make money every day, that is my goal</b>, always. I do not let go a week without cash, no. Don’t you see me? Look, I made that jumpsuit for a client last night; she <sup>13</sup><b>tried it today, but tomorrow that is gone</b>. <sup>14</sup><b>Tomorrow, I will get that money</b>. Do you understand me?”.</p>	<p><sup>11</sup>“HANDLING CASH FLOWS”  <sup>12</sup>“MAKE MONEY EVERY DAY, THAT IS MY GOAL”  <sup>13</sup> “TRIED IT TODAY, BUT TOMORROW THAT IS GONE”  <sup>14</sup> “TOMORROW, I WILL GET THAT MONEY”</p> <p><b>Key idea(s): setting money-making goals.</b></p>
<p>Case #5: Sergen SRL</p>	<p>“More than any control of expenses is <sup>15</sup><b>a lot of work</b>. <sup>16</sup><b>Knocking on many doors, offering many offers</b>, things like that. As the Dominicans say: <sup>17</sup><b>on the streets, thrown to the street</b>.” <sup>18</sup><b>Looking for opportunities</b>. But what are you going to control if there is no money? Well, if it is a large amount, of</p>	<p><sup>15</sup>“A LOT OF WORK”  <sup>16</sup> “KNOCKING ON MANY DOORS, OFFERING MANY OFFERS”</p>

	<p>course, you certainly have to control it. But what happens is that so many people, the <sup>19</sup><b>small merchants, take advantage of opportunities</b>. When you take advantage of an opportunity, it is because you are <sup>20</sup><b>expecting a return, money</b> because you took advantage of an opportunity, and you started to make money because it is an opportunity, you got one, you got two, you got three and then off you go”.</p> <p>“I always <sup>21</sup><b>seize opportunities</b>. As you remember, I worked five years in the same type of business. When I got out, I knew the <sup>22</sup><b>market</b>, and I knew <sup>23</sup><b>where to find good opportunities</b>”.</p>	<p><sup>17</sup>“ON THE STREETS, THROWN TO THE STREET”</p> <p><sup>18</sup> “LOOKING FOR OPPORTUNITIES”</p> <p><sup>19</sup>“SMALL MERCHANTS, TAKE ADVANTAGE OF OPPORTUNITIES”</p> <p><sup>20</sup> “EXPECTING A RETURN, MONEY”</p> <p><sup>21</sup>“SEIZE OPPORTUNITIES”</p> <p><sup>22</sup>“MARKET”</p> <p><sup>23</sup> “WHERE TO FIND GOOD OPPORTUNITIES”</p> <p><b>Key idea(s): looking for money-making opportunities and working hard to take advantage of them.</b></p>
<p>Case #6: Escuela de choferes La Ideal</p>	<p>“I <sup>24</sup><b>look for more customers</b>. I give out cards, I talk to people, I go to the supermarkets, I give out cards, I go to the pharmacy, I leave cards, they call me, and I attract customers, yes. I spread the word. I <sup>25</sup><b>approach people</b>”.</p>	<p><sup>24</sup> “LOOK FOR MORE CUSTOMERS”</p> <p><sup>25</sup>“APPROACH PEOPLE”</p> <p><b>Key idea(s): looking for more clients.</b></p>
<p>Case #10: Salón estilo Gysel</p>	<p>“I <sup>26</sup><b>look for more clients</b>, and the <sup>27</sup><b>same clients bring me more</b> because of <sup>28</sup><b>how I treat the client</b>. They like how I style them, the treatment, the attention, and even the place’s decoration here. <sup>29</sup><b>Good work always makes people talk, and they recommend you to other people</b>”.</p>	<p><sup>26</sup>“LOOK FOR MORE CLIENTS”</p> <p><sup>27</sup> “SAME CLIENTS BRING ME MORE”</p> <p><sup>28</sup>“HOW I TREAT THE CLIENT”</p> <p><sup>29</sup> “GOOD WORK ALWAYS MAKES PEOPLE TALK, AND THEY RECOMMEND YOU TO OTHER PEOPLE”</p> <p><b>Key idea(s): looking for more clients and keeping a high-quality service.</b></p>

Source: Personal elaboration

Five (5) cases out of ten (10) placed the business trajectory and the owner-managers proactivity as crucial elements to obtain funds and generate the adequate resources to operate. Another significant element is strict cash flow management control by prioritizing financial

obligations, meeting suppliers' payment deadlines, restricting expenses, and growing business reserves when possible. This last one works as the most recurrent source of financing before opting for any external financing, such as bank loans.

Another relevant factor that emerges from responses with a smaller number of direct references in the data sample is the usage of a mixture of financing sources aiming to maximize the benefits of each one, internally or externally. For instance, retained earnings become operating or investing financing down the road with no financial cost or principal to reimburse. Established local or international suppliers' relationships favor payment negotiation delays at no cost. Personal or business bank lines of credit permits immediate access to funds with a thirty (30) calendar days payment deadline. Proper credit records are business reference letters to access bank loan offers opportunities. It, therefore, becomes a set of financing arrangements established by the benefits these can grant entrepreneurs at a given time or situation.

Below is the treemap synthesizing results for microenterprises financing to operate

**Figure 45. Hierarchical order of coding references for operations financing**

OPERATIONS FINANCING			
STRATEGY		SOURCE	
<b>Trajectory</b> A. Total coding references (as a lump): 8. B. Cases present: 1, 4, 5, 8, and 9. C. Total number of cases: 5.	<b>Proactivity</b> A. 6. B. 2, 3, 5, 6, and 10. C. 5.	<b>Business operations</b> A. 10. B. 2, 3, 4, 5, 6, 7, 8 and 10. C. 8.	<b>Accounts payable</b> A. 2. B. 5 and 8. C. 2.
<b>Control</b> A. 8. B. 2, 5, 7, 9, and 10. C. 5.	<b>Accounts payable delays</b> A. 3. B. 5, 7, and 8. C. 3.	<b>Bank</b> A. 10. B. 1, 4, 5, 7, 8, and 9. C. 6.	<b>Business reserves</b> A. 1. B. 9. C. 1.
	<b>Mix of financing sources</b> A. 1. B. 8. C. 1.		

- A: Number of references (coding as a lump)
- B: Cases where references derived from
- C: Total amount of cases present in the node

Source: Personal elaboration

### 2.3. Financing to invest

Investments financing was the least detailed of the financings studied, with twenty-seven (27) direct coding references. These last ones included funds to invest in and/or outside the business and the strategy to obtain the financing sources mentioned.

According to the data gathered, the financing sources used by micro-entrepreneurs in the Dominican Republic to invest mainly rely on bank financing, business operations retained earnings, and self-financing. Other sources, however, to a lower extent, are governmental entity support and family support or personal businesses accumulated earnings.

The strategy used to access these sources of funds is mainly based on ensuring efficient use of the enterprise resources so that business profits can be reinvested in the enterprise. In addition, making the necessary payments when due, primarily when referring to debt obligations, and setting performance goals to encourage meeting growth objectives are essential. Another strategy from the data is obtaining proximity capital because they are close to the entrepreneurs' reach, meaning short in distance and relationship-wise. Building a reliable professional and personal trajectory with the enterprise's stakeholders and consolidating valuable partnerships to grow the business also came up.

Below is the verbatim pointing out business control as a strategy to fund the enterprise investments.

**Table 75. Verbatim and detailed coding for the emerging code “Control”**

CASE	VERBATIM: BUSINESS INVESTMENT FINANCING STRATEGY: CONTROL	DETAILED CODING
Case #3: D’Ilias atelier alta costura	<p>“I did not have to look for more clients. I have <b>had to manage myself more</b> in the sense of not having too much money in my wallet. To <b>not spend on unnecessary things</b> because I used to spend my money on things that were not worth it”.</p> <p>“I <b>have more control with the money that I get</b>, that is in the word: control. I have had to learn little by little to <b>control myself</b>. Yeah, because if not.”</p>	<p><sup>1</sup> “HAD TO MANAGE MYSELF MORE”</p> <p><sup>2</sup> “NOT SPEND ON UNNECESSARY THINGS”</p> <p><sup>3</sup> “HAVE MORE CONTROL WITH THE MONEY THAT I GET”</p> <p><sup>4</sup> “CONTROL MYSELF”</p> <p><b>Key idea(s): controlling spending personally and for the enterprise.</b></p>

<p>Case #4: Invercolor</p>	<p>“You <sup>5</sup><b>build it up day-to-day</b>. What happens is that you <sup>6</sup><b>do not go looking for funds every time you want</b> to because you will owe to half a country if that is the case. But that is the day-to-day because for you to grow, you always need a financing and what happens is you <sup>7</sup><b>wisely managed everything</b>, <sup>8</sup><b>manage strategically</b>. If you do not, it will ruin you in such a way. Yes”.</p>	<p><sup>5</sup>“BUILD IT UP DAY-TO-DAY” <sup>6</sup>“DO NOT GO LOOKING FOR FUNDS EVERY TIME YOU WANT” <sup>7</sup>“WISELY MANAGED EVERYTHING” <sup>8</sup>“MANAGE STRATEGICALLY”</p> <p><b>Key idea(s): managing wisely and strategically with money.</b></p>
<p>Case #9: Alexis Centro Automotriz</p>	<p>“To invest and grow my business, I <sup>9</sup><b>use the bank and my savings</b>, but often the bank. <sup>10</sup><b>In most cases, long-term loans</b> because, let us say, for instance, we are going to estimate that I am going to give RD\$4 000 000.00 pesos for a place or RD\$5 000 000.00 for a place for my business. This property I have to <sup>11</sup><b>finance it for 7 or 10 years</b>, which is a long term because, you know, we are a microenterprise, right? And as you can see, the, the, the <sup>12</sup><b>income is not as aggressive for you to pay</b> 10 million pesos or even for you to pay 5 million pesos in 10 years, do you understand me?”</p> <p><sup>13</sup><b>What is left after paying all the operating and financing costs, taxes, etc.</b> You can see. For example, look here for my business. I have <sup>14</sup><b>monthly expenses</b>. I am going to put, every month of, RD\$600 000.00 pesos. You <sup>15</sup><b>buy car pieces</b> and other things, and we go up to RD\$600 000.00 pesos. After making the payments, I have RD\$130 000.00 to RD\$250 000.00 left, and you say: ‘ah! But this man sells! Look at how much he buys and sells.’ But what I earn from those 300 I <sup>16</sup><b>have to pay employees</b>; I <sup>17</sup><b>have to pay my personal expenses</b>, I <sup>18</sup><b>have to pay for gas</b>, I <sup>19</sup><b>have to pay for the premises</b>. So it is not that much at the end...”.</p>	<p><sup>9</sup>“USE THE BANK AND MY SAVINGS” <sup>10</sup>“IN MOST CASES, LONG-TERM LOANS” <sup>11</sup>“FINANCE IT FOR 7 OR 10 YEARS” <sup>12</sup>“INCOME IS NOT AS AGGRESSIVE FOR YOU TO PAY” <sup>13</sup>“WHAT IS LEFT AFTER PAYING ALL THE OPERATING AND FINANCING COSTS, TAXES, ETC.” <sup>14</sup>“MONTHLY EXPENSES” <sup>15</sup>“BUY CAR PIECES” <sup>16</sup>“HAVE TO PAY EMPLOYEES” <sup>17</sup>“HAVE TO PAY MY PERSONAL EXPENSES” <sup>18</sup>“HAVE TO PAY FOR GAS” <sup>19</sup>“HAVE TO PAY FOR THE PREMISES”</p> <p><b>Key idea(s): managing wisely with money, making payments that are a priority in advance, and preferring the long-term to make payments on time.</b></p>

Source: Personal elaboration

Setting specific goals to make given investments in the future are strong incentives for entrepreneurs in the sample to raise the necessary capital to accomplish their objectives. As mentioned by them:

**Table 76. Verbatim and detailed coding for the emerging code “Setting goals”**

CASE	VERBATIM: BUSINESS INVESTMENT FINANCING STRATEGY: SETTING GOALS	DETAILED CODING
Case #3: D’iliias atelier alta costura	“Of course, <sup>1</sup> <b>my goal this year is</b> to buy this place for my business. After I buy it, <sup>2</sup> <b>remodel it a little bit</b> according to my income, of course, and do a little bit you see the facade, but <sup>3</sup> <b>always keeping the essence</b> of D’iliias atelier. What is the essence? This mess you see here. It is true, look. I have always been clear about that. When one fixes it and puts everything very nice, people go away or do not come. They go away! So, no, I’m <sup>4</sup> <b>going to fix things but trying to keep people comfortable</b> ”.	<sup>1</sup> “MY GOAL THIS YEAR IS” <sup>2</sup> “REMODEL IT A LITTLE BIT” <sup>3</sup> “ALWAYS KEEPING THE ESSENCE” <sup>4</sup> “GOING TO FIX THINGS BUT TRYING TO KEEP PEOPLE COMFORTABLE”  <b>Key idea(s): setting development goals.</b>
Case #7: Papelería MEL	“I have everything rented, and I don’t plan to buy it. For the <sup>5</sup> <b>business to grow</b> , I want <sup>6</sup> <b>more clients</b> , <sup>7</sup> <b>more inventory</b> as well but not too much”.	<sup>5</sup> “BUSINESS TO GROW” <sup>6</sup> “MORE CLIENTS” <sup>7</sup> “MORE INVENTORY”  <b>Key idea(s): setting development goals.</b>
Case #8: Casa Cristina	“I believe that the <sup>8</sup> <b>growth</b> for Casa Cristina right now is <sup>9</sup> <b>developing other products or services lines</b> . Other lines besides having the furniture we sell. To <sup>10</sup> <b>have other things for the client</b> , something that the client will have to come or comes for something else besides the furniture we sell. Come for something else, you know? Other things. To <sup>11</sup> <b>develop a business of more active sales</b> because the sale of furniture is a more passive sale. To have a more active <sup>12</sup> <b>sales that allow us to grow</b> : <sup>13</sup> <b>putting things that people like</b> , you see, gifts for instance...”.	<sup>8</sup> “GROWTH” <sup>9</sup> “DEVELOPING OTHER PRODUCTS OR SERVICES LINES” <sup>10</sup> “HAVE OTHER THINGS FOR THE CLIENT” <sup>11</sup> “DEVELOP A BUSINESS OF MORE ACTIVE SALES” <sup>12</sup> “SALES THAT ALLOW US TO GROW” <sup>13</sup> “PUTTING THINGS THAT PEOPLE LIKE”  <b>Key idea(s): setting development goals.</b>

Source: Personal elaboration

In addition, proximity seems to be a recurrent element facilitating access to funds within a micro-business spectrum. Proximity is not only spatial but relational as well. The use of all



means near the entrepreneur’s reach to obtain the necessary capital to keep growing the business.

**Table 77. Verbatim and detailed coding for the emerging code “Proximity”**

CASE	VERBATIM: BUSINESS INVESTMENT FINANCING STRATEGY: PROXIMITY	DETAILED CODING
Case#1: Colmado Charina	<p>“Yes, look. <sup>1</sup><b>In the same bank that I have</b>, I had, for instance, well, I borrowed from them for a house, I had a line of credit, I had a loan for the house, I had a loan for... well, anyways, I paid them back. I do not know the reason why because, as far as I know, I’ve <sup>2</sup><b>never had problems with them</b> in such a way, and I try to <sup>3</sup><b>keep up with my payments</b> due, but they didn’t give any thought to that. They told me that it was not possible because I <sup>4</sup><b>had more than one loan</b>, and I haven’t gotten back since, to be honest”.</p> <p>“I <sup>5</sup><b>used a brother of mine to apply for the loan</b> as they were not giving it to me. I was the one that created the business. I started it, and I created it for my brother to take care of it. I <sup>6</sup><b>needed capital</b> because the capital I had was not enough to buy the business, so what I did was that I <sup>7</sup><b>took one of my brothers to apply for the money</b>. But, the problem was that they limited themselves too much. <sup>8</sup><b>What they gave us was not worth it</b>. I have been in the business, outside of this one, for three years now and what they are currently lending him is less than RD\$100 000.00 pesos. It is very little. I think that is to start a stand to sell lollipops, RD\$100 000.00 pesos. It is worth nothing, believe me”.</p>	<p><sup>1</sup> “IN THE SAME BANK THAT I HAVE”</p> <p><sup>2</sup> “NEVER HAD PROBLEMS WITH THEM”</p> <p><sup>3</sup> “KEEP UP WITH MY PAYMENTS”</p> <p><sup>4</sup> “HAD MORE THAN ONE LOAN”</p> <p><sup>5</sup> “USED A BROTHER OF MINE TO APPLY FOR THE LOAN”</p> <p><sup>6</sup> “NEEDED CAPITAL”</p> <p><sup>7</sup> “TOOK ONE OF MY BROTHERS TO APPLY FOR THE MONEY”</p> <p><sup>8</sup> “WHAT THEY GAVE US WAS NOT WORTH IT”</p> <p><b>Key idea(s): preferring banks with an established relationship and getting help from family.</b></p>
Case #2: Salón Ilusión	<p>“No, not that. It was us. We <sup>9</sup><b>paid a lady, a client of ours</b>. She told us: ‘Well, look, they’re giving me a loan,’ and we were <sup>10</sup><b>needing money</b>, so we said: ‘Well, <sup>11</sup><b>let’s borrow</b> to buy that air conditioning.’ So, <sup>12</sup><b>it is not under our name, but we are the ones paying for it</b>. But of course, they are <sup>13</sup><b>my friends too</b>, I’m telling you”.</p>	<p><sup>9</sup> “PAID A LADY, A CLIENT OF OURS”</p> <p><sup>10</sup> “NEEDING MONEY”</p> <p><sup>11</sup> “LET’S BORROW”</p> <p><sup>12</sup> “IT IS NOT UNDER OUR NAME, BUT WE ARE THE ONES PAYING FOR IT”</p> <p><sup>13</sup> “MY FRIENDS TOO”</p> <p><b>Key idea(s): borrowing from well-known clients/friends.</b></p>
Case #6: Escuela de	<p>“I <sup>14</sup><b>talked to the bank</b>. They <sup>15</sup><b>evaluated me</b>, and then they called me. Yes, yes, they <sup>16</sup><b>came here</b>, and I explained what I was doing. Yes. Yes, and the next day they called me. I do not know if I <sup>17</sup><b>gave them confidence</b> or what they thought. Yes, yes, Ademi. The Ademi bank.</p>	<p><sup>14</sup> “TALKED TO THE BANK”</p> <p><sup>15</sup> “EVALUATED ME”</p> <p><sup>16</sup> “CAME HERE”</p> <p><sup>17</sup> “GAVE THEM CONFIDENCE”</p>

choferes La Ideal	Oh, yeah. Very important. I <sup>18</sup> <b>called them, and they came over here</b> , and I told them what I wanted, and we did business right away, and I think I have done a <sup>19</sup> <b>good job with our agreement</b> . Yes, yes, of course. They took all that into account. They took a picture of the school permits, all the normal stuff they do. So where do we go from here in the interview?"	<sup>18</sup> "CALLED THEM, AND THEY CAME OVER HERE" <sup>19</sup> "GOOD JOB WITH OUR AGREEMENT"  <b>Key idea(s): negotiating personally.</b>
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Source: Personal elaboration

Even though only one case talked about partnerships in the interviews, it provided evidence that well-established partnerships, particularly with suppliers, provide micro business valuable support to make crucial investments that will guarantee the enterprise growth—see underneath.

**Table 78. Verbatim and detailed coding for the emerging code “Partnerships”**

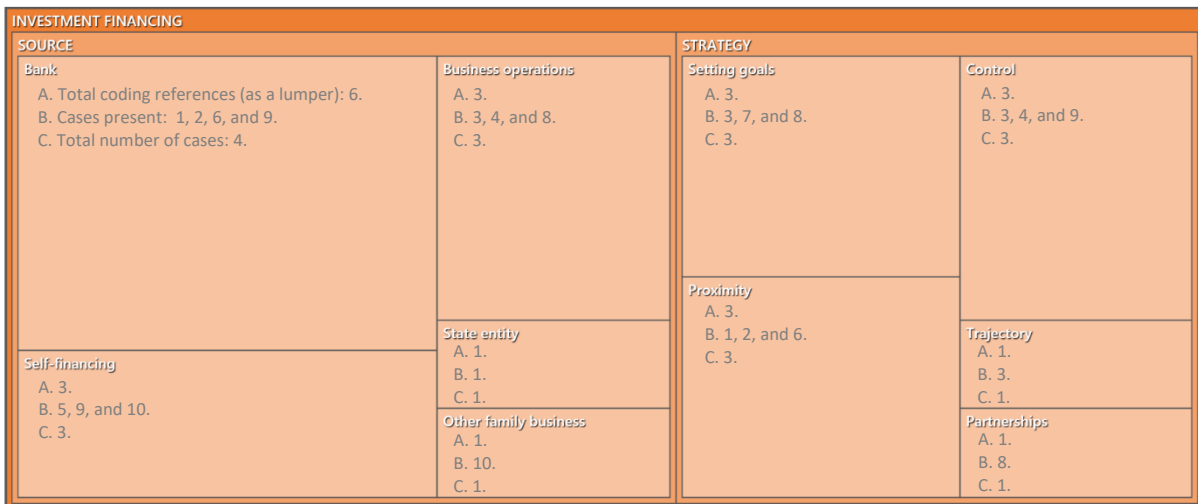
CASE	VERBATIM: BUSINESS INVESTMENT FINANCING STRATEGY: PARTNERSHIPS	DETAILED CODING
Case #8: Casa Cristina	<p>“Yes, we <sup>1</sup><b>use several options</b>. The <sup>2</sup><b>supplier who gives us the facility</b> also. There is the <sup>3</sup><b>facility of the banks</b> and so on. With that”.</p> <p>“Yes, yes. Many times, when some things are implemented like fairs and those kinds of things that you implement. For instance, you <sup>4</sup><b>give suppliers a share of the responsibilities and activities to perform</b> for the event to take place. Suppliers will provide you with the product to sell. They <sup>5</sup><b>will support you</b>. As I say, <sup>6</sup><b>financing you</b>, not financing moneywise but <sup>7</sup><b>keeping with the strategy</b>. They <sup>8</sup><b>give you support</b>. They send you advertising materials, etc.”</p> <p>“It is a <sup>9</sup><b>relationship of many years</b> because the <sup>10</sup><b>trust</b> between a customer and a supplier. No supplier will provide you that kind of support if they do not <sup>11</sup><b>know you</b>, you see. It is a <sup>12</sup><b>relationship built for years</b>. Since you have worked for so many years, you present to suppliers what you think; they should be interested, if you <sup>13</sup><b>do it like you always do</b>, a customer who, you know?”.</p> <p>“Exactly! That is right. Many times, when we start with new providers, and I tell them, I give them the <sup>14</sup><b>reference of the other supplier</b>, and they say: ‘oh, not that <sup>15</sup><b>lady is responsible! Give her everything</b>. Whatever you want, Cristina’. You know, and it’s like that with <sup>16</sup><b>such an ease</b>”.</p>	<sup>1</sup> “USE SEVERAL OPTIONS” <sup>2</sup> “SUPPLIER WHO GIVES US THE FACILITY” <sup>3</sup> “FACILITY OF THE BANKS” <sup>4</sup> “GIVE SUPPLIERS A SHARE OF THE RESPONSIBILITIES AND ACTIVITIES TO PERFORM” <sup>5</sup> “WILL SUPPORT YOU” <sup>6</sup> “FINANCING YOU” <sup>7</sup> “KEEPING WITH THE STRATEGY” <sup>8</sup> “GIVE YOU SUPPORT” <sup>9</sup> “RELATIONSHIP OF MANY YEARS” <sup>10</sup> “TRUST” <sup>11</sup> “KNOW YOU” <sup>12</sup> “RELATIONSHIP BUILT FOR YEARS” <sup>13</sup> “DO IT LIKE YOU ALWAYS DO” <sup>14</sup> “REFERENCE OF THE OTHER SUPPLIER” <sup>15</sup> “LADY IS RESPONSIBLE! GIVE HER EVERYTHING”

		<sup>16</sup> “SUCH AN EASE”  <b>Key idea(s): having a sound support system (e.g., banks and suppliers). Developing and keeping partnerships one can count on. Having a trusting reputation facilitates access to resources.</b>
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Source: Personal elaboration

Below is the treemap summarizing investment financing sources and strategies for micro businesses.

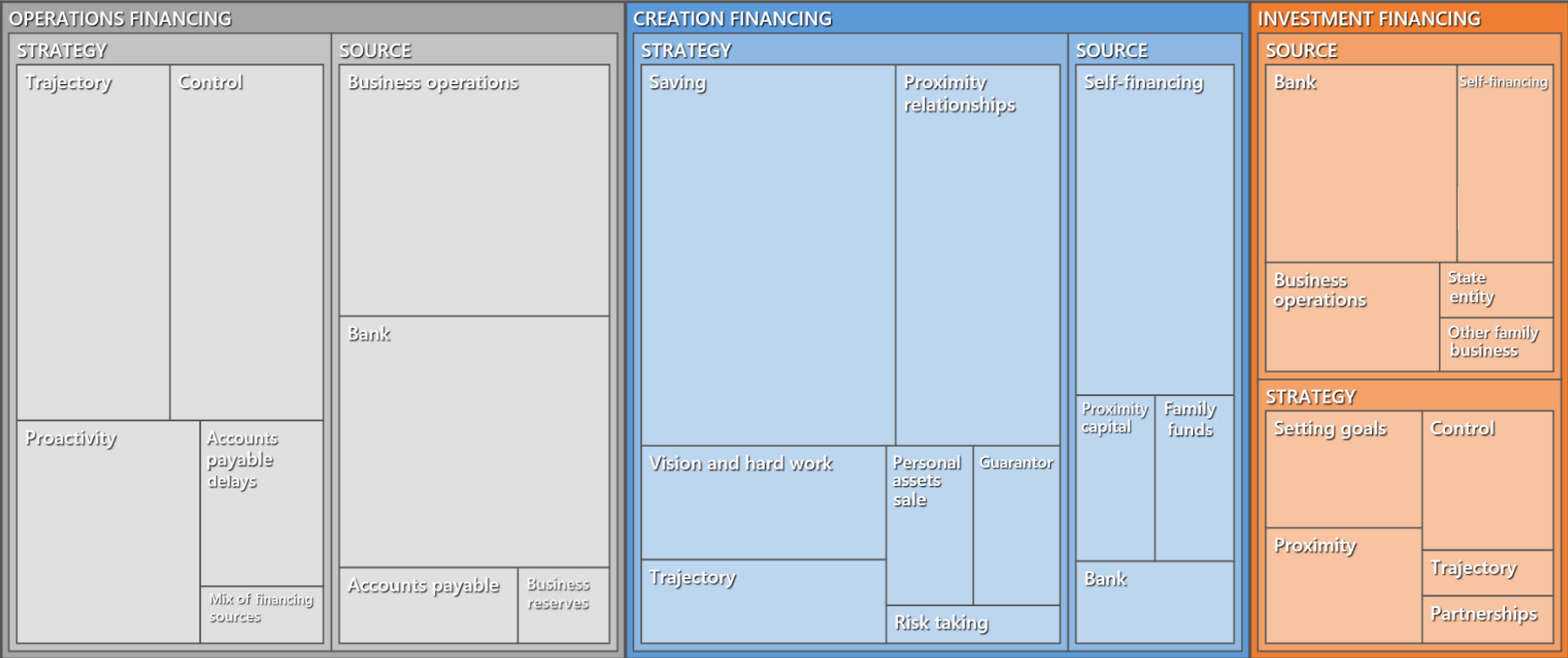
**Figure 46. Hierarchical order of coding references for investment financing**



- A: Number of references (coding as a lump)
- B: Cases where references derived from
- C: Total amount of cases present in the node

Source: Personal elaboration

**Figure 47. General micro business financing outlook**



Source: Personal elaboration

Several central tendencies emerge from the data when looking at the financing sources and strategies used to obtain funds in the different stages of enterprise development. These are the following:

- Financing sources for microenterprises in any development stage are limited. These are self-financing from the owner-manager set of resources or the business cash generation capacity, proximity capital, and commercial banks debt financing.
- Accounts payable delays were rarely mentioned. This could mean that it may not be considered a financing option by entrepreneurs; instead, a negotiation. One that could degrade the enterprise's good trajectory with stakeholders if it is not handled with care and attention. It could also mean that this financing option may be tied to the business economic activity of the enterprise. For instance, commercial businesses reselling merchandise may take advantage of this financing option more than businesses providing services.
- No external equity financing is identified. Instead, owner-managers keep the shares of the enterprise in their power, within the boundaries of family or trusting valuable relationships such as friendships and business partnerships.
- No financing coming from cooperatives or associations was acknowledged by any of the entrepreneurs.
- Micro businesses financing government support is insignificant and considered unsuitable.
- An established, respectable business and personal trajectory is a predominant element in obtaining financing—especially for operations. Proximity, mainly in space and relationships with the owner-manager, permits the building of this trajectory which must be nourished and taken care of throughout the years.
- The owner-manager is the primary driver of the enterprise financing capacity, whether to launch the activity, run the business, or grow it.

- First, financing to create the business depends on his/her savings from previous jobs, raising capital from personal assets sales, and mobilizing his/her proximity relationships to access funds and get support such as family, friends, or well-established relationships. Furthermore, he/she needs a clear vision of what he/she wants and work hard for it, and last, to a lower extent, to take risks hoping to win.
- Second, financing to operate the business besides the enterprise and owner-manager personal trajectory, there ought to be precise control of cash flows in and out of the enterprise, prioritizing debt obligation and commitments. The entrepreneur's proactivity is crucial for creating and spotting market opportunities to generate sufficient cash for the business. Moreover, he/she will use a mix of financing sources to take advantage of its benefits from accounts payable delays, proximity capital, personal credit line, loan, and even governmental support.
- Third, financing to grow the business is founded on controlling the enterprise cashflows and relying on proximity. Setting money-making goals to guarantee sufficient capital is available to reinvest and grow is also important. Last, the owner-manager capability to secure long-lasting valuable partnerships for the business allow him/her to access valuable resources.
- Entrepreneurs did not mention using venture or business angel financing.

It seems recurrent that an enterprise's likelihood to access funds, regardless of its development stage, is the owner-manager capacity to mobilize his/her resources at hand for this purpose. This means that instead of studying the financing options available in the market and meeting the financier selecting criteria, entrepreneurs will evaluate how they can access funds within their means and reach. This leads us to the effectuation theory of Saras D. Sarasvathy (2008) in entrepreneurship because the owner-manager is the one creating the microenterprise financing opportunities by evaluating:

- Who he/she is,
- What he/she knows and can do,
- Whom he/she knows,

- How much is he/she willing to lose rather than how much is he/she estimating to win,
- Who is willing to support them within their network, and,
- A set of contingencies as they come their way.

It is a logic that pays off by accessing and mobilizing the resources at hand when working on achieving a defined purpose. In essence, what can I do as an entrepreneur with what I have, whom I know and can support me, what I can offer, and, more interestingly, with what I identify myself with. Then, as many strategies to achieve the desired outcome as the available means allow will be implemented. Saras D. Sarasvathy calls this process effectuation which she opposes to causation:

“Process of causation and effectuation

**Definition:** Causation processes take a particular effect as given and focus on selecting between means to create that effect. Effectuation processes take a set of means as given and focus on selecting between possible effects that can be created with that set of means” (Sarasvathy 2001, 245).

The author explains both processes with examples from everyday life. To illustrate, for instance, one can say that there are two (2) ways of cooking a meal or dish. First, one can strictly follow a recipe; this means we go to the supermarket, buy all the necessary ingredients, make sure we have or acquire the necessary cooking utensils, go home, and follow the cooking instructions carefully (causation). Then, on the other hand, one can open the refrigerator and look around the kitchen, spotting compatible combinations among available ingredients and cooking tools to create the final product creatively: the meal (effectuation).

There is a profound difference between both methods. Causation focuses on responding and creating what is needed to meet a given set of criteria to achieve a specific purpose. Effectuation centers on using the resources at hand to do what is feasible to accomplish the desired objective. In other words, “causation processes are effect dependent” and “effectuation processes are actor dependent” (Sarasvathy 2001, 250). Two (2) different worlds<sup>187</sup>.

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<sup>187</sup> For more details on these two (2) process methods, refer to table 1, “contrasting causation and effectuation,” and figure 1, “The theory of effectuation” in Sarasvathy’s (2001, 251,253). Article entitled “Causation and Effectuation: Toward a Theoretical Shift from Economic Inevitability to Entrepreneurial Contingency.”

Even though the effectuation theory targets how entrepreneurs start businesses, data from our sample suggest that entrepreneurs go along the effectual logic lines to access financing for their firms instead of a casual logic. In this regard, Dominican micro businesses entrepreneurs identify the elements that can ensure their access to funds by starting from the “inside” or what is near them. Formerly, they only extend their efforts to the “outside” or what is out of their reach if necessary. Metaphorically, they open their refrigerator and look around their kitchen to cook a meal with what they have.

In this sense, accessing funds is strictly tied to the specificities and realities of each entrepreneur and his/her ability to make it happen proactively, generating thus his/her financing opportunities.

We will continue exploring Dominican microenterprises financing by analyzing questions centered on:

- The type of financing owner-managers use for their enterprises,
- The extent to which owner-managers personal characteristics or managerial choices influence how the business is financed,
- The knowledge Dominican owner-managers have about alternative institutions (besides commercial banks) that can finance and/or provide technical support in their endeavors. For instance, private and governmental institutions as well as non-profit organizations (NGOs),
- The crucial elements to access financing from the entrepreneurs’ perspectives and own experiences since creating the business. We will study with great interest a mixture of proximities placing the owner-manager in the center of the universe. These proximities include but are not limited to hierarchical, spatial, patrimonial, information systems, relational, and temporal proximity. Other recurrent elements coming from the literature and the Dominican Republic context will be explored, such as business plans, business teams, projects profitability, pitches, and business formality; and last,
- The degree to which proximities, the elements recurrent in the literature, and the country’s context are influenced by owner-managers financing decisions when



choosing one financing or the other. These decisions could be based on intuitive feelings preferring, for instance, a specific set of proximities instead of the “best” or other options for the enterprise. If this is the case, one can talk about a chosen limited rationality or *le phénomène de paroi* explained at the end of chapter two.

### **3. Financing used by Dominican microenterprises**

A diverse selection of financing options was evaluated. These ranged from internal and external debt and equity financing to available alternatives in the Dominican market, such as cooperatives, associations, individual and institutional moneylenders (outside of commercial banks loans and services), venture capital, and individual investors such as business angels.

Entrepreneurs were asked to rank from zero (0) to (10) how much they used a specific financing option for their enterprise. The ranking went from zero (0) being “never uses it” to ten (10) being “always uses it.” The data tabulation suggests that the owner-manager primary financing source, as highlighted earlier in our previous primary data analysis, is self-financing, whether we are talking about creation, operations, or investment. Seven (7) out of ten (10) enterprises placed self-financing in the highest position on the scale: number 10. As expected, another commonly financing source used by entrepreneurs is commercial banks. In this case, Bank loans were ranked at nine (9) or ten (10) by six (6) enterprises and credit lines between eight (8) and ten (10) by five (5) enterprises.

As we have seen from our previous analyses, another recurrent result from the data is almost the absence or no use of financing sources from associations, cooperatives, business angels, venture capitalists, the stock market, and other personal lenders or financial entities. In addition, account payment delay responses were evenly distributed on the scale. The latter could manifest that this financing source depends on the business’s economic activity or the owner-manager’s preferences. For instance, if a well-established supplier relationship and trajectory exists in a business, it makes sense to think that small grocery, furniture, and office supply stores will take advantage of this no-cost, short-term financing opportunity. Nonetheless, businesses providing services such as beauty salons and clothing confessions are less likely to exploit this financing option because it is common for clients to bring the required materials and products to provide the service.

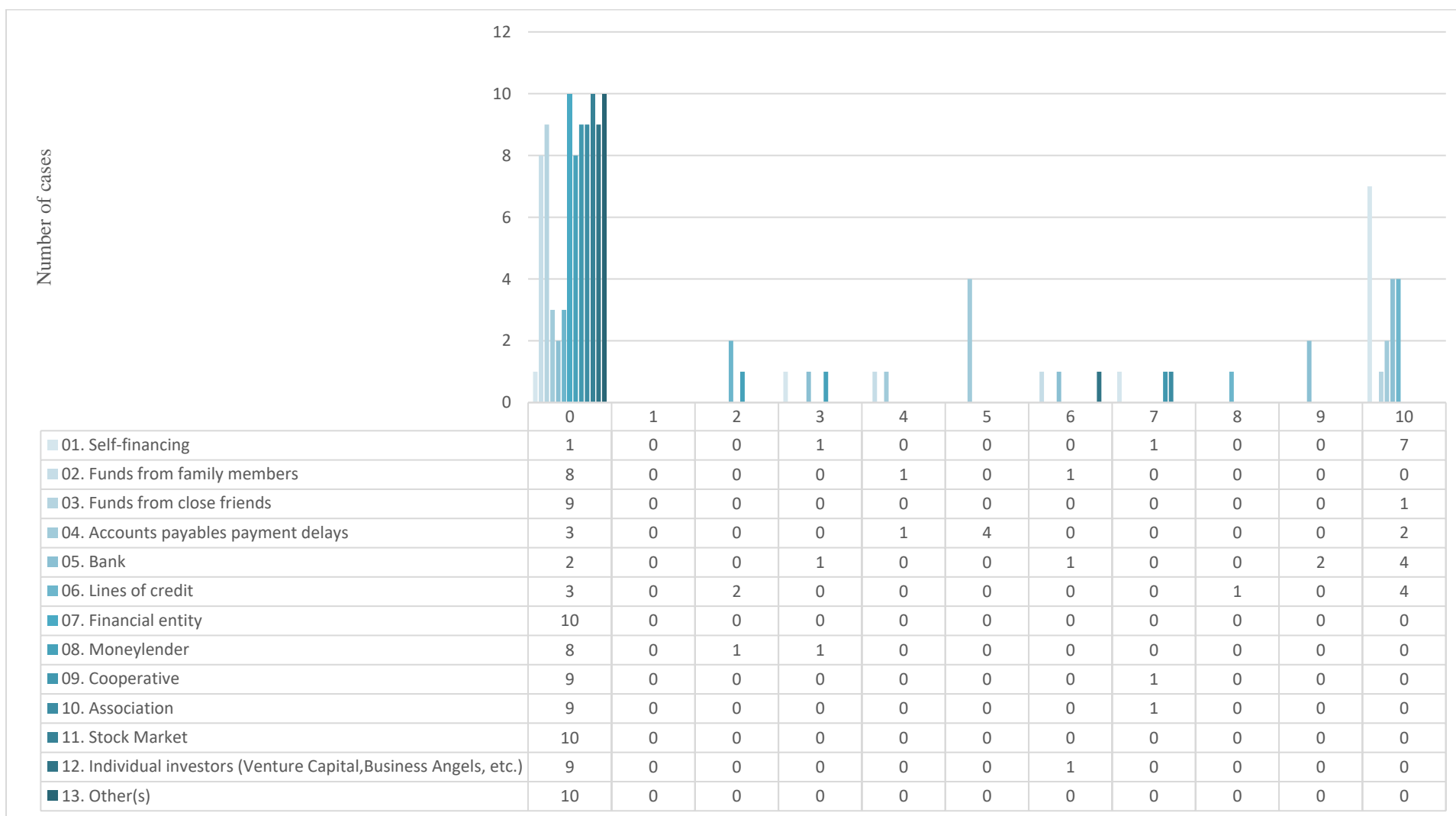
When studying the data, it is provoking to notice that eight (8) out of ten (10) enterprises placed financing from the family at zero (0). Funds from close friends were also meager by nine (9) enterprises in the sample. This could indicate that proximity capital from family and friends is primarily used when launching a business activity, addressing the issue of limited financing sources to start these types of businesses in the Dominican Republic. Businesses grow progressively, being able to support themselves and remain operating thanks to the cash generated by their own businesses' activities. Owner-manager in the sample expressed the willingness to continue operating their businesses keeping close friends and family members out of any financial support unless it is an emergency. They tagged these relationships as highly delicate because if something goes wrong, it deteriorates family stability and could mean the end of long-life friendships in many cases.

The section and treemap about creation financing covered earlier<sup>188</sup> point out this fact compared to operations and investing financing. Results also exhibit that no other financing sources outside of the ones asked were used or identified by owner-managers. The graph below provides this primary data tabulation.

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<sup>188</sup> See figure 44 (page 308). See also figure 47 (page 322).

**Figure 48. Financing used for microenterprises**



Source: Personal elaboration

Even though questions asked here were closed-ended to facilitate comparison within the sample, answers should not be considered as an ultimate truth but rather as an exploration of the tendencies that emerge and the elements requiring further research. Let us not forget that small businesses are diverse and specific. They experience interweaving realities with their peers. Nevertheless, they are walking down their path, which merits research as much as similarities and connections among these businesses. For this reason, we were also interested in studying the owner-managers reactions and comments, if any, for each of the financing options noted here. The verbatim was thus analyzed.

Interview transcriptions analysis showed that owner-managers limited themselves to rank the financing type and say whether they used it. However, special attention was placed on accounting payment delays where interviewees added that it is no-cost financing achieved by asking for more time. They sell the merchandise delivered by suppliers, and then with the money made with the sale, they pay suppliers. Some manage themselves with suppliers to get more time to generate the cash skipping to pay them. Owner-managers added the following:

**Table 79. Verbatim and detailed coding for the structural code “Accounts payments delay”**

CASE	VERBATIM: FINANCING USED FOR THE ENTERPRISE: ACCOUNTS PAYMENTS DELAY.	DETAILED CODING
Case#1: Colmado Charina	<p>“Yes. That <sup>1</sup><b>happens often</b>. You can write a 5 there. That happens a lot”.</p> <p>“Yes, yes. For example, look, I <sup>2</sup><b>have to pay the supplier now on the 30<sup>th</sup></b> of this month, but <sup>3</sup><b>with this, I can play</b>. For instance, right now, let’s say Marlboro or the beer and soft drinks supplier, well now they give me what is called the Christmas credit. If I see that I am stuck, for example, I <sup>4</sup><b>tell suppliers to send me the merchandise</b> or order, then I <sup>5</sup><b>use the money I make with it to pay employees, and now that it is December</b>, I have to pay them two salaries to my boys, so I can solve it with this. Now, <sup>6</sup><b>in January, I can pay the beer and soft drinks supplier</b>, but what happens is that I have to <sup>7</sup><b>play the game and extent to a later date the payment I owe</b>. For example, I have to pay the supplier the second day of the month, and I <sup>8</sup><b>tell them to pass it to the following week...</b>”.</p> <p>“In my case, I do it because sometimes in December, to give you an example, you <sup>9</sup><b>need more money</b>. But, as days go by and you <sup>10</sup><b>keep selling</b>, you start getting it back because as you sell, you <sup>11</sup><b>keep benefits from these sales</b>. If I need to pay the boys here RD\$100 000.00 pesos for the double salary, now on the 15th, if I give it to them right away, I <sup>12</sup><b>won’t have anything left to</b></p>	<p><sup>1</sup>“HAPPENS OFTEN”</p> <p><sup>2</sup>“HAVE TO PAY THE SUPPLIER NOW ON THE 30<sup>TH</sup>”</p> <p><sup>3</sup>“WITH THIS, I CAN PLAY”</p> <p><sup>4</sup>“TELL SUPPLIERS TO SEND ME THE MERCHANDISE”</p> <p><sup>5</sup>“USE THE MONEY I MAKE WITH IT TO PAY EMPLOYEEES, AND NOW THAT IS DECEMBER”</p> <p><sup>6</sup>“IN JANUARY, I CAN PAY THE BEER AND SOFT DRINKS SUPPLIER”</p> <p><sup>7</sup>“PLAY THE GAME AND EXTENT TO A LATER DATE THE PAYMENT I OWE”</p> <p><sup>8</sup>“TELL THEM TO PASS IT TO THE FOLLOWING WEEK”</p> <p><sup>9</sup>“NEED MORE MONEY”</p>

	<p>buy merchandise, so I invest it instead. I <sup>13</sup><b>take supplies in advance without pay</b> from the beers and soft drink supplier, but by January, I've <sup>14</sup><b>already recovered</b> what I gave to the boys, and that helps me a lot".</p> <p>"Yes, that is the reason why I <sup>15</sup><b>like to do it more with the supplier than with the lines of credit</b> because with <sup>16</sup><b>the lines of credit, it becomes financing right away and at a high rate but with the supplier, I don't pay anything</b>. I <sup>17</sup><b>simply ask for more time</b>, but with the lines of credit, it becomes financing".</p>	<p><sup>10</sup>"KEEP SELLING"</p> <p><sup>11</sup> "KEEP BENEFITS FROM THESE SALES"</p> <p><sup>12</sup> "WON'T HAVE ANYTHING LEFT TO BUY MERCHANDISE"</p> <p><sup>13</sup> "TAKE SUPPLIES IN ADVANCE WITHOUT PAY"</p> <p><sup>14</sup> "ALREADY RECOVERED"</p> <p><sup>15</sup> "LIKE TO DO IT MORE WITH THE SUPPLIER THAN WITH THE LINES OF CREDIT"</p> <p><sup>16</sup> "THE LINES OF CREDIT, IT BECOMES FINANCING RIGHT AWAY AND AT A HIGH RATE BUT WITH THE SUPPLIER, I DON'T PAY ANYTHING"</p> <p><sup>17</sup> "SIMPLY ASK FOR MORE TIME"</p> <p><b>Key idea(s): taking advantage of payment delays for suppliers. Selling the merchandise delivered and paying the supplier with the money made from the sale.</b></p>
<p>Case #2: Salón Ilusión</p>	<p>"Payments delay? No, no, thank God".</p> <p>"No, no, for example, here come those who sell products, I tell them, well if I do not have... <sup>18</sup><b>If I do not pay them</b>, I say: <sup>19</sup><b>come tomorrow</b>." "But the way we do it here is that we pay them on Fridays, for example. Yes, we <sup>20</sup><b>decided to pay them on Fridays</b>. For this reason, let's write 5 for instance".</p>	<p><sup>18</sup>"IF I DO NOT PAY THEM"</p> <p><sup>19</sup>"COME TOMORROW"</p> <p><sup>20</sup>"DECIDED TO PAY THEM ON FRIDAYS"</p> <p><b>Key idea(s): delaying payments for suppliers.</b></p>
<p>Case #5: Sergen SRL</p>	<p>"There was one interesting topic, that maybe at some point you'll put it there with the <sup>21</sup><b>financing</b> aspects, which is something <sup>22</sup><b>very important</b>, is that <sup>23</sup><b>manufacturers and suppliers will give me two to three months to pay them</b>. Very important. They will <sup>24</sup><b>deliver and give me time to pay them</b> for the merchandise. Then <sup>25</sup><b>by the time you have to pay them back, you already have the merchandise sold</b>. So that is financing. Very important. With the manufacture was <sup>26</sup><b>quite common</b>".</p>	<p><sup>21</sup>"FINANCING"</p> <p><sup>22</sup>"VERY IMPORTANT"</p> <p><sup>23</sup> "MANUFACTURERS AND SUPPLIERS WILL GIVE ME TWO TO THREE MONTHS TO PAY THEM"</p> <p><sup>24</sup> "DELIVER AND GIVE ME TIME TO PAY THEM"</p> <p><sup>25</sup> "BY THE TIME YOU HAVE TO PAY THEM BACK, YOU ALREADY HAVE THE MERCHANDISE SOLD"</p> <p><sup>26</sup>"QUITE COMMON"</p>

		<b>Key idea(s): taking advantage of payment delays for suppliers. Selling the merchandise delivered and paying the supplier with the money made from the sale.</b>
Case #7: Papelería MEL	“No, well. In my case. All my <sup>27</sup> <b>bills had to be paid in 30 days</b> . Sometimes, you can <sup>28</sup> <b>go over</b> this payment date by <sup>29</sup> <b>one day or two but no more</b> ”.	<sup>27</sup> “BILLS HAD TO BE PAID IN 30 DAYS” <sup>28</sup> “GO OVER” <sup>29</sup> “ONE DAY OR TWO BUT NO MORE”  <b>Key idea(s): limiting accounts payable delays.</b>
Case #8: Casa Cristina	“We have, well look, right now we are financing ourselves with <sup>30</sup> <b>international credits</b> . You know we have international companies that give us, give us also <sup>31</sup> <b>financing lines of credit</b> from the bank and so on. We also have here in <sup>32</sup> <b>local companies’ credits</b> , in all the companies that we buy, we deal with that. They <sup>33</sup> <b>give us three months to pay</b> . Exactly, I buy a product, and I get three months to pay for it, both internationally and here. So that’s how we handle ourselves”.	<sup>30</sup> “INTERNATIONAL CREDITS” <sup>31</sup> “FINANCING LINES OF CREDIT” <sup>32</sup> “LOCAL COMPANIES’ CREDITS” <sup>33</sup> “GIVE US THREE MONTHS TO PAY”  <b>Key idea(s): taking advantage of accounts payable delays for local and international funds providers and suppliers.</b>
Case #9: Alexis Centro Automotriz	“Yeah, yeah, yeah, sure, it happens. Give it a four”. “Yes, because <sup>34</sup> <b>if they pay you late, it is a chain</b> , it is a chain so”.	<sup>34</sup> “IF THEY PAY YOU LATE, IT IS A CHAIN”  <b>Key idea(s): getting paid late delays other payments.</b>

Source: Personal elaboration

Entrepreneurs also express their desire to work with other partners who can support them technically or financially besides banks such as cooperatives and associations. To explore this wish, we studied the owner-manager knowledge of available alternatives, meaning public and private institutions and not-for-profit organizations.

Data collected showed that 80% of cases know at least one financing option to address small enterprises’ needs. However, entrepreneurs mentioned only two (2) possibilities:

- A governmental fund known as PROMIPYME<sup>189</sup> for Program for the Promotion and Support of Micro, Small, and Medium Enterprises in English and *Programa de Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa* in Spanish, and,
- The small business section of the commercial banks they use.

From a detailed checklist of institutions, it is concluded that 58% of cases know the existence of public institutions that can provide technical and/or financial support to their enterprises. However, knowledge of private and NGOs is relatively low, averaging 35%. Table 80 synthesizes and details these results.

**Table 80. Owner-manager knowledge of public, private, and not-for-profit institutions for small businesses technical and financial support in the Dominican Republic**

<b>Question #21: Indicate if you know the following public institutions</b>	<b>YES</b>	<b>NO</b>	<b>TOTAL</b>
<b>-Knowledge of some public institutions</b>	<b>58%</b>	<b>42%</b>	<b>100%</b>
• <i>El Programa de Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa (PROMIPYME)/ Banca solidaria</i>	9	1	10
• <i>La Corporación de Fomento Industrial (CFI)</i>	4	6	10
• <i>El Instituto Nacional de Formación Técnico Profesional (INFOTEP)</i>	9	1	10
• <i>El Instituto Dominicano de Tecnología Industrial (INDOTEC)</i>	7	3	10
• Other(s)	0	10	10
<b>Question #22: Indicate if you know the following private institutions</b>			
<b>-Knowledge of some Private institutions</b>	<b>34%</b>	<b>66%</b>	<b>100%</b>
• <i>FONDOMICRO</i>	4	6	10
• <i>La Confederación Dominicana de la Pequeña y Mediana Empresa (CODOPYME)</i>	6	4	10
• <i>Asociación de Instituciones Rurales de Ahorro y Crédito (AIRAC)</i>	1	9	10
• <i>Cámara de Comercio y Producción de Santo Domingo</i>	5	5	10
• Other(s)	1	9	10
<b>Question #22: Indicate if you know the following NGOs</b>			
<b>-Knowledge of some NGOs</b>	<b>36%</b>	<b>64%</b>	<b>100%</b>
• <i>Asociación Dominicana para el Desarrollo de la Mujer (ADOPEM), filial del Banco Mundial de la Mujer</i>	10	0	10
• <i>Mujeres en Desarrollo (MUDE)</i>	5	5	10

<sup>189</sup> See Aristy-Escuder (2012) for details on PROMIPYME.

• <i>Fundación Dominicana de Desarrollo (FDD)</i>	2	8	10
• <i>Asociación para el Desarrollo de la Provincia Espaillat (ADEPE)</i>	2	8	10
• <i>Centro Dominicano de Desarrollo (CDD)</i>	2	8	10
• <i>Cooperativas de Ahorros y Créditos y/o de Servicios Múltiples</i>	6	4	10
• <i>Cooperativas de Servicios Múltiples Empresariales (COOPSEMUE)</i>	3	7	10
• <i>Cooperativa de Ahorro y Crédito de Procesadores de la Harina (COOPROHARINA)</i>	2	8	10
• Other(s)	0	10	10

Source: Personal elaboration

Not knowing the existence of institutions capable of supporting Dominican entrepreneurs in their endeavors conditions how these businesses progress. Entrepreneurs move forward based on what they know and whom they know, which may not be optimal possible solutions. This situation confines owner-managers into a set of limited boundaries where they only put into work the resources they have at hand near them. This behavior, which is not only conditioned by intuitive feelings and strategies, is tied to the owner-managers capacity to access funds. As we have seen thus far: they are the principal driver to making accessing funds possible despite the enterprise stage. To keep exploring these notions, we will examine if the owner-manager personal characteristics conditions their financing decisions and, if they do, to what extent (part 4–following). We will continue evaluating the “nearness principle preference” of owner-managers by analyzing a mixture of proximities (hierarchical, spacial, patrimonial, information systems, relational, temporal, and economic) and their financial implications to access funds (part 5) and when deciding which option to go for (part 6).

#### **4. Dominican owner-manager as the center of the enterprise’s financial decisions**

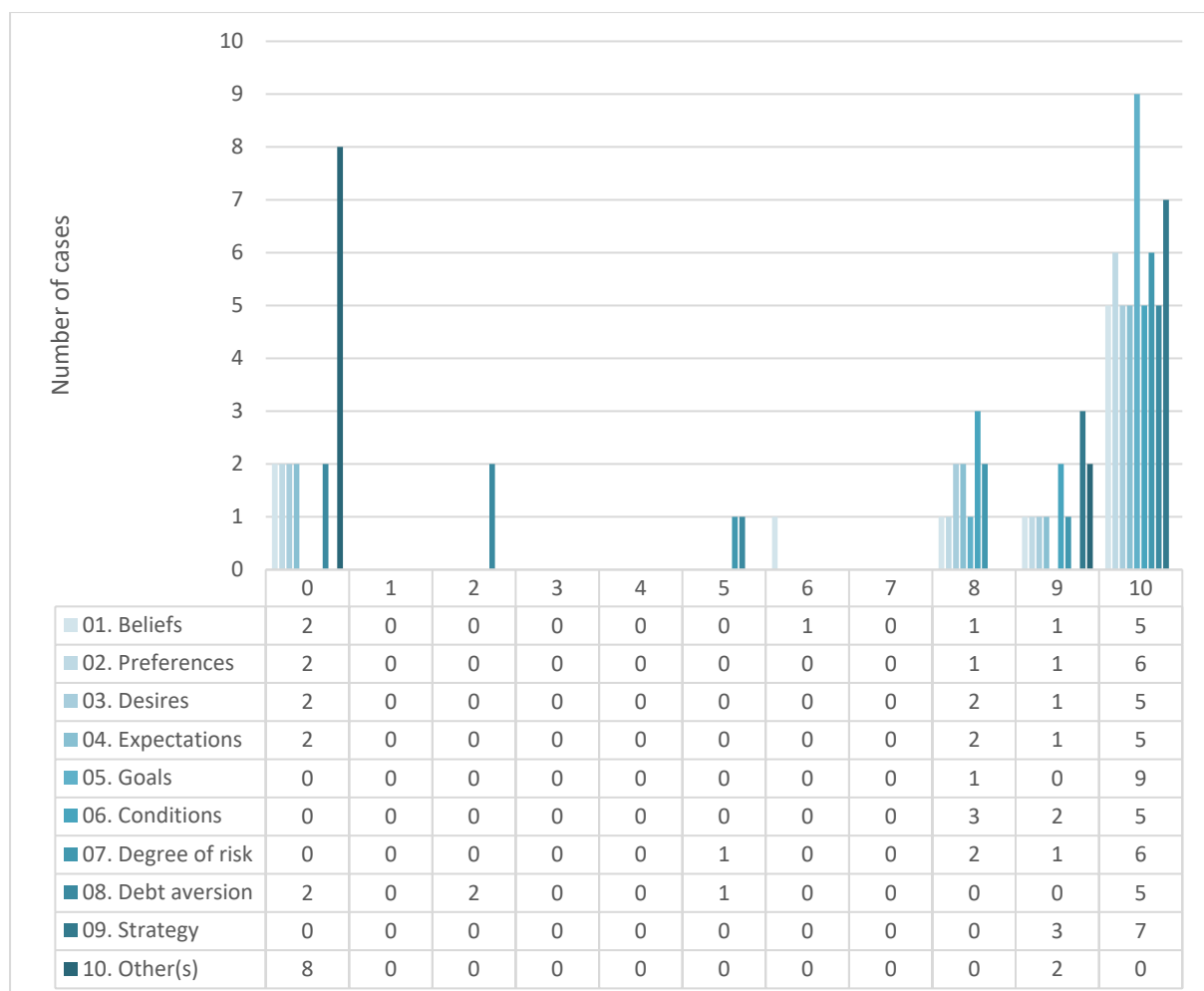
All our sample entrepreneurs are responsible for the financial decisions made in their enterprises. However, in three (3) cases, owner-managers decisions were made with other parties. For case #2 (Salón Ilusión), financing decisions were made by the owner-manager and her partner (a lifelong friend); for case #4 (Invercolor) between sisters, and case #8 (Casa Cristina) with all family members. In this section, data gathered, and thus its analysis, derive from the leading financing decision maker for each one of the cases.



The same elements (used earlier) were examined to explore the intensity owner-manager characteristics play in the enterprise’s management. These were beliefs, preferences, desires, expectations, goals, conditions, degree of risk, debt aversion, and strategy. All elements were ranked from zero (0) to ten (10) and derived from the Norton managerial choice theory (1991). Zero (0) implied that the element in question is never considered when making a financing decision, and ten (10) that it is always favored to make the decision. The higher the number on the scale, the stronger the influence from the owner-manager’s perspective. Great flexibility in the interview process permitted the entrepreneur to express himself/herself or comment on each item if desired.

Data tabulation exposed well-defined positions within the sample. For instance, 50% of cases placed all elements at ten (10), the highest score on the scale, meaning that financing decisions are primarily based on the elements mentioned. In addition, as shown in the graph below, most cases remained in the hierarchy’s eight (8) to ten (10) spectrum.

**Figure 49. Financing decisions based on the owner-manager’s**



Source: Personal elaboration

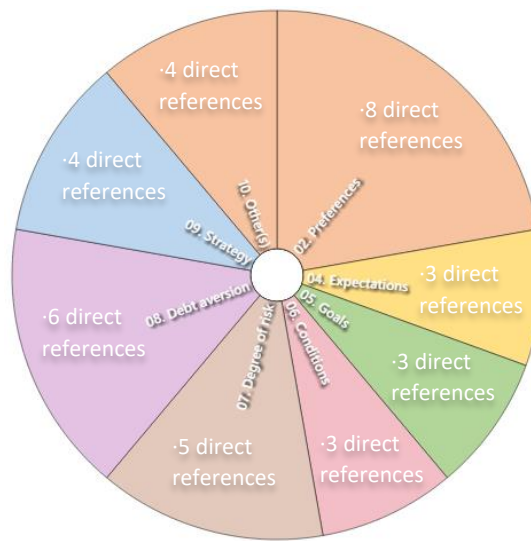
Looking at items individually, scores for goals, conditions, and strategy were placed from eight (8) to ten (10) by 100% of entrepreneurs. Within the same range, it is perceived that degree of risk has 90% of cases; preferences, desires, and expectations, 80%; beliefs, 70%; debt aversion, 50%; and other additional elements that influence the financial decision only 20%.

General tendencies from the data picture that the owner-managers management choices have an undeniable influence when making financing decisions.

Accessing financing opportunities starts with a decision—a willingness to access funds. Thus, in our cases, goals and strategies are the principal drivers of financing decisions. However, conditions and the degree of risk the owner-manager is willing to assume almost weights as much as the other two (2) elements. For example, owner-managers, being intolerant to high levels of risk when looking for funds, could remain with what they know and can control, such as self-financing and the cash the business can generate. For others, preferences, desires, and expectations (elements that obtained high rankings in our sample) could inhibit them from looking for financing alternatives besides borrowing—this conditions business growth to subjective factors. To illustrate, if the owner-manager desire or preference is just to generate enough cash to support himself/herself and/or his/her family, there is no need to look for funds by choice because this owner-manager's desire becomes then the goal for the business. It is pretty complex.

Digging deeper into owner-managers' comments and reactions regarding the elements studied, it is found that entrepreneurs' financial decisions are strongly conditioned by their preferences and debt aversion above any other elements. A general outlook of the direct coding references from the data provides the following visualization:

**Figure 50. Hierarchical order of coding references for the enterprise financing decision based upon Norton’s managerial choice theory criteria (1991)**



Source: Personal elaboration

Nevertheless, what is interesting to analyze, perhaps more than the amount of coding references here, is what owner-manager preferences entail and if there is a connection with other elements and the financing access of these enterprises.

**Table 81. Verbatim and detailed coding for the structural code “Preferences”**

CASE	VERBATIM: FINANCING DECISIONS BASED UPON THE OWNER-MANAGER’S: PREFERENCES.	DETAILED CODING
Case#1: Colmado Charina	<p>“Well, I tell you. I <sup>1</sup><b>prefer banks to a personal lender</b> because if you are a lender, you will tell me: ‘look, I will lend you for 1 or 2’. No, no, no, <sup>2</sup><b>tell me about years</b>, and the lender does not talk to you about years. The <sup>3</sup><b>lender talks to you about months</b>; that is why I don’t want to know about lenders. <sup>4</sup><b>Talk to me about banks; otherwise, I do not do business.</b> I may be short of money, you can give me an interest rate where you lend me, but if it is a lender, I <sup>5</sup><b>don’t want</b> that kind of business because <sup>6</sup><b>interest rates are always high</b>, always high, very high...”.</p> <p>“These are the reasons. And <sup>7</sup><b>even the SMEs sections where commercial banks have interest rates are very high.</b> For example, the same BHD bank has what is called the mipymes, but the rate is very high; the same Scotiabank has it... excuse me”.</p>	<p><sup>1</sup> “PREFER BANKS TO A PERSONAL LENDER”</p> <p><sup>2</sup> “TELL ME ABOUT YEARS”</p> <p><sup>3</sup> “LENDER TALKS TO YOU ABOUT MONTHS”</p> <p><sup>4</sup> “TALK TO ME ABOUT BANKS; OTHERWISE, I DO NOT DO BUSINESS”</p> <p><sup>5</sup> “DON’T WANT”</p> <p><sup>6</sup> “INTEREST RATES ARE ALWAYS HIGH”</p> <p><sup>7</sup> “EVEN THE SMES SECTIONS WHERE COMMERCIAL BANKS</p>

	<p>“It is <sup>8</sup><b>very high with respect to real loans of commercial banks</b>, but the same BHD, for example, has you like, and the same ScotiaBank, that they give you a credit line from their <sup>9</sup><b>bank and they can get you something around 15%</b> and <sup>10</sup><b>if they send you to the pyme section of the bank</b>, which is where they want to take you, the small merchant, always, <sup>11</sup><b>they will take you the rate to 19% for the first 3 to 6 months then, they start going up littler by littler and when you realize they already have you paying 25% or 30%”.</b></p>	<p>HAVE INTEREST RATES ARE VERY HIGH”</p> <p><sup>8</sup> “VERY HIGH WITH RESPECT TO REAL LOANS OF COMMERCIAL BANKS”</p> <p><sup>9</sup> “BANK AND THEY CAN GET YOU SOMETHING AROUND 15%”</p> <p><sup>10</sup> “IF THEY SEND YOU TO THE PYME SECTION OF THE BANK”</p> <p><sup>11</sup> “THEY WILL TAKE YOU THE RATE TO 19% FOR THE FIRST 3 TO 6 MONTHS THEN, THEY START GOING UP LITTLER BY LITTLER AND WHEN YOU REALIZE THEY ALREADY HAVE YOU PAYING 25% OR 30%”</p> <p><b>Key idea(s): Evaluating time restraints and debt cost and wanting more extended periods and low-interest rates.</b></p>
<p>Case #3: D’ilias atelier alta costura</p>	<p>“Me. I have <sup>12</sup><b>always been me</b>. It has always been my preference”.</p>	<p><sup>12</sup> “ALWAYS BEEN ME”</p> <p><b>Key idea(s): Being herself. Personality.</b></p>
<p>Case #5: Sergen SRL</p>	<p>“Personally, I would rather <sup>13</sup><b>not borrow</b>”.</p>	<p><sup>13</sup> “NOT BORROW”</p> <p><b>Key idea(s): Avoiding borrowing. Debt aversion.</b></p>
<p>Case #7: Papelería MEL</p>	<p>“When I’m in trouble, I <sup>14</sup><b>look for funds anywhere, but</b> I don’t go to the bank. I <sup>15</sup><b>don’t like to borrow</b>. The problem is that I don’t borrow; that’s why I’m...”</p>	<p><sup>14</sup> “LOOK FOR FUNDS ANYWHERE, BUT”</p> <p><sup>15</sup> “DON’T LIKE TO BORROW”</p> <p><b>Key idea(s): Avoiding borrowing. Debt aversion.</b></p>
<p>Case #8: Casa Cristina</p>	<p>“Oh, I get it! I believe that. I would <sup>16</sup><b>rather borrow from a bank</b>. It <sup>17</sup><b>would be better not to borrow</b>, really, but we will implement that next year. I <sup>18</sup><b>do not believe this so strongly</b>. What I am saying is that borrowing in itself <sup>19</sup><b>is more like self-financing using the bank more than borrowing</b>. I think that</p>	<p><sup>16</sup> “RATHER BORROW FROM A BANK”</p> <p><sup>17</sup> “WOULD BE BETTER NOT TO BORROW”</p>

<p>the bank is. Well, many people say that banks are leeches, that banks are abusers, I <sup>20</sup><b>do not see the bank as your enemy</b>, and I <sup>21</sup><b>don't see credit cards as the enemy</b> either. I <sup>22</sup><b>see credit cards as facilitators. It all depends on how you manage it</b>".</p> <p>"You need to <sup>23</sup><b>know the rules of the game</b>, of course. Because in any case, if I didn't find a bank to <sup>24</sup><b>lend me to buy</b> this house, I <sup>25</sup><b>would not have</b> it because where I was going to have 3, 4, 5 <sup>26</sup><b>million pesos to start a business</b> is a bit like... with people and working hard and all to have for example, well 3 or 4 million pesos, you could have it, but <sup>27</sup><b>you will have to wait</b> let's say 1 light year. And in this light year, there is much happening. Everything happens."</p> <p>"But even more... If you have the <sup>28</sup><b>facility to do it and you do it right</b>, you will <sup>29</sup><b>grow little by little</b>. I do not see it that way because if <sup>30</sup><b>you evaluate</b> something that you <sup>31</sup><b>have started today and in so many years</b>, there is this much. And throughout your whole life, you have had <sup>32</sup><b>ups and downs, as all businesses have</b>. You start with an 'X' amount of capital, with a type X, then when you evaluate, <sup>33</sup><b>it has not been so bad</b>. I say. I make an analysis like that, and <sup>34</sup><b>it hasn't been bad because everything can't be perfect!</b>"</p> <p>"Yeah, that's right. There are <sup>35</sup><b>people</b> who have had businesses and <sup>36</sup><b>have done everything</b>; people who have stayed at level X. But there are <sup>37</sup><b>many factors</b> that you know. That are always maintained because <sup>38</sup><b>it depends a lot on the owner-manager his/her projections, mind</b>, everything. But I understand <sup>39</sup><b>for the person to grow, banks are ideal</b>. If you know how to <sup>40</sup><b>use the proper behavior</b>, how do you behave with banks, well, that's how I see it. It's the years; <sup>41</sup><b>over the years</b>, you have <sup>42</sup><b>developed a trajectory, a history, a record</b>."</p> <p>"I <sup>43</sup><b>prefer going to the supplier first</b> because they give me the product, and then I pay them."</p> <p>...</p> <p>"Of course! I have always said that a <sup>44</sup><b>good investor is better than with a bank</b> because, for example, if you have this business and you are looking for an investor, you <sup>45</sup><b>do not have to pay interest</b> but rather <sup>46</sup><b>give his/her part of the benefits that correspond to the investor</b>. I mean, you do not have this. Well, I <sup>47</sup><b>look for investors often</b>. If you already have the <sup>48</sup><b>enterprise established</b> and everything ready, that you can <sup>49</sup><b>pay for it</b>, it is worth it. However, if it is a business that <sup>50</sup><b>you do not know anything about, then you choose the bank</b> rather than the investor at a given moment."</p> <p>"Well, yes. But <sup>51</sup><b>it also depends on the investor</b> you do business with, how you do business. Because an <sup>52</sup><b>investor can invest maybe a percentage and you are going to make decisions</b>, the investor or investors are not always going to make decisions. I <sup>53</sup><b>do not do businesses with investors that want to make decisions</b>. No".</p>	<p><sup>18</sup> "DO NOT BELIEVE THIS SO STRONGLY"</p> <p><sup>19</sup> "IS MORE LIKE SELF-FINANCING USING THE BANK MORE THAN BORROWING"</p> <p><sup>20</sup> "DO NOT SEE BANK AS YOUR ENEMY"</p> <p><sup>21</sup> "DON'T SEE CREDIT CARDS AS THE ENEMY"</p> <p><sup>22</sup> "SEE CREDIT CARDS AS FACILITATORS. IT ALL DEPENDS ON HOW YOU MANAGE IT"</p> <p><sup>23</sup> "KNOW THE RULES OF THE GAME"</p> <p><sup>24</sup> "LEND ME TO BUY"</p> <p><sup>25</sup> "WOULD NOT HAVE"</p> <p><sup>26</sup> "MILLIONS PESOS TO START A BUSINESS"</p> <p><sup>27</sup> "YOU WILL HAVE TO WAIT"</p> <p><sup>28</sup> "FACILITY TO DO IT AND YOU DO IT RIGHT"</p> <p><sup>29</sup> "GROW LITTLER BY LITTLER"</p> <p><sup>30</sup> "YOU EVALUATE"</p> <p><sup>31</sup> "HAVE STARTED TODAY AND IN SO MANY YEARS"</p> <p><sup>32</sup> "UPS AND DOWNS, AS ALL BUSINESSES HAVE"</p> <p><sup>33</sup> "IT HAS NOT BEEN SO BAD"</p> <p><sup>34</sup> "IT HASN'T BEEN BAD BECAUSE EVERYTHING CAN'T BE PERFECT!"</p> <p><sup>35</sup> "PEOPLE"</p> <p><sup>36</sup> "HAVE DONE EVERYTHING"</p> <p><sup>37</sup> "MANY FACTORS"</p> <p><sup>38</sup> "IT DEPENDS A LOT ON THE OWNER-MANAGER HIS/HER PROJECTIONS, MIND"</p> <p><sup>39</sup> "FOR THE PERSON TO GROW, BANKS ARE IDEAL"</p> <p><sup>40</sup> "USE THE PROPER BEHAVIOR"</p> <p><sup>41</sup> "OVER THE YEARS"</p> <p><sup>42</sup> "DEVELOPED A TRAJECTORY, A HISTORY, A RECORD"</p> <p><sup>43</sup> "PREFER GOING TO THE SUPPLIER FIRST"</p>
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	<p>“Anyone who puts their money makes decisions. It is logical, but, well,  <sup>54</sup><b>there are people who tell you: ‘look, I have money there.’ And what they are interested in is that you give them their money back and that their money produces more money,</b> and they don’t make any kind of decisions at all.”</p>	<p><sup>44</sup>“GOOD INVESTOR IS BETTER THAN WITH A BANK”  <sup>45</sup> “DO NOT HAVE TO PAY INTEREST”  <sup>46</sup>“GIVE HIS/HER PART OF THE BENEFITS THAT CORRESPOND TO THE INVESTOR”  <sup>47</sup> “LOOK FOR INVESTORS OFTEN”  <sup>48</sup> “ENTERPRISE ESTABLISHED”  <sup>49</sup>“PAY FOR IT”  <sup>50</sup> “YOU DO NOT KNOW ANYTHING ABOUT, THEN YOU CHOOSE THE BANK”  <sup>51</sup> “IT ALSO DEPENDS ON THE INVESTOR”  <sup>52</sup> “INVESTOR CAN INVEST MAYBE A PERCENTAGE AND YOU ARE GOING TO MAKE DECISIONS”  <sup>53</sup> “DO NOT DO BUSINESSES WITH INVESTORS THAT WANT TO MAKE DECISIONS”  <sup>54</sup> “THERE ARE PEOPLE WHO TELL YOU: ‘LOOK, I HAVE MONEY THERE. ‘ AND WHAT THEY INTERESTED IN IS THAT YOU GIVE THEM THEIR MONEY BACK AND THAT THEIR MONEY PRODUCES MORE MONEY”</p> <p><b>Key idea(s): appraising the advantages of financing options (provider’s payment delays, banks, and investors when known and trusted), keeping control of finances, and decision making.</b></p>
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Source: Personal elaboration

Debt aversion is recurrent in the data, not only by the number of direct coding references it has but is also stated within the owner-managers preferences. Dominican micro businesses entrepreneurs do not like to owe. Some even say they are horrified by the idea, such as in cases #3, #5, #7, and #10. “No, no, I don’t like it. I am terrified by the idea. Terror, no, no, I don’t

sleep otherwise” (Case#3). Others mentioned that “not to borrow” is their primary financing preference; nevertheless, they do it if it is strictly necessary, such as in cases #4, #6, and #9.

Only 30% of cases see borrowing external funds as a growth trigger for their businesses (cases #1, #2, and #8). However, they are conscious about making this decision. In this circumstance, it becomes essential to assess the pros and cons of financing sources (case#2), periods, and interest rates among options (case#1) and weigh the advantages of each option available to the business prioritizing decision-making and financing control in the owner-manager (case#8). In addition, considering the degree of risk is likewise decisive.

This owner-managers strong debt aversion preference, for seven (7) out of ten (10) cases, functions as *le phénomène de paroi*, or the wall phenomenon in English, introduced by Moles and Rohmer (1978) in their book *La psychologie de l'espace*. There is a wall keeping the external financing options out of the enterprise's reach, and it is due to the owner-managers choices. Entrepreneurs' preferences become the enterprises' course of action, and financing is no exception.

Studying how Dominican microenterprises finance their creation, operations, and investments and exploring the owner-managers impact on enterprises' management and financing decisions allowed us to understand better these enterprises' financing access and nature. Taking the primary data analysis's explorations, trends, phenomena, and conclusions as context, it is imperative to continue the financing access analysis under the concept of proximity. For this purpose, a set of proximities coming from an exhaustive literature review was established. These proximities are hierarchical, spatial, patrimonial, information system, relational, and temporal proximity. Several works stood out for this proximity identification. These include but are not limited to Moles and Rohmer (1978), Julien (1990), Norton (1991), and Torrès (2011). In addition, other relevant criteria found in the literature review and applied to the Dominican Republic context, such as the business plan, pitch, profitability, and formality, were also examined.

What does this proximity imply for micro businesses financing? For example, can proximity conditions determine micro businesses' access to funds? Moreover, to what extent and what does this mean in reality if it does?

## 5. A mixture of proximities determinants to access financing for Dominican micro-entrepreneurs

To study the mixture of proximities proposed, its financial implications for accessing financing for a micro business were defined (see the end of chapter 1—see section 2 part 3, pages 166-174). Thus, each proximity derives a set of elements explored and complemented (when necessary) with the data collected. In addition, as mentioned earlier, extra components were included. The main categories and their fundamentals are summarized in the table below.

**Table 82. A mixture of proximities determinants to access financing for Dominican micro-entrepreneurs**

Category (C)	Financial implications to access financing for a micro business
<b>C01. Hierarchical Proximity</b>	E*01. The owner-manager must make the financial decisions.
	E02. The owner-manager must carry out the management of the funds.
<b>C02. Spatial Proximity</b>	E03. To have access to local sources of financing (branches, banks, investors nearby, etc.).
<b>C03. Patrimonial Proximity</b>	E04. To have assets, goods, or resources that serve as collateral for the financing repayment.
<b>C04. Information Systems Proximity</b>	E05. Limit the sources of funding requested.
	E06. Do not simultaneously owe money to several intuitions and/or people.
<b>C05. Relational Proximity</b>	E07. Have good relations (friends, family, partners, bankers, and representatives of public or private institutions).
	E08. Have a high level of trust between the business owner and the financing provider.
	E09. Know in advance the institution, program, or person financing.
	E10. Share the same values and principles between the provider of funds and the owner-manager.

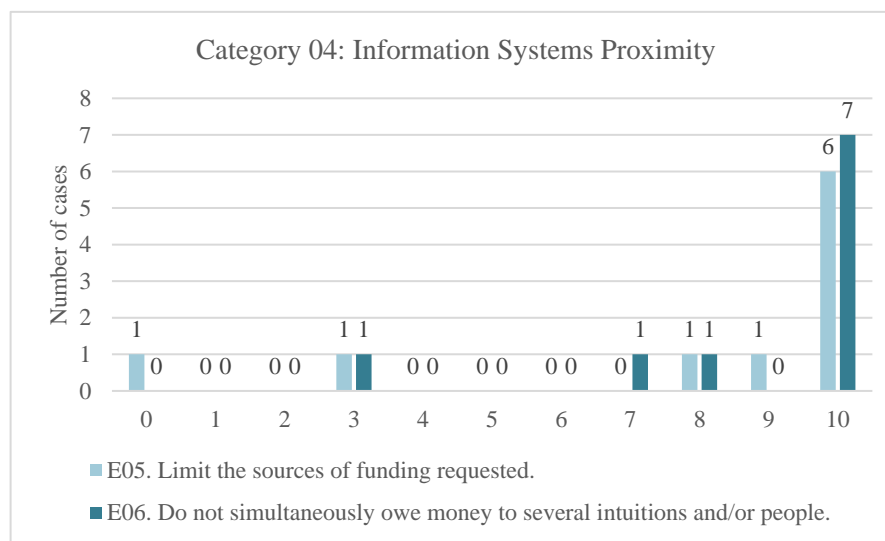
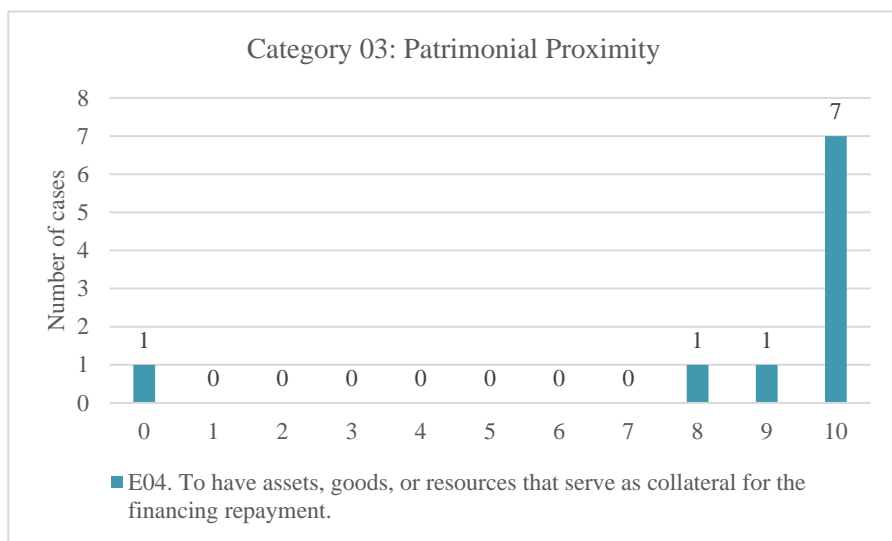
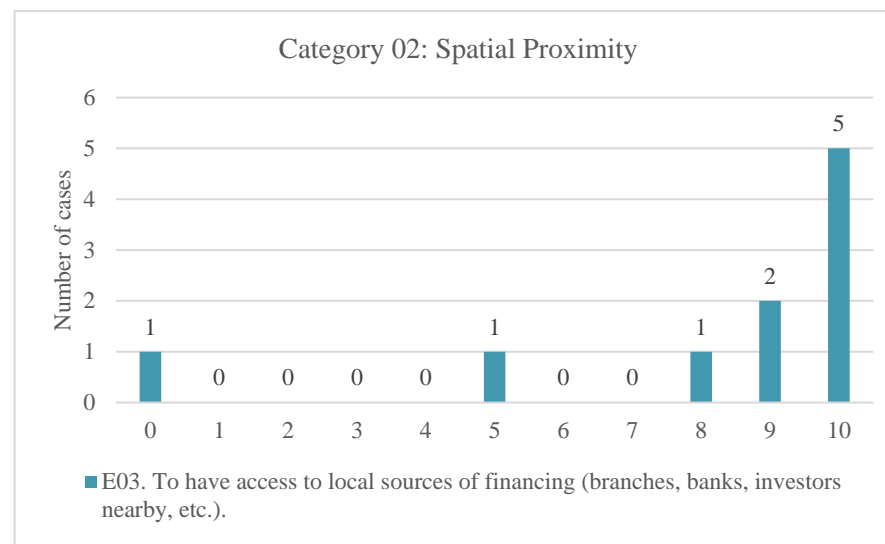
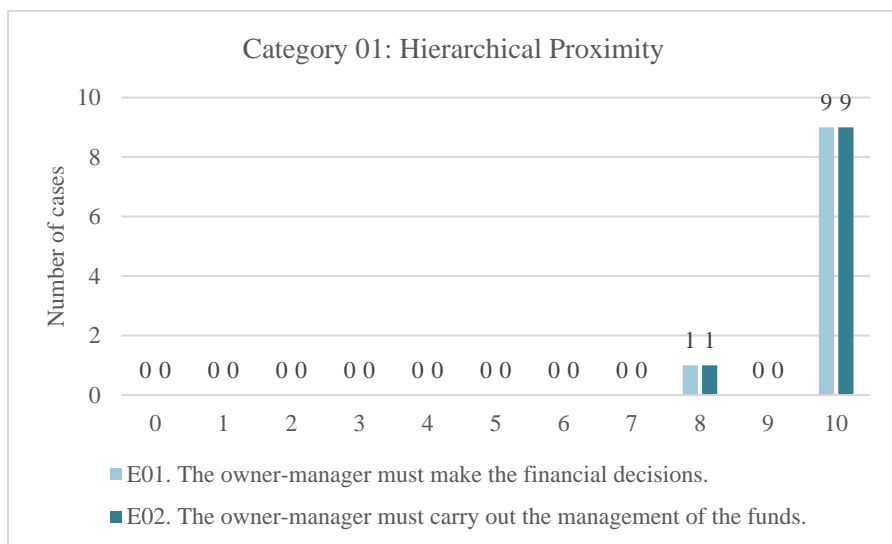


<b>C06. Temporal Proximity</b>	E11. Opt for short-term financing (you must repay within 12 months of the money borrowed).
<b>C07. Recurrent Elements in the Literature</b>	E12. Have a solid business plan.
	E13. The business team.
	E14. The profitability of the business or project.
	E15. Good presentation of the project (pitch).
<b>C08. Dom. Rep. Context</b>	E16. Business formality.
<b>C09. Other (s)</b>	E17. Other(s).
*C: Category *E: Element	

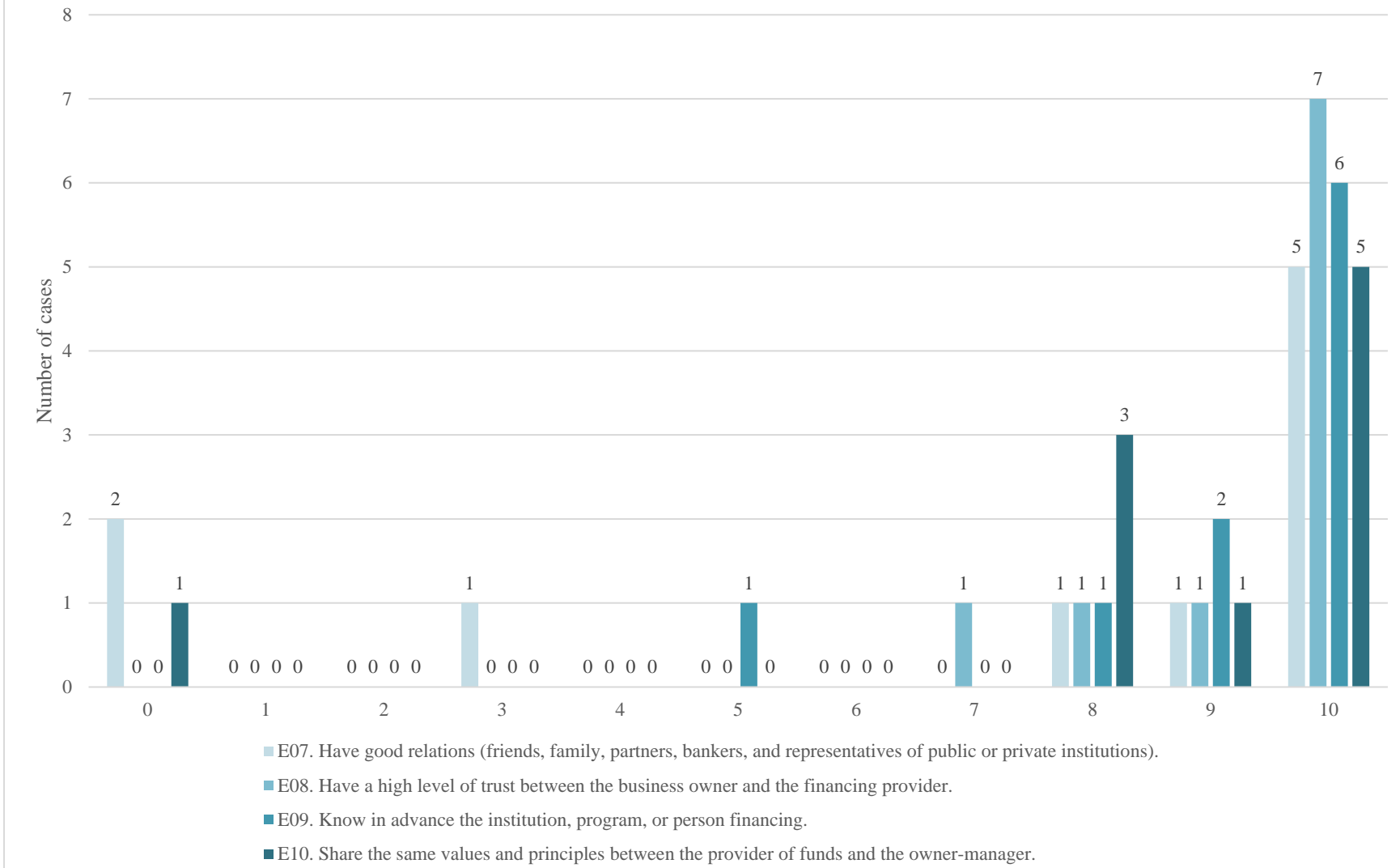
Source: Personal elaboration

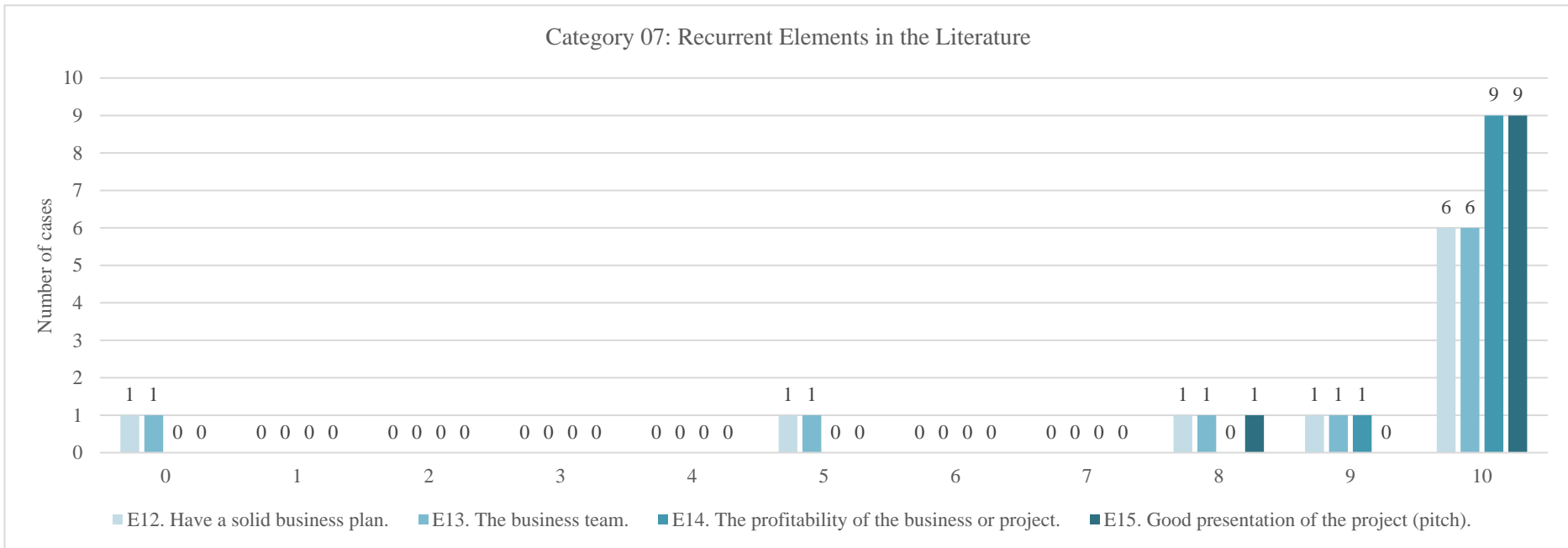
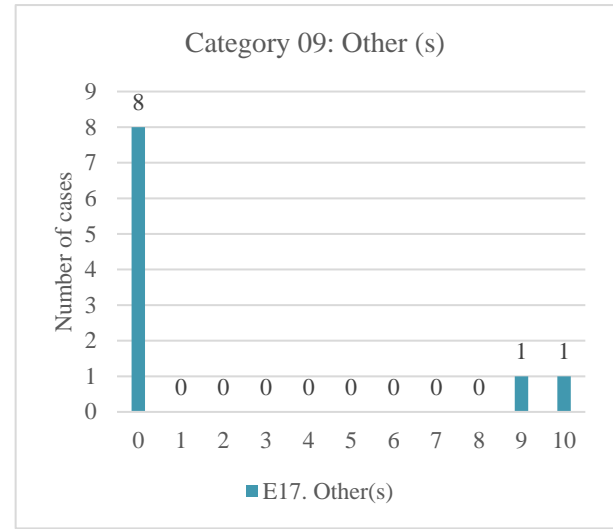
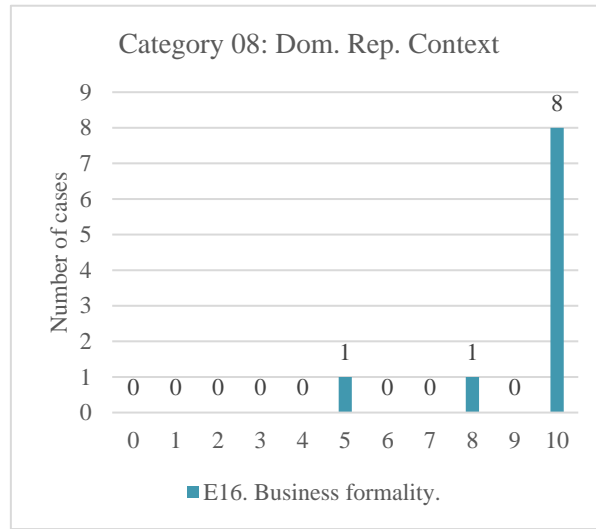
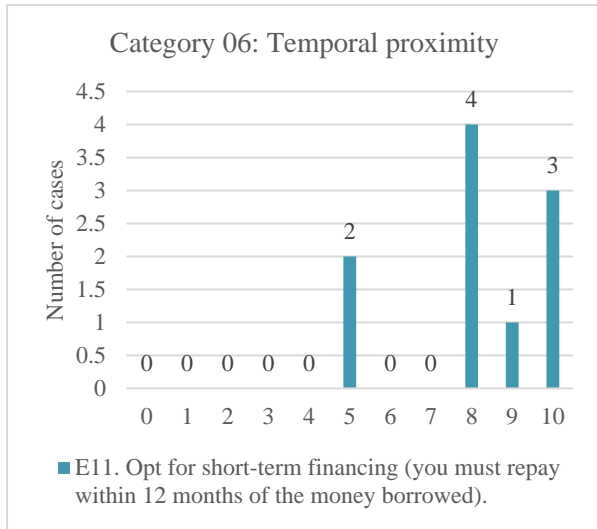
Owner-managers ranked each of the seventeen (17) elements shown in the table above from zero (0) to ten (10). The idea was to evaluate how crucial a specific element was for their enterprises to access financing. Hence, zero (0) was not determinant, and ten (10) was indispensable in the range. In addition, as applied in other ranking questions, extra flexibly permitted the owner-manager to express themselves for every element, if desired. Entrepreneurs' comments were subject to further analysis.

**Figure 51. A mixture of proximities determinants to access financing for Dominican micro-entrepreneurs**



### Category 05: Relational proximity





Source: Personal elaboration

Data showed without hesitation that a mixture of proximities is essential for micro businesses to access financing. For example, five (5) cases out of ten (10) placed all elements from each proximity (except for temporal proximity) at ten (10), the highest score available. The same is true for the literature and Dominican Republic context recurrent elements.

Hierarchical proximity had all cases between eight (8) and ten (10) on the scale, placing it at the highest compared to the rest of the proximities studied. This means that owner-managers must make the financial decisions when opting for financing and ought to manage the acquired funds themselves. Otherwise, there is no willingness to look for funds and use them for the enterprise. This could also show the strong desire of entrepreneurs to keep control when referring to the strategy to obtain and use different sources of funds. Throughout our analysis, owner-managers' central role in accessing funds is widely acknowledged.

According to the entrepreneurs interviewed, having assets, goods, and resources that serve as collateral for repayment, if necessary, is quite relevant for obtaining financing. 90% of the cases in our sample placed this criterion between eight (8) and ten (10).

Relational proximity was studied by going over four (4) elements. 90% of enterprises scored three (3) out of the four (4) elements between eight (8) and ten (10). These elements were, first, a high level of trust between the business owner and the financing provider; second, knowing in advance the institution, program, or person financing; and third, sharing the same values and principles between the provider of funds and the owner-manager. The fourth element was located from eight (8) to ten (10) by 70% of businesses. This last one was having good relations (friends, family, partners, bankers, and representatives of public or private institutions). This could entail that good relationships can help access funds to a certain degree. However, other elements, such as trust and credibility, may have more weight than a simple friendship or relationship.

80% of cases positioned information systems, spatial, and temporal proximity between eight (8) to ten (10). Elements in the information systems proximity were closer to ten, followed by spatial proximity and finishing with the less significant one, temporal proximity. Limiting the sources of funds requested at once and the number of institutions the entrepreneur owes at the same time favors accessing funds because the enterprise is considered less risky than if the inverse case scenario was true. Furthermore, access to local financing sources (branches, banks, investors nearby, etc.) facilitates access to funds for microenterprises. Nevertheless, some entrepreneurs expressed that they can travel long distances from the enterprise location if they

feel comfortable with a fund provider. Last, entrepreneurs seem indifferent to short-term financing availability from the financier since they borrow depending on their needs and conditions.

Regarding the elements coming from the literature review or category seven (C07), two (2) out of the four (4) elements studied were placed between eight (8) and ten (10) in all cases. These elements were the profitability of the business or project and the good presentation of the business or project, commonly known as pitch. For the other two (2) elements, having a solid business plan and the business team, 80% of cases placed them within the eight (8) to ten (10) range. Interestingly, the more open questions did not mention this category's four (4) elements. They never came up from the other analysis when we reviewed the start-up, operation, and investment financing sources and strategies. Here they are considered determinants for the business to access funds, yet entrepreneurs never mentioned them unless the researcher asked. This makes us think that there must be other essential elements to access funds within the Dominican Republic that were neither mentioned by the entrepreneur nor asked by the researcher.

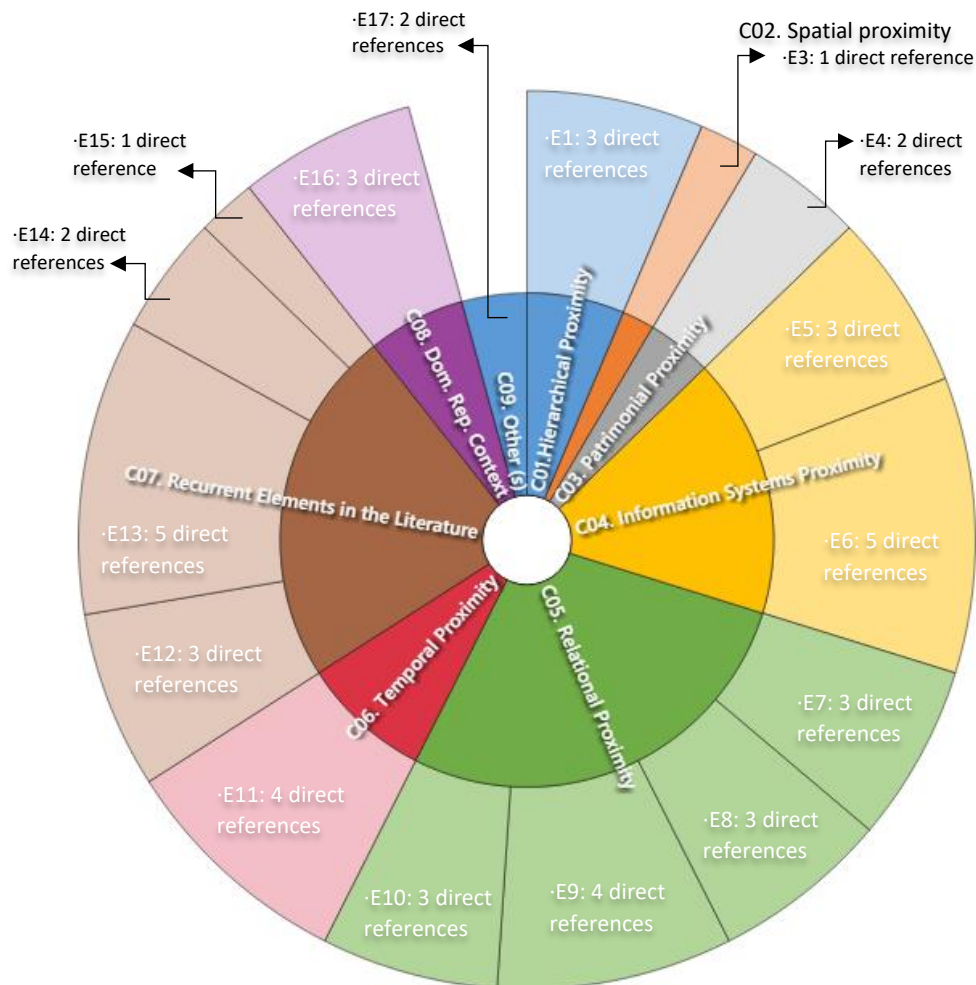
Another exciting conclusion from the data is the importance of the business's formality in accessing funds in the Dominican Republic. 90% of cases placed this element between eight (8) and ten (10). This makes it harder to access funds for the majority of businesses operating in the country, which for the most part, are informal micro businesses.

Only two entrepreneurs considered adding other elements to the list to access funds. These elements were: (1) the business revenues and benefits; (2) doubt about everything because there are people who tell you something at first and then come up with something else that is never as good as it seems; and (3) ensuring a high-quality service to keep clients because without them there is no business.

The elements studied were not only graded by entrepreneurs but some were also commented on. Therefore, an additional analysis was performed by studying direct coding references from the interview transcriptions. Saying a given category or element is or is not determinant to access financing was not enough of a description or comment to assign them to a code. Additional information was coded, such as why a criterion is critical or not, how it has worked for entrepreneurs in their experience, how entrepreneurs felt about it, or any data that could allow us to understand our study better.

An overall look at the direct coding references for the nine (9) categories studied, including their elements, allows the following sunburst visualization.

**Figure 52. Hierarchical order of coding references for a mixture of proximities to access financing for Dominican microenterprises**



Source: Personal elaboration

At first sight, what is perceived is that some categories have more outstanding coding references than others. Some are barely visible such as spatial proximity and patrimonial proximity. Without hesitation, relational proximity, recurrent elements from the literature, and information systems proximity categories are the dominant ones. Nevertheless, it should be noted that the nine (9) categories studied derive seventeen (17) elements unequally distributed within categories—see table 82. Some groups comprise one (1) element, such as temporal

proximity and other categories go up to four (4) elements, like relational proximity and recurrent elements in the literature. This means that it is normal to see more direct coding references for categories with more elements asked, which is the case for relational proximity, information systems proximity, and recurrent elements from the literature.

We stress that the analysis here regards categories and not an element-by-element comparison within categories. It must also be noted that besides considering direct coding references hierarchical order (presented in the sunburst above) as factual truth, the idea here is to explore and make sense of the data. In this respect, categories with lower amounts of direct coding references are as meaningful as the ones with more significant references. Both methods complement each other, thus providing a clearer picture of the critical elements that ensure micro-business financing access. Furthermore, let us recall that owner-managers already acknowledged the relevance of each category and its elements through the zero (0) to ten (10) scaling. Answers from all elements were compared thanks to the sum of occurrences of given numbers in the ranking.

For the analysis of the narrative data, first, we will go over the most commented proximity categories to the least. Second, we will cover categories that help get a clearer picture of micro-financing, meaning the recurrent elements in the literature and the Dominican Republic context, to finish with other elements that could have come up within the category “other.”

Relation proximity was the most remarked proximity in our data. Six (6) out of ten (10) cases explained how significant this proximity is for their enterprises to access funds. Described as building and keeping a well-established personal and business trajectory, being familiar with the fund’s provider and its credibility, and having mutual trust between the funder and the owner-manager, sometimes even sharing the same values as the entrepreneur. On the other hand, some entrepreneurs, such as cases #4 and #5, weigh business operations’ data and numbers and the wiliness of the fund provider to lend as decisive or even more significant to access to funds than relations closeness. The following verbatim gives proof of these common trends in the sample.



**Table 83. Verbatim and detailed coding for the structural category “Relational proximity” to access financing**

CASE	VERBATIM: KEY CRITERIA TO ACCESS TO FINANCING: RELATIONAL PROXIMITY	DETAILED CODING
<p>Case#1: Colmado Charina</p>	<p>“Having a <sup>1</sup><b>high level of trust</b> between the business owner and the financing provider helps you a lot to access funds. Yes, it helps me a lot when you arrive at a place where <sup>2</sup><b>people know you</b>. It is like if you arrive at <sup>3</sup><b>your own home</b>. Well, there are times when I have <sup>4</sup><b>arrived at some banks, and they fill out the forms themselves</b>, and they tell me not to put this in, but to put this in instead. <sup>5</sup><b>Sometimes they just tell me to leave a copy of my identity card and to sign a form that they will take care of everything</b>”.</p>	<p><sup>1</sup> “HIGH LEVEL OF TRUST”  <sup>2</sup> “PEOPLE KNOW YOU”  <sup>3</sup> “YOUR OWN HOME”  <sup>4</sup> “ARRIVED AT SOME BANKS, AND THEY FILL OUT THE FORMS THEMSELVES”  <sup>5</sup> “SOMETIMES THEY JUST TELL ME TO LEAVE A COPY OF MY IDENTITY CARD AND TO SIGN A FORM THAT THEY WILL TAKE CARE OF EVERYTHING”</p> <p><b>Key idea(s): having mutual trust and a well-established trajectory.</b></p>
<p>Case #2: Salón Ilusión</p>	<p>“<sup>6</sup><b>Know in advance</b> the institution, program or person financing is important to <sup>7</sup><b>make the necessary arrangements</b> to access the funds”.</p>	<p><sup>6</sup> “KNOW IN ADVANCE”  <sup>7</sup> “MAKE THE NECESSARY ARRANGEMENTS”</p> <p><b>Key idea(s): knowing the fund’s provider in advance.</b></p>
<p>Case #3: D’ilias atelier alta costura</p>	<p>“Of course! Of course that <sup>8</sup><b>knowing in advance</b> the institution, program, or person financing is important. If you are <sup>9</sup><b>using or planning to use it</b>, you need to <sup>10</sup><b>figure out what and with whom you are getting into</b>. In which institution, what <sup>11</sup><b>credibility</b> is there because <sup>12</sup><b>there are too many scams and cheating, too many thieves</b>. Many say: ‘Hey! They are lending me’. They take it, and there is a <sup>13</sup><b>mess</b>. They make a mess.”</p> <p>“<sup>14</sup><b>Sharing the values</b> with the provider of funds is also really important to <sup>15</sup><b>make negotiations</b>.”</p>	<p><sup>8</sup> “KNOWING IN ADVANCE”  <sup>9</sup> “USING OR PLANNING TO USE IT”  <sup>10</sup> “FIGURE OUT WHAT AND WITH WHOM YOU ARE GETTING INTO”  <sup>11</sup> “CREDIBILITY”  <sup>12</sup> “THERE ARE TOO MANY SCAMS AND CHEATING, TOO MANY THIEVES”  <sup>13</sup> “MESS”  <sup>14</sup> “SHARING THE VALUES”  <sup>15</sup> “MAKE NEGOTIATIONS”</p>

		<b>Key idea(s): knowing the fund’s provider credibility in advance and sharing the same values.</b>
Case #4: Invercolor	“I think that it is <sup>16</sup> <b>not about trust</b> between the owner-manager and the fund’s provider. Sometimes <sup>17</sup> <b>you do not even know them</b> . What kind of trust there might be?”	<sup>16</sup> “NOT ABOUT TRUST” <sup>17</sup> “YOU DO NOT EVEN KNOW THEM”  <b>Key idea(s): other.</b>
Case #5: Sergen SRL	<p>“I <sup>18</sup><b>don’t think</b> having <sup>19</sup><b>good relations</b> with the one providing funds helps access financing. No, no, no. I <sup>20</sup><b>have friends</b>, friends, and <sup>21</sup><b>if your numbers don’t add up, they’re not going to give you</b> what you want. You have to <sup>22</sup><b>take care of your business operations</b>. And if they lend you, they are doing wrong, and they know it”.</p> <p>“The <sup>23</sup><b>bank won’t lend</b> you either. They will pretend to, if, if, if, if. You know that. They <sup>24</sup><b>will pretend</b> and pretend, but <sup>25</sup><b>if your numbers do not add up, they will not lend you</b>. Yes, yes, it is like that”.</p> <p>“I <sup>26</sup><b>don’t think sharing the same values helps either</b>. It is just that <sup>27</sup><b>they are thieves</b>. They know you are having it difficult, but they are waiting, just <sup>28</sup><b>waiting to hit you</b>, and they will die laughing. What values and what values? They are going to <sup>29</sup><b>lend if they want to</b> because I know that the one who is really going to lend is if he/she wants to, and he/she is <sup>30</sup><b>going to take it out of my rib anyway</b>, and <sup>31</sup><b>if I do not pay it, he/she is going to go after me to get it back</b>. <sup>32</sup><b>There are no values; they are just interested in money matters</b>”.</p>	<sup>18</sup> “DON’T THINK” <sup>19</sup> “GOOD RELATIONS” <sup>20</sup> “HAVE FRIENDS” <sup>21</sup> “IF YOUR NUMBERS DON’T ADD UP, THEY’RE NOT GOING TO GIVE YOU” <sup>22</sup> “TAKE CARE OF YOUR BUSINESS OPERATIONS” <sup>23</sup> “BANK WON’T LEND” <sup>24</sup> “WILL PRETEND” <sup>25</sup> “IF YOUR NUMBER DO NOT ADD UP, THEY WILL NOT LEND YOU” <sup>26</sup> “DON’T THINK SHARING THE SAME VALUES HELPS EITHER” <sup>27</sup> “THEY ARE THIEVES” <sup>28</sup> “WAITING TO HIT YOU” <sup>29</sup> “LEND IF THEY WANT TO” <sup>30</sup> “GOING TO TAKE IT OUT OF MY RIB ANYWAY” <sup>31</sup> “IF I DO NOT PAY IT, HE/SHE IS GOING TO GO AFTER ME TO GET IT BACK” <sup>32</sup> “THERE ARE NO VALUES; THEY ARE JUST INTERESTED IN MONEY MATTERS”  <b>Key idea(s): evaluating business operations data and being willing to lend by the provider of funds.</b>
Case #6: Escuela de	“ <sup>33</sup> <b>There must be trust</b> . That is the way it is. Find a <sup>34</sup> <b>bank that trusts you too</b> . If there is no trust, there’s nothing”.	<sup>33</sup> “THERE MUST BE TRUST” <sup>34</sup> “BANK THAT TRUSTS YOU TOO”

choferes La Ideal		<b>Key idea(s): having mutual trust.</b>
Case #7: Papelería MEL	<p>“Sometimes you <sup>35</sup><b>don’t know other places</b>, you know, and many times it is <sup>36</sup><b>thanks to relationships that you can access</b> them.”</p> <p>“You <sup>37</sup><b>need to know who is lending</b> you because <sup>38</sup><b>they cheat a lot here.</b>”</p> <p>“<sup>39</sup><b>Sharing the same values</b> is really important. Oh, yes! It is really important because the one who has a lot and is too cheap, I don’t like that. What is <sup>40</sup><b>cheap ends up being expensive in the end</b>”.</p>	<p><sup>35</sup> “DON’T KNOW OTHER PLACES”</p> <p><sup>36</sup> “THANKS TO RELATIONSHIPS THAT YOU CAN ACCESS”</p> <p><sup>37</sup> “NEED TO KNOW WHO IS LENDING”</p> <p><sup>38</sup> “THEY CHEAT A LOT HERE”</p> <p><sup>39</sup> “SHARING THE SAME VALUES”</p> <p><sup>40</sup> “CHEAP ENDS UP BEING EXPENSIVE IN THE END”</p> <p><b>Key idea(s): having good relations, knowing the fund’s provider in advance, and sharing the same values.</b></p>
Case #8: Casa Cristina	<p>“<sup>41</sup><b>Having good relationships</b> with the fund’s providers, friends, family, partners, institutions, and so on <sup>42</sup><b>somewhat helps</b>. But I think that what <sup>43</sup><b>helps more is your behavior as a customer, as a person, as a company</b> because you have good relationships in a bank, in politics, in whatever you want. Okay, you got a customer by a politician or a manager, but really, what <sup>44</sup><b>helps you is your financial behavior as a company</b>. That is how I see it, how I analyze it”.</p> <p>“No, because good relationships, see what happens to the <sup>45</sup><b>reliability</b>, the <sup>46</sup><b>trustworthiness</b> of... It is not to have, because you can have good relationships with a company and if you do not <sup>47</sup><b>do what you have to do</b>, they will not give you the <sup>48</sup><b>three months delay</b> because companies do not handle clients as Cristina, my friend, no. Cristina, my <sup>49</sup><b>friend stopped paying; yes. Forget Cristina is my friend</b>, but I <sup>50</sup><b>will not continue to give her the financing opportunity</b>; because this is something that <sup>51</sup><b>goes far beyond</b> and distinctly different from what is your <sup>52</sup><b>interest as a merchant</b>, you see? So good relationships, you see, <sup>53</sup><b>as an individual and a company, are very different</b>. It is really different”.</p> <p>“Also, it is important to <sup>54</sup><b>know</b> the program beforehand because you need to <sup>55</sup><b>evaluate what they are offering before</b> you. If you know how to access it or not, you see?”</p>	<p><sup>41</sup> “HAVING GOOD RELATIONSHIPS”</p> <p><sup>42</sup> “SOMEWHAT HELPS”</p> <p><sup>43</sup> “HELPS MORE IS YOUR BEHAVIOR AS A CUSTOMER, AS A PERSON, AS A COMPANY”</p> <p><sup>44</sup> “HELPS YOU IS YOUR FINANCIAL BEHAVIOR AS A COMPANY”</p> <p><sup>45</sup> “RELIABILITY”</p> <p><sup>46</sup> “TRUSTWORTHINESS”</p> <p><sup>47</sup> “DO WHAT YOU HAVE TO DO”</p> <p><sup>48</sup> “THREE MONTHS DELAY”</p> <p><sup>49</sup> “FRIEND STOPPED PAYING; YES. FORGET CRISTIANA IS MY FRIEND”</p> <p><sup>50</sup> “WILL NOT CONTINUE TO GIVE HER THE FINANCING OPPORTUNITY”</p> <p><sup>51</sup> “GOES FAR BEYOND”</p> <p><sup>52</sup> “INTEREST AS A MERCHANT”</p>

		<sup>53</sup> “AS AN INDIVIDUAL AND A COMPANY, ARE VERY DIFFERENT” <sup>54</sup> “KNOW THE PROGRAM BEFOREHAND” <sup>55</sup> “EVALUATE WHAT THEY ARE OFFERING BEFORE”  <b>Key idea(s): having a well-established trajectory and knowing the fund’s provider in advance.</b>
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Source: Personal elaboration

Information systems proximity was the second most explained proximity by owner-manager in the sample. Data portrayed that limiting financing sources requested at once and avoiding owing to several institutions or people simultaneously benefits obtaining funds. However, it is also noticeable that these elements could be classified as owner-manager preferences of how he/she chooses to manage the business finances, which in a sense, are also personal. Moreover, case #2 and case #8 emphasize taking advantage of a mix of financing sources instead of limiting the enterprise to one or a few. In this respect, accessing and recapping several advantages of financing sources is only possible if the business and the entrepreneur (as a person) benefit from a trustworthy and accepted impeccable trajectory in the market and networks. Building and keeping this trajectory becomes thus a must for a micro business to access funds. Hereafter the information systems proximity verbatim.

**Table 84. Verbatim and detailed coding for the structural category “Information systems proximity” to access financing**

CASE	VERBATIM: KEY CRITERIA TO ACCESS TO FINANCING: INFORMATION SYSTEMS PROXIMITY	DETAILED CODING
Case #2: Salón Ilusión	“I do not limit <sup>1</sup> financing sources, no. No, I <sup>2</sup> consider many. Another one and another as long as it <sup>3</sup> gives me the benefits I want. Yes, it depends on how my <sup>4</sup> credit score is to know if I can get there because if I <sup>5</sup> produce and they know, and what I tell them as well. But we can write a 9 here”.	<sup>1</sup> “FINANCING SOURCES” <sup>2</sup> “CONSIDER MANY” <sup>3</sup> “GIVES ME THE BENEFITS I WANT” <sup>4</sup> “CREDIT SCORE TO KNOW” <sup>5</sup> “PRODUCE”

	<p>“Of course, that <sup>6</sup><b>owing to several</b> institutions and individuals at the same time <sup>7</sup><b>inhibits the access to other funds</b>, but that is why I’m telling you that it depends, right? Well, let’s put a 7 on this one”.</p>	<p><sup>6</sup>“OWING TO SEVERAL”  <sup>7</sup> “INHIBITS THE ACCESS TO OTHER FUNDS”</p> <p><b>Key idea(s): benefiting from a variety of financing sources. It is conditioned by credit score robustness (trajectory), business operations revenue level, and the amount of debt outstanding.</b></p>
<p>Case #3: D’iliias atelier alta costura</p>	<p>“Ah, yes, <sup>8</sup><b>always one.</b> <sup>9</sup><b>One or two.</b> I do not like dealing with a lot of banks. I <sup>10</sup><b>don’t usually have two.</b> Because sometimes <sup>11</sup><b>things get complicated,</b> you know? One, <sup>12</sup><b>only one.</b> No, no, no. I <sup>13</sup><b>do not like owing to many people either.</b> As far as business is concerned, with only one, even if I manage with two, but when it comes to...Yes, I do not like it when there are too many people. No, no, no, no, <sup>14</sup><b>I am terrified of that”.</b></p>	<p><sup>8</sup>“ALWAYS ONE”  <sup>9</sup>“ONE OR TWO”  <sup>10</sup> “DON’T USUALLY HAVE TWO”  <sup>11</sup> “THINGS GET COMPLICATED”  <sup>12</sup>“ONLY ONE”  <sup>13</sup> “DO NOT LIKE OWING TO MANY PEOPLE EITHER”  <sup>14</sup>“I AM TERRIFIED OF THAT”</p> <p><b>Key idea(s): limiting financing sources requested at once and avoiding owing to several institutions or people simultaneously.</b></p>
<p>Case #5: Sergen SRL</p>	<p>“Yes, here I <sup>15</sup><b>agree completely.</b> I am all for that. That is what I was telling you earlier that they call you from all places and cards. You did not screw up at first, but if you <sup>16</sup><b>sign with all,</b> you are going to have a <sup>17</sup><b>huge mess”.</b></p>	<p><sup>15</sup>“AGREE COMPLETELY”  <sup>16</sup>“SIGN WITH ALL”  <sup>17</sup>“HUGE MESS”</p> <p><b>Key idea(s): limiting financing sources requested at once and avoiding owing to several institutions or people simultaneously.</b></p>
<p>Case #8: Casa Cristina</p>	<p>“Owing to several people at the same time and applying for several financing sources simultaneously <sup>18</sup><b>do impact accessing funds</b>, of course. It influences because it <sup>19</sup><b>gives the client a recommendation letter of trust</b> that <sup>20</sup><b>is not just one, it is several,</b> and that <sup>21</sup><b>gives you a good position.</b> It implies that you are a <sup>22</sup><b>person who can effectively handle many;</b> how can I say...”.</p> <p>“Yes, yes, someone that has this bank, and this one, and the other. If banks offer, the one or the other, it is because <sup>23</sup><b>you are a person who pays”.</b></p>	<p><sup>18</sup> “DO IMPACT ACCESSING FUNDS”  <sup>19</sup> “GIVES THE CLIENT A RECOMMENDATION LETTER OF TRUST”  <sup>20</sup> “IS NOT JUST ONE, IT IS SEVERAL”  <sup>21</sup> “GIVES YOU A GOOD POSITION”</p>

	<p>"I'm telling you this because I have seen myself sometimes in a situation that: 'Ah, that this guy!', 'that the wife that this other guy,' <sup>24</sup><b>all banks telling me</b>, and me: <sup>25</sup><b>but wait, let's calm down.</b>' If one, follow what they say...".</p>	<p><sup>22</sup> "PERSON WHO CAN EFFECTIVELY HANDLE MANY"  <sup>23</sup> "YOU ARE A PERSON WHO PAYS"  <sup>24</sup> "ALL BANKS TELLING ME"  <sup>25</sup> "BUT WAIT, LET'S CALM DOWN"  <b>Key idea(s): having a well-established trajectory and reputation.</b></p>
<p>Case #9: Alexis Centro Automotriz</p>	<p>"For me, <sup>26</sup><b>limiting sources is determinat</b>. Right, 10. That's like when you say I'm only taking out one loan because I have to pay off this debt. I <sup>27</sup><b>can't be here and here and over there</b>, you know? No. <sup>28</sup><b>I make rice with mangoes (mess)</b>, and I will <sup>29</sup><b>screw up, and I then get screwed</b>. They all know each other so...".</p>	<p><sup>26</sup> "LIMITING SOURCES IS DETERMINANT"  <sup>27</sup> "CAN'T BE HERE AND HERE AND OVER THERE"  <sup>28</sup> "I MAKE RICE WITH MANGOES (MESS)"  <sup>29</sup> "SCREW UP, AND I THEN GET SCREWED"  <b>Key idea(s): limiting financing sources requested at once and avoiding owing to several institutions or people simultaneously.</b></p>
<p>Case #10: Salón estilo Gysel</p>	<p>"Ha ha ha ha! That helps a lot. <sup>30</sup><b>It helps a lot</b> because it is <sup>31</sup><b>better to owe to only one and not ten</b>".</p>	<p><sup>30</sup> "IT HELPS A LOT"  <sup>31</sup> "BETTER TO OWE TO ONLY ONE AND NOT TEN"  <b>Key idea(s): limiting financing sources requested at once and avoiding owing to several institutions or people simultaneously.</b></p>

Source: Personal elaboration

The next most clarified proximity is temporal proximity, regardless of having only one element in its category. The data gathered suggest that short-term financing facilitates access to funds for microenterprises compared to long-term financing. 80% of cases in our sample placed this criterion in the scale's eight (8) to ten (10) range. The verbatim analysis brings to

light that it is easier to manage besides just making it easier to ensure the funds. For instance, for short-term financings, such as a three (3) months account payable delay agreement or a bank loan, the enterprise receives the resources or funds, then pays, receives them again, and pays once more. Thus, it creates a repetitive chain of financing access and payments that become easy to manage. Other owner-managers underline the business’s situation, and the amount and purpose of the funds are also crucial. To illustrate, having the funds fast can ensure taking advantage of an opportunity and balancing short-term and long-term guarantees the business financial stability and avoids liquidity problems—below the relevant temporal proximity verbatim.

**Table 85. Verbatim and detailed coding for the structural category “Temporal proximity” to access financing**

CASE	VERBATIM: KEY CRITERIA TO ACCESS TO FINANCING: TEMPORAL PROXIMITY	DETAILED CODING
Case#1: Colmado Charina	<p>“Well, in this case, it really depends. Here, <sup>1</sup><b>it depends</b> on how I tell you. <sup>2</sup><b>How I feel financially</b> because sometimes even if you lend me and you make out of me more money, more than what the bank earns, for instance, I <sup>3</sup><b>prefer</b> to pay it in the <sup>4</sup><b>long-term</b> because <sup>5</sup><b>I am more secure</b>, <sup>6</sup><b>take less risk</b>. It is for <sup>7</sup><b>security</b>. Yes, because I know I am <sup>8</sup><b>not going to fail</b> the bank or look bad. You can put a 5 on that.</p> <p>I like to <sup>9</sup><b>balance things out</b> because <sup>10</sup><b>short-term loans make you pay less interest, and you pay them quickly, but you can easily decapitalize</b>”.</p>	<p><sup>1</sup>“IT DEPENDS”  <sup>2</sup>“HOW I FEEL FINANCIALLY”  <sup>3</sup>“PREFER”  <sup>4</sup>“LONG-TERM”  <sup>5</sup>“I AM MORE SECURE”  <sup>6</sup>“TAKE LESS RISK”  <sup>7</sup>“SECURITY”  <sup>8</sup>“NOT GOING TO FAIL”  <sup>9</sup>“BALANCE THINGS OUT”  <sup>10</sup>“SHORT-TERM LOANS MAKE YOU PAY LESS INTEREST, AND YOU PAY THEM QUICKLY, BUT YOU CAN EASILY DECAPITALIZE”</p> <p><b>Key idea(s): prioritizing security and minimizing risk by opting for long-term financing.</b></p>
Case #3: D’ilias atelier alta costura	<p>“No, because right now, in this negotiation that I’ve been doing, I wanted the <sup>11</sup><b>money right away, all at once</b>. Exactly, because for me, I was in a great mess, and I just wanted to <sup>12</sup><b>finish the negotiation</b> But, the <sup>13</sup><b>money is already there</b>. This <sup>14</sup><b>gives me peace of mind</b>, and I’m already paying it off, if you understand, but I’m still paying...”.</p>	<p><sup>11</sup>“MONEY RIGHT AWAY, ALL AT ONCE”  <sup>12</sup>“FINISH THE NEGOTIATION”  <sup>13</sup>“MONEY IS ALREADY THERE”  <sup>14</sup>“GIVES ME PEACE OF MIND”</p>

		<b>Key idea(s): having funds available quickly.</b>
Case #8: Casa Cristina	“I think so. <sup>15</sup> <b>Short-term financing is easier to handle</b> because <sup>16</sup> <b>you take it, pay it, take it, pay it</b> . You see, is like, it is <sup>17</sup> <b>more convenient</b> to make the necessary movements because the <sup>18</sup> <b>long-term financing</b> is like financing to buy furniture, <sup>19</sup> <b>big things</b> . Short-term financing is, for now, short-term”.	<sup>15</sup> “SHORT-TERM FINANCING IS EASIER TO HANDLE” <sup>16</sup> “YOU TAKE IT, PAY IT, TAKE IT, PAY IT” <sup>17</sup> “MORE CONVENIENT” <sup>18</sup> “LONG-TERM FINANCING” <sup>19</sup> “BIG THINGS”  <b>Key idea(s): Managing short-term financing is easier than long-term financing. Getting long-term financing is for big things. Financing timing depends on the purpose of the funds.</b>
Case #10: Salón estilo Gysel	“Yes. Well, <sup>20</sup> <b>it depends</b> on the <sup>21</sup> <b>amount taken</b> because if you take a large amount, you need more time to pay for it, and it also depends on <sup>22</sup> <b>how much money your business is making</b> ”.	<sup>20</sup> “IT DEPENDS” <sup>21</sup> “AMOUNT TAKEN” <sup>22</sup> “HOW MUCH MONEY YOUR BUSINESS IS MAKING”  <b>Key idea(s): depending on the business situation and amount taken.</b>

Source: Personal elaboration

The most straightforward responses in the scaling and the owner-managers comments belong to the hierarchical proximity. Owner-managers must have control of the funds managed and are the ones making decisions; otherwise, they will not look for internal or external funds. Therefore, access to funds becomes quite limited. The entrepreneur of case#3 explains it quite well by saying the following: “by me because I am the one that has control of my clients, my expenses, my revenues, of everything. Always me, it is always me.” It is their enterprise, and therefore they are in control.

Patrimonial proximity facilitates access to funds mainly when looking for external financing because the business or the entrepreneur has assets, goods, or resources that serve as collateral for the repayment of the financing if there is a payment default. However, not all entrepreneurs are willing to use it, mainly if it refers to bank financing, as expressed by case



#5 owner-manager: “But, no, no, no, I don’t like to put anything at risk or myself at risk. Look, if you are lending me, look at my operations. If you think you can lend me RD\$500,000.00, analyze it yourself. But no, no, I am not going to put my house, or my car, no. If they don’t lend me, I will do nothing. I am not going to get into trouble. The one who wants to lend me, he/she can lend me. The one who does not, does not.”

Spatial proximity or having sources of funds nearby was the least commented of the proximities—80% of cases placed this proximity within the eight (8) to ten (10) range on the scale. Case#4, however, placed this proximity at zero (0). The entrepreneur explained that nearness in the geographical distance is not determinant to access funds. She added that she looks for the most suitable financing conditions or advantages, even if this entails going to another city.

Proximity is essential for a microenterprise to access funds according to the primary information gathered. Nevertheless, to provide a complete analysis and thus understanding, additional elements recurrent in the literature and adapted to the Dominican Republic context were explored.

As detailed earlier in this part, the elements recurrent in the literature to get financed include but are not limited to having a solid business plan, presentation, and team and the business or project profitability. In general, owner-managers acknowledged the importance of these elements on the zero (0) to ten (10) scale and the interviews’ verbatims. However, it is intriguing that they never mentioned any of them as tools or strategies they could have used to create their enterprise or for their business operations and investments in the more open questions part of the interviews. Nevertheless, once asked directly, they classified them as necessary.

Putting together a solid formal business plan and a clear, captivating pitch has become a norm when businesses or project enthusiasts are looking for funds, mainly external financial support. However, it seems that micro-entrepreneurs turn to more informal, intuitive ways to evaluate how they can continue moving forward by mobilizing the resources at hand. In this sense, owner-managers become the creators of their financing opportunities, prioritizing strategies to generate internal sources of funds and continuing, only if necessary, with external funds. This makes, for instance, an overlooked criterion by bankers to allocate funds in an enterprise, a lifesaver for owner-managers such as their supporting team. For micro business entrepreneurs, the group of individuals working with them is crucial in business work and

thriving. For a business to function, it must make sufficient operating revenues to cope with its expenses and, if it applies, meet financing costs when paying interest of some sort and tax obligations (if the business is operating formally). Below are the relevant details from the interviews addressing this category.

**Table 86. Verbatim and detailed coding for the structural category “Recurrent elements in the literature” to access financing**

CASE	VERBATIM: KEY CRITERIA TO ACCESS TO FINANCING: RECURRENT ELEMENTS IN THE LITERATURE	DETAILED CODING
Case#1: Colmado Charina	<p>“Yes, it is <sup>1</sup><b>good to have a solid plan</b>. It is good in my opinion. Excellent. For me, it is determinant”.</p> <p>...</p> <p>“I think that the <sup>2</sup><b>business team</b> does help you. <sup>3</sup><b>Not from the bank perspective</b>. But the team you have for work, for example. I have a work team here, and I will request money from a bank; the bank has nothing to do with my team, but for me, <sup>4</sup><b>I trust the team I have</b>. <sup>5</sup><b>I can borrow because I know they guarantee the production of money I am borrowing</b>. There are times when you see that you have a team that is not performant at all, and If I want to borrow funds, but when evaluating them and the situation, I don't <sup>6</sup><b>trust them</b>. But that depends on you, though. Team trust you can put it at 5”.</p>	<p><sup>1</sup> “GOOD TO HAVE A SOLID PLAN”</p> <p><sup>2</sup>“BUSINESS TEAM”</p> <p><sup>3</sup> “NOT IN THE BANK PERSPECTIVE”</p> <p><sup>4</sup>“I TRUST THE TEAM I HAVE”</p> <p><sup>5</sup> “I CAN BORROW BECAUSE I KNOW THAT THEY GUARANTEE THE PRODUCTION OF MONEY I AM BORROWING”</p> <p><sup>6</sup>“TRUST THEM”</p> <p><b>Key idea(s): having a solid business plan, trusting the business team, and getting their support.</b></p>
Case #2: Salón Ilusión	<p>“Of course that <sup>7</sup><b>having a solid business plan helps</b> you access funds! It is important because, you know, a 10. Go imagine! Because I have to tell them, even though people sometimes <sup>8</sup><b>say and explain</b> that they are <sup>9</sup><b>going to use the funds for one thing</b> and end up using it for something else too. I do not do this. If I tell them that I <sup>10</sup><b>will use the money for this, it is for that</b>. Now I want to get a loan, for example, but it is for what I am saying it is for, you know”.</p>	<p><sup>7</sup>“HAVING A SOLID BUSINESS PLAN HELPS”</p> <p><sup>8</sup>“SAY AND EXPLAIN”</p> <p><sup>9</sup> “GOING TO USE THE FUNDS FOR ONE THING”</p> <p><sup>10</sup> “WILL USE THE MONEY FOR THIS, IT IS FOR THAT”</p> <p><b>Key idea(s): A solid business plan and pitch help.</b></p>
	<p>“A <sup>11</sup><b>business plan would be good</b>, but I <sup>12</sup><b>have never done it before</b>. No, I never have. In fact, I <sup>13</sup><b>have not set up a company as such</b>. I have <sup>14</sup><b>kept myself as a small business. On the sidelines, quiet and silent</b>. <sup>15</sup><b>Like a</b></p>	<p><sup>11</sup> “BUSINESS PLAN WOULD BE GOOD”</p>

<p>Case #3: D'ílias atelier alta costura</p>	<p><b>physical person</b> because I have never had that thing. How do you call it? That <sup>16</sup><b>formality</b>. This is the word, you know about this, you know”.</p> <p>...</p> <p>“But of course, the <sup>17</sup><b>team is important!</b> Everything I do, I think about José. Everything is with José because he is my right-hand man. No, no, no, because what happens is that José is here, and <sup>18</sup><b>everything is managed and decided based on José</b>. José and I, because <sup>19</sup><b>we are a team</b>. By myself, I can't do anything. José alone can't do anything either. So, as I understand it, this is a team. We <sup>20</sup><b>complement each other</b>. D'ílias atelier has to be together with José. <sup>21</sup><b>If we separate, there goes the enterprise</b>. Everything goes to waste as well. But look! You say it, and you don't even know, everything goes to waste, everything we have done and proved to work. We <sup>22</sup><b>even take vacations together</b>. A day goes by, and things do not flow as they should so smooth.</p> <p><sup>23</sup><b>When we are together, things go really quickly</b>, move to get into the enterprise and us, and we <sup>24</sup><b>work intensively</b>. Of course! And one of the <sup>25</sup><b>strongest foundations of this business</b> is that. José and I get along really well. I have José <sup>26</sup><b>not as an employee but as part of the team</b>. I don't feel José is my employee; you know what I mean?”</p> <p>...</p> <p>“No, of course, <sup>27</sup><b>profitability is important!</b> I <sup>28</sup><b>have to manage</b> the gas and this local's rent for the business; I pay José, I pay the phone, electricity, <sup>29</sup><b>all expenses</b>. Of course. I need to move all that, plus I need to, I get my salary”.</p> <p>“Exactly. I cannot work just to pay José and to pay expenses, so what am I left with? No, my dear, if this is the case, there is a problem. We are <sup>30</sup><b>all winning. If not, we are closing this</b>. Of course!”</p> <p>“Well, of course, my love, and how am I going to depress myself a whole weekend just because I didn't make a dime? No, how, how. If I have to <sup>31</sup><b>remain with nothing, naked, to pay José, I will</b>. And on Monday, we will resolve and take care of everything that is left and unresolved. The other things. But, of course, <sup>32</sup><b>always taking out my commitments first</b>. There are weeks that I finish without a dime, but I understand that now; before, I didn't”.</p> <p>“<sup>33</sup><b>Everyone has to win. Everyone has to be happy. If not, there will be a problem</b>, my dear”.</p>	<p><sup>12</sup> “HAVE NEVER DONE IT BEFORE”</p> <p><sup>13</sup> “HAVE NOT SET UP A COMPANY AS SUCH”</p> <p><sup>14</sup> “KEPT MYSELF AS A SMALL BUSINESS. ON THE SIDELINES, QUIET AND SILENT”</p> <p><sup>15</sup> “LIKE A PHYSICAL PERSON”</p> <p><sup>16</sup> “FORMALITY”</p> <p><sup>17</sup> “TEAM IS IMPORTANT”</p> <p><sup>18</sup> “EVERYTHING IS MANAGED AND DECIDED BASED ON JOSÉ”</p> <p><sup>19</sup> “WE ARE A TEAM”</p> <p><sup>20</sup> “COMPLEMENT EACH OTHER”</p> <p><sup>21</sup> “IF WE SEPARATE, THERE GOES THE ENTERPRISE”</p> <p><sup>22</sup> “EVEN TAKE VACATIONS TOGETHER”</p> <p><sup>23</sup> “WHEN WE ARE TOGETHER, THINGS GO REALLY QUICKLY”</p> <p><sup>24</sup> “WORK INTENSIVELY”</p> <p><sup>25</sup> “STRONGEST FOUNDATIONS OF THIS BUSINESS”</p> <p><sup>26</sup> “NOT AS AN EMPLOYEE BUT AS PART OF THE TEAM”</p> <p><sup>27</sup> “PROFITABILITY IS IMPORTANT”</p> <p><sup>28</sup> “HAVE TO MANAGE”</p> <p><sup>29</sup> “ALL EXPENSES”</p> <p><sup>30</sup> “ALL WINNING. IF NOT, WE ARE CLOSING THIS”</p> <p><sup>31</sup> “REMAIN WITH NOTHING, NAKED, TO PAY JOSE, I WILL”</p> <p><sup>32</sup> “ALWAYS TAKING OUT MY COMMITMENTS FIRST”</p> <p><sup>33</sup> “EVERYONE HAS TO WIN. EVERYONE HAS TO BE HAPPY. IF NOT, THERE WILL BE A PROBLEM”</p> <p><b>Key idea(s): having a solid business plan, getting the support of the business team, and ensuring win-win relationships.</b></p>
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Case #5: Sergen SRL	“The <sup>34</sup> <b>team has to do what it has to do</b> . Its job. Their normal job and not to look for financing”.	<sup>34</sup> “TEAM HAS TO DO WHAT IT HAS TO DO.”  <b>Key idea(s): keeping business operations.</b>
Case #6: Escuela de choferes La Ideal	“Yes, it is very important. Very important, my dear. <sup>35</sup> <b>Business profitability</b> is the first thing they are looking for <sup>36</sup> <b>when they are going to lend you</b> . How much do you have left? What do you do to <sup>37</sup> <b>keep operating for so long</b> ? It is very important”.	<sup>35</sup> “BUSINESS PROFITABILITY” <sup>36</sup> “WHEN THEY ARE GOING TO LEND YOU” <sup>37</sup> “KEEP OPERATING FOR SO LONG”  <b>Key idea(s): ensuring business profits and keeping a well-established trajectory.</b>
Case #8: Casa Cristina	“Yes. Put a 10 there. Now, I have stuck to number 10. Well, but it is also the truth because if you don’t <sup>38</sup> <b>present to the institution or moneylender</b> . If you don’t present them the <sup>39</sup> <b>solid bases</b> , they don’t give you...”.	<sup>38</sup> “PRESENT TO THE INSTITUTION OR MONEYLENDER” <sup>39</sup> “SOLID BASES”  <b>Key idea(s): having a solid business plan and pitch.</b>
Case #9: Alexis Centro Automotriz	“It is very important. Sure, a 10. If the <sup>40</sup> <b>team does not produce</b> and get you out, imagine that, <sup>41</sup> <b>where can I go?</b> ”	<sup>40</sup> “TEAM DOES NOT PRODUCE” <sup>41</sup> “WHERE CAN I GO?”  <b>Key idea(s): Getting full support of the business team.</b>
Case #10: Salón estilo Gysel	“If you <sup>42</sup> <b>have a team</b> that does not work, you can’t do anything. The interest of the people who are with you, but also the <sup>43</sup> <b>product you use</b> , that the <sup>44</sup> <b>working tools</b> are <sup>45</sup> <b>appropriate for the job</b> because <sup>46</sup> you are looking for <b>quality</b> ”.	<sup>42</sup> “HAVE A TEAM” <sup>43</sup> “PRODUCT YOU USE” <sup>44</sup> “WORKING TOOLS” <sup>45</sup> “APPROPRIATE FOR THE JOB” <sup>46</sup> “YOU ARE LOOKING FOR QUALITY”  <b>Key idea(s): Getting full support of the business team and ensuring a quality service.</b>

Source: Personal elaboration

Another pertinent element addressed is the formality of the business. Let us recall that the Dominican Republic lives a micro-business reality where most businesses operate informally. Nine (9) out of ten (10) microenterprises were operating informally in 2013, representing 89% of the total micro enterprises in the country (Ortiz, Cabal, and Mena 2014; Fundación Reservas del País, FondoMicro, and Data Crédito 2019). Business entrepreneurs in our sample consider business formality essential to obtain financing, particularly external sources of funds. It is also added that if a financier, like a bank, decides to finance a business operating informally, it will depend on the confidence and trustworthiness one has accredited as an enterprise and as a person in the institutions applying (case#1). Enterprises operating informally, 20% of the sample, also agreed on the importance of formality. However, they did not express their intention to make the change.

An additional category under the heading “other (s)” was added to the interview to identify additional elements besides those asked directly. Only two entrepreneurs made detailed comments here: case#7 and case#10. Case#7 explained that besides the simple notion of getting funds, the pros and cons of each scenario must be weighted. It is not about having the reflex to request funds but analyzing the different possibilities to minimize risks and eliminate any possibility of deception. Case#10 provides a general outlook entailing that financing relies on the business operations and the quality of the services and treatment provided. The entrepreneur adds: “The good treatment of the client, of the personnel, the interest of the personnel influences a lot. There are many things that influence so that a business gives you results: the products, the quality, in a general sense, the treatment of the person. In all businesses, customer service has a great influence, and attention and care are essential in everything.”

As mentioned on multiple occasions throughout this thesis work, a micro business’s financing access capacity reposes on the owner-managers shoulders, whether considering internal or external funds and regardless of the objective in sight: to create, operate, or invest. Therefore, the classic external debt and equity financing methods and strategies to obtain them are challenged, proving to be unsuited to the specificities and realities of microenterprises, especially for those in countries such as the Dominican Republic.

To continue examining the Dominican microenterprises financing, the different proximity dimensions were analyzed from the owner-managers financing decisions making perspective. Simply put, does proximity, in all the dimensions studied, influence or condition owner-managers’ decisions to get financing (internal or external)? To what extent does it occur if there

is a preference for nearness above distance in this decision-making? In addition, is it logical to think that the more owner-managers favor what is near (me, here & now) financing-wise, the more they enclose themselves from the exterior, i.e., other financing opportunities? If this is the case, the outside becomes less critical even though it could bring optimal financing solutions to the micro business owner. This discontinuity of importance phenomenon is what Moles and Rohmer (1978) call *le phénomène de paroi* or the wall phenomenon in English, as we introduced at the end of chapter 1—see part 3 of section 2, pages 166-174. Thus, there is a solid distinction between the inside and the outside, and the inside takes priority over the outside—but, how does it work?

As we have seen from the data analysis thus far, in the Dominican micro entrepreneurs’ perspective and experience, proximity does play a key role in their fund access. Nevertheless, it is appropriate to understand if the Dominican owner-managers enclose themselves to this nearness to access funds and if proximity is established here essential by choice and how. In other words, does a *phénomène de paroi* exist, and if it does, to what extent does it occur, and what can be learned from it?

## **6. Significance of a mixture of proximities when deciding to access financing for Dominican micro-entrepreneurs**

The financial implications for each proximity were defined to study the influence of proximity on the owner-manager decision to access funds. Therefore, a set of elements deriving from each proximity category in the table below will be explored.

**Table 87. A mixture of proximities when deciding to access financing for Dominican micro-entrepreneurs**

<b>Category (C)</b>	<b>Financial implications that influence the owner-manager decision to access a given financing</b>
<b>C01. Hierarchical Proximity</b>	E*01. Manage the funds personally.
<b>C02. Spatial Proximity</b>	E02. Distance proximity.

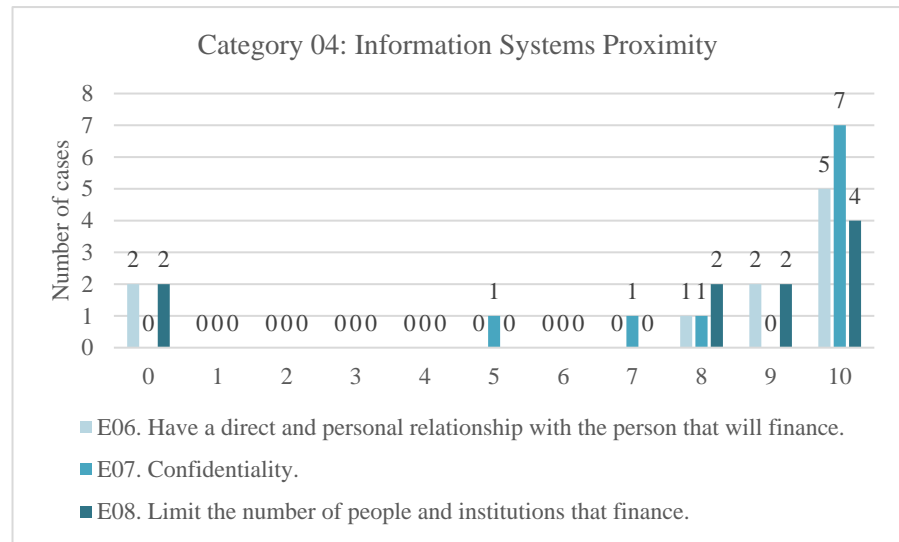
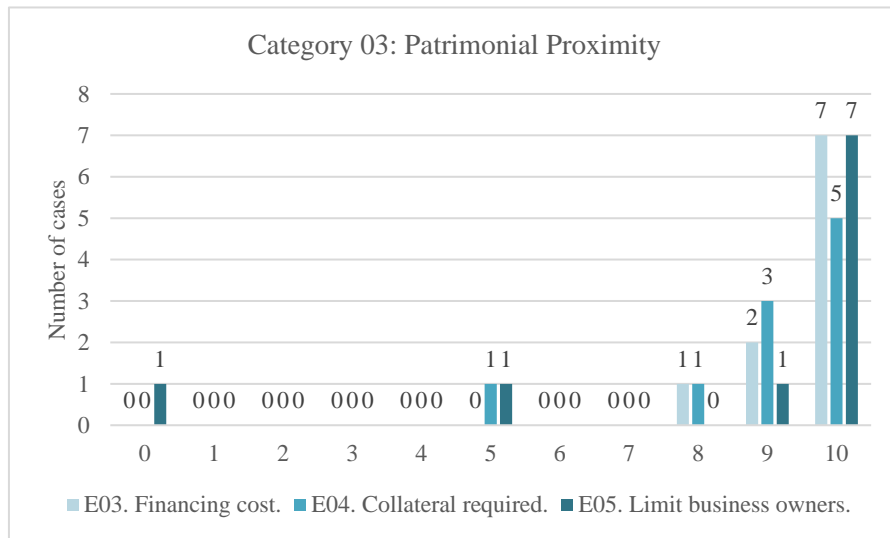
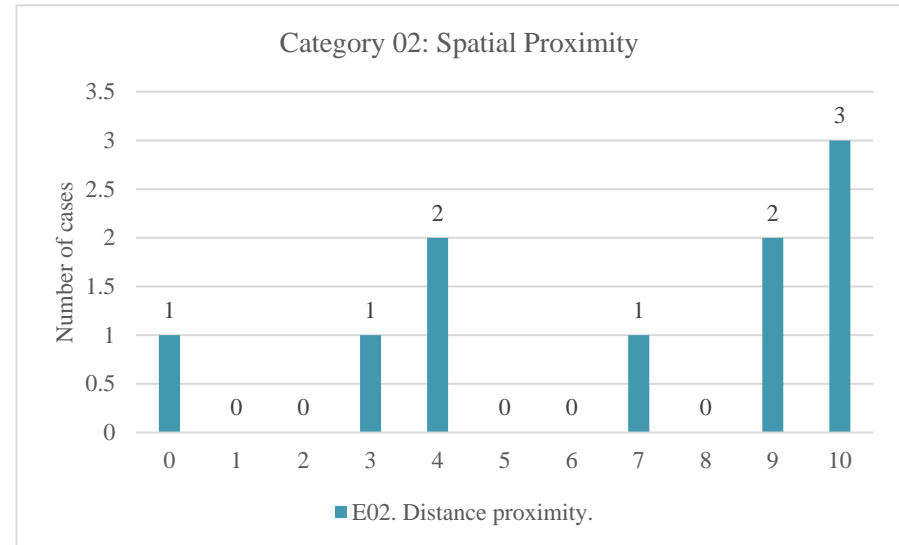
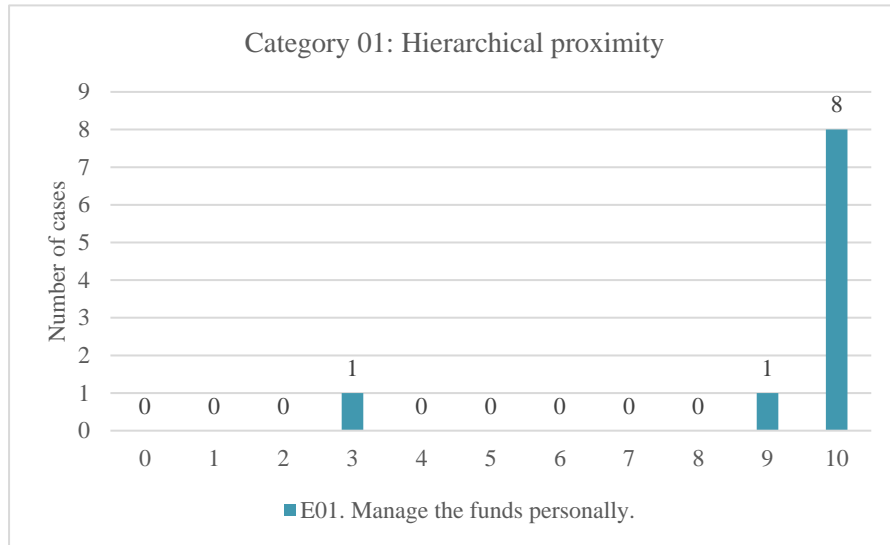
<b>C03. Patrimonial Proximity</b>	E03. Financing cost.
	E04. Collateral required.
	E05. Limit business owners.
<b>C04. Information Systems Proximity</b>	E06. Have a direct and personal relationship with the person that will finance.
	E07. Confidentiality.
	E08. Limit the number of people and institutions that finance.
<b>C05. Relational Proximity</b>	E09. To know the person or institution in advance.
	E10. Sharing the same values and principles.
	E11. Sharing the same culture.
	E12. Feeling comfortable with the person who finances.
	E13. To have good relations.
<b>C06. Temporal Proximity</b>	E14. Have access to short-term financing options.
	E15. Have access to long-term financing options.
	E16. Have availability of funds quickly.
	E17. Have several financing options.
<b>C07. Economic Proximity</b>	E18. To know the economic sector or activity in which the company operates.
<b>C08. Dom. Rep. Context</b>	E19. Formality requirement of the company.
<b>C09. Other (s)</b>	E20. Other(s).
*C: Category *E: Element	

Source: Personal elaboration

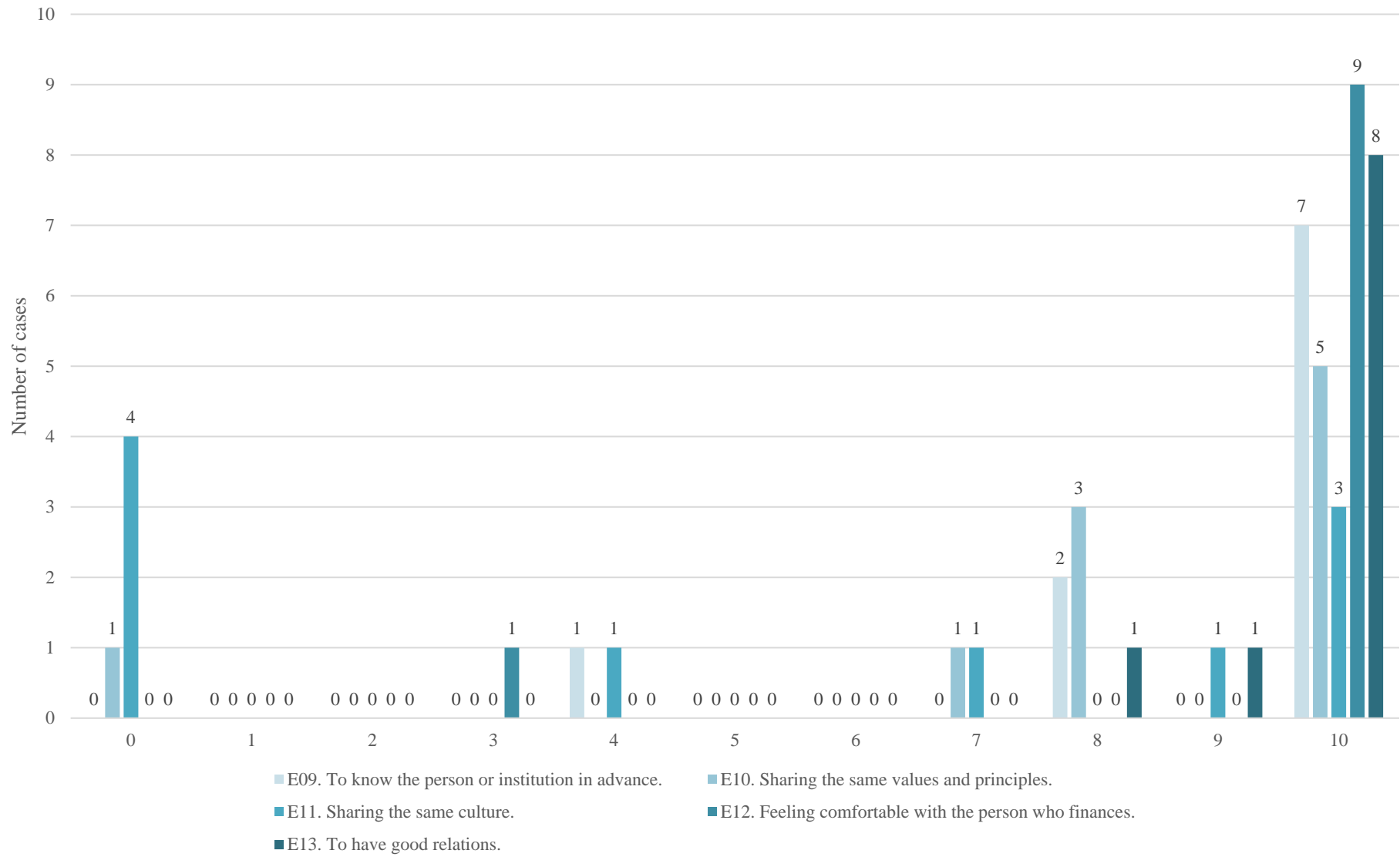
Each of the twenty (20) elements shown in the table was ranked from zero (0) to ten (10) by owner-managers. The higher the number, the stronger the element influence when deciding to access financing. The lower the number, the lesser the element impacts the owner-manager financing decision-making to get a specific fund. Moreover, extra flexibility permitted owner-managers to express themselves for each element if desired. These entrepreneurs' comments were subject to further analysis. The data gathered provides the following visualizations and tables.

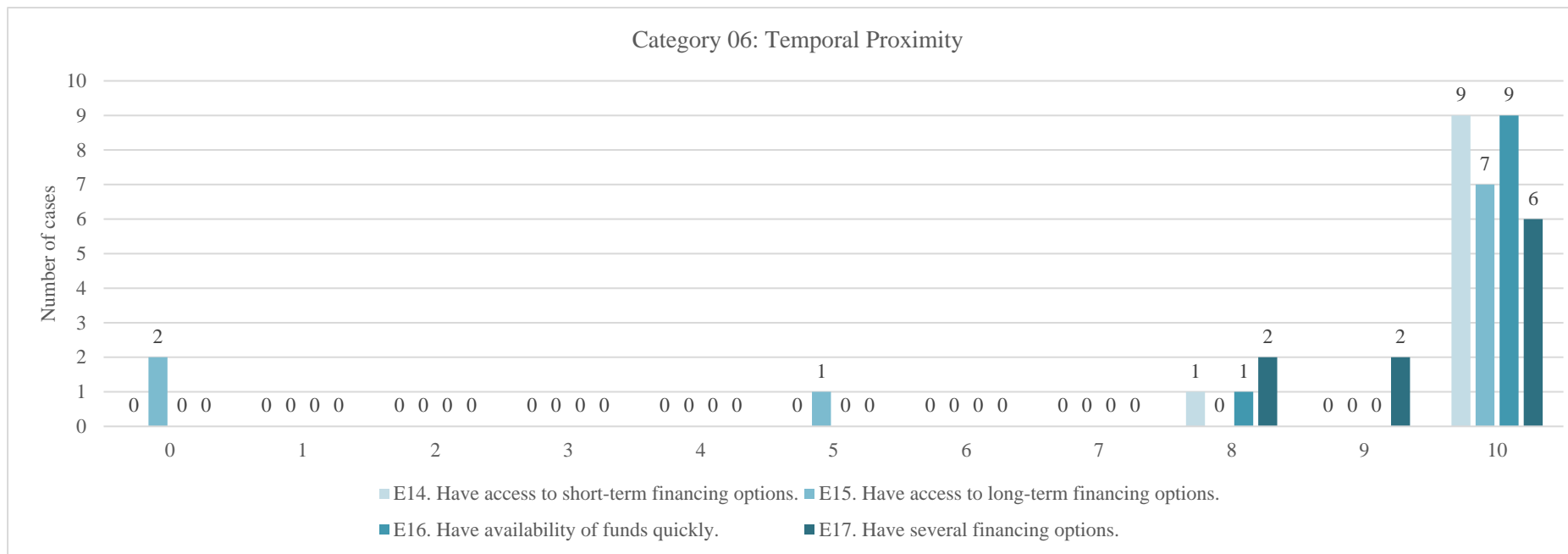
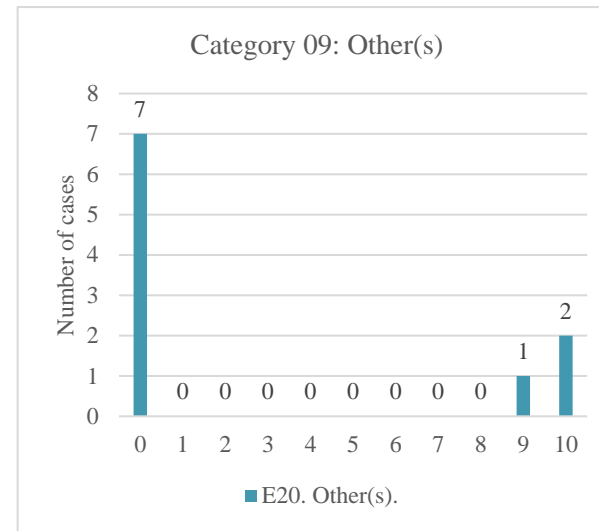
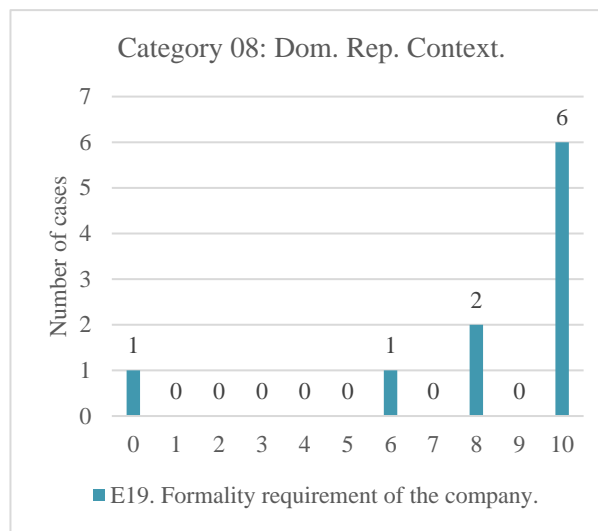
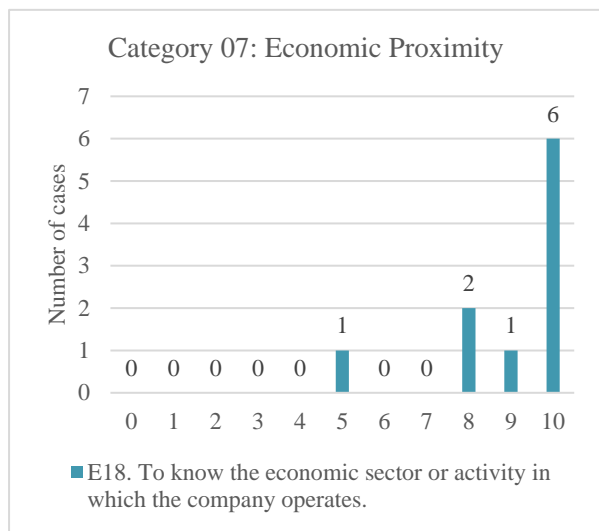


**Figure 53. A mixture of proximities when deciding to access financing for Dominican micro-entrepreneurs**



### Category 05: Relational Proximity





Source: Personal elaboration

The data shows evidence that proximity influences Dominican microbusiness owner-managers financing decisions. For example, five (5) cases or more placed all elements of each proximity in the highest number of the scale except for distance proximity (E02), limiting the number of people and institutions that finance (E08) and sharing the same culture (E11). In addition, business formality was also placed relatively high.

Temporal proximity takes the lead when compared to the categories studied. All cases placed all elements in this category between eight (8) and ten (10) except one: having access to long-term financing options. Our sample's consensus is that having access to short-term financing options, fast funds availability, and multiple financing possibilities strongly influences the owner-manager financing decision to access a specific fund.

Patrimonial proximity is the second most dominant proximity having the most cases between eight (8) and ten (10) on the scale. Out of the three (3) elements studied in this category, the financing cost is decisive when determining to access a fund (100% of cases within eight -8- and ten -10-), followed by the collateral required (90% of cases between eight -8- and ten -10-) and limiting business owners last (80% of cases). Two (2) other proximities with similar results are hierarchical proximity and economic proximity entailing that the owner-manager must manage the funds personally, and the moneylenders ought to relate with the economic sector or activity in which the company operates.

Relational proximity was studied here, going over five (5) elements. Responses show that these elements are unequally distributed, having in some instances 100% of cases between eight (8) and ten (10) and only 40% in others. To illustrate, all cases in the sample had good relations between eight (8) and ten (10). Furthermore, 90% of cases can be found in the same range for feeling comfortable with the person financing and knowing the person or institution in advance; 80% for sharing the same values and principles to finish with the lowest graded element, sharing the same culture with only 40%. Cultural differences may not influence owner-managers financing decision-making much.

80% of cases placed information systems proximity elements within eight (8) and ten (10) having a slight preference for confidentiality followed by a direct and personal relationship between the owner-manager and the fund's provider to finish with limiting the number of people and institutions that finance at the same time.

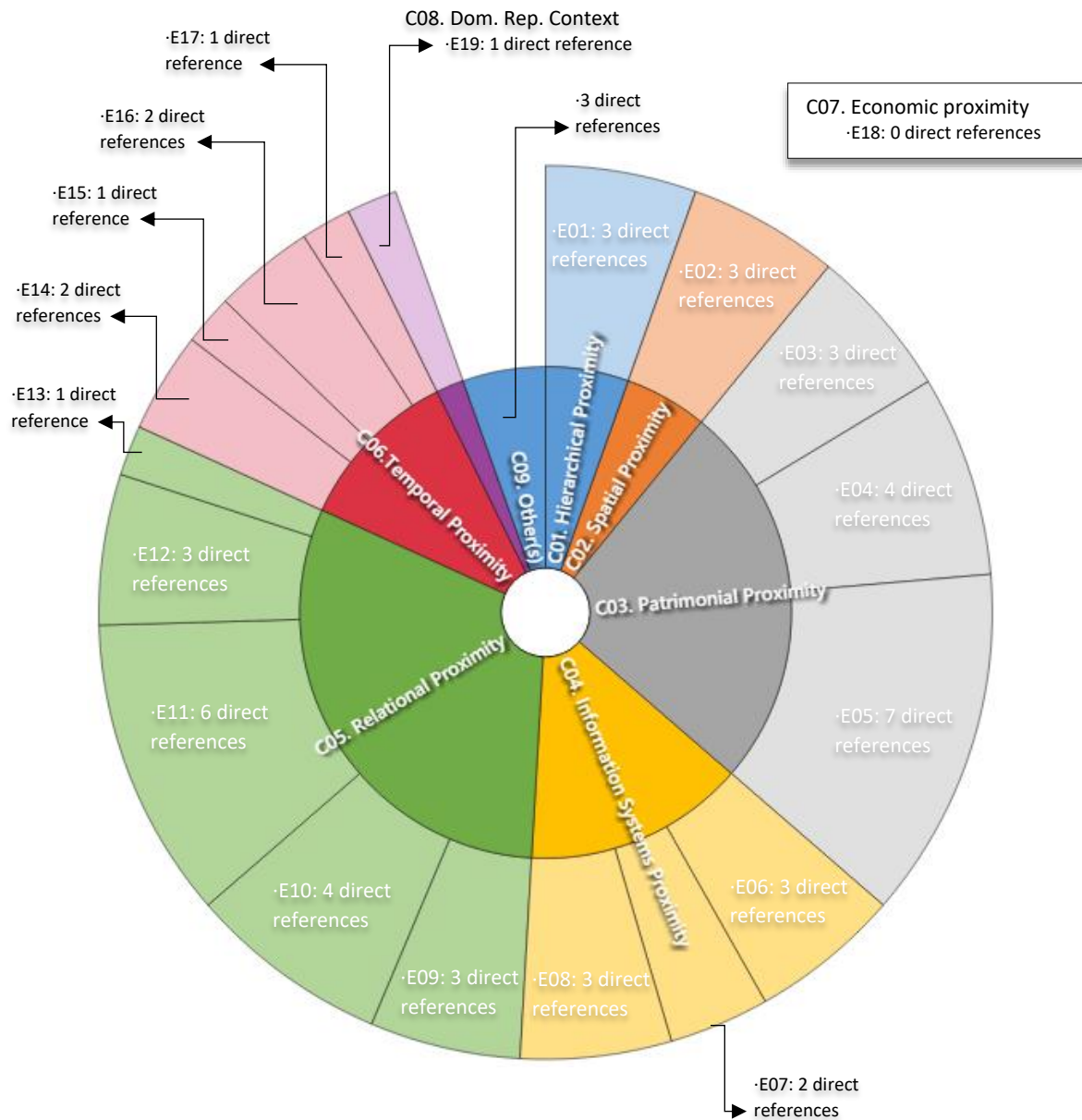
The lowest proximity category out of all is spatial proximity. 50% of cases were within the eight (8) to ten (10) range. The rest of the cases were indifferent, specifying that they do not

consider distance nearness as a significant driver of their financing decision. They could travel long distances to obtain the financing they think will work best for them.

Regarding the Dominican Republic context category, business formality is decisive for the entrepreneurs' financing decision-making since 80% of cases placed it between eight (8) and ten (10). Although, to finish, only 30% of cases added that other elements also play an essential role.

The coding of the entrepreneur's comments on each element covered provides the following visualization.

**Figure 54. Hierarchical order of coding references for a mixture of proximities that influence the owner-manager decision to access a given financing**



Source: Personal elaboration

As presented in the sunburst above, the owner-managers commented more on some categories than others. At first sight, it is perceived that relational, patrimonial, information systems, and temporal proximity dominate exchanges between the interviewee and the interviewer when looking at the hierarchical order of direct coding references. The less commented categories received straightforward answers with no need for further details. For

instance, when deciding to access financing, micro business owner-managers do not hesitate to consider the business formality requirements demands, the quickness of the funds' availability, and making sure they will manage the funds once obtained. The point was made clear, and no additional explanation was provided. Furthermore, proximity regarding distance does not play a significant role in financing decision-making compared to the rest of the categories. The latter received the lowest score on the zero (0) to ten (10) scale and a minimum of comments.

Next, each category was analyzed by going over its direct coding references and the interview verbatim starting from the most explained one to the least. Beforehand, it is necessary to point out (as mentioned earlier in this thesis work) that a more significant share of coding references in a category does not establish it as the most relevant one. A less commented category, with a smaller size than in the sunburst above, could be as important as the ones with more coding references. Let us recall that this thesis work focuses on studying various elements that can give us a clearer picture of micro-business financing for Dominican entrepreneurs. In addition, it cannot be overlooked that the categories studied comprise unequally distributed elements. Therefore, it is also customary to see more coding references for those categories with more elements, such as relational proximity, than hierarchical proximity or spatial proximity.

According to the entrepreneurs, relational proximity does influence their financing decisions. This proximity is expressed through a required mutual trust between the owner-manager and the fund provider and to have a good relationship, in many cases a direct one. Reputation or previous knowledge of the fund provider and its trajectory were also shown to be essential. Owner-managers' preferences can also condition their decisions. Furthermore, cultural values and principles differ from the ones of the entrepreneurs and are not considered the main drivers in their decision-making for more than half of the sample. Only one case detailed that firmly takes it into account because he feels it is easier (case#9). Below is the verbatim interview about relational proximity.

**Table 88. Verbatim and detailed coding for the structural category “Relational proximity” that influences the owner-manager decision to access financing**

CASE	VERBATIM: CRITERIA THAT CONDITIONS THE MICRO BUSINESS OWNER-MANAGER FINANCING DECISION AND THEREFORE ITS ACCESS: RELATIONAL PROXIMITY	DETAILED CODING
Case#1: Colmado Charina	<p>“Well, I think that the <sup>1</sup><b>values and principles</b> of a fund provider or source, let’s say, <sup>2</sup><b>do influence my financing decision</b>, but I will <sup>3</sup><b>go where it suits me</b>. If going to Bonao suits me, I will go to Bonao. For instance, if <sup>4</sup><b>you like to work with</b> Scotiabank, BHD, or the Popular Association, good. If I like the BHD and you tell me that I have to <sup>5</sup><b>go to Bonao</b> because I like the BHD, <sup>6</sup><b>it is that way, no doubt about it</b>”.</p> <p>...</p> <p>“No, wait, I would not go there like that. I would have to do it because I <sup>7</sup><b>believe in the institution</b>. For example, let’s say that I have a ScotiaBank next door. But I do not go to the ScotiaBank to look for a loan just because it is close. I would go instead <sup>8</sup><b>because of the trust I have in the institution</b>. So, for me, no, no, no, distance proximity is not important. I can travel to Bonao or <sup>9</sup><b>even farther if it is necessary</b>”.</p>	<p><sup>1</sup>“VALUES AND PRINCIPLES”  <sup>2</sup> “DO INFLUENCE MY FINANCING DECISION”  <sup>3</sup>“GO WHERE IT SUITS ME”  <sup>4</sup>“YOU LIKE TO WORK WITH”  <sup>5</sup>“GO TO BONAO”  <sup>6</sup>“IT IS THAT WAY, NO DOUBT ABOUT IT”  <sup>7</sup> “BELIEVE IN THE INSTITUTION”  <sup>8</sup> “BECAUSE OF THE TRUST I HAVE IN THE INSTITUTION”  <sup>9</sup> “EVEN FARTHER IF IT IS NECESSARY”</p> <p><b>Key idea(s): deciding based on preference, where it suits best, and trust.</b></p>
Case #2: Salón Ilusión	<p>“I <sup>10</sup><b>do not believe</b> in <sup>11</sup><b>sharing the same values or principles</b>, but well...I don’t think having the <sup>12</sup><b>same culture</b> is important either”.</p>	<p><sup>10</sup>“DO NOT BELIEVE”  <sup>11</sup> “SHARING THE SAME VALUES OR PRINCIPLES”  <sup>12</sup>“SAME CULTURE”</p> <p><b>Key idea(s): deciding is not based on sharing the same value, culture, and principles (other).</b></p>
Case #3: D’ilias atelier alta costura	<p>“I think that <sup>13</sup><b>having a direct relationship</b> plays an important role, yes. Well, at least that they <sup>14</sup><b>know you</b>, that they <sup>15</sup><b>speak of you</b>, <sup>16</sup><b>your business</b>, <sup>17</sup><b>what you do</b>, that has an important <sup>18</sup><b>influence</b>”.</p> <p>...</p> <p>“Well, <sup>19</sup><b>sharing the same culture</b> could be important, but <sup>20</sup><b>not really</b>.”</p> <p>...</p> <p>“<sup>21</sup><b>Having good relations</b> is key. Yes, yes, very good. There must be <sup>22</sup><b>trust</b> and <sup>23</sup><b>confidence</b> when you go too”.</p>	<p><sup>13</sup> “HAVING A DIRECT RELATIONSHIP”  <sup>14</sup>“KNOW YOU”  <sup>15</sup>“SPEAK OF YOU”  <sup>16</sup>“YOUR BUSINESS”  <sup>17</sup>“WHAT YOU DO”  <sup>18</sup>“INFLUENCE”  <sup>19</sup> “SHARING THE SAME CULTURE”  <sup>20</sup>“NOT REALLY”</p>



		<p><sup>21</sup>“HAVING GOOD RELATIONS”  <sup>22</sup>“TRUST”  <sup>23</sup>“CONFIDENCE”</p> <p><b>Key idea(s): having a direct relationship and trusting and knowing each other in advance. Deciding is not based on shared values.</b></p>
<p>Case #4: Invercolor</p>	<p>“What happens is that banks, for instance, are sons of bitches, so I <sup>24</sup><b>can’t share the same values</b>. Ha ha ha ha ha! They <sup>25</sup><b>want to rip your skin off</b>, but well. <sup>26</sup><b>Values, for me, are very important</b>. Yes! Oh! Extremely important, but what banks <sup>27</sup><b>want is to rip your soul out</b> but put a 7 there because there are banks that are <sup>28</sup><b>more money-driven than others</b>”.</p>	<p><sup>24</sup> “CAN’T SHARE THE SAME VALUES”  <sup>25</sup> “WANT TO RIP YOUR SKIN OFF”  <sup>26</sup> “VALUES, FOR ME, ARE VERY IMPORTANT”  <sup>27</sup> “WANT IS TO RIP YOUR SOUL OUT”  <sup>28</sup> “MORE MONEY DRIVEN THAN OTHERS”</p> <p><b>Key idea(s): Deciding is not based on shared values and principles (other).</b></p>
<p>Case #5: Sergen SRL</p>	<p>“But I’m <sup>29</sup><b>not interested in their culture</b>, and they’re not interested in mine. In the end, you do not want to access funding; <sup>30</sup><b>it is the instrument that is important, the money</b>. And that in this case, you are <sup>31</sup><b>the one making the commitment</b>, you are not lending, but <sup>32</sup><b>they are lending to you</b>, because if you are the one who is lending, you have to find out <sup>33</sup><b>who that guy is</b>, but, no, here is not the case, no. Obviously, I <sup>34</sup><b>wouldn’t go to whatever institution to borrow. It is dangerous here</b>. If <sup>35</sup><b>something illegal</b> or something explodes or comes to light and you are involved money-wise, <sup>36</sup><b>it is dangerous</b>. Money <sup>37</sup><b>laundering</b> or something, yes, those <sup>38</sup><b>financiers or independent entities, no</b>. The official banks, otherwise, no”.</p>	<p><sup>29</sup> “NOT INTERESTED IN THEIR CULTURE”  <sup>30</sup> “IT IS THE INSTRUMENT THAT IS IMPORTANT, THE MONEY”  <sup>31</sup> “THE ONE MAKING THE COMMITMENT”  <sup>32</sup> “THEY ARE LENDING TO YOU”  <sup>33</sup> “WHO THAT GUY IS”  <sup>34</sup> “WOULDN’T GO TO WHATEVER INSTITUTION TO BORROW. IT IS DANGEROUS HERE”  <sup>35</sup> “SOMETHING ILLEGAL”  <sup>36</sup> “IT IS DANGEROUS”  <sup>37</sup> “LAUNDERING”  <sup>38</sup> “FINANCIERS OR INDEPENDENT ENTITIES, NO”</p> <p><b>Key idea(s): Proving reputation. Deciding is not based on sharing the same culture.</b></p>

<p>Case #7: Papelería MEL</p>	<p>"It has to be an <sup>39</sup><b>established institution</b>. Yes, but I know because the problem is that if they are established institutions, it depends on <sup>40</sup><b>who gives me the best conditions</b>. Look, I always go to the BHD, and that is where I do all my stuff <sup>41</sup><b>because I already know them</b>, so".</p> <p>...</p> <p>"I <sup>42</sup><b>don't think that sharing the same culture</b> has much to do with the financing decision I make. Yes, because what you need to do in this case is <sup>43</sup><b>just to find and translator!</b> That is all! Ha ha ha ha ha! Of course!".</p>	<p><sup>39</sup> "ESTABLISHED INSTITUTION"</p> <p><sup>40</sup> "WHO GIVES ME THE BEST CONDITIONS"</p> <p><sup>41</sup> "BECAUSE I ALREADY KNOW THEM"</p> <p><sup>42</sup> "DON'T THINK THAT SHARING THE SAME CULTURE"</p> <p><sup>43</sup> "JUST TO FIND AND TRANSLATOR"</p> <p><b>Key idea(s): Proving reputation, providing the best financing conditions, and having a long-lasting and established client-fund provider trajectory. Deciding is not based on sharing culture.</b></p>
<p>Case #8: Casa Cristina</p>	<p>"I think so. I think it has a lot of influence on my financing decision-making, <sup>44</sup><b>knowing the person or the institution in advance</b>. The <sup>45</sup><b>staff</b> that is there for you. It also depends on that too. Like the <sup>46</sup><b>trust you have with the person</b> who is giving you the service. There are people who are, you know, many are persistent, pushing the client and insist a lot, others are too lazy, <sup>47</sup><b>it all depends</b>. That depends a lot, a lot on the person".</p> <p>...</p> <p><sup>48</sup><b>Sharing the same values and principles</b> does influence, but I think that everyone has his/her own way of thinking, but it does help."</p> <p>...</p> <p>"No, if you knew, I don't care about that because here, for instance, there are <sup>49</sup><b>many foreign banks</b>, and they have <sup>50</sup><b>another cultural purpose</b> and have another... There are many. There is Banesco, you see, that is different, but there are many, many. I think <sup>51</sup><b>culture does not condition my financing decision making</b>".</p> <p>...</p> <p>"Of course, it is part of the process <sup>52</sup><b>to feel comfortable</b> with the fund provider or the institution. <sup>53</sup><b>But many times, one doesn't feel comfortable and has to say</b>: 'ah! Well, I'm here now, so...' I cannot tell this to my husband, but well. Yeah, so there are situations that sometimes, you know?".</p> <p><sup>54</sup><b>You get upset with a bank</b> for an x or y reason, and you go to the other, but the other... It is like when you change your husband, or the husband changes his wife. I <sup>55</sup><b>get rid of this one because</b> he or she was this or because of that, <sup>56</sup><b>but with the one I am with now is worse</b>. This one is worse. This example is really similar. So, you are <sup>57</sup><b>never going to find</b></p>	<p><sup>44</sup> "KNOWING THE PERSON OR THE INSTITUTION IN ADVANCE"</p> <p><sup>45</sup> "STAFF"</p> <p><sup>46</sup> "TRUST YOU HAVE WITH THE PERSON"</p> <p><sup>47</sup> "IT ALL DEPENDS"</p> <p><sup>48</sup> "SHARING THE SAME VALUES AND PRINCIPLES"</p> <p><sup>49</sup> "MANY FOREIGN BANKS"</p> <p><sup>50</sup> "ANOTHER CULTURAL PURPOSE"</p> <p><sup>51</sup> "CULTURE DOES NOT CONDITIONS MY FINANCING DECISION MAKING"</p> <p><sup>52</sup> "TO FEEL COMFORTABLE"</p> <p><sup>53</sup> "BUT MANY TIMES, ONE DOESN'T FEEL COMFORTABLE AND HAS TO"</p> <p><sup>54</sup> "YOU GET UPSET WITH A BANK"</p> <p><sup>55</sup> "GET RID OF THIS ONE BECAUSE"</p> <p><sup>56</sup> "BUT WITH THE ONE I AM WITH NOW IS WORSE"</p> <p><sup>57</sup> "NEVER GOING TO FIND SOME 100%"</p> <p><sup>58</sup> "ALWAYS A CERTAIN RESENTMENT"</p>

	<p>some <b>100%</b> because the criteria between the banker, the bank, and the client there is a certain, there is <sup>58</sup><b>always a certain resentment</b>. They <sup>59</sup><b>need something</b>. Aha, they <sup>60</sup><b>need each other</b>, but there is something like: ‘hey! This one does not work for me at this point and so, but you know’. <sup>61</sup><b>There is always something</b>. Let’s write a 3 on this one. Yes, because sometimes <sup>62</sup><b>there are needs</b> that you need to, <sup>63</sup><b>you do not feel comfortable, but</b> the other one is mistreating me, so let me go to this one because this one is this but well, is a situation like that”.</p> <p>...</p> <p>“Yes, it is very good to have a <sup>64</sup><b>good relationship</b> with the manager and the supplier because, well, for many reasons. <sup>65</sup><b>You can call</b> him/her and let him/her <sup>66</sup><b>know easier whatever</b> you might need, to tell him/her look I just gave a check, and I have money available in my account, so pay it, for instance, pay it because it is coming in. You see, you need to have a good relationship <sup>67</sup><b>with the one who is handling your account</b> and you for many reasons. <sup>68</sup><b>If they are trying to make a fraud</b> and you do not realize it or that they are giving you a fake check like it happened to me once. And you say, no, no, I did not dispatch that merchandise because this is not valid, you understand? They are. Because <sup>69</sup><b>if you do not have good relations with the person who is handling your account, they can do anything to you out there, and the person would not care about you</b>. It is true so; this is the way it is. Give it an 8”.</p>	<p><sup>59</sup>“NEED SOMETHING”</p> <p><sup>60</sup>“NEED EACH OTHER”</p> <p><sup>61</sup> “THERE IS ALWAYS SOMETHING”</p> <p><sup>62</sup>“THERE ARE NEEDS”</p> <p><sup>63</sup> “YOU DO NOT FEEL COMFORTABLE, BUT”</p> <p><sup>64</sup>“GOOD RELATIONSHIP”</p> <p><sup>65</sup>“YOU CAN CALL”</p> <p><sup>66</sup>“KNOW EASIER WHATEVER”</p> <p><sup>67</sup> “WITH THE ONE WHO IS HANDLING YOUR ACCOUNT”</p> <p><sup>68</sup> “IF THEY ARE TRYING TO MAKE A FRAUD”</p> <p><sup>69</sup>“IF YOU DO NOT HAVE GOOD RELATIONS WITH THE PERSON WHO IS HANDLING YOUR ACCOUNT, THEY CAN DO ANYTHING TO YOU OUT THERE, AND THE PERSON WOULD NOT CARE ABOUT YOU”</p> <p><b>Key idea(s): knowing each other in advance, trusting each other, feeling comfortable, and sharing values and principles when possible. No culture sharing. Prioritizing needs above feeling comfortable and having good relations.</b></p>
<p>Case #9: Alexis Centro Automotriz</p>	<p>“Yes, of course, of course. It can influence. I know that those kinds of people studied on their way whatever they could, but I think it is <sup>70</sup><b>easier</b> if you go with someone <sup>71</sup><b>sharing the same culture</b>. Of course, you can write a 10”.</p>	<p><sup>70</sup>“EASIER”</p> <p><sup>71</sup> “SHARING THE SAME CULTURE”</p> <p><b>Key idea(s): Sharing the same culture.</b></p>

Source: Personal elaboration

The patrimonial proximity comprises the most commented element out of the twenty (20) elements studied: limit the business owners (E05). Owner-managers explained their preference to restrict the partners financing the company as much as possible to keep the decision-making and management control and secure their business benefits. The lowest financing cost will be

avored no matter the circumstance when making financing decisions. Moreover, there is a reluctance to compromise personal assets to comply with financing collateral requirements. Putting personal or business assets as a warranty is only considered if it outstandingly lowers the financing cost and facilitates the process. Guarantees are labeled as risky. The latter may generate unnecessary enemies and cause personal and business property losses, costing owner-managers severe personal and professional sacrifices.

**Table 89. Verbatim and detailed coding for the structural category “Patrimonial proximity” that influences the owner-manager decision to access financing**

CASE	VERBATIM: CRITERIA THAT CONDITIONS THE MICRO BUSINESS OWNER-MANAGER FINANCING DECISION AND THEREFORE ITS ACCESS: PATRIMONIAL PROXIMITY	DETAILED CODING
<p>Case#1: Colmado Charina</p>	<p>“The <sup>1</sup>financing cost is vital too because I’m being charged a lot because I <sup>2</sup>want to finish with a payment and that I can’t. Yes, yes, yes, it is really important”.</p> <p>...</p> <p>“Regarding the <sup>3</sup>warranty, it depends, it depends. It depends on <sup>4</sup>how much they are charging me and what is the <sup>5</sup>interest rate because sometimes, if I <sup>6</sup>give you assets as collateral, like my vehicle, you are going to <sup>7</sup>charge me a 1. If I have a solidarity guarantee or collateral, you are going to <sup>8</sup>charge me a 10. If it is like this, then <sup>9</sup>my decision is to give you the collateral because my objective is you <sup>10</sup>pay you anyways”.</p> <p>“Of course, the <sup>11</sup>collateral is always important. When there is a <sup>12</sup>warranty, it is important because <sup>13</sup>payments are always lower, but It also warranties that you are going to <sup>14</sup>return the money if you are borrowing. You can give it a 5 because I <sup>15</sup>don’t like either to give away my property and if something happens to <sup>16</sup>leave out with nothing”.</p> <p>“Yes, that is why, but I <sup>17</sup>prefer, for instance, <sup>18</sup>if you charge me, let’s say, a 1 with my personal vehicle warranty, and without a warranty, you charge me 1.2, I prefer to pay you the 1.2, even 2 to keep the papers of my vehicle because if I want to <sup>19</sup>negotiate with my vehicle later, I can do it any time, but if I have it with you, there is nothing I can do. The warranty is my vehicle, and, in a way, I am giving you my vehicle. But <sup>20</sup>there are places and situations where the warranty is important and others where it is not. So, I remain with a 5 here”.</p> <p>...</p> <p>“No, I don’t like that. I don’t want <sup>21</sup>anyone managing and deciding what to do with <sup>22</sup>my money”.</p>	<p><sup>1</sup>“FINANCING COST IS VITAL”</p> <p><sup>2</sup> “WANT TO FINISH WITH A PAYMENT AND THAT I CAN’T”</p> <p><sup>3</sup>“WARRANTY, IT DEPENDS”</p> <p><sup>4</sup> “HOW MUCH THEY ARE CHARGING ME”</p> <p><sup>5</sup>“INTEREST RATE”</p> <p><sup>6</sup> “GIVE YOU ASSETS AS A COLLATERAL”</p> <p><sup>7</sup>“CHARGE ME A 1”</p> <p><sup>8</sup>“CHARGE ME A 10”</p> <p><sup>9</sup>“MY DECISION”</p> <p><sup>10</sup>“PAY YOU ANYWAYS”</p> <p><sup>11</sup>“COLLATERAL”</p> <p><sup>12</sup>“WARRANTY”</p> <p><sup>13</sup> “PAYMENTS ARE ALWAYS LOWER”</p> <p><sup>14</sup>“RETURN THE MONEY”</p> <p><sup>15</sup> “DON’T LIKE EITHER TO GIVE AWAY MY PROPERTY”</p> <p><sup>16</sup> “LEAVE OUT WITH NOTHING”</p> <p><sup>17</sup>“PREFER”</p> <p><sup>18</sup> “IF YOU CHARGE ME, LET’S SAY, A 1 WITH MY PERSONAL VEHICLE WARRANTY, AND WITHOUT A WARRANTY YOU CHARGE ME 1.2, I PREFER TO PAY YOU THE 1.2, EVEN 2 TO</p>

		<p>KEEP THE PAPERS OF MY VEHICLE”</p> <p><sup>19</sup> “NEGOTIATE WITH MY VEHICLE LATER”</p> <p><sup>20</sup> “THERE ARE PLACES AND SITUATIONS WHERE THE WARRANTY IS IMPORTANT, AND OTHERS WHERE IT IS NOT”</p> <p><sup>21</sup> “ANYONE MANAGING AND DECIDING”</p> <p><sup>22</sup> “MY MONEY”</p> <p><b>Key idea(s): Prioritizing financing costs, evaluating warranty requirements, and considering collateral when it lowers financing costs. Avoid compromising personal assets to comply with financing collateral requirements. Only when financing costs are quite different is the owner-manager willing to use his/her assets; otherwise, he/she is ready to pay higher financing costs if this entails keeping his/her property. Limiting business owners.</b></p>
<p>Case #3: D’iliias atelier alta costura</p>	<p>“Yes, it is really important. You know that <sup>23</sup><b>there are higher rates than others</b>. So, I try to <sup>24</sup><b>find the most convenient</b> one”.</p> <p>...</p> <p>“Yes, in my case, they <sup>25</sup><b>believed in me</b>. More in the sense that I didn’t have to put <sup>26</sup><b>anything as a warranty</b>”.</p>	<p><sup>23</sup> “THERE ARE HIGHER RATES THAN OTHERS”</p> <p><sup>24</sup> “FIND THE MOST CONVENIENT”</p> <p><sup>25</sup> “BELIEVED IN ME”</p> <p><sup>26</sup> “ANYTHING AS A WARRANTY”</p> <p><b>Key idea(s): Picking the most convenient financing cost and avoiding warranty requirements based on trusting relationships.</b></p>
<p>Case #4: Invercolor</p>	<p>“Warranty? yes, of course! Yes. Put a 9. Yes, because if they <sup>27</sup><b>put you everything in China</b>, asking you for even your panties’ size. Baha ha ha!”</p> <p>...</p> <p>“This is borrowing money even to the cat... Give it a 9 because I <sup>28</sup><b>limit the business owners</b>”.</p>	<p><sup>27</sup> “PUT YOU EVERYTHING IN CHINA”</p> <p><sup>28</sup> “LIMIT THE BUSINESS OWNERS”</p>

		<p><b>Key idea(s): Preferring warranty if it ensures a smoother process. Limiting business owners.</b></p>
Case #5: Sergen SRL	<p>“Well, first of all, I have never had this experience, but in the case that it could happen. Well, I do not know. <sup>29</sup><b>If they are the ones that put their money, they can do whatever they want.</b> I have never faced this experience, but thinking it better, I <sup>30</sup><b>don’t think I would like</b> to get to that point”.</p>	<p><sup>29</sup> “IF THEY ARE THE ONES THAT PUT THEIR MONEY, THEY CAN DO WHATEVER THEY WANT”</p> <p><sup>30</sup> “DON’T THINK I WOULD LIKE”</p> <p><b>Key idea(s): limiting business owners.</b></p>
Case #6: Escuela de choferes La Ideal	<p><sup>31</sup><b>No</b>, because if there are several business owners, you <sup>32</sup><b>have to share the benefits</b> with more people, and <sup>33</sup><b>I will personally take less.</b>”</p>	<p><sup>31</sup> “NO”</p> <p><sup>32</sup> “HAVE TO SHARE THE BENEFITS”</p> <p><sup>33</sup> “I WILL PERSONALLY TAKE LESS”</p> <p><b>Key idea(s): limiting business owners to reap the business benefits for herself.</b></p>
Case #7: Papelería MEL	<p><sup>34</sup><b>Limiting business owners would depend.</b> Personally, at the moment, I <sup>35</sup><b>cannot finance myself.</b> I cannot afford it. If a business partner comes in and can. Of course, it depends on <sup>36</sup><b>what kind of partner comes along</b> because if I <sup>37</sup><b>find a drug dealer</b> or something similar, I would <sup>38</sup><b>rather close my business.</b> It depends, of course! <sup>39</sup><b>Who comes along</b> because if you precipitate yourself, you can fall really hard. everything falls. So, you <sup>40</sup><b>have to investigate</b>”.</p>	<p><sup>34</sup> “LIMITING BUSINESS OWNERS WOULD DEPEND”</p> <p><sup>35</sup> “CANNOT FINANCE MYSELF”</p> <p><sup>36</sup> “WHAT KIND OF PARTNER COMES ALONG”</p> <p><sup>37</sup> “FIND A DRUG DEALER”</p> <p><sup>38</sup> “RATHER CLOSE MY BUSINESS”</p> <p><sup>39</sup> “WHO COMES ALONG”</p> <p><sup>40</sup> “HAVE TO INVESTIGATE”</p> <p><b>Key idea(s): Evaluating owner-manager’s financing capacity when funds are needed. Limiting risk by studying potential partners if they come her way.</b></p>
Case #8: Casa Cristina	<p>“I <sup>41</sup><b>rather go for the bank</b> than a business partner. You can give limiting business partners a 10”.</p>	<p><sup>41</sup> “RATHER GO FOR THE BANK”</p>

		<b>Key idea(s): Preferring debt financing above equity financing.</b>
Case #10: Salón estilo Gysel	<p>“The <sup>42</sup><b>financing cost is essential</b> when I make a financing decision. It has a strong influence, 10. I will look for the <sup>43</sup><b>financing that costs me less</b> and the one that <sup>44</sup><b>gives me more facilities to pay back</b>”.</p> <p>...</p> <p>“Well, for the warranties, everything that is related to <sup>45</sup><b>banks, just write a 0</b> on there. Everything related to take away, <sup>46</sup><b>take away</b>, and take away. I don’t like when they <sup>47</sup><b>take my money away</b>. Ba ha ha ha! Neither <sup>48</sup><b>my properties away</b>. Personally, I can <sup>49</sup><b>find people who lend me without asking warranty</b> because they <sup>50</sup><b>trust my word</b>, what I say. There are many who have no word, but there are still people that can <sup>51</sup><b>be counted on</b>. You can quickly <sup>52</sup><b>find yourself with many enemies when you put your stuff as warranty</b>”.</p> <p>“Uh-huh, that is right. That is right. Yes, but that is because, for example, when they know they <sup>53</sup><b>will pay</b>, they leave it because it <sup>54</sup><b>gives security to the lender</b>. But there are also times, like I told you before, when <sup>55</sup><b>bad situations come your way, and you lose assets of a higher value than the money lent to you</b>. So, this is why the warranty requirement influences a lot my financing decision-making. You can give it a 10. Ba ha ha ha! Write a 20 there. It is the <sup>56</sup><b>risk you are taking</b>. I <sup>57</sup><b>do not like taking risks at all</b>. My husband tells me! Yes, but take a chance, risk yourself. <sup>58</sup><b>I take risks if I win. I know I will win</b>. I do not risk myself if there are losses, no. Exactly, when it comes to losing what I have worked for, look!”.</p> <p>“The thing is that I <sup>59</sup><b>do not see the point</b> to come here and <sup>60</sup><b>work really hard</b>, end up really tired that all I want is to go to bed and sleep <sup>61</sup><b>so I can give my money away</b> or <sup>62</sup><b>through it out of the window</b>. I <sup>63</sup><b>have to know clearly</b> what I will <sup>64</sup><b>invest my money</b> in because those are the people who earn money easy, the ones who do that”.</p> <p>“I <sup>65</sup><b>sacrifice everything</b> because I sacrifice <sup>66</sup><b>going out</b>, I sacrifice if I have to study to advance <sup>67</sup><b>my career</b> or whatever it is, I sacrifice it—all sacrifices, <sup>68</sup><b>spending time with my children</b>, and many times. So, there are so many things that you sacrifice for you not to have results in the end, so. It is <sup>69</sup><b>better to go slowly</b>. Of course! <sup>70</sup><b>Better a bit less than wanting to go too fast!</b> Absolutely!”</p> <p>...</p> <p>“Yes. And I am the <sup>71</sup><b>one who makes all decisions</b> in my business. <sup>72</sup><b>No additional business owners</b>”.</p>	<p><sup>42</sup> “FINANCING COST IS ESSENTIAL”</p> <p><sup>43</sup> “FINANCING THAT COST ME LESS”</p> <p><sup>44</sup> “GIVES ME MORE FACILITIES TO PAY BACK”</p> <p><sup>45</sup> “BANKS, JUST WRITE A 0”</p> <p><sup>46</sup> “TAKE AWAY”</p> <p><sup>47</sup> “TAKE MY MONEY AWAY”</p> <p><sup>48</sup> “MY PROPERTIES AWAY”</p> <p><sup>49</sup> “FIND PEOPLE WHO LEND ME WITHOUT ASKING WARRANTY”</p> <p><sup>50</sup> “TRUST MY WORD”</p> <p><sup>51</sup> “BE COUNTED ON”</p> <p><sup>52</sup> “FIND YOURSELF WITH MANY ENEMIES WHEN YOU PUT YOUR STUFF AS WARRANTY”</p> <p><sup>53</sup> “WILL PAY”</p> <p><sup>54</sup> “GIVES SECURITY TO THE LENDER”</p> <p><sup>55</sup> “BAD SITUATIONS COME YOUR WAY, AND YOU LOSE ASSETS OF HIGHER VALUE THAN THE MONEY LENT TO YOU”</p> <p><sup>56</sup> “RISK YOU ARE TAKING”</p> <p><sup>57</sup> “DO NOT LIKE TAKING RISKS AT ALL”</p> <p><sup>58</sup> “I TAKE THE RISK IF I WIN. I KNOW I WILL WIN”</p> <p><sup>59</sup> “DO NOT SEE THE POINT”</p> <p><sup>60</sup> “WORK REALLY HARD”</p> <p><sup>61</sup> “SO I CAN GIVE MY MONEY AWAY”</p> <p><sup>62</sup> “THROUGH IT OUT OF THE WINDOW”</p> <p><sup>63</sup> “HAVE TO KNOW CLEARLY”</p> <p><sup>64</sup> “INVEST MY MONEY”</p> <p><sup>65</sup> “SACRIFICE EVERYTHING”</p> <p><sup>66</sup> “GOING OUT”</p> <p><sup>67</sup> “MY CAREER”</p> <p><sup>68</sup> “SPENDING TIME WITH MY CHILDREN”</p> <p><sup>69</sup> “BETTER TO GO SLOWLY”</p>

		<p><sup>70</sup> “BETTER A BIT LESS THAN WANTING TO GO TOO FAST”</p> <p><sup>71</sup> “ONE WHO MAKE ALL DECISIONS”</p> <p><sup>72</sup> “NO ADDITIONAL BUSINESS OWNERS”</p> <p><b>Key idea(s): Preferring lower financing costs and no warranty requirements. Warranty is risky (source of enemies and personal property losses). Limiting business owners in order to keep control.</b></p>
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Source: Personal elaboration

Information systems proximity relies upon having a direct and personal relationship with the fund provider, minimizing the number of people or institutions financing, and ensuring trust and confidentiality among participants.

Direct relationship permits a more personalized service among participants and ensures better negotiations and deals. On the other hand, one of the entrepreneurs (case#5) acknowledged that personalized settings and relationships establish more comfortable negotiating environments; nevertheless, it does not warranty better benefits or more money than other applicants.

Owner-managers, in general, avoid owing to multiple fund providers at the same time. Thus, they will limit their sources as much as possible. However, two (2) extreme cases emerge from the data. One case expressed having a phobia of banks and will avoid them at all costs (case#10). The other entrepreneur (case#8) does not limit financing options but will instead take advantage of market competition to negotiate better financing deals. This last one compares interest rates, benefits, and client’s treatment details among funds providers and will use it to her advantage when negotiating with funders.

Owner-managers endorse confidentiality to make financing decisions and access a fund option. However, they know they are registered in available databases easily accessible and commonly used by fund providers to track their financial trajectory and performance. The table below provides the interview verbatim regarding the information system proximity.



**Table 90. Verbatim and detailed coding for the structural category “Information system proximity” that influences the owner-manager decision to access financing**

CASE	VERBATIM: CRITERIA THAT CONDITION THE MICRO BUSINESS OWNER-MANAGER FINANCING DECISION AND THEREFORE ITS ACCESS: INFORMATION SYSTEM PROXIMITY	DETAILED CODING
Case #3: D’iliias atelier alta costura	“No, no, no, no. I <sup>1</sup> limit it. I don’t like jumping from one to the other”.	<sup>1</sup> “LIMIT IT”  <b>Key idea(s): minimizing the number of people or institutions financing simultaneously.</b>
Case #5: Sergen SRL	“I was telling you about that <sup>2</sup> girl I knew from that bank branch, but in reality, I <sup>3</sup> didn’t really seek that friendship for financing, but she was really there in that bank. But what I am trying to say is that she <sup>4</sup> will not give me more money than someone else she does not know. So <sup>5</sup> knowing her or having a direct relationship with her is not really going to help me”.	<sup>2</sup> “GIRL I KNEW” <sup>3</sup> “DIDN’T REALLY SEEK THAT FRIENDSHIP FOR FINANCING” <sup>4</sup> “WILL NOT GIVE ME MORE MONEY” <sup>5</sup> “KNOWING HER OR HAVING A DIRECT RELATIONSHIP WITH HER IS NOT REALLY GOING TO HELP ME”  <b>Key idea(s): having direct relationships does not warrant more money or better benefits.</b>
Case #6: Escuela de choferes La Ideal	“Yes. It has to be like that between you and me. <sup>6</sup> Confidentiality is important, yes. Because there are people who <sup>7</sup> do not want others to know sometimes”.	<sup>6</sup> “CONFIDENTIALITY” <sup>7</sup> “DO NOT WANT OTHERS TO KNOW”  <b>Key idea(s): Ensuring confidentiality.</b>
Case #8: Casa Cristina	“No. I like the <sup>8</sup> direct, personal relationships. When you are going to decide, you have to <sup>9</sup> be close to the person because that influences a lot who you are <sup>10</sup> negotiating with him/her, <sup>11</sup> seeing his/her face and eyes of course. You can write a <sup>9</sup> there”. ... “Yes, <sup>12</sup> confidentiality influences a lot. Although <sup>13</sup> nobody is trustworthy anymore, nothing is confidential because whenever you take any option or service, wherever or whatever it is, <sup>14</sup> you are put in a record that whenever you put your ID and/or your name, <sup>15</sup> everything comes up. That	<sup>8</sup> “DIRECT, PERSONAL RELATIONSHIPS” <sup>9</sup> “BE CLOSE TO THE PERSON” <sup>10</sup> “NEGOTIATING WITH” <sup>11</sup> “SEEING HIS/HER FACE AND EYES OF COURSE” <sup>12</sup> “CONFIDENTIALITY” <sup>13</sup> “NOBODY IS TRUSTWORTHY ANYMORE, NOTHING IS CONFIDENTIAL”

	<p><sup>16</sup><b>confidentiality is compromised</b>; if it is already compromised, <sup>17</sup><b>nobody can tell you that we will remain confidential</b>, at least that is what I think. If I can have it, <sup>18</sup><b>I would like to have it, of course</b>. Business stuff is kind of <sup>19</sup><b>business stuff only</b> and not necessarily personal, but if I can, I would like to have it. You can put a 7 or 8”.</p> <p>...</p> <p>“No, not me, because I am one of those people who looks for options. I <sup>20</sup><b>look for options</b> because <sup>21</sup><b>you do not have to stay somewhere</b> just because a person or an institution offers you something. <sup>22</sup><b>There are a lot of facilities, more comfortable, with less interest, or better treatment, yes, of course</b>. <sup>23</sup><b>That is why there is supply and demand</b>. It is good when this happens when <sup>24</sup><b>there are many things</b> because when the monopoly is concentrated on one thing, that person does whatever he/she wants with the customer. When the monopoly expands, it expands. When it doesn't grow, <sup>25</sup><b>there is competition</b>, so it starts to favor the customer. <sup>26</sup><b>Better deals and treatment</b> regardless of the business type, <sup>27</sup><b>options that are negotiated</b> that you make because you offer something, and <sup>28</sup><b>you request specific services</b>, and it is not because there is something wrong or bad. It is just that here they give me this, and this, <sup>29</sup><b>they facilitate this</b>, and <sup>30</sup><b>you do not give me this</b>, and what do you think if you can offer me this because over there, they are offering me this. So, you <sup>31</sup><b>have the advantage of playing or managing the behavior</b>, and with everything, they offer you to <sup>32</sup><b>reach a deal</b>. It is the same market, same clients”.</p> <p>“If they are offering, well, <sup>33</sup><b>in reality, the client is the same everywhere</b>. Those companies that are there offering and well, <sup>34</sup><b>the customer goes where it best suits him/her</b>. For instance, before, when it was Codetel <sup>35</sup><b>the only provider</b>, phone service provider, Codetel used to do whatever they wanted with the customer. For you to install a phone line, you had to wait for years for them to give you a number, and numbers were very limited, and this and that. Then, that <sup>36</sup><b>delays</b> what is called <sup>37</sup><b>market timing or an opportunity</b> because when there is <sup>38</sup><b>only one supplier of a product, it mistreats the customer</b>, the <sup>39</sup><b>customer feels with no other option, and it has to be that one and only one</b>. The <sup>40</sup><b>customer has no power</b>. So, the other one has all the absolute power. Then you, as a <sup>41</sup><b>customer, you feel very unprotected</b>. Then, when there are <sup>42</sup><b>more choices</b>, people have <sup>43</sup><b>more facilities</b> to do and take what they want. So, I understand that with the bank, it is the same. For instance, the Popular bank was the first one that gave me their support at a financial level, and it is good and important that I thank them for it, but I am also a client, and <sup>44</sup><b>I am not prohibited from going here and there, or elsewhere</b>. This is <sup>45</sup><b>the way it works</b>, and <sup>46</sup><b>it is part of how it functions</b>; it is part. <sup>47</sup><b>I am your client, and I benefit you, but you have to benefit me too</b>; we both benefit each other; that is logical, you understand me?”</p>	<p><sup>14</sup> “YOU ARE PUT IN A RECORD”</p> <p><sup>15</sup> “EVERYTHING COMES UP”</p> <p><sup>16</sup> “CONFIDENTIALITY IS COMPROMISED”</p> <p><sup>17</sup> “NOBODY CAN TELL YOU THAT WE WILL REMAIN CONFIDENTIAL”</p> <p><sup>18</sup> “I WOULD LIKE TO HAVE IT, OF COURSE”</p> <p><sup>19</sup> “BUSINESS STUFF ONLY”</p> <p><sup>20</sup> “LOOK FOR OPTIONS”</p> <p><sup>21</sup> “YOU DO NOT HAVE TO STAY SOMEWHERE”</p> <p><sup>22</sup> “THERE ARE A LOT OF FACILITIES, MORE COMFORTABLE, WITH LESS INTEREST, OR BETTER TREATMENT, YES, OF COURSE”</p> <p><sup>23</sup> “THAT IS WHY THERE IS SUPPLY AND DEMAND”</p> <p><sup>24</sup> “THERE ARE MANY THINGS”</p> <p><sup>25</sup> “THERE IS COMPETITION”</p> <p><sup>26</sup> “BETTER DEALS AND TREATMENT”</p> <p><sup>27</sup> “OPTIONS THAT ARE NEGOTIATED”</p> <p><sup>28</sup> “YOU REQUEST SPECIFIC SERVICES”</p> <p><sup>29</sup> “THEY FACILITATE THIS”</p> <p><sup>30</sup> “YOU DO NOT GIVE ME THIS”</p> <p><sup>31</sup> “HAVE THE ADVANTAGE OF PLAYING OR MANAGING THE BEHAVIOR”</p> <p><sup>32</sup> “REACH A DEAL”</p> <p><sup>33</sup> “IN REALITY, THE CLIENT IS THE SAME EVERYWHERE”</p> <p><sup>34</sup> “THE CUSTOMER GOES WHERE IT BEST SUITS HIM/HER”</p> <p><sup>35</sup> “THE ONLY PROVIDER”</p> <p><sup>36</sup> “DELAYS”</p> <p><sup>37</sup> “MARKET TIMING OR AN OPPORTUNITY”</p> <p><sup>38</sup> “ONLY ONE SUPPLIER OF A PRODUCT, IT MISTREATS THE CUSTOMER”</p> <p><sup>39</sup> “CUSTOMER FEELS WITH NO OTHER OPTION, AND IT HAS</p>
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		<p>TO BE THAT ONE AND ONLY ONE”</p> <p><sup>40</sup> “CUSTOMER HAS NO POWER”</p> <p><sup>41</sup> “CUSTOMER, YOU FEEL VERY UNPROTECTED”</p> <p><sup>42</sup> “MORE CHOICES”</p> <p><sup>43</sup> “MORE FACILITIES”</p> <p><sup>44</sup> “I AM NOT PROHIBITED FROM GOING HERE AND THERE, OR ELSEWHERE”</p> <p><sup>45</sup> “THE WAY IT WORKS”</p> <p><sup>46</sup> “IT IS PART OF HOW IT FUNCTIONS”</p> <p><sup>47</sup> “I AM YOUR CLIENT, AND I BENEFIT YOU, BUT YOU HAVE TO BENEFIT ME TOO”</p> <p><b>Key idea(s): having a direct relationship with the person or institution financing. Knowing that confidentiality is compromised with available standardized records accessible by numerous lenders; however, if possible, remaining businesses confidential is a plus. Ensuring win-win relationships and considering multiple fund providers to choose and negotiate the best conditions.</b></p>
<p>Case #9: Alexis Centro Automotriz</p>	<p>“Of course! Because the <sup>48</sup><b>treatment has to be personalized</b>. Of course, it does. Give it a 10”.</p>	<p><sup>48</sup> “TREATMENT HAS TO BE PERSONALIZED”</p> <p><b>Key idea(s): having direct and personal relationships.</b></p>
<p>Case #10: Salón estilo Gysel</p>	<p>“Yes. It does influence. To <sup>49</sup><b>limit the number of people or institutions</b> that finance give it an 8 or 7. What happens is that banks have me. I have <sup>50</sup><b>a phobia of banks</b>”.</p>	<p><sup>49</sup> “LIMIT THE NUMBER OF PEOPLE OR INSTITUTIONS”</p> <p><sup>50</sup> “A PHOBIA OF BANKS”</p> <p><b>Key idea(s): having a phobia of banks.</b></p>

Source: Personal elaboration

Temporal proximity was the fourth most commented proximity though it received the highest score on the scale out of all categories. Answers were straightforward, with little debate. Comments analysis suggests the value of short-term financing and the fund availability speed for Dominican micro owner-managers. In addition, business objectives dictate the type of financing undertaken, short-term or long-term. Short-term is best for inventory matters and seizing market opportunities. In contrast, long-term will be preferred for making investments requiring higher monetary amounts, such as furniture purchases or real state acquisitions.

Furthermore, there must be a balance among fund sources; otherwise, it is not sustainable. Finally, having access to funds fast permits profiting from business opportunities before it is too late and remaining competitive. Nevertheless, it is conditioned to the provider or the fund source’s trustworthiness to minimize the possibility of fraud and control risk. Table 91 below provides the interview verbatim details.

**Table 91. Verbatim and detailed coding for the structural category “Temporal proximity” that influences the owner-manager decision to access financing**

CASE	VERBATIM: CRITERIA THAT CONDITIONS THE MICRO BUSINESS OWNER-MANAGER FINANCING DECISION AND THEREFORE ITS ACCESS: TEMPORAL PROXIMITY	DETAILED CODING
Case #5: Sergen SRL	“Having access to <sup>1</sup> short-term financing is important and more important than long-term financing.”	<sup>1</sup> “SHORT-TERM FINANCING”  <b>Key idea(s): preferring short-term financing.</b>
Case #6: Escuela de choferes La Ideal	“If they give me <sup>2</sup> long-term financing, I don’t like it like that, no. I don’t like it like that”.	<sup>2</sup> “LONG-TERM FINANCING, I DON’T LIKE IT LIKE THAT”  <b>Key idea(s): preferring short-term financing.</b>
Case #7: Papelería MEL	“I look <sup>for</sup> <sup>3</sup> financing in many places and sources. I <sup>4</sup> seek options. <sup>5</sup> Variety is good to have in terms of financing options and sources, but <b>“it depends on the conditions</b> given, as I was telling you before”.	<sup>3</sup> “FINANCING IN MANY PLACES” <sup>4</sup> “SEEK OPTIONS” <sup>5</sup> “VARIETY” <sup>6</sup> “IT DEPENDS ON THE CONDITIONS”

		<b>Key idea(s): Looking for several financing sources and prioritizing the conditions to access funds above the financing options diversity from a provider.</b>
Case #8: Casa Cristina	“It is important to <sup>7</sup> <b>have short-term financing access</b> , but it <sup>8</sup> <b>also depends on the purpose of the funds</b> . There are funds that it is <sup>9</sup> <b>logical</b> to do long-term for the amount, for the amount of the money. <sup>10</sup> <b>It depends</b> . For instance, for <sup>11</sup> <b>merchandise or inventory, it is better short-term</b> where on the other hand, <sup>12</sup> <b>for investments</b> , furniture purchases and so forth, <sup>13</sup> <b>long-term is better</b> otherwise it is not sustainable”.	<sup>7</sup> “HAVE SHORT-TERM FINANCING ACCESS” <sup>8</sup> “ALSO DEPENDS ON THE PURPOSE OF THE FUNDS” <sup>9</sup> “LOGICAL” <sup>10</sup> “IT DEPENDS” <sup>11</sup> “MERCHANDISE OR INVENTORY, IT IS BETTER SHORT-TERM” <sup>12</sup> “FOR INVESTMENTS” <sup>13</sup> “LONG-TERM IS BETTER”  <b>Key idea(s): determining the most adapted period relies on the funds’ objective.</b>
Case #9: Alexis Centro Automotriz	“Listen, I think I made a mistake here because there are many people who can <sup>14</sup> <b>give you funding and things quickly</b> , but they are <sup>15</sup> <b>not serious</b> , and it could be a problem, so I <sup>16</sup> <b>don’t want it like that</b> . It could be a <sup>17</sup> <b>trap</b> . But, if they are <sup>18</sup> <b>serious</b> , I want my <sup>19</sup> <b>money quick, always quick</b> ”.	<sup>14</sup> “GIVE YOU FUNDING AND THINGS QUICKLY” <sup>15</sup> “NOT SERIOUS” <sup>16</sup> “DON’T WANT IT LIKE THAT” <sup>17</sup> “TRAP” <sup>18</sup> “SERIOUS” <sup>19</sup> “MONEY QUICK, ALWAYS QUICK”  <b>Key idea(s): having access to funds quickly if serious.</b>
Case #10: Salón estilo Gysel	“ <sup>20</sup> <b>Having funds quickly</b> is really important. Give it a 10”.	<sup>20</sup> “HAVING FUNDS QUICKLY”  <b>Key idea(s): having access to funds quickly.</b>

Source: Personal elaboration

Spatial proximity was the proximity with the lowest score showing dispersion among answers. Distance closeness is not as privileged as other proximities. It may help entrepreneurs in some instances, but it is not decisive for the financing decision-making, as detailed in the

interview verbatims below. Owner-managers are looking for adequate client treatment and financing solutions to their needs above distance nearness.

**Table 92. Verbatim and detailed coding for the structural category “Spatial proximity” that influences the owner-manager decision to access financing**

CASE	VERBATIM: CRITERIA THAT CONDITIONS THE MICRO BUSINESS OWNER-MANAGER FINANCING DECISION AND THEREFORE ITS ACCESS: SPATIAL PROXIMITY	DETAILED CODING
Case #4: Invercolor	<p>“<sup>1</sup><b>Not even that much</b>, because we had such a hard time with the last financier, we had that we <sup>2</sup><b>chose it because it was close</b> by that <sup>3</sup><b>had to go to another one</b>, another branch. Yes, because there are banks here that <sup>4</sup><b>make things so complicated</b>. Because banks, since they know we are <sup>5</sup><b>microenterprises</b>, the business agents, how are they called? Business officers, <sup>6</sup><b>they do not listen to you</b>. <sup>7</sup><b>They do not care</b>. We had to go to, you call them, and <sup>8</sup><b>you have a problem</b>, and this and that and <sup>9</sup><b>they do not pay attention to you</b>. They do not care. You can write a 4 there.</p>	<p><sup>1</sup>“NOT EVEN THAT MUCH”  <sup>2</sup>“CHOSE IT BECAUSE IT WAS CLOSE”  <sup>3</sup>“HAD TO GO TO ANOTHER ONE”  <sup>4</sup>“MAKE THINGS SO COMPLICATED”  <sup>5</sup>“MICROENTERPRISES”  <sup>6</sup>“THEY DO NOT LISTEN TO YOU”  <sup>7</sup>“THEY DO NOT CARE”  <sup>8</sup>“YOU HAVE A PROBLEM”  <sup>9</sup>“THEY DO NOT PAY ATTENTION TO YOU”</p> <p><b>Key idea(s): deciding based on client treatment and financing solutions propositions, not distance.</b></p>
Case #5: Sergen SRL	<p>“<sup>10</sup><b>For me, it is important</b>. It is an 8 or 10 even though my <sup>11</sup><b>account executive</b> is on the other side of the bridge, <sup>12</sup><b>far away from here</b>, and there is a <sup>13</sup><b>nice friendship installed</b>. But I do not really go to the bank where she is at. I <sup>14</sup><b>go to a bank close by</b>, and she is the one that manages everything. She is the executive. She <sup>15</sup><b>wants me to go to her branch</b>, but it is <sup>16</sup><b>only due to the benefits she gets if I go</b> where she is, but I do not go, no, no, I do not go. Are you crazy? No, no, no, no. I understand where she is coming from, but <sup>17</sup><b>here, I can get what I need, and I can do everything on the phone</b>”.</p>	<p><sup>10</sup>“FOR ME, IT IS IMPORTANT”  <sup>11</sup>“ACCOUNT EXECUTIVE”  <sup>12</sup>“FAR AWAY FROM HERE”  <sup>13</sup>“NICE FRIENDSHIP INSTALLED”  <sup>14</sup>“GO TO A BANK CLOSE BY”  <sup>15</sup>“WANTS ME TO GO TO HER BRANCH”  <sup>16</sup>“ONLY DUE TO THE BENEFITS SHE GETS IF I GO”  <sup>17</sup>“HERE, I CAN GET WHAT I NEED, AND I CAN DO EVERYTHING ON THE PHONE”</p>

		<p><b>Key idea(s): favoring distance proximity because he gets the same services as other branches. The account officer manages from afar but maintains close contact with the client and has an amicable friendship relationship installed.</b></p>
<p>Case #7: Papelería MEL</p>	<p>“No. I will look for <sup>18</sup><b>the one that gives me better conditions for what I need.</b> Distance proximity is not important for me”.</p>	<p><sup>18</sup> “THE ONE THAT GIVES ME BETTER CONDITIONS FOR WHAT I NEED”</p> <p><b>Key idea(s): deciding based on client treatment and financing solutions propositions.</b></p>

Source: Personal elaboration

Hierarchical proximity relevance has remained constant throughout our analysis. The business management and financing access and decision-making repose on the owner-managers shoulders, exhibiting a solid necessity for controlling the enterprise in all its dimensions. Some of the entrepreneurs in the sample expressed as follows: “ah, always me. Always everything me” (Case#3). “No, well, everything regarding its management, of course, me. If there is a financial manager, it has to be with him/her because if it is not done in this way, everything will be expended and nothing accomplished” (Case#5). “Well, I don’t mind if the money is given and managed by another person on the enterprise team as long as the money goes to what it was agreed” (Case#8).

Economic proximity got no comments at all. Regarding the Dominican Republic context category, business formality significance was acknowledged, particularly when referring to external financing. Managers pointed out additional aspects within the category “other,” such as friendship, fund availability speed, and the preference for self-financing the business, even though this entails scarifying business growth and development. The table below specifies these details.

**Table 93. Verbatim and detailed coding for the structural category “Other” that influences the owner-manager decision to access financing**

CASE	VERBATIM: CRITERIA THAT CONDITIONS THE MICRO BUSINESS OWNER-MANAGER FINANCING DECISION AND THEREFORE ITS ACCESS: OTHER	DETAILED CODING
Case#1: Colmado Charina	“No. Nothing else. <sup>1</sup> <b>Just friendship</b> . You have mentioned everything”.	<sup>1</sup> “JUST FRIENDSHIP”  <b>Key idea(s): friendship.</b>
Case #8: Casa Cristina	“Another relevant criterion when I decide...Well, a <sup>2</sup> <b>financing is usually taken to invest</b> . Invest in the same business, in merchandise that comes in, that you buy. <sup>3</sup> <b>Time is what is measured</b> in reality. The <sup>4</sup> <b>financier’s response time is key</b> . <sup>5</sup> <b>How quickly the bank can respond to our request</b> is one of our most important things. For example, if merchandise arrived, I have the convenience of having 15 days to pay it, and I <sup>6</sup> <b>need the money available to pay</b> it. So, in the end, it is <sup>7</sup> <b>the timing that counts</b> . Time is one of the most important things for us. A <sup>8</sup> <b>financing available quickly</b> , and the <sup>9</sup> <b>response time is fast</b> . Exactly, for instance, with the line of credit, I can say: ‘I need RD\$ 300 000.00 pesos, so send me a promissory note and deposit the <sup>10</sup> <b>money in my account tomorrow</b> because I <sup>11</sup> <b>need it</b> ’. So, in terms of importance in the <sup>12</sup> <b>financing decision making</b> , you can write a 19 if you want”.	<sup>2</sup> “FINANCING IS USUALLY TAKEN TO INVEST” <sup>3</sup> “TIME IS WHAT IS MEASURED” <sup>4</sup> “FINANCIER’S RESPONSE TIME IS KEY” <sup>5</sup> “HOW QUICK THE BANK CAN RESPOND TO OUR REQUEST” <sup>6</sup> “NEED THE MONEY AVAILABLE TO PAY” <sup>7</sup> “THE TIMING THAT COUNTS” <sup>8</sup> “FINANCING AVAILABLE QUICKLY” <sup>9</sup> “RESPONSE TIME IS FAST” <sup>10</sup> “MONEY IN MY ACCOUNT TOMORROW” <sup>11</sup> “NEED IT” <sup>12</sup> “FINANCING DECISION MAKING”  <b>Key idea(s): Quick financier time response and fund availability are vital.</b>
Case #10: Salón estilo Gysel	“Yes, I like very much <sup>13</sup> <b>to finance myself</b> . To inhibit me from many things, to <sup>14</sup> <b>reach my goals</b> . I <sup>15</sup> <b>like to save a lot</b> . In fact, it is very <sup>16</sup> <b>hard for me to owe, so I prefer to save up</b> and move forward, <sup>17</sup> <b>go slowly, step by step</b> . I cannot owe because <sup>18</sup> <b>when I owe, and I cannot pay, I get sick</b> . I do not feel good. I would instead do it slowly. Look at all the things I have here in this beauty salon, and I do not owe a peso to <sup>19</sup> <b>anyone</b> . The products I got and the stock were <sup>20</sup> <b>bought with all my hard work</b> , and I paid for everything. <sup>21</sup> <b>No one</b> is going to come knocking on my door to pay them. <sup>22</sup> <b>I am relaxed, calm</b> about that”.	<sup>13</sup> “TO FINANCE MYSELF” <sup>14</sup> “REACH MY GOALS” <sup>15</sup> “LIKE TO SAVE A LOT” <sup>16</sup> “HARD FOR ME TO OWE, SO I PREFER TO SAVE UP” <sup>17</sup> “GO SLOWLY, STEP BY STEP” <sup>18</sup> “WHEN I OWE, AND I CANNOT PAY, I GET SICK” <sup>19</sup> “ANYONE”



	<p><sup>23</sup><b>I am proof that one can improve.</b> I am my own witness. At the beginning, I used to walk around with a bag. I know it is possible”.</p> <p>“To give you an example, the beauty salon Mechi, how many branches do they have? I mean, <sup>24</sup><b>Mechi</b>, how many branches does she have? She <sup>25</sup><b>started in her yard at her house, under a tree, brushing hair and making hair rollers</b>, hair rollers. And she is a tremendous businesswoman, very well known nationally and internationally. She is <sup>26</sup><b>very well known</b>, and she <sup>27</sup><b>owns all the conde</b>. She can own that much, not me, but what I am trying to say is that if you <sup>28</sup><b>always work with an objective, with a criterion, a goal in everything you do</b>, and you have even to wash dishes <sup>29</sup><b>if you want to progress</b>”.</p> <p>“Aha, yes, it is like that. You see someone that they <sup>30</sup><b>start</b> washing dishes, and they say: ‘no, I am doing this, but I am also learning how to cook. <sup>31</sup><b>I am going to open</b> a restaurant.’ Then, they open the restaurant, and when they have their restaurant, they are <sup>32</sup><b>thinking about what is next</b>. Everything is like that. There are stories that make you cry. <sup>33</sup><b>You go step by step</b>. And there are people that are born with that gift; the gift to sell, to be a businessman or businesswoman. They <sup>34</sup><b>buy and sell and make money</b>”.</p> <p>“I <sup>35</sup><b>sell so many things</b>, everything. I <sup>36</sup><b>sell used clothes</b>. I always try to <sup>37</sup><b>find places where I can buy cheap to earn something</b>, not only for my beauty salon but <sup>38</sup><b>anything that can allow me to make money, to make some profits</b>. The same happens with what I do here, and I keep working like this, and I <sup>39</sup><b>invest to buy more</b> merchandise, which is how I can <sup>40</sup><b>save to finance my business</b>”.</p>	<p><sup>20</sup> “BOUGHT WITH ALL MY HARD WORK”</p> <p><sup>21</sup> “NO ONE”</p> <p><sup>22</sup> “I AM RELAXED, CALM”</p> <p><sup>23</sup> “I AM PROOF THAT ONE CAN IMPROVE”</p> <p><sup>24</sup> “MECHI”</p> <p><sup>25</sup> “STARTED IN HER YARD AT HER HOUSE, UNDER A TREE, BRUSHING HAIR AND MAKING HAIR ROLLERS”</p> <p><sup>26</sup> “VERY WELL KNOWN”</p> <p><sup>27</sup> “OWNS ALL THE CONDE”</p> <p><sup>28</sup> “ALWAYS WORK WITH AN OBJECTIVE, WITH A CRITERION, A GOAL IN EVERYTHING YOU DO”</p> <p><sup>29</sup> “IF YOU WANT TO PROGRESS”</p> <p><sup>30</sup> “START”</p> <p><sup>31</sup> “I AM GOING TO OPEN”</p> <p><sup>32</sup> “THINKING ABOUT WHAT IS NEXT”</p> <p><sup>33</sup> “YOU GO STEP BY STEP”</p> <p><sup>34</sup> “BUY AND SELL AND MAKE MONEY”</p> <p><sup>35</sup> “SELL SO MANY THINGS”</p> <p><sup>36</sup> “SELL USED CLOTHES”</p> <p><sup>37</sup> “FIND PLACES WHERE I CAN BUY CHEAP TO EARN SOMETHING”</p> <p><sup>38</sup> “ANYTHING THAT CAN ALLOW ME TO MAKE MONEY, TO MAKE SOME PROFITS”</p> <p><sup>39</sup> “INVEST TO BUY MORE”</p> <p><sup>40</sup> “SAVE TO FINANCE MY BUSINESS”</p> <p><b>Key idea(s): self-financing the business and goal driven.</b></p>
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Source: Personal elaboration

### **Concluding remarks for chapter 3**

This chapter presented, analyzed, and interpreted the data collected from ten (10) microenterprises (cases) in the Dominican Republic.

The data was displayed to give a detailed picture to make sense of it and identify patterns. The process involved organizing, reading, comparing, and interpreting the data.

It is from this chapter that the results and conclusions emerge; from where the theory is generated, contributions are specified, and recommendations are proposed. Plus, it establishes the bases for the discussion of results in the following chapter.

## **CHAPTER 4: DISCUSSION OF FINDINGS AND RESULTS, RESEARCH LIMITATIONS, AND AVENUES FOR FUTURE RESEARCH**

This thesis aimed to generate theory under an informed constructivist grounded theory approach (see Thornberg 2012). Results came to be by combining what is known about microbusinesses and their financing in the literature and empirical evidence from a set of cases (see Eisenhardt 1989). In this sense, the aim was to explore microbusiness financing in the Dominican Republic. It kept a particular interest in the owner-manager, who has proven to be a dominant factor in these enterprises regardless of their diversity and from whom the financing perspective is needed in the literature (see St-Pierre and Fadil 2011; St-Pierre 2018).

The research findings extend the theory of Dominican microbusinesses financing. By ameliorating the understanding of these firms, the key elements to access funds (informal or formal, internal or external) can be identified and thus help other entrepreneurs wanting to get funds in this country and similar contexts. Furthermore, it facilitates materializing efforts to aid microbusinesses in obtaining funds and/or assistance from external financiers like banks or government institutions such as the vice-minister of small and medium enterprise development in the Dominican Republic.

While this does not solve the current challenge of limited financing sources micro businesses face, it does provide valid and reliable information that can optimize accessing the financing options currently available. In addition, it can benefit developing options and techniques more adapted to their reality.

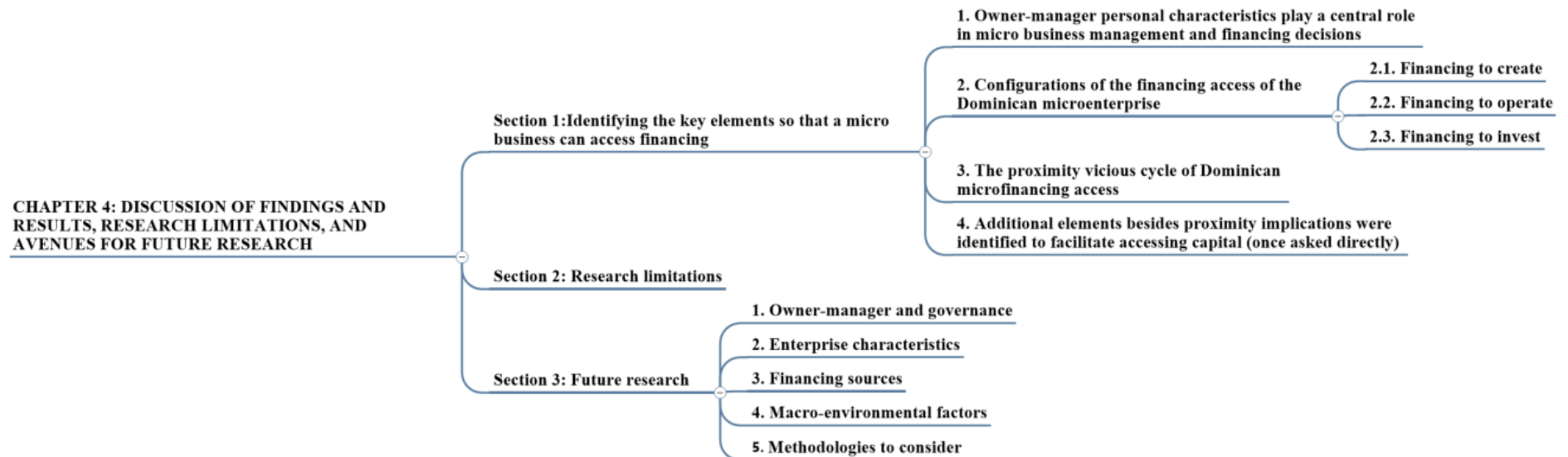
The resulting theory is the researcher's interpretation (Charmaz 2014). Thus, what is presented here is not absolute. However, given the available information and evidence, they are plausible explanations that can serve as bases for future use and testing.

The theory is discussed in section one and divided into four main parts (see Eisenhardt and Graebner 2007). First, a distinct focus is given to the owner-manager central role in the management and financing decisions. Second, the configurations that make accessing funds possible and the financing sources used in a micro business are explained. Third, the vicious

cycle dynamic of proximities that facilitate access to funds while simultaneously imprisoning the owner-manager to their nearness is discussed. Last, a few additional elements derived from the literature and the context studied are commented on.

To conclude, the research limitations (section 2) and the scope for future research are addressed (section 3). The diagram below presents the chapter four structure.

**Figure 55. Structure of Chapter 4**



## **Section 1: Identifying the key elements so that a micro business can access financing**

The first section of this chapter discusses the research findings and results, linking back to the research objectives and the knowledge about small businesses and their financing. It is organized in a dialogue where the data findings are presented, compared, and contrasted with other researchers' work. Moreover, it identifies when this thesis contributes to the current literature, when it contradicts it, and where it corroborates.

The section is divided into four (4) parts. First, it explains the owner-manager role in the management and financing decisions of the microenterprise. Second, it discusses how microenterprises get financed and which sources are used. Third, it presents and debates the proximities studied as (1) key elements to access financing and (2) how owner-managers preferences and decisions influence them. Last, according to the literature and entrepreneurs, it includes additional relevant aspects to get financed.

### **1. Owner-manager personal characteristics play a central role in micro business management and financing decisions**

In line with earlier research, findings highlight that the micro business is an extension of the owner-manager where the dividing line setting apart the physical individual and the moral entity is quite blurry (see Hirigoyen 1981; Levin and Travis 1987; J. S. Ang 1991; 1992; Naffziger, Hornsby, and Kuratko 1994; LeCornu et al. 1996). The Dominican entrepreneur identifies with his/her business and influences how the enterprise is managed and financed. Utility maximization in these structures becomes the rule as opposed to the conventional wealth maximization principle<sup>190</sup>: “The objective is not so much to create value, but to provide de ‘preferred’ lifestyle within the community” (Petty and Bygrave 1993, 130)<sup>191</sup>.

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<sup>190</sup> Herbert A. Simon adds that “...organisms adapt well enough to ‘satisfice’; they do not, in general, ‘optimize’” (Simon 1956, 129).

<sup>191</sup> McMahon and Stanger (1995) emphasize that in an owner-managed enterprise, maximizing shareholders' wealth, as the financial theory argues, no longer applies. Instead, the authors explain that owner-managers satisfaction (i.e., utility) often relies on non-pecuniary (often referred to as psychological or psychic) benefits above pecuniary ones. Non-pecuniary advantages could be in or outside the financial domain. For instance, they indicate that non-pecuniary benefits in the financial domain can be the security from having excess liquidity, the security from having a diversified wealth holding, owning investments that can be transferred easily to others, having the flexibility to change circumstances if needed, keeping sole control, and avoiding accountability to others. Non-pecuniary benefits outside the financial domain include, for example, “having a preferred lifestyle, being secure in self-employment, being able to offer secure employment to family and

Regarding its management, owner-managers manifest a strong debt aversion. They do not like to borrow and will only do it if they have no capital available, no other option, and only if it is strictly necessary to improve and achieve specific objectives. These ideas were defended by Norton (1991) and Vos and Forlong (1996). Thus, debt is issued when internal funds are insufficient, a practice that aligns with Myers and Majluf's (1984) pecking order.

In addition to the owner-managers personal characteristics influencing their enterprise management, they consider additional elements. Following previous studies (e.g., Reijonen 2008; Aristy-Escuder 2012; 2015), it has been shown that Dominican owner-managers manage their enterprise genuinely, taking care of their clients and ensuring high-quality products and services. They count on their clients, follow up with their requests, value close and good relationships, and are committed to providing personalized service. They consider the market's demands to develop strategies (Bon 2013). They exploit their support systems (J. S. Ang 1991; 1992), are passionate, and take advantage of what they can contribute. Owner-managers intentions are numerous and complex, and they have the freedom to satisfy their many and varied objectives, as explained by McMahon and Stanger (1995).

Concerning financing, owner-managers goals (Barton and Matthews 1989; Norton 1991) and strategies are some of the principal drivers of financing decisions. However, there is evidence that financing conditions and the degree of risk the owner-manager is willing to take almost weigh as much. As a result, owner-managers tend to remain with what they know and control, such as self-financing and cash generated from the business.

Owner-manager preferences (Levin and Travis 1987; Norton 1991) and debt aversion (Norton 1990) condition their financing decisions. Preferences depend on the owner-manager projection and mind. Dominican owner-managers highlight the following preferences when it comes to financing decision-making. They will:

- Avoid borrowing. Dominican micro businesses entrepreneurs do not like to owe. Some are even horrified by the idea and avoid it at all costs. Others borrow when it is strictly necessary.

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friends, maintaining good and benevolent relations with employees, having self-esteem or esteem of others, contributing to the wider community, and being philanthropic" (1995, 28). For other examples, see Graebner and Eisenhardt (2004), Reijonen (2008), and Rindova, Barry, and Ketchen (2009).

- Evaluate time restraints and cost of debt and will opt for the one(s) providing lower interest rates<sup>192</sup> and more extended periods.
- Keep control of finances and decision-making (J. S. Ang 1992; Lane and Jameson 1993; McMahon and Stanger 1995).
- Manage finances strategically and take advantage of their financing options (e.g., providers' payments delays, banks, investors when known and trusted).
- Look for options adapted to their personality.

## 2. Configurations of the financing access of the Dominican microenterprise

Extending existing literature, our findings suggest that financing access for microenterprises in the Dominican Republic is an actor-dependent process. It is an effectuation process in the sense of Sarasvathy (2001) in entrepreneurship<sup>193</sup>. Entrepreneurs turn to more informal, intuitive ways to evaluate how they can continue moving forward, mobilize the resources within their means and reach to do what is feasible and accomplish the desired objective. Thus, access to funds is strictly tied to the specificities and realities of each entrepreneur and his/her ability to make it happen proactively. In essence, the owner-manager becomes the creator of his/her financing opportunities, where he/she prioritizes strategies to generate internal sources of funds and continues, if necessary, with the external funds. The owner-manager follows a pecking order (Myers and Majluf 1984) which we prefer to call proxemic order, a broader dimension and application adapted to our case.

The microenterprise's strategies and financing sources for creating, operating, and investing were identified. In general, and as other studies suggest, it is found that financing sources for microenterprises are limited (see Hansen 1983; LeCornu et al. 1996; A. N. Berger and Udell 1998; Sanguinetti et al. 2011; St-Pierre 2018). These are self-financing from the owner-manager set of resources or the business cash generation capacity, proximity capital, and commercial banks debt financing.

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<sup>192</sup> Mac An Bhaird's (2010) study suggests that one of the most critical financing factors for owner-managers is the cost of debt. They can consider financing from banks if the latter is convenient for them. Titman and Wessels (1988) found that transaction cost can be an essential determinant of capital structure choice.

<sup>193</sup> Sarasvathy explains that "effectuation processes take a set of means as given and focus on selecting between possible effects that can be created with that set of means" (2001, 245). According to the author, effectuation logic reposes on five principles: (1) the bird-in-hand principle—use existing means to create; (2) the affordable-loss principle—focus on what you are willing to lose rather than expected returns; (3) the crazy-quilt principle—work with who is willing to work with you; (4) the lemonade principle—leverage contingencies instead of avoiding them; and (5) the pilot-in-the-plane principle—future is created, control it. See Sarasvathy works for more details (e.g., 2001; 2008).

Empirical evidence indicates that internal resources are the primary financing source, as other researchers indicate (see, e.g., Holmes and Kent 1991; Hamilton and Fox 1998; Cull et al. 2006; López-Gracia and Sogorb-Mira 2008; Ayyagari, Demirgüç-Kunt, and Maksimovic 2010; Mac An Bhaird 2010; Sanguinetti et al. 2011; St-Pierre 2018; Masiak et al. 2019). In addition, it appears that the financing strategy is to mobilize resources at the entrepreneur's reach as much as possible before contemplating external financing (which is often considered as a loan in a bank)<sup>194</sup>.

In addition to previous studies, it is common for businesses to apply financial bootstrapping methods. As a result, entrepreneurs will find alternative, creative ways to finance their business and secure resources (at little or no cost) other than relying on traditional, external sources such as borrowing or raising equity financing (see, e.g., Freear, Sohl, and Wetzel 1995; H. E. Van Auken and Neeley 1996; Winborg 2000; Winborg and Landström 2001; Harrison, Mason, and Girling 2004; Schinck and Sarkar 2012)<sup>195</sup>. Sources of bootstrap capital identified in our sample are proximity relations (including relatives, friends, suppliers, and customers), personal savings and assets, business cash generation and retained earnings, account payment delays, business alliances or partnerships, and resources from the state.

As evidenced in the literature, traditional finance theory fails to recognize the use and potential importance of bootstrap financing for small businesses (H. Van Auken 2005). This is the case for example of bootstrapping techniques such as: negotiating the best conditions with suppliers and delaying their payment as much as possible, postponing tax payments, speeding up invoicing, buying used equipment or leasing instead of purchasing; sharing with others equipment, employees, office space; using personal credit cards, withholding the managers' salary; using relatives or friends for loans and work for a non-market salary, among others (Winborg and Landström 2001; H. Van Auken 2004; 2005)<sup>196</sup>. Bootstrap financing sources of

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<sup>194</sup> Cull et al. (2006) study portrays the classic pattern in enterprise financing. The pattern is that reliance on banks or similar formal intermediaries increases with the firm size while dependence on informal financing sources decreases with size. With data from the World Bank Investment Climate Survey (ICS) of 2002-2003, the authors indicate that 65% of Microenterprises (less than ten -10- employees) studied had no external finance. See table 3 for a synthesis of the principal sources of external finance by firm size (i.e., Micro, Small, Medium, Large, and Very large).

<sup>195</sup> According to Winborg and Landström (2001), financial bootstrappers' resource acquisition can come from three (3) primary sources. These are (1) internal resources, (2) social resources, or (3) quasi-market resources (i.e., governmental institutions). It is relevant to point out that Van Auken and Neeley (1996) indicate no standard or generally accepted definition of bootstrap financing in the literature. However, in general, the objective is to access resources for business development by reducing the need for financial capital or providing alternative sources of capital (Harrison, Mason, and Girling 2004).

<sup>196</sup> For more examples of financial bootstrapping techniques, see Winborg and Landström (2001), Van Auken (2004; 2005), and Schinck and Sarkar (2012).



capital can help owner-managers improve liquidity and strengthen cash flows (H. Van Auken 2005).

In his article “On the theory of finance for privately held firms” in 1992, Ang talks about bootstrapping financing options; however, he never uses the term.

Along with Van Auken (2004) and Schinck and Sarkar (2012), we consider financial bootstrapping a critical entrepreneurial skill for Dominican micro-owner-managers to access financing despite its lack of recognition in the classic finance literature. In this sense, earlier studies have highlighted the importance of financial bootstrapping for small businesses as well (see, e.g., Churchill and Thorne 1989; Bhide 1992; Freear, Sohl, and Wetzel 1995; H. E. Van Auken and Neeley 1996; Winborg and Landström 2001; Harrison, Mason, and Girling 2004; H. Van Auken 2004; 2005; Padachi, Howorth, and Narasimhan 2012).

Bhide (1992) indicates that bootstrapping remains the rule and not the exception when financing small ventures.

One could speculate that Dominican entrepreneurs should have several motives and advantages to using bootstrapping financial techniques. Therefore, new research projects should explore these matters to improve understanding of bootstrapping in this country’s context.

Previous studies, however, can provide some light on the motivations and advantages behind using bootstrapping financing techniques in small businesses. For example, Winborg’s (2009) empirical study of 120 business founders in Sweden highlight that entrepreneurs’ motivations to use bootstrap financing include (ranked in order of importance): lower cost, lack of capital, fun helping others and getting help, saving time, managing without external finance, reducing risk, and freedom of action. In addition, it is interesting to point out that businesses included in the study sample had 2.7 employees on average (i.e., microenterprises), and 88% of them had used bootstrapping methods to a certain degree.

In regards to the advantages of bootstrap financing, Van Auken (2004; 2005) indicates that it can be considered convenient (e.g., loans from life insurance), easy to obtain (e.g., credit cards), and requirements are minimum (e.g., home equity loans). Plus, it does not require preparing and presenting a business plan or having collateral.

Our findings, for instance, suggest that no formal business model, plan, or pitch was used to obtain funds in contrast to the more traditional methods advanced in the literature (see, e.g., C. Mason and Stark 2004; Clark 2008; Barrow, Barrow, and Brown 2018). Instead, an intuitive and creative strategy guided the owner-manager and, consequently, his/her financing, which is more in line with effectuation and financial bootstrapping.

Furthermore, it is assumed that motives and advantages derived from applying financial bootstrapping techniques can change depending on the objective function and characteristics of the owner-manager and how they approach financial bootstrapping in their specific reality (see, e.g., Barton and Matthews 1989; Norton 1991; McMahon and Stanger 1995). Internal (e.g., owner-manager goals, values, and diligence; the enterprise risk) and external (e.g., market conditions and size) factors can determine how small business owners obtain capital (H. Van Auken 2004).

Further research on bootstrapping as a financing and resource acquisition strategy in the Dominican Republic microenterprise is necessary. What are the motives, advantages, uses, and dynamics of bootstrapping? What is its role and significance for entrepreneurs and business development? For business location (e.g., urban and rural) and nature (e.g., economic activity, family firm)? What is the process through which entrepreneurs acquire resources, financial and non-financial? Which bootstrapping techniques are the most relevant for Dominican entrepreneurs? Comprehensive studies can only be beneficial to improving understanding in these areas and approaching a financial theory more in line with micro businesses reality (in developing countries). It should be noted that “research on the use of bootstrap financing among small firms is limited” (H. Van Auken 2004, 147; 2005, 95), and the classic finance theory is distant from these enterprises’ specificities, and they are in need for their financial theory (Pettit and Singer 1985).

Making abstraction of our results and considering the context studied<sup>197</sup>, micro-Dominican business financing is primarily a combination of effectuation, bootstrapping (to finance and acquire resources), and internal sources of funds (generated from the business or with private sources). Bank financing is the most used traditional, external financing source; however, only

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<sup>197</sup> That is to say, the owner-manager governance and qualities, the enterprise and environment characteristics, and the financing sources available -and their conditions- for these businesses.

if there is no internal (or bootstrapping) capital source and for exclusively achieving specific objectives.

In sum, microbusinesses financing access will follow what we call a proxemic order (not necessarily a pecking order). It originates with the owner-manager self and will continue progressively to his/her outer reach as the nearest resources are used and mobilized. In this sense, the entrepreneur will proactively create his/her financing opportunities by looking for creative alternatives to traditional financing sources (i.e., bank loans and equity financing). It is a dynamic process that evolves within the owner-manager reality and the boundaries he/she establishes according to his/her “preferred” lifestyle and personality.

The following sections detail the key findings behind the abstraction mentioned above, which make the Dominican micro business financing configurations. The discussion is divided into three parts: (1) the financing to create, (2) to operate, and (3) to invest.

## **2.1. Financing to create**

Following previous studies, conclusions suggest that **financing to create** a micro business in the Dominican Republic primarily relies upon utilizing the creator’s savings (Holmes and Kent 1991; Scherr, Sugrue, and Ward 1993; Bhide 1992; Marchesnay and Fourcade 1997; Hamilton and Fox 1998; Wu, Song, and Zeng 2008) and capitalizing on their proximity relationships to get funds thanks to the support of friends and family members or well-known individuals to the entrepreneurs (J. S. Ang 1992; Crevoisier 1997; A. N. Berger and Udell 1998; Pissarides 1999; St-Pierre 2000b). Aristy-Escuder’s (2012) study of 254 Dominican small and medium enterprises’ success determinants also provides evidence of this fact. Furthermore, it indicates that starting a business with the owner’s funds increases the likelihood of success.

Another approach to financing in Dominican microenterprises is having a clear vision of what the creator wants and working hard for it. Therefore, it is not only about having enough capital to launch a business but having a strong desire to succeed and believing in oneself that determines how successful the business will be.

Additional strategies used are selling the founder’s assets to raise capital, having a trusted personal trajectory, taking risks, and getting the support of a reliable guarantor who can ensure

the borrowed funds reimbursements in case of repayment defaults. The latter increases the chances of getting financed by banks.

Bhide (1992) acknowledges that the founders' most significant challenge when starting a venture is not raising money "but having the wits and hustle to do without it." He explains that ventures launch with modest personal funds (e.g., personal savings, credit cards, second mortgages) and rely on retained earnings and debt to grow. In addition, he emphasizes that the ability of the entrepreneur to "roll with the punches" is an essential skill to thrive and goes beyond any planning and foresight (which is what investors prioritize to fund).

The financing sources identified in our sample to launch the business were self-financing, proximity capital (i.e., family and friends), and bank financing, if needed (to develop it).

## **2.2. Financing to operate**

Key findings spotlight four (4) strategies to get **funds for business operations**. These are building and keeping a good trajectory, being proactive, having strict cash flow management control, and taking advantage of the benefits of a mixture of financing sources. The four (4) strategies will be presented in the following subsections.

The financing sources used for operations were business cash generation, bank financing, account payable delays, and business reserves.

### **2.2.1. Trajectory**

The first strategy, building and keeping a good trajectory through the years with the company's stakeholders, is essential, particularly with creditors and suppliers. This implies having records and history in financial matters that speak for themselves and demonstrating professionalism and responsibility in what is done. This allows Dominican micro-entrepreneurs to access loan offers and negotiate payment delays. There must be trust, not necessarily amical, but reliable, professional trust.

Other authors have supported these conclusions. For instance, the value of reputation capital and networks for small businesses was emphasized by Ang (1991; 1992); Sleuwaegen and Goedhuys (2002); Le et al. (2006); Vos et al. (2007); and Sengupta (2011).

The standing and credit history was supported by Pace and Collins (1976), Bhattacharya and Thakor (1993), Pissarides (1999), Abdulsaleh and Worthington (2013), and; St-Pierre (2000b) as the “character” of the business (when the objective is to get financed by banks).

Furthermore, the studies such as the ones performed by Petersen and Rajan (1994), Berger and Udell (1995a; 1998), Blackwell and Winters (1997); Cole (1998), and Uzzi (1999) deemed close and pre-existing relationships with creditors beneficial to get funds in a small business context. Bhide (1992) talks about building an entrepreneur and bank relationship even before the business is creditworthy. For example, opening an account in the bank, getting interested in their services, asking questions, and seeking advice from the representatives.

Extensive literature in finance has focused on the role of relationships and access to credit (Ayyagari, Demirgüç-Kunt, and Maksimovic 2010).

Berger and Udell (1995a) suggest that the borrower-lender relationship for bankers provides valuable information throughout the years about the quality of the borrower and minimizes information asymmetries problems<sup>198</sup> to put together loan contracts. In their study, which focuses on lines of credit, the authors found that small businesses with longer relationships lead to looser loan terms from their banks, including lower rates and fewer collateral requirements.

In a later research article, Berger and Udell (1998) explain that financial institutions can gather information through continuous contact with the firm and the entrepreneurs to provide financial services. For example, repayment history, periodic submissions of financial statements, renegotiations, visits with management, and other data such as the one from ongoing monitoring, deposit accounts, personal loans, credit cards, trust accounts, investment services, etc. According to the authors, small businesses may benefit from lending relationships in several ways, thanks to the information gathered. For example, lenders can propose lower financing costs or greater availability of credit, protection against credit crashes, and credit risk insurance, to name a few.

Elyasiani and Goldberg (2004), reviewing the recent literature about relationship lending, also advance the idea, among others, that borrower-lender relations generate valuable information that helps overcome information asymmetries problems over time. It facilitates the

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<sup>198</sup> Information asymmetries are central in the literature about financial intermediation (Boot 2000). For a recent review, see, e.g., Bhattacharya and Thakor (1993).

lender's decision-making and monitoring to determine, for instance, the amount and interest rate of the loan, what collateral is required, if the credit is extended, if additional conditions will be added to the contract, and so on. Moreover, the authors add that these relationships have proven to add value in some instances by increasing credit availability and reducing loan interest rates.

Binks and Ennew (1997) and St-Pierre and Fadil (2011) specify that information asymmetry<sup>199</sup> in the formal sector is one of the principal causes of the financing access problems small businesses face. In this regard, Baas and Schrooten (2006) indicate that reliable information on small businesses is rare and costly for financial intermediaries. Furthermore, they show that the lack of reliable data leads to higher bank loan interest rates even though a long-lasting relationship between these two parties may exist.

Regardless of the benefits lending relationships may provide, some studies highlighted by Berger and Udell (1995a) and Elyasiani and Goldberg (2004) illustrate some of the contradictions in the literature. For example, the authors explain that Boot and Thakor's (1994) model indicates that loan interest rates and collateral requirements should decline as the bank-borrower relationships mature. Petersen and Rajan's (1995) model also suggests creditors should smooth interest rates over time, while other models, such as the ones made by Greenbraum, Kanatas, and Venezia (1989), Sharpe (1990), and Wilson (1993), mention that interest rates should increase the longer the borrower-lender relationship.

Given the numerous discrepancies still present in the literature, Elyasiani and Goldberg (2004) encourage further research in relationship banking. They specify that unexplored questions still need to be addressed and that the studies available are primarily performed for American banking and a few other countries.

Results in our study indicate that the established relationship and trajectory with fund providers go beyond the mere amicable bond. A reliable, professional trust is valued to access funds or get the needed support. These conclusions go along with some of the ones advanced by other authors as well. For instance, Cressy's study made with UK start-ups banking data concludes that there is an incentive by banks "to lend to proprietors who are committed to their

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<sup>199</sup> See also Leland and Pyle (1977).

businesses and wish it to succeed” (1996, 404). He notes that the entrepreneur’s engagement, experience, and maturity are essential in this process.

Pissarides (1999) talks about the experience and hard-earned culture of trust (see also St-Pierre 2018).

Le et al. (2006) state that a small business’s legitimacy within its network is critical in accessing external financing, particularly bank loans. This is especially true in contexts with no well-established market institutions, a lack of reliable business data and models, and entrepreneurs having limited managerial knowledge and skills. The authors defend that small privately held businesses in transition economies, such as Vietnam (where their study takes place), should be trained to build efficient networks instead of traditional skills, such as developing business plans and financial analysis. As a result, these firms survive thanks to networks and will gradually implement professional management practices over time. Moreover, when formal institutions are not well developed, legitimacy is built with and thanks to the people who make up the network.

Sengupta (2011) also stresses the importance of networks to access finance because of the trust developed among entrepreneurs, lenders, and investors thanks to networking. She adds that “bestowing trust may increase trustworthy behavior leading to a spiral of trust” (2011, 107). Financing sources in the study included family funding, angel investment, venture capital, and bank loans.

The small business bank financing literature is deemed highly important in our case. Bank financing is the preferred external financing source for the Dominican microenterprises studied. Therefore, further research in this area is necessary within the Dominican Republic context to better understand this financing and make better use of the existing literature.

Some researchers studying venture capital (VC) financing also go along with our results. A few examples of these authors are MacMillian et al. (1985), Knight (1994), Zutshi et al. (1999), Silva (2004), and Payne et al. (2009). They discuss the importance of the entrepreneur’s personal and professional characteristics (i.e., personality, experience, confidence, and management capabilities), business ideas, commitment, and trustworthiness to get financed. Confidence and trust in the venture capital-enterprise relationship are also crucial.

Venture capital financing has been extensively studied by researchers in entrepreneurship (Payne et al. 2009) and entrepreneurial finance (St-Pierre and Fadil 2011) in the last several decades<sup>200</sup>; however, it is rarely used by small businesses. In the Dominican microenterprises comprising our sample, venture capital is either insipid or non-existent.

### **2.2.2. Proactivity**

The second strategy identified to obtain funds to operate is being proactive. The objective is to generate as much revenue as possible to keep the business running without external financing. It is achieved by seizing market opportunities, finding alternatives to make money, being creative, innovating, increasing the number of customers, setting and achieving money-making goals, and working hard.

Welsh and White (1981) argue that a small business can endure long without profits or return on investments (ROI). However, it cannot survive without cash. Therefore, maintaining liquidity is a priority (see also McMahon and Stanger 1995; Ekanem 2010). It is a matter of life or death because the business “fails on the day it can’t meet a critical payment” (1981, 29). Cash is a scarce resource given the external financing constraints small businesses face. Illiquidity often leads to bankruptcy or discontinuity (H. Van Auken 2004).

Rhyne and Otero (1992) and other authors explain that conventional financial institutions struggle to serve microenterprises effectively. The authors indicate, for instance, that banks ought to process loans at costs that can be covered by interest charges and to trust that the borrower will reimburse. They add that for commercial banks to finance microenterprises, they will evaluate the client’s character, project, and business potential and require formal collateral. Nevertheless, these practices are expensive for banks and require information, while microenterprises cannot assume high financing costs, do not keep formal records and have limited marketable assets.

Pace and Collins (1976) explain that small businesses use homemade statements to support their loan request. However, these statements lack objectivity and consistency from one year to the next. Assets are valued based on the owner’s estimation, and net worth varies randomly. The authors stress the importance of accurate, adequate, and up-to-date statements. They state

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<sup>200</sup> See Silva (2004) for a summary of past studies on VC decision-making.



that “good records are primary evidence of good management” and assure that those businesses capable of responding to banks’ requests for information would be surprised at the speed loan applications will be accepted (1976, 17).

It is evident that meeting accounting and financial reporting standards is often too technical, too costly for small businesses, and produces information of little use for entrepreneurs (Pace and Collins 1976; Stanga and Tiller 1983).

Microenterprises are primarily one-person shows. Entrepreneurs assume numerous responsibilities: management, sales, marketing, accounting, production, logistics, law, etc. There is so much one person, or a small team, can do and know about these business functions. In addition, most small businesses in Latin America are created by individuals who lack the basic skills and knowledge to manage an enterprise and perform formal work. Plus, their employees are often family members who add mediocre value to the business (Sanguinetti et al. 2013; see also Schmitz 1982). They lack productivity.

From an empirical study on digital innovation in small family-owned Dominican businesses, Aybar Jiménez (2020) found that four (4) out of seven (7) businesses studied kept accounting practices informal, manually, and with a notebook.

Poor quality of information (Pettit and Singer 1985; Binks and Ennew 1997; Lopez-Gracia and Aybar-Arias 2000; St-Pierre and Fadil 2011) and the combination of the owner-manager personal activities and accounts with the ones of the enterprise (Levin and Travis 1987; J. S. Ang 1991; 1992; Rhyne and Otero 1992; Petty and Bygrave 1993; Naffziger, Hornsby, and Kuratko 1994; LeCornu et al. 1996) distance small businesses from getting external finance, plus overcoming the moral hazard and adverse selection problems that arise in this case scenario.

Dominican micro business owner-managers find creative and alternative ways to access finance and resources due to the difficulty of traditional capital acquisition and the limited financing sources. Bootstrap financing techniques are fundamental in this approach, as commented above.

Bhide (1992), as well as other authors in the bootstrap finance literature, explain that bootstrapping requires an unconventional practice of financing, different from the principles and practices of the corporate world.

In our view, Dominican micro-entrepreneurs share many characteristics Bhide (1992) acknowledges as necessary to be a successful bootstrapper. For instance, they become operational quickly, targeting small markets with simple ideas. They focus on breakeven fast, cash-generating projects, and conserving cash. Cash is necessary to survive, cover costs, and finance growth. In addition, a business that generates cash builds its credibility in the eyes of customers, employees, suppliers, the state, the community, and investors (i.e., stakeholders); and raises the entrepreneurs' confidence. Dominican owner-managers are empowered by their passion, marketing, and selling skills and willingness to go the extra mile. They seize profit-making opportunities and concentrate on growth, but at a pace that is sustainable for them and they can control.

### **2.2.3. Control**

The third strategy to finance operations is to have strict cash flow management control. It implies controlling expenses, prioritizing debt obligations, meeting suppliers' deadlines, and growing business reserves when possible. As a result, Dominican micro-entrepreneurs economize but spend in specific crucial areas.

Keeping a positive cash flow is a must. "Getting terms from suppliers and timely payments from customers [in particular] are critical in managing cash" (Bhide 1992, 116; H. Van Auken 2005).

Our results go along with other authors. To illustrate, Ang (1991) acknowledges that working capital management (including excess liquid funds) occupies most of the owner-managers time (see also J. S. Ang 1992; St-Pierre 2018). However, he adds that owner-managers tend to store cash for enterprise and personal matters. This will allow the entrepreneur, for instance, to minimize control from lenders, limit cost and risk of renegotiation, and reduce the probability of liquidation if temporary financial difficulties arise.

Furthermore, Ang (1991) suggests that financing projects with excess liquidity (or what he calls "slacks") and internal information makes more sense for small businesses when information asymmetries and project expectations are high. However, if the entrepreneur is overoptimistic about the initiative, the excess slack will encourage small businesses to overfinance ineffective projects.

Rhyne and Otero (1992) explain that savings are of great significance for micro businesses to finance growth as it is from this source that most investments come. Moreover, in the Dominican Republic context, Aristy-Escuder (2015) indicates that Dominican entrepreneurs recognize the importance of capital accumulation for investments and growth.

The Dominican owner-manager nature characterized by substantial debt, risk aversion, and a willingness to keep control could explain his/her reliance on internal financing. The lack of access to financial markets and the underdeveloped or unsuitable financial services may also encourage microentrepreneurs in the Dominican Republic to privilege self-financing or bootstrapping financing methods.

In this regard and in line with our view, Walker and Petty (1978) explain that the limited access to capital markets may impose on small businesses the need for more economy in the use of working capital and the retention of profits for reinvestment purposes (see also Hamilton and Fox 1998). In addition, they acknowledge that the entrepreneur's nature can affect working capital strategies, such as his/her risk tolerance.

#### **2.2.4. A mixture of financing sources**

The fourth strategy to finance business operations is taking advantage of the benefits of a mixture of financing sources available to the micro business entrepreneur. For instance, retained earnings become operating or investing financing down the road with no financial cost or principal to reimburse. Established suppliers' relationships favor payment delay negotiations at no cost. Personal or business bank lines of credit permit immediate access to funds with a thirty (30) calendar days payment deadline. Proper credit records become the businesses' reference letters to access bank loans and offer opportunities.

These financing strategies are based on bootstrapping techniques mobilizing resources at the owner-manager's reach (i.e., effectuation logic and proximity).

### **2.3. Financing to invest**

Regarding **financing used for investments**, it is found that more attention was placed on where the funds were coming from than the strategies used. The sources indicated were bank

financing, business operations retained earnings, self-financing, governmental entities financing, and proximity capital (family and friends). In addition, five (5) strategies to obtain funds were highlighted.

First, controlling the business and personal life to ensure efficient usage of resources and profits so that they could be reinvested in the enterprise. This also includes managing finances strategically, prioritizing debt obligations, and making payments when due.

Second, setting performance goals to meet growth objectives, for instance, bringing more cash into the enterprise by attracting more customers and diversifying product lines and services to encourage client spending and sales.

Third, obtaining proximity capital because they are close to the entrepreneur's reach (short in distance and relationship-wise). For example, siblings help each other access funds because the one was requesting it was rejected (due to having too many loans and debt obligations active). Entrepreneurs' clients borrow to lend owner-managers the money to grow the business making an agreement based on friendships. The entrepreneur uses the money and pays the client so that he/she can pay back the loan.

Fourth, building and keeping a reliable professional and personal trajectory with the enterprise stakeholders aid in accessing funds.

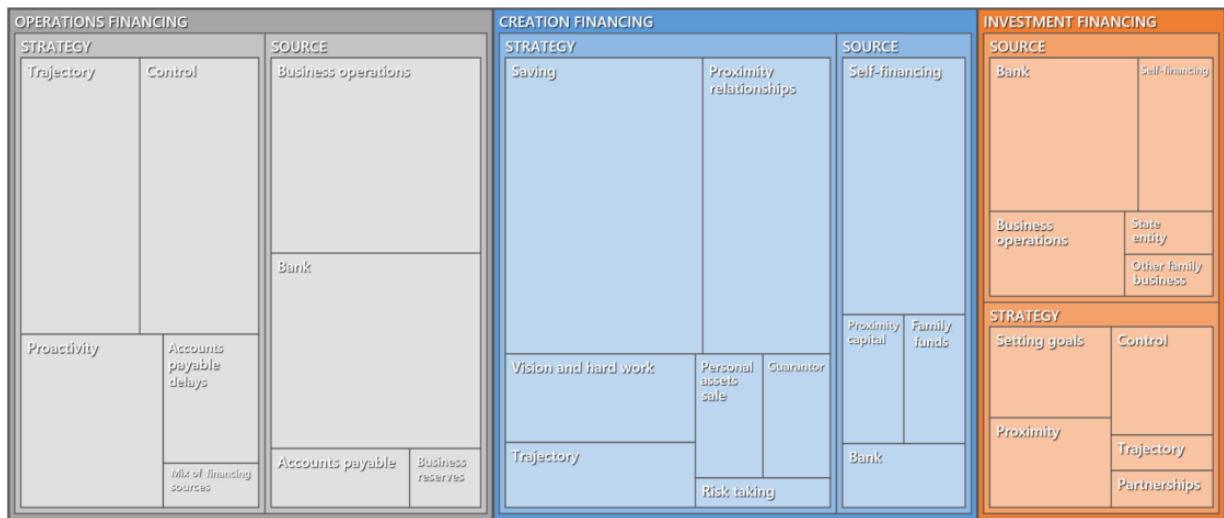
Fifth, consolidating valuable partnerships help grow the business. For example, suppliers that send the merchandise without pay for events, and advertising materials, because of the trust and professional trajectory.

Elements discussed in this section, including the strategies to access funds and the sources of funding used by Dominican entrepreneurs, are the consensus of owner-managers perspectives and lived experiences in our sample. They shared common characteristics such as risk aversion, wiliness to keep control, and utility maximization objectives. Moreover, they had comparable enterprises (microenterprises) even though they operate in different economic activities. Last, they evolve in similar environments with distinct cultural, social, economic, financial system development, and law regiment factors (the Dominican Republic).

The treemap below synthesizes our results and provides a general outlook of microenterprises financing of our sample. It includes the three (3) areas of focus discussed in

this section: the financing to create, operate, and invest in the Dominican microenterprise. Furthermore, each focal point includes the strategies employed to obtain funds and the sources used. Data is hierarchically ordered by the amount of coding references for each code or topic. Thus, bigger squares comprise more references than small ones. In addition to summarizing our results, this visual method facilitates identifying areas of relevance and patterns in the data that may not be perceived otherwise.

**Figure 47. General micro business financing outlook**



Source: Personal elaboration

### 3. The proximity vicious cycle of Dominican microfinancing access

Extending theory, the study showed that the mixture of proximities studied acts like key drivers to access funds for Dominican Republic micro-businesses. However, at the same time, owner-managers proximity preferences influence their financing decisions enclosing them to their nearness which in turn limits their funding access and enterprise development and productivity. We call this the proximity vicious cycle of Dominican microfinancing.

Owner-managers confine themselves to a set of limited boundaries. They put into work the resources they have at hand, near them, and move forwards based on what they know, whom they know and how they feel. It is a behavior guided by intuitive feelings and by the principle of nearness preference.

The table below synthesizes the proximity results. First, column two (2) provides the original proximity implications for accessing funds derived from the literature considerations. Next, column three (3) indicates owner-managers stand regarding proximity as a critical driver to access funds. Last, column four (4) furnishes the proximity elements that influence entrepreneurs' financing decisions to get funds, making them remain with their preferences.

**Table 94. The proximity vicious cycle of Dominican owner-managers financing access**

<b>PROXIMITY</b>	<b>Original proxemic financial implication to access to funds derived from the literature</b>	<b>Proximity criteria deemed determinant to access financing</b>	<b>Proximity preferences when deciding on financing that may cause a <i>phénomène de paroi</i> to access funds</b>
<b>HIERARCHICAL</b>	<ul style="list-style-type: none"> <li>• Centralized management and financial decisions.</li> <li>• Owner-managers' beliefs, preferences, desires, expectations, goals, conditions, and degree of risk and debt aversion affect the financing strategy and decisions (the theory of managerial choice by Norton 1991).</li> </ul>	<ul style="list-style-type: none"> <li>• Leads when compared to other proximities.</li> <li>• Owner-managers make the financing decisions, manage, and control the acquired funds; otherwise, there is an unwillingness to look for funds and use them for the enterprise. In this respect, sources of funds become pretty limited.</li> </ul>	<ul style="list-style-type: none"> <li>• Owner-managers must manage funds personally.</li> <li>• Preference for what they already know, they already have.</li> <li>• Create business and financing opportunities proactively to improve.</li> </ul>
<b>SPACIAL</b>	<ul style="list-style-type: none"> <li>• Proximity capital (Love money).</li> <li>• Predilection for spatially close actors (bankers, venture capitalists, etc.).</li> <li>• Local sources of financing.</li> </ul>	<ul style="list-style-type: none"> <li>• Specifies that having sources of funds (branches, banks, and investors) nearby helps access them. However, some entrepreneurs prioritize feeling comfortable and having favorable conditions above distance nearness. They can travel long distances from the enterprise locations for this fact.</li> </ul>	<ul style="list-style-type: none"> <li>• Distance nearness may influence but is not decisive. Adequate client treatment and financing solutions to entrepreneurs' needs go above the distance.</li> </ul>
<b>PATRIMONIAL</b>	<ul style="list-style-type: none"> <li>• Concentration of capital in the hands of the owner-manager or his/her family.</li> <li>• Confusion of personal and business assets.</li> </ul>	<ul style="list-style-type: none"> <li>• Exposes that having assets, goods, or resources as collateral facilitates access to funds. It is mainly used for external financing. However, it is only utilized if it is strictly necessary. There is a reluctance to comprise or put business and personal assets</li> </ul>	<ul style="list-style-type: none"> <li>• Restricting business owners from decision-making and management control and securing benefits for the owner-manager.</li> <li>• The lowest financing cost will be favored.</li> </ul>

	<ul style="list-style-type: none"> <li>• Unwillingness to open the capital for equity investors.</li> <li>• Personal collateral and bank security.</li> </ul>	<p>at risk till owner-managers prefer to give up the opportunity to make a profit.</p>	<ul style="list-style-type: none"> <li>• Reluctance to compromise personal or business assets and resources for collateral requirements. It is only considered when it outstandingly lowers financing costs or smooths the financing process.</li> <li>• Preference for self-financing even though this entails scarifying business growth and development. Better a bit less than wanting to go too fast.</li> <li>• Best conditions preferred.</li> <li>• Prioritizing financing costs.</li> <li>• Limiting risks.</li> </ul>
<p><b>INFORMATION SYSTEMS</b></p>	<ul style="list-style-type: none"> <li>• Preference for a limited number of financial partners.</li> <li>• Preference for direct and personal relations.</li> <li>• Preference for confidentiality.</li> </ul>	<ul style="list-style-type: none"> <li>• Limiting the sources of funds requested at once and the number of institutions the entrepreneur owes simultaneously favors accessing funds. The enterprise, in this case, is considered less risky. It is also expressed as owner-managers preference or choice.</li> <li>• However, taking advantage of multiple financing sources instead of limiting to one or a few ones occurs to a lower extent. Accessing and recapping several advantages of financing sources is only possible if the business and the entrepreneur (as a person) benefit from a trustworthy and accepted impeccable trajectory in the market. Building and keeping this respectable record becomes thus a must for a micro business to access funds. For this, it is necessary to ensure precise financial management, meet the enterprise obligations on time, keep</li> </ul>	<ul style="list-style-type: none"> <li>• Direct and personal relationship between the owner-manager and the fund provider. It permits a more personalized service among participants, ensures better negotiations and deals, and establishes more comfortable environments to make negotiations. However, it does not guarantee better benefits or more money than other participants.</li> <li>• Ensuring win-win relationships.</li> <li>• Avoid owing multiple fund providers at the same time. Therefore, financing sources will be limited as much as possible.</li> <li>• Preference for confidentiality regardless of belonging to a generalized database accessible by many.</li> </ul>



		<p>control, and avoid any instance that could damage the enterprise's reputation.</p> <ul style="list-style-type: none"> <li>Besides the simple notion of getting funds, PROs and CONs of each scenario must be carefully evaluated and weighed.</li> </ul>	
<b>RELATIONAL</b>	<ul style="list-style-type: none"> <li>Preferences for the capital of the people/institutions the owner-manager knows or is close to him/her (tied relationships, reputation, and attachment).</li> <li>Preference for those who share the same value, principles, and culture.</li> <li>Relational investment is recommended.</li> </ul>	<ul style="list-style-type: none"> <li>Having a high level of trust between the owner-manager and the fund provider. Dominican owner-managers distrust everything and everyone. They suspect everything because it is often found people who tell you something at first, and then they come up with something else. So it is never as good as it seems.</li> <li>Knowing in advance the institution, program, or person financing. Good relations and remain with whom they know. Being familiar with the fund's provider and its credibility and reputation.</li> <li>Building and keeping a well-established personal and business trajectory and professionalism. Once the trajectory is settled, it smooths any operational and financial support process.</li> <li>Lending sometimes is conditioned on the fund provider's willingness to lend.</li> <li>Sharing the same values and principles between the provider of funds and the owner-manager helps but is not mandatory.</li> </ul>	<ul style="list-style-type: none"> <li>Having good relations.</li> <li>Having a direct relationship.</li> <li>Feeling comfortable with the person financing.</li> <li>Friendship.</li> <li>Required mutual trust between parties.</li> <li>Reputation, trajectory, and previous knowledge of fund providers (established institutions or well-known individuals).</li> <li>Preference for a financing source where there is a pre-established relationship.</li> <li>Sharing the same culture, values, and principles is possible but not compulsory.</li> <li>It depends on who gives the best financing conditions.</li> </ul>

		<ul style="list-style-type: none"> <li>• Having good relations (friends, family, partners, bankers, representatives with public or private institutions).</li> </ul>	
<b>TEMPORAL</b>	<ul style="list-style-type: none"> <li>• Short-term over-indebtedness.</li> <li>• Liquidity preference.</li> <li>• Deficiency of own funds.</li> <li>• Relative lack of financial planning.</li> <li>• Narrow range of financing sources.</li> </ul>	<ul style="list-style-type: none"> <li>• Requesting short-term financing options simplifies accessing funds when compared to long-term financing. It is also easier to manage.</li> <li>• Timing considerations are also subject to the entrepreneurs' needs and conditions. The situation the business is facing, and the amount and purpose of the funds are evaluated as well. For instance, having the funds quick can ensure taking advantage of a profit-making opportunity. Balancing short-term and long-term guarantees the business stability, avoids liquidity problems, and minimizes risk.</li> </ul>	<ul style="list-style-type: none"> <li>• Having access to short-term financing options.</li> <li>• Fast funds availability is valuable. It permits effective operations, meeting obligations on time, and profiting from business opportunities before it is too late to remain competitive. Nevertheless, fund availability speed is conditioned to the fund provider's trustworthiness to minimize the possibility of fraud and control risk.</li> <li>• Financier time response.</li> <li>• Having multiple financing possibilities from the provider. Business objectives dictate the financing type (short-term and long-term) undertaken. Short-term is best for inventory matters, seizing market opportunities. Long-term is best suited for investments requiring higher monetary amounts, such as furniture purchases or real state acquisitions. Balance among short and long-term sources is necessary. Otherwise, it is not sustainable.</li> <li>• Prioritizing financing conditions above financing options variety.</li> </ul>
<b>ECONOMIC</b>	<ul style="list-style-type: none"> <li>• Preference for known economic sectors or activities.</li> <li>• Preference for known markets.</li> </ul>		<ul style="list-style-type: none"> <li>• Moneylender relationship with the economic sector or activity in which the company operates.</li> </ul>

Source: Personal elaboration

- **Several observations can be made about the results summarized in the table above. These are the following:**

**First**, it is not surprising that the **hierarchical proximity** leads compared to other proximities. As seen in our previous discussions, the willingness of the owner-manager to keep control of their enterprise and the utility maximization principle is a recurrent fact in the SME literature (see, e.g., Levin and Travis 1987; Barton and Matthews 1989; Norton 1991; Petty and Bygrave 1993; Lane and Jameson 1993; McMahon and Stanger 1995; A. N. Berger and Udell 1998; St-Pierre 2018) and our sample.

**Second**, one could consider that being closer in the distance with a fund provider would potentiate micro entrepreneurs' access to funds (see, e.g., Rhyne and Otero 1992). However, our results indicate that it is not necessarily the case.

Surprisingly, 80% of our cases provided a high value to **spatial proximity** (within 8 to 10 on the scale) as a critical factor in accessing funds. Nevertheless, when considering distance nearness when deciding to get a specific financing source, entrepreneurs explained that it is not as significant. They can travel long distances if they think specific financing will work best for them. They value the client's treatment, comfort, and the proposed financing solutions.

Some authors explain that geographical proximity may facilitate lenders to get information from small businesses. Therefore, it can overcome, if not minimize, information asymmetry problems (adverse selection and moral hazard) existing in the firm-creditor relationship (see, e.g., Armendáriz de Aghion and Morduch 2005). Nevertheless, it is not that simple.

Elyasiani and Goldberg (2004), for example, consider that borrowers should receive better terms on loans if they are close to the bank. However, Cole, Goldberg, and White (2004) find that distance nearness is not linked to loan approval.

Several studies examining how the distance between banks and clients has evolved found that distance has increased instead of decreased (see, e.g., Mitchell A. Petersen and Rajan 2002; Wolken and Rohde 2002; Hannan 2003). Borrowers and lenders communicate less and less in person (Mitchell A. Petersen and Rajan 2002). Thus, distance proximity may not be as essential as one could think for a small business wanting to get financed.

Cull et al. (2006) historical study of small and medium enterprises financing in northern and western Europe and North America during the 19th and early 20th century explains that local institutions that provide finance to SMEs emerged where there was enough demand for it. These institutions succeeded because they could use local information networks and provide credit to enterprises too young and small to secure financing in significant regional or national institutions. Furthermore, they increased returns from local households' savings. This helped mobilize significant resources to benefit the economic development in these areas. However, governments did little to encourage or limit their formation but guaranteed a secure environment for their emergence and growth.

Based on their findings, Cull et al. (2006) suggest several possibilities that might explain the financial desert in developing countries' local areas. First, they add that there may not be enough demand for financial institutions' services in these areas. Furthermore, small businesses may not be productive or competitive enough compared to similar businesses in more developed countries. There may be regulatory or institutional barriers, or country challenges, that impede the emergence of local financial intermediaries or crush the demand for these kinds of services. They explain, for instance, that in Latin America, the high level of wealth inequality and the general poverty of the population hinder local financial intermediaries from making money and therefore emerge. In our view, these are possible explanations for our results.

In addition, internal factors such as the Dominican owner-managers characteristics, governance, and utility maximization give us reasons to suspect that owner-managers will look for financing sources that have value for them and where they feel comfortable above distance nearness. Therefore, this situation necessarily approaches more hierarchical and relational proximities to finance their businesses.

While no entrepreneur in our sample mentioned it, and to the best of our knowledge, there are no studies about this topic in the Dominican Republic microenterprise, digital technology should be another aspect to consider when accessing capital. The spatial or physical proximity can be replaced by a digital proximity to get funds. We have never been so close with each other while physically distant.

We consider that digital technology can potentiate the Dominican owner-managers access to capital. For example, the internet can be the door to alternative sources of finance (e.g., peer-

to-peer lending, crowdfunding, and online lenders) and international or governmental support. Moreover, it can ease exchanges of information that can alleviate information asymmetry problems. Ultimately, it can enhance owner-manager bootstrapping capability and facilitate access to learning and guidance, among others.

The COVID-19 pandemic speeded the process of incorporating digital technology into our daily life as sustained quarantines worldwide and social distancing were required. We reached out online to work, do business, and for most of our daily activities. More than ever, the digital and the physical coexist in all spheres of life and should be given attention by business people, policymakers, and researchers in the Dominican Republic and the microenterprise domain.

**Third, for patrimonial proximity**, 90% of micro-entrepreneurs considered having assets, goods, or resources that serve as collateral essential to access funds, particularly bank financing. They placed this criterion in the highest range on the scale –i.e., within 8 and 10. Nevertheless, there is a reluctance to use assets as collateral, especially personal assets. They rather lose the business opportunity if they are not in control or do not feel comfortable with the financing conditions (e.g., financing cost, risk level, and equity and business partners). They favor growing slowly but surely.

Our results go in line with previous studies. From the bank financing perspective, the literature goes over the fact that collateral positively affects loan approval and reduces information problems (Elyasiani and Goldberg 2004). For instance, Cole et al. (2004) explain that, in principle, a business having collateral when applying for a loan is perceived as safer because collateral is the lenders' insurance if there is a loan default. In addition, assets can be liquidated to pay off the loan if the initial payback agreement is not respected. Thus, the borrower's collateral has positive effects on loan availability. St-Pierre (2000b) also includes collateral as a crucial element to grant credit for a small business, as well as the empirical studies of small business financing made by Hamilton and Fox (1998), Pissarides (1999), and Wu, Song, and Zeng (2008).

In addition, previous publications expose that banks tend to request small businesses and entrepreneurs' personal assets as loan collateral because they cannot clearly distinguish the business and the owner (see, e.g., Levin and Travis 1987; J. S. Ang 1992; Osteryoung and Newman 1993). Banks want to take advantage of the unlimited liability; however, owner-

managers are not always willing to use their assets to guarantee a loan. This is the general tendency of entrepreneurs in our sample.

Owner-managers want to feel in control and avoid unnecessary risks. Thus, this is manifested in how they finance the business. Operations and growth are handled at rates entrepreneurs can control even if it is not optimal, but they feel comfortable. Assets are kept safe in the hand of the owner-manager. The lowest financing cost is prioritized (see Titman and Wessels 1988; Mac An Bhaird 2010), and the amount of equity investors is restrained.

In our view, patrimonial proximity is conditioned by hierarchical proximity despite its value in accessing funds.

**Fourth**, our findings indicate that Dominican micro-entrepreneurs do not like to owe. **Information system proximity** highlights that owner-managers will find ways to limit their financial obligations as much as possible and avoid requesting from several institutions or people simultaneously. The more obligations outstanding, the harder it is to keep control and the riskier the enterprise. Entrepreneurs in our sample will wisely weigh each financing option to avoid this situation and find alternative ways to borrow.

Previous researchers support our results. For instance, Ang (1992) argues that fewer lenders imply fewer conflicts among moneylenders if defaulting-which presupposes a lower bankruptcy cost. The empirical study performed by Petersen and Rajan (1994) exposes that borrowing from multiple lenders increases the price and reduces credit availability. Cole et al. (2004) indicate that multiple lending relationships negatively affect banks. Lastly, St-Pierre and Fadil (2011) explain that having few banks allow small businesses to negotiate lower financing cost on loans and reduces the enterprise risk.

From our sample, only two (2) enterprises out of ten (10) –case#2 and case#8– indicated that they take advantage of multiple financing sources. Instead, they compare interest rates, benefits, and client treatment and will use this information to negotiate with lenders. According to entrepreneurs in these two (2) enterprises, having several fund providers (e.g., various banks) willing to lend signals that the business (or owner-manager) is in a favorable financial position and benefits from a good reputation because of a reliable professional and personal trajectory.

In this regard, Berger and Udell (1998) argue that having only one (1) bank may be risky for a small business if the bank denies a loan request from the enterprise. This can signal that

something is wrong with the business when it is not necessarily the case. The bank may be dealing with its own liquidity problem, for example. Thus, they add that small businesses could maintain multiple lending relations despite the increased financing cost to avoid this situation.

Further findings in information system proximity revealed that entrepreneurs value direct and personal relations with their fund provider. However, it does not guarantee access to funds or better benefits. Furthermore, they appreciate confidentiality but know it is challenging to achieve. Nowadays, numerous databases with information, including credit scores<sup>201</sup> and tracking records, are easy to access by many.

**Fifth, relational proximity** is essential for Dominican owner-managers to access capital and intensely conditions their financing decision-making.

Our findings indicate that having a high level of trust between the owner-manager and the fund provider and being familiar with them and their credibility and reputation are essential to access funds. In addition, if the enterprise and the owner-manager benefits from a well-established trajectory and professionalism, it smooths any operational and financial support process. These aspects are critical to getting funds but also play a central role in financing decisions. For example, the entrepreneur does not pursue the financing option if there is no trust or reputation.

Earlier studies have found similar results. For example, Harrison, Dibben, and Mason (1997) and Lapavitsas (2007) argue that building trust-based relationships favor getting funds from informal investors and banks. Likewise, Sengupta (2011) explains that networks permit access not only to finance but also to valuable resources thanks to the trust built within these relationships. Sengupta's study included funding from family, business angels, venture capitalists, and banks.

Extensive literature highlights the value of trust and reputation in small business support networks (see, e.g., J. S. Ang 1991; 1992; Sleuwaegen and Goedhuys 2002; Le, Venkatesh, and Nguyen 2006; Vos et al. 2007). In addition, numerous studies have focused on the role of relationships and access to credit which is the preferred external financing in our sample (see,

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<sup>201</sup> "Credit scoring is the term used to describe formal statistical methods used for classifying applicants for credit into [good] and [bad] risk classes" (Hand and Henley 1997, 523).

e.g., Bhide 1992; Mitchell A. Petersen and Rajan 1994; A. N. Berger and Udell 1995a; 1998; Blackwell and Winters 1997; Cole 1998; Uzzi 1999; Boot 2000; Elyasiani and Goldberg 2004).

In general, the small business bank financing literature exposes that borrowers' and lenders' relationships can allow banks to access information from the business that can be valuable to grant credit<sup>202</sup>. It can help determine contractual agreements: interest rates, collateral requirements, covenants, monitoring details, periods, etc. It can minimize agency and information problems arising from this relationship (i.e., moral hazard and adverse selection). Furthermore, according to researchers, information asymmetries are one of the main barriers for small businesses to getting financed in the formal sector (see, e.g., Bhattacharya and Thakor 1993; Binks and Ennew 1997; Boot 2000; St-Pierre and Fadil 2011). Thus, nurturing borrower-lender relationships is advised.

In our view, other (internal and external) aspects may explain the need for trust-based relationships, credibility, reputation, and a well-established trajectory to access funds for microenterprises in the Dominican Republic. Internal aspects could be tied to the owner-managers characteristics and governance. For instance, their need to keep control, avoid risk, limit the number of fund providers, ensure win-win relationships, to find creative alternatives to finance the business (such as bootstrapping) are all factors that can incentivize entrepreneurs to make their relationships work (at a personal and professional level). The lack of protection in the sector, primarily due to business informality, also urges the Dominican entrepreneur to build and search for trust-based relationships.

External factors may include the lack of confidence in the state and institutions, corruption, uneven distribution of wealth, human development gaps, poverty, and financial market development. These aspects may influence micro-Dominican owner-managers to highly value trust, credibility, reputation, and trajectory when accessing internal or external funds and deciding which one to pursue<sup>203</sup>.

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<sup>202</sup> Information can come from, for example, repayment history, periodic submissions of financial statements, renegotiations, visits with management, data from monitoring, deposit accounts, personal loans, credit cards, trust accounts, investment services, etc. (A. N. Berger and Udell 1998). See also Boot (2000). Information can also come from the enterprise networks, such as its customers and suppliers, social and noncommercial interactions, market practices, and the bank's relationship with the borrower. Thus, information can be "hard," meaning numerically precise and transaction-based, or "soft," entailing data from the bank and borrower interactions and relationships (Lapavitsas 2007).

<sup>203</sup> For instance, The World Bank (2007) indicates that the financial sector development in a country influences the extent to which a firm may remain controlled by a close group of family members. They add that "firms are more likely to incorporate in countries where there are better-developed financial and legal systems, strong creditors and shareholder rights, and effective bankruptcy processes" (The World Bank 2007, 68–69). See also Demircuc-Kunt, Love and Maksimovic (2006).



Further results indicate that 90% of enterprises ranked sharing the same values and principles with the fund providers in the highest range on the scale (i.e., between 8 and 10) to access funds. However, they explain that cultural, values, and principles differences are not barriers if they decide to get a specific source of capital. It is presumed that three factors may explain this.

First, the Dominican Republic is a country with a high acceptance of foreigners and tourists. Tourism is one of the key economic sectors of the country. According to data published by the Dominican Republic central bank (2021b), the country received more than 45.9 million foreign visitors in the last ten years. In addition, tourist arrival between 2010 and 2019 represented revenues of US\$58,000 million. In 2019, revenues reached US\$7,468.1, representing 8.4% of the Gross Domestic Product (GDP). These figures position the Dominican Republic as the leading country in tourism in Central America and the Caribbean.

Second, around 20% of Dominicans live abroad—i.e., nearly 2.1 million people (Organización Internacional para las Migraciones República Dominicana 2018; Ceara-Hatton 2021). Most are concentrated in the United States (notably New York, New Jersey, Florida, Massachusetts, and Pennsylvania), Spain, and Italy.

Lastly, the country's historical shaping is known for its intermingling and interchanges of races and cultures<sup>204</sup>.

Other findings indicate that feeling comfortable and having good relations with the fund provider clearly condition the financing decision-making. For example, nine (9) out of ten (10) enterprises valued “feeling comfortable with the person who finances” at ten (10)—the highest number on the scale. Furthermore, eight (8) out of ten (10) cases ranked “to have good relations” at ten (10) as well. This may imply that if the owner-manager feels uncomfortable or does not get along with the fund provider, it will not get the financing option. If it is in process, it may abandon and seek other options (see, e.g., Haines, Riding, and Thomas 1991).

It is worth noting that owner-managers indicated that they could travel long distances where they feel comfortable. Thus, it can be presumed that relational proximity goes above spacial proximity when Dominican micro-entrepreneurs make financing decisions.

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<sup>204</sup> For details, see the works of Moya Pons and Roberto Cassá.

In sum, the evidence gathered allowed us to suggest that Dominican micro-entrepreneurs highly value relational proximity to access funds and make financing decisions (except for sharing the same culture, values, and principles with the fund provider). Relational proximity is one of the most crucial proximities alongside hierarchical proximity.

**Sixth**, results from **temporal proximity** highlighted the importance of liquidity and working capital management for the owner-manager and the enterprise's survival. However, it also indicates there is financing for every business need or objective.

Entrepreneurs indicate that short-term financing is easier to access and manage than long-term financing. 80% of cases in our sample placed this criterion in the scale's eight (8) to ten (10) range. In addition, they prefer the short-term and quick availability of funds when making financing decisions. 90% of cases valued these two factors at ten (10)—the highest number on the scale<sup>205</sup>.

In line with our results, prior research has highlighted the frequent use of short-term financing by SMEs, such as account payment delays, lines of credit, and bank or credit card overdrafts (see, e.g., Walker and Petty 1978; St-Pierre 2000b; Sanguinetti et al. 2011; Masiak et al. 2019). According to St-Pierre (2000b), short-term bank financing is the most favored financing source by small businesses after account payables delays. Furthermore, studies indicate that short-term debt financing options are preferred after internal financing is depleted (e.g., Holmes and Kent 1991; R. W. Hutchinson 1995). Short-term debt is considered a “safer debt” for entrepreneurs. There are usually less restrictive covenants limiting the owner-manager decision-making than what is found in long-term debt (Holmes and Kent 1991). The latter comes with greater rigidity and negotiating cost (R. W. Hutchinson 1995).

Besides the short-term preference found in our results and how, in general, the literature supports it, it is worth pointing out that Dominican micro-entrepreneurs also use long-term financing. This financing is not neglected. Entrepreneurs explain that a combination of short-term and long-term financing in a business is necessary to guarantee business stability, avoid liquidity problems, and minimize risk. These results agree with other researchers, such as St-

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<sup>205</sup> When making financing decisions, 100% of cases placed “have access to short-term financing options” and “availability of funds quickly” within the eight (8) to ten (10)—i.e., the highest range in the scale. It should be noted that fund availability speed is conditioned to the fund provider's trustworthiness to minimize the possibility of fraud and control risk.

Pierre (2000b). She explains that SME financing requires to be balanced in periods (i.e., short-term and long-term) and sources (i.e., debt and equity).

**Seventh, economy proximity** results indicated that Dominican owner-managers value that the fund provider is knowledgeable about the industry, economic activity, and the market in which the microenterprise operates when making financing decisions. This criterion was evaluated between eight (8) and ten (10) by 90% of the enterprises; however, no comments were made.

**Overall, this thesis's proximity approach** provided some light on Dominican microenterprises financing. A mixture of proximities with their constitutive features was studied in two (2) significant ways. As elements to access finance (internal or external; formal or informal) and as factors influencing owner-managers financing decision-making when pondering financing options. The reason for this is that, in principle, proximity may facilitate financing access for microenterprises from the owner-manager perspective. However, when deciding what will be done, they may not consider it essential or may value other or additional elements to get the funds.

The financing access is about the proximity elements required to obtain it and the owner-manager preference that will condition this access. For instance, the analysis of spatial proximity indicated that distance nearness is determinant in accessing funds. Nevertheless, when making financing decisions, owner-managers indicated they could travel long distances to go where they feel comfortable, get better client treatment, and find financing solutions. Relational proximity, in this case, becomes more relevant.

The patrimonial proximity study suggests that having collateral for funds is vital, especially for obtaining bank financing. Nonetheless, further analysis entails that owner-managers are reluctant to use assets as collateral, especially personal ones. Owner-managers want to feel in control and avoid unnecessary risks. Thus, in this case, hierarchical proximity takes the lead.

In general, findings suggest that owner-managers have preferences for each of the proposed proximities. These ones act as what Moles and Rohmer (1978) call *le phénomène de paroi*. Entrepreneurs will be entrenched in their preferences because they value them highly to access financing. If these preferences are not met, then the source of capital is not considered—see column 4 table 94. For instance, the financing option is not pursued if there is no trust or reputation between the owner-manager and the fund provider (relational proximity). In this

example, trust is a proximity preference that acts like a *paroi*. Owner-managers will prioritize fund sources where there is mutual trust. They will neglect those unknown to them, considered untrustworthy, or just because they feel uncomfortable. By remaining in particular proximity preferences, entrepreneurs enclose themselves into them. They will keep themselves away from financing options outside their predilections. In this sense, proximity can act as a determinant element to access capital and, at the same time, hinder the use and/or discovery of other sources that may be more optimal given the situation or objective. However, these last ones are neglected by choice because the owner-manager is the one making financing decisions.

In addition, our findings suggest that hierarchical, relational, and economic proximities were valuable additions to Torrès's (2011) original proposition which only included spatial, patrimonial, information systems, and temporal proximity. Therefore, it seemed pertinent to include these three (3) extra proximities to go along with the small/micro business literature and the law of proximity of Moles and Rohmer (1978).

Hierarchical proximity is vital to access funds and conditions the owner-manager financing decision-making. It is dominant as the owner-manager is the one in control. In our view, it is this proximity that oversees the rest. Everything starts with the entrepreneur and ends with him/her because the enterprise is an extension of the entrepreneur and not a separate entity.

Relational proximity highlighted the value of trust and reputation, building and keeping a well-established personal and business trajectory for the entrepreneur, and feeling comfortable with the fund provider and financing conditions. The Dominican micro-entrepreneur can travel long distances if necessary to go where he/she feels appropriate.

Economic proximity pointed out that entrepreneurs appreciate that funders have some knowledge about the industry, economic activity, and the market where the enterprise operates.

Furthermore, the analysis of the data, in particular spatial proximity, brought to light the need to research digital proximity in the context studied. It is presumed that digital technology can potentiate microenterprises financing access.

A necessary addition to the mix is digital proximity. In our view, digital technology can facilitate communication between the entrepreneur and fund providers, regardless of distance. It can provide the means to approach alternative capital sources such as peer-to-peer lending, crowdfunding, and online lenders; to get support from the government or international

institutions. It may improve the quality of information produced within businesses and its exchange. Thus, it could alleviate the information asymmetry problems (adverse selection and moral hazard) existing in the firm-creditor relationships. It might enhance the entrepreneur bootstrapping techniques, networks, access to guidance, and learning, among others.

By abstracting our results, this research argues that microenterprises follow a proxemic order to access funds and make financing decisions. This means the mixture of proximities will be mobilized according to the owner-managers personality, preferences, reality, and financing objective. It is a broad global approach in which constitutive elements are malleable by each entrepreneur to get capital (internal or external, formal or informal). It is an order that is not rigid nor absolute for all but flexible and dynamic. It is practical and responds to small businesses' specificity and diversity.

The following section will go over other elements of interest about the financing access of microenterprises.

#### **4. Additional elements besides proximity implications were identified to facilitate accessing capital (once asked directly).**

These were the profitability of the business or project, the pitch, the business plan, the business team, the formality of the business, and high-quality service and/or products. The key results for each one of them are presented hereafter.

**4.1.Profitability of the business or project:** according to entrepreneurs, this translates to the business trajectory making benefits and business operations data and numbers proving the business sustainability (see Cooley and Edwards 1983).

**4.2.Pitch:** evidence from our sample indicates that a good presentation of a clear and captivating pitch with solid arguments potentiates accessing funds. However, it is done intuitively and informally.

**4.3.Solid business plan.** Nevertheless, it is done intuitively and informally. Entrepreneurs value a formal professional proposal, yet it is an insufficient criterion to get accepted when getting funded.

According to Hornaday and Wheatley (1986), some research indicates that small businesses do not set goals or plan formally. In further support, Hamilton and Fox (1998) explain that small businesses operate with little planning. This is the case with Dominican microenterprises. Owner-managers are encouraged by money-making goals and business growth; however, little is put into the paper, planned out, and made explicit.

**4.4. Business team** trust, support, and win-win relationships are crucial because they guarantee business operations continuity and cash generation. Management and decisions are based on the team's performance and are crucial to business work. Owner-managers emphasize that this criterium is not essential for the banker.

**4.5. The formality of the business** is necessary, especially for external sources of funds such as banks. Two (2) significant aspects can be added according to our results:

- If a financier decides to fund an informal business, it will depend on the applicant or enterprise's trustworthiness with the institution or the investor requested.
- Informal businesses do not necessarily want to become formal, even though their owner-managers acknowledge its importance for accessing funds and accomplishing other procedures.

Earlier studies in SMEs suggest that formality benefits businesses. First, it potentiates access to financing sources, particularly credit in traditional markets (see, e.g., Catão, Pagés, and Rosales 2009; Aga and Reilly 2011; Rand and Torm 2012; Distinguin, Rugemintwari, and Tacneng 2016; Wellalage and Locke 2016). Second, it increases firms' profits, investments, employment quality, and growth (Sleuwaegen and Goedhuys 2002; Rand and Torm 2012). Third, it provides advantages in sales and promotes access to resources such as financial and human capital (Assenova and Sorenson 2017). Fourth, it benefits profits, value-added, business associations memberships, access to equipment, advertising, and increasing the customer base (Boly 2018). Finally, it facilitates government protection, access to tenders, contracts, subsidies, and other assistance.

Dominican micro-entrepreneurs in our sample acknowledge that formality is key for accessing external funds and may facilitate specific procedures. However, Dominican micro businesses will only go formal if the benefits surpass their costs. The cost associated with taxes, bureaucracy, governmental regulations, and corruption may encourage owner-managers to remain informal, as Assenova and Sorenson (2017) and others suggested. In addition, limited access to external funds because of information asymmetries (Binks and Ennew 1997; Lopez-Gracia and Aybar-Arias 2000; Baas and Schrooten 2006; St-Pierre and Fadil 2011), agency problems (Jensen and Meckling 1976; St-Pierre 2000b), and unsuitable financing services (Rhyne and Otero 1992) may not stimulate owner-managers to make the change.

Regarding financing, most studies focus on formality's impact on accessing credit in formal markets. However, in a recent study Archer (2021) provides fresh empirical evidence on alternative financing channels small businesses use. To the best of her knowledge, this is the first study analyzing how formality affects the use of formal credit, informal funds (e.g., borrowing from family members and friends, acquaintances, moneylenders, and trade credit), equity funds (i.e., owner's funding), and retained earnings. She uses a sample of Vietnam SMEs (an emerging country) and concludes that formality decreases formal credit use but boosts informal debt, equity funding, and retained earnings. She explains that this could be due to several reasons, among which we highlight the following four (4):

First, results suggest that formal credit is replaced by the three (3) sources mentioned earlier: informal funds, equity funds, and retained earnings. Second, the firm's preference is to privilege the use of non-formal financing sources because of their small nature. Third, the cost and conditions of obtaining formal credit make them prefer equity and retained earnings. Last, firms with formal registration tend to grow more, make more profits and have access to valuable networks, thus having a greater possibility to make more profit and finance the business with internal resources.

Abundant literature recommends that governments and institutions encourage informal businesses to become formal ones. Not only for the financing possibilities (internal or external) but also because they can reap the benefits of valuable resources. Nevertheless, some studies emphasize that state legitimacy is essential if these enterprises are to be formalized. For instance, Demircuc-Kunt, Love, and Maksimovic

(2006) find that enterprises are more likely to incorporate in countries with developed financial and legal systems, substantial shareholders and creditors rights, low regulatory and corporate taxes burdens, and efficient bankruptcy processes. They add that unincorporated businesses have a comparative advantage operating in informal environments where businesses rely on self-financing and their reputation as opposed to legally enforceable contractual obligations.

In further support, Assenova and Sorenson (2017) highlight that countries, where people do not trust the government and institutions will foster the development of informal firms. If the state is considered legitimate and its operations are effective and consistent, there are greater benefits of being formal such as accessing financial and human capital and attracting customers. Therefore, the expected value of becoming a registered enterprise positively relates to state legitimacy.

Loayza, Oviedo, and Servén (2005) explain that a larger informal sector often implies distorted and insufficient economic growth and stresses the importance of institutions' quality of regulation and governance to reduce informality.

A study by Distinguin, Rugemintwari, and Tacneng (2016) with World Bank Enterprise Surveys (WBES) data and a sample of 23,084 micro, small, and medium firms from 86 countries; suggest that informal enterprises compete against registered ones and hurt their profits. This is true only in countries with weak law rules and high corruption and bureaucracy. The authors add the following: "A weak quality of institutional environment increases the size of the informal economy, raises the costs and lowers the benefits attributed to formality, and in addition, creates a culture of informality" (2016, 33). The most affected by informal competitors are registered micro and small firms, and formal SMEs are more likely to be more credit-constrained than informal ones.

Our findings suggest that if an external financier supports informal firms, it is because of the established trust among parties. This aligns with Le et al. (2006), who explain that legitimacy is built with and thanks to the people who make up the network when formal institutions are not well developed.



In the Dominican Republic, nine (9) out of ten (10) microenterprises operate informally (Fundación Reservas del País, FondoMicro, and Data Crédito 2019), indicating the existence of a culture of informality. Further empirical research is necessary to comprehend microenterprises' formality and financing patterns fully. Several questions remain unanswered, such as what benefits and costs are derived from operating formally and/or informally and why this is? What are the sources of informality? How does it affect business performance, and if informal businesses outperform formal ones?

**4.6. High-quality service and/or products** to keep clients because there is no business and no capacity to generate cash without them. This element is essential in the business operations and core of financing and is deeply related to the general management of the business.

These results corroborate with the study performed by Aristy-Escuder in 2012 (see also Reijonen 2008). Although his research does not include microenterprises, his analysis of 254 small and medium Dominican businesses indicates that these enterprises are market-oriented (2012). They make decisions and operate continuously, considering their client's needs and feedback to ensure the best experience possible with the enterprise products and services. Most respondents in Aristy-Escuder's study stated that "everything that is done in the enterprise is for our customers" (2012, 514). In addition, he adds that SMEs' market orientation positively influences enterprise success (see also Aristy-Escuder 2015).

The following two (2) sections will explain this research's limitations and the scope for future research.

## Section 2: Research limitations

SME research is perhaps one of the most challenging ones. This is because small businesses are unique and heterogenous and require researchers to solve complex problems in evolving environments (e.g., digitalization, globalization, increased competition, crises).

The common ground in small businesses is that they differ. Thus no standard solution can be developed to guarantee financing access for all<sup>206</sup>. Context, activity sectors, enterprise governance, and development stages vary. Specificity then applies to address particular problems within given time constraints and situations. While this approach is necessary to advance theory and provide adapted practical solutions for small businesses, it is not perfect. For instance, an enterprise sharing common characteristics and evolving in a similar context as other enterprises may have different financing needs because of its nature and/or governance. As Ang indicates:

“The finance problem for small businesses is indeed very rich. There is no single perception for the optimal financial decision for different types of small businesses—startups or new ventures versus established or mature ones. Once this fact is recognized, the challenge for the finance researcher is to, on the one hand, provide a more detailed theoretical model and empirical testing for each type, and, on the other hand, to continually synthesize the results of small businesses in general” (1992, 201–2).

Data is expensive and time-consuming to obtain as small businesses are privately held, owned, and managed by one or a few individuals. In addition, there is a need for more qualitative studies in this domain. Collecting data through case studies, interviews, focus groups, and the collaboration of several research fields such as psychology, sociology, management, entrepreneurship, and finance can only be beneficial. All aspects previously mentioned, among other things, make small business study complex. Nevertheless, research is indispensable, considering small businesses are the foundation of the economic and social growth in most countries, including the Dominican Republic, where this research focuses (see Ortiz, Cabal, and Mena 2014; St-Pierre 2018).

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<sup>206</sup> Gregory et al. say: “financing for SMEs is anything but standardized” (2005, 390).

While the necessary measures to ensure this research quality<sup>207</sup> were taken; this thesis, and as any research project in small business finance and management science, does not escape from the limitations of its methodology, the challenges of the research area and context studied, and the limited resources and time available to perform it. In this sense, this thesis's limitations are the following:

- First, it is a small sample.

This research studies in-depth ten (10) microenterprises (cases) in the Dominican Republic to explore and develop theory about their financing access. Enterprises were chosen following a theoretical and purposive strategy suited to achieve the research objective. In addition, they shared common characteristics and represented the distribution of the main economic activities in the Dominican Republic—i.e., commerce, service, and manufacturing.

This research can only promise analytic or naturalistic generalizations (Stake 1978; Yin 2014) and not generalizability in a quantitative sense. Thus, results can only be transferred to similar and particular settings.

- Second, the uniqueness of each enterprise.

Cases in the sample were chosen sharing common features and for their relevance and variety. This strategy potentiates theory development. Nevertheless, even though enterprises studied evolved in similar contexts and shared common characteristics, every enterprise has its own reality. Thus, ensuring generalizability is complex. For instance, some enterprises could need more financing than others given their nature and/or governance and need to be studied individually.

Moreover, specific enterprise types should be analyzed independently. For instance, this thesis makes no distinction among small family-owned businesses, start-ups, new ventures, or established, mature ones. They deserve attention as well.

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<sup>207</sup> See section 3 on research quality in chapter 2 and table 46 for details (pages 246-267).

- Third, the theory is based on the Dominican owner-managers perspective and experience.

It is relevant to note that owner-managers perceptions and experiences cannot be put into one box. Each entrepreneur has their personality, objectives, financing choices, preferences, and growth perspectives for their enterprise. Furthermore, empiricists face difficulties quantifying motivations, expectations, and preferences, as Norton (1990) noted. Thus, findings should be interpreted carefully as they may be biased by measurement and data collection difficulties (Masiak et al. 2019).

- Fourth, data collection was performed at a single time and location.

Empirical evidence gathered from enterprises was during a period where the economy was booming, in 2017 and 2018. Thus, it is a static view of the enterprise. However, a period of economic contraction came afterward with the COVID-19 pandemic that impacted all sectors, especially very small businesses. Therefore, financing access for Dominican microenterprises during this crisis (and others) should be considered in future research<sup>208</sup>. Additionally, the COVID-19 health crisis limited additional in-person data collection in this research.

Enterprises studied operated in the principal city of the Dominican Republic—i.e., Santo Domingo. Other well-developed cities such as Santiago de los Caballeros should be studied in addition to smaller cities and rural and border areas. The enterprise dimensions, characteristics, and needs are not the same in any of these locations (Ortiz, Cabal, and Mena 2014).

- Fifth, the theory developed has limited predictive possibility.

Case study research and grounded theory methods provide rich, descriptive, and adapted theories aimed at comprehending the phenomena studied in their natural settings and not estimating what will happen in the future.

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<sup>208</sup> Aristy-Escuder's (2012) study indicates that international macroeconomic and financial crises negatively impact SME performance in the Dominican Republic. See also Aristy-Escuder (2015).

- Sixth, theoretical saturation was limited by available resources and time. Thus, the theoretical scheme was less developed than desired (Corbin and Strauss 2015). Data collection was difficult to access, time-consuming and depended on the voluntary cooperation of entrepreneurs (Brophy and Shulman 1992; St-Pierre and Fadil 2016). We only had access to data entrepreneurs were willing to share as enterprises were privately held and controlled by them. In addition, most of the data was gathered in person, especially primary data. This situation is common in entrepreneurial finance research where firms are small.
- Seventh, respondents and researcher bias.

Respondents may have shared what they consider is the right thing to say and not what they actually think or do. It is impossible to be sure they were completely truthful and open when answering the questions and providing information. Their recall capacity of what they did or do when financing their businesses may not be 100% accurate. Furthermore, there may be a difference between actual and perceived financing problems (see, e.g., Ferrando and Mulier 2015; Masiak et al. 2019). Thus, results have to be assumed with caution.

The researcher is the one collecting and making sense of the data (Charmaz 2014) and the literature. The one seeking patterns (with her own analytic lenses—i.e., paradigm) that may explain what is happening and provide the best possible explanation given the evidence available. Therefore, conclusions are not absolute but are plausible interpretations.

- Eighth, cultural and language differences.

Empirical data was collected and analyzed in Spanish to minimize the loss of meaning if a translation to English had occurred. However, codes were directly named or translated into English, with evidence supporting them. In addition, other relevant aspects of this research work were translated from Spanish to English to include them in this final work, particularly the interview guide.

The two (2) main languages used in this thesis were Spanish and English. However, French was also used to study French and Canadian authors who were vital in this research project. These included Gérard Hirigoyen, Olivier Torrès, Michel Marchesnay, Pierre-André Julien, and Josée St-Pierre, among others. In addition, peer debriefings, one of the techniques used to potentiate this research work's internal validity, were primarily in French-e.g., in research team meetings, doctoral workshops, and thesis follow-up committees in the doctoral school.

Despite the researcher's rigor in using these languages, it is essential to point out that meanings may have gotten lost in translations (Hoffman 1990) among Spanish, English, and French.

This research advances theory about Dominican microenterprises financing under owner-managers perspective and experience. It provides the needed practical guidance so that these enterprises can optimize their financing access in the context studied. However, its results should be comprehended, taking into account its limits. Future studies can address the latter.

### Section 3: Future research

This research endeavor highlighted the need to continue researching small businesses and their financing. Particular attention should be given to Latin America and the Caribbean countries, where access to reliable information about the sector is still limited (Zevallos 2011; Ortiz, Cabal, and Mena 2014; Oficina Nacional de Estadística (ONE) 2016; Correa, Leiva, and Stumpo 2020). In the Dominican Republic, thanks to the joint efforts of the Inter-American Development Bank (IDB), FONDOMICRO, the National Statistics Office, and the Ministry of Industry, Trade and SMEs (translated from Spanish), there are trustworthy and accurate publications about micro, small, and medium enterprises in the country<sup>209</sup>. This research work contributes to the scientific knowledge on the subject and the Dominican Republic. However, there are still numerous questions to be addressed and methodologies to be considered.

In our view, future research should develop four (4) main areas in the context studied by this research work. These are (1) the owner-manager and governance<sup>210</sup>, (2) the enterprise characteristics<sup>211</sup>, (3) financing sources, and (4) macro-environmental factors. Furthermore, researchers can consider specific (5) methodologies to explore or understand new areas better. The following five (5) sections detail each one of these areas.

#### 1. Owner-manager and governance

- Study more in-depth relational proximity. How does it benefit accessing informal and formal sources of funds? What are the nature and dynamics of the owner-manager and external financier relationships in the Dominican Republic? Particular attention should be given to bank financing, the most used external financing by Dominican micro-entrepreneurs<sup>212</sup>. What makes the owner-manager and bank relationship successful from both perspectives: the entrepreneur and the banker? How this relationship differs

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<sup>209</sup> FONDOMICRO remains the leading institution in scientific publications regarding micro, small and medium enterprises in the Dominican Republic. Since the early 1990s, it has contributed to 16 national surveys (Ortiz, Cabal, and Mena 2014) and more than 30 publications, including socio-economic, anthropological, sectoral, gender, legal, and econometric studies (FondoMicro 2022).

<sup>210</sup> See Abdulsaleh and Worthington (2013) and St-Pierre (2018).

<sup>211</sup> See McMahon and Stanger (1995), Michaelas, Chittenden, and Poutziouris (1999), Abdulsaleh and Worthington (2013), and St-Pierre (2018).

<sup>212</sup> Most studies are primarily performed for American banking and few other countries (Elyasiani and Goldberg 2004).

between small and big banks<sup>213</sup>? Relationships with other fund providers should also be studied, such as individual investors and ONGs.

- Analyze the value and development of personal, social, and professional networks for the micro-entrepreneur access to resources.
- Research further owner-managers proximity and effectuation behavior. How can it be explained? Is it due to the entrepreneur's educational background, the informality of the business, or is it for the enterprise's survival or strategic orientation? What hides behind the owner-manager effectuation behavior?
- Continue developing financial management theory taking into account non-pecuniary, non-monetary, non-financial, lifestyle, psychological, or psychic returns as proposed by McMahon and Stanger (1995). However, with entrepreneurs and the Dominican Republic context in mind.
- Examine Dominican family firms. How is their governance? How do they differ from other firms? Are they more successful in getting finance<sup>214</sup>? How do they finance their businesses<sup>215</sup>?
- Investigate which owner-manager gets financed the most and why. What makes them excel? Educational background, social status, entrepreneurial abilities, financial situation, networks, etc.
- Study owner-managers gender, age, education, and experience and their relationship with the enterprise capital structure and financing access<sup>216</sup>.

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<sup>213</sup> See, e.g., the studies performed by Petersen and Rajan (1994), Berger and Udell (1995b), Cole, Goldberg, and White (2004), and Carter and McNulty (2005). In general, small banks seem more efficient with their relationship with SMEs than big banks, particularly in lending markets. Nevertheless, it remains to be explored in the Dominican Republic.

<sup>214</sup> For example, Bopaiah (1998) finds that family-owned businesses have greater chances of accessing credit. The author explains that this may be due to fewer hazard problems, managerial characteristics, and conservative investment choices. The study was performed with data from the 1988-1989 Survey of Small Business Finances (SSBF) in the United States.

<sup>215</sup> See, e.g., the empirical study of Romano, Tanewski, and Smyrnios (2001).

<sup>216</sup> See, e.g., the studies performed by Cole (1998); Romano, Tanewski, Smyrnios (2001); Cassar (2004); Vos et al. (2007); Coleman (2007); and Nofsinger and Wang (2011).



- Explore women's specificities and financing access<sup>217</sup>. In Latin America, women prefer to work independently and be leaders; 50% of enterprises are led by women (Sanguinetti et al. 2013). In the Dominican Republic, women own more than half of all microenterprises (Ortiz, Cabal, and Mena 2014). In this respect, further research is needed about women-owned and managed enterprises. Who are they? How do they manage their businesses and access funds? What are their strategic choices? How do men and women owner-managers differ?
- Research micro business strategic orientations and their financing dynamics.

## 2. Enterprise characteristics

- Study more in-depth enterprise financing access operating in particular sectors<sup>218</sup>. For instance, study individually groups of enterprises evolving in manufacturing, commerce, services, and agriculture<sup>219</sup>. Understanding enterprises' differences, needs, and priorities can facilitate designing adapted assistance programs that can potentiate their development.
- Evaluate enterprises' age, life cycles, and development stages. Financing needs and constraints differ between microenterprises starting and those wanting to expand<sup>220</sup>. In addition, enterprises at different stages of growth have different characteristics and face

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<sup>217</sup> See, e.g., the works of Mead and Liedholm (1998) and Liedholm (2002), who study small enterprise dynamics in Africa and Latin America. They briefly discuss gender and acknowledge that most micro and small enterprises are owned and managed by women. In addition, the great majority of workers are also women. They explain that women are more risk-averse than men and less inclined to seek external financing.

Additional publications about women entrepreneurs financing access and patterns are the ones made by Sena, Scott, and Roper (2012) with evidence from England; Orhan (2001) with data from France; Kim (2006) in the United States; and Alsos, Isaksen, and Ljunggren (2006) in Norway. According to these studies, women face greater difficulties accessing external funds than men. Constantinidis, Cornet, and Asandei (2006) explain that financing access and patterns are not only conditioned by gender (as many studies will suggest) but are also determined by women's and men's differences in choices, preferences, and business financing needs as well as the entrepreneur characteristics and firm's attributes valorization. Family, social roles, and women's societal position are also mentioned. Other studies about gender and SME financing are the ones by Carter and Rosa (1998), Verheul and Thurik (2001), Coleman (2007), and Harrison and Mason (2007).

<sup>218</sup> Following this technique, which acknowledges small businesses' specificity (and diversity), FONDOMICRO has made several publications available. Of the latter, we can mention, for example, the following ones: *El Colmado* (Murray 1996); *El Taller* (Murray 1997); *El Colegio Y La Escuela* (Murray 2005); *Microempresas Y Turismo En La República Dominicana* (Ortiz 2005); and, *Pelo Bueno, Pelo Malo* (Murray and Ortiz 2012).

<sup>219</sup> According to Psaltopoulos, Stathopoulou, and Skuras's (2005) empirical study, sectors of economic activity where the enterprise operates influence the risk perception of the business and the access to funds. For instance, "the light manufacturing and handicrafts sectors raise more funds from external sources at start-up than businesses in the tourism and services sectors" (2005, 154). In another study, Ullah and Taylor (2007) find that UK technology-based Small Firms (TBSFs) are finance constrained at the early stages of business development. Wu, Song, and Zeng's (2008) study of small business financing in China finds that construction and manufacturing businesses have high bank loan borrowings while wholesale and retail sectors have the lowest rate of debt. Thus, specific groups of enterprises in particular sectors should be studied further. See also Mackay and Phillips (2005).

<sup>220</sup> See, e.g., Mead and Liedholm (1998) and Liedholm (2002).

different problems<sup>221</sup>. Thus, their financing access is expected to be different<sup>222</sup>. Future research should take these aspects into account.

- Study the various sizes of SMEs, i.e., micro, small, and medium enterprises. This thesis focuses on microenterprises financing access; however, there is much to be done in the Dominican Republic regarding the other enterprise sizes, particularly medium<sup>223</sup>.
- Analyze enterprises' various legal structures: sole proprietorship dynamics<sup>224</sup>, partnerships, private companies, and cooperatives.
- Study entrepreneurship, enterprise creation, and financing more in-depth—in particular, venture capitalist and business angels.
- Examine various distinctive types of small businesses such as informal<sup>225</sup>, minority (ethnic and/or gender)<sup>226</sup>, mobile, and family<sup>227</sup> firms. In addition, little is known about social cooperatives and enterprises owned and managed by artists, freelancers, people with disabilities, senior citizens, and Dominicans in foreign countries<sup>228</sup>.

In general, there are reasons to believe, as Ang (1991; 1992) and McMahon and Stanger (1995) suggest, that business financing objectives and needs differ depending on the enterprise type, circumstances, owner(s), and governance. Consequently, enterprise characteristics must be considered if valuable theoretical and managerial contributions are desired.

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<sup>221</sup> See, e.g., Le, Venkatesh, and Nguyen (2006). In their study of Vietnamese private firms, they found, for instance, that firms with later growth have more access to bank financing. Furthermore, they explain that networking influence to access bank financing is more vital in early growth stages than in later ones.

<sup>222</sup> See, e.g., Ang (1991), Petty and Bygrave (1993), Berger and Udell (1998), Vos and Forlong (1996), and Cull et al. (2006).

<sup>223</sup> See Ortiz, Cabal, and Mena (2014) and Aristy-Escuder (2012).

<sup>224</sup> See Liedholm (2002).

<sup>225</sup> Nine (9) out of ten (10) microenterprises operate informally in the Dominican Republic (Fundación Reservas del País, FondoMicro, and Data Crédito 2019). Further empirical research is necessary to comprehend microenterprises' formality and financing patterns fully. What benefits and costs are derived from operating formally and/or informally, and why is this? What are the sources of informality? How does it affect business performance? Do informal businesses outperform formal ones? All these questions need to be explored in the future. See the discussion on "formality of the business" pages 428-431.

<sup>226</sup> See, e.g., the studies made in Puerto Rico by Ruiz-Vargas (2000) and in the United Kingdom by Smallbone et al. (2003).

<sup>227</sup> According to Codopyme, *Confederación Dominicana de la Pequeña y Mediana Empresa* (the Dominican Confederation of Small and Medium-Sized Enterprises), 96% of small and medium-sized Dominican enterprises are family firms. Enterprises that contribute 27% of the growth domestic product (GDP) and generate 33% of employment (Rosa Polanco and Tejeda García 2016). Furthermore, see Delgado (2010) and Hoy (2010). Also, see the study performed by Revilla, Pérez-Luño, and Nieto (2016).

<sup>228</sup> Around 20% of Dominicans live abroad, i.e., nearly 2.1 million people (Organización Internacional para las Migraciones República Dominicana 2018; Ceara-Hatton 2021).

### 3. Financing sources

- Internal and external financing sources should be studied individually under a (1) financier and (2) entrepreneurial perspective. For instance, in external financing, analyze trade credit only, bank financing, business angels<sup>229</sup>, venture capitalist, and the government. So, what makes each one of these fund providers finance a small business in the Dominican Republic considering both views, the fund provider and the entrepreneur?

A study such as the one performed by MacMillan, Siegel, and Narasimha (1985)<sup>230</sup> for each financing source (internal and external) in the Dominican context can be beneficial for determining the criteria different fund providers use to finance small business projects. In addition, the different stages to access each one of the financing sources can also be analyzed.

Further studies can determine which financing source(s) is/are the most appropriate, considering the enterprise's objectives and characteristics.

The study of contracts and covenants<sup>231</sup>, particularly with banks, requires researchers' attention. There is a real need to improve contractual agreements between banks and small businesses that represent a more accurate risk estimation. It is still unclear what determines optimal financial contracts (in entrepreneurial settings) and what is the best covenant mix in contracts between financiers and entrepreneurs<sup>232</sup>. It is complex to specify how financial health is determined, what determines risk, how much is there, and how it is measured in small enterprises<sup>233</sup>. These questions await future research.

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<sup>229</sup> White and Dumay's (2017) business angels review of 84 articles published between 2000 and 2013 indicated that only five (5) articles investigated business angels outside the UK/Europe/North America regions. Two (2) focused on Singapore, and the remaining articles focused on Thailand, the Philippines, and Chile.

<sup>230</sup> See also Russell M. Knight (1994).

<sup>231</sup> See Apilado and Millington (1992).

<sup>232</sup> See Denis (2004).

<sup>233</sup> According to St-Pierre and Fadil (2011), enterprises' risk is decisive to access funds, yet not enough studies study risk. They add that risk is often presumed high in small enterprises without rigorous demonstration. Furthermore, out of their study of 770 articles in entrepreneurial finance from 1996 to 2010, financial information and the determinants and measure of small businesses' risk belong to the least studied topics however are essential to access to funds. See also Osteryoung and Newman (1993).

- Future studies should consider periods when getting financed—i.e., the short-term and the long-term.
- Various distinctive sources of funds should be studied further, such as alternative financing sources, bootstrapping, and the government.

Alternative financing sources include, for example, peer-to-peer lending, crowdfunding, online lenders, and invoice trading. Furthermore, consider other nonstandard lending based upon transaction technologies, as suggested by Berger and Udell (2006). These include financial statement lending, small business credit scoring, asset-based lending, factoring, fixed-asset lending, leasing, relationship lending, and trade credit.

Knowing if Dominican microenterprises can access some of these financing options would be interesting. If they do, how do they benefit from them, how do they work, and what are their dynamics? On the other hand, what is their potential if they do not have access to them? Furthermore, what about alternative sources of finance that form part of the Dominican idiosyncrasy, such as *el san*, *el fiao*, *el empeño*, and *las rifas*?<sup>234</sup> What is their place in businesses of small dimensions? When are they used, and why?

Moreover, what about the financing coming from the Dominican diaspora?<sup>235</sup> What is its role and scope in small businesses in the DR?<sup>236</sup> Or sources such as microfinance, cooperatives, or group lending<sup>237</sup>? All these questions are worth investigating.

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<sup>234</sup> The Superintendency of Banks in the Dominican Republic (2015) recently published a book, *La cultura del ahorro en la República Dominicana Del Situado a la banca*, with the contribution of Sociologists, Anthropologists, Folklorists, Historians, and Economists. The book provides details about *el san*, *el fiao*, *el empeño*, *los gremios funerarios o asociaciones mutuales* and *las rifas* as Dominican saving and financing practices. For instance, according to Carlos Esteban Deive, *El San* comes from Africa and came with Africans imported to Santo Domingo during the Spanish colony. He explains that *El San* “consist of cash or common fund made up of weekly, biweekly or monthly quotas in which several people, generally related or known to each other, intervene” (2015, 49). He adds that “the initiator of the *san* is in charge of collecting the dues, as many as the number of members who form the *san*, and the sum of money that was established beforehand and has the privilege of being the first to receive the total value of what it was collected. Women of low economic levels generally organize it and its purpose, in addition to stimulating savings, allows the organizer to immediately have an amount with which to meet a peremptory and unavoidable need or to create a small business” (2015, 49–50). Furthermore, he indicates that “the system operates without written accounting and is based on the mutual trust of participants” (2015, 50).

In another section of the book, Tahira Vargas Garcia (2015) provides detail about *el empeño*, *los gremios funerarios o asociaciones mutuales*, *las rifas*, *el fiao* under an anthropologist view. See also Tejada (2019) and Delgado (2019).

<sup>235</sup> According to information provided from Central Bank of the Dominican Republic, in 2021, remittances received from Dominicans abroad will exceed US\$10,000.00 at the end of December (2021). In the past two years (i.e., 2020 and 2021), they represent around 10% - 11% of the country’s GDP (Ceara-Hatton 2021; Severino 2021).

<sup>236</sup> See the study by the International Organization for Migration about the potential contribution of the Dominican population living abroad (diaspora) to increase productive inclusion (2018). See also Quispe-Agnoli and Vilán (2008).

<sup>237</sup> See Armendáriz de Aghion and Morduch (2005).

More research on bootstrapping and access to resources is necessary. Bootstrapping techniques should have their place and recognition in the finance literature, particularly when addressing micro businesses. Our results indicated that these techniques could be valuable sources of financing for Dominican micro businesses. However, there are still numerous questions about bootstrapping in the Dominican Republic. It would be interesting to investigate the spectrum of bootstrapping techniques used by Dominican micro-entrepreneurs<sup>238</sup>. The relationship between financial planning and bootstrapping in microenterprises. Dominican entrepreneurs' motives for using these practices<sup>239</sup>. Is it due to the legislation, the supply of finance<sup>240</sup>, the entrepreneurs' norms/values, strategy, or social and cultural factors? What are the process and dynamics of acquiring bootstrapping resources (financial and non-financial)?<sup>241</sup> How does bootstrapping look like in specific types of enterprises (e.g., family firms, informal businesses, start-ups)<sup>242</sup>; enterprises' life cycles<sup>243</sup>, activity sectors, and legal forms (e.g., sole proprietorships, partnership)<sup>244</sup>; entrepreneurs' characteristics (e.g., women and men, educational background)<sup>245</sup>, and locations (e.g., rural and urban)? Furthermore, is there a relationship between proximity and bootstrapping, and if there is one, what is its nature? Future research should explore these interrogations.

Another financing type requiring more research is the one provided by the government. Entrepreneurs in our sample indicated to be aware of the existence of some governmental institutions that can support their business; however, they rarely use them. Our results show that microbusiness financing government support is insignificant and considered unsuitable. Additional research should explore why this is

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<sup>238</sup> See, e.g., Schinck and Sarkar (2012).

<sup>239</sup> See, e.g., Winborg (2009).

<sup>240</sup> See Rhyne and Otero (1992).

<sup>241</sup> Harrison, Mason, and Girling (2004) encourage in-depth qualitative and case-based research to comprehend bootstrapping processes and dynamics fully.

<sup>242</sup> For example, Van Auken (2004) finds that firms considered higher risk value more bootstrapping techniques than those perceived to be lower risk. "As risk increases, the importance of bootstrap financing also increases" (H. Van Auken 2004, 154). See also Van Auken (2005).

<sup>243</sup> Other results in Van Auken's (2004) study indicate that as "the market served by the [enterprises] increases, the relative importance of bootstrapping financing decreases" (2004, 155).

<sup>244</sup> Van Auken and Neeley (1996), studying 387 small businesses in a Mid-western state in the United States, find, for example, that sole proprietorships and non-construction/manufacturing firms are more inclined to rely on bootstrapping financing when compared to other firms. Moreover, their results show that capital acquisition, particularly bootstrap sources of capital, is conditioned by enterprise characteristics.

<sup>245</sup> To illustrate, Van Auken (2004) found that owner-managers actively searching for traditional financing use less bootstrapping financing. He adds that they might have more likelihood of getting traditional funds because they may own financially stronger firms. On the other hand, he explains that owners who search for less traditional sources may have fewer possibilities of getting these funds because they might own firms that are weak and struggling financially. Thus, they will rely more on bootstrap financing.

and how it can be improved<sup>246</sup>. Furthermore, an in-depth study should provide details on the real benefits and use of current governmental support by microenterprises. The latter can help the government create and adapt existing policies to potentiate these enterprises' development.

#### **4. Macro-environmental factors**

The financing access of a microenterprise does not limit to firm-specific criteria. It is also determined by the context where enterprises develop. For example, microenterprises operating in European countries, England, or the United States, face different challenges than those in Latin American countries such as the Dominican Republic. Furthermore, there are differences among countries belonging to specific geographic regions (e.g., France and Germany or Spain, The United States and Canada, Chili and Argentina, Haiti and the Dominican Republic, and so on). There are variations within the same country as well (e.g., Santo Domingo and Santiago, Punta Cana, Barahona, or Dajabon in the Dominican Republic).

The macro-environmental factors proposed here transcend the mere notion of a geographic location. Instead, it includes the specificities defining these places at different levels: political, economic, legal, technological, environmental, and social. In other words, the setting where enterprises develop<sup>247</sup>.

We believe several areas merit further research in the Dominican Republic and microenterprises. These are the following:

- Study in-depth financing access in different locations—for example, rural and urban areas<sup>248</sup>, big and small cities, border areas, and households. Micro and small enterprises' dynamism vary according to where they are located; in Santo Domingo, in cities in the

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<sup>246</sup> Regardless of the efforts made in the Dominican Republic, Aristy-Escuder (2012) indicate that the Dominican Republic faces several challenges in providing an adequate environment for SME development. These include institutional weakness, bureaucratic obstacles, inefficient public services (education, health, security, electricity, among others), and corruption.

<sup>247</sup> The success of a microenterprise depends, among other things, on the country's context (See Taub 1998; Bhatt and Tang 1998; Schreiner and Woller 2001).

<sup>248</sup> Mead and Liedholm (1998) and Liedholm (2002) indicate that most micro and small enterprises (MSEs) are located in rural areas. According to the authors, in the Dominican Republic, they account for 46% of MSEs. Furthermore, they explain that MSEs in urban and commercial locations are associated with faster growth and survival than in rural areas and enterprises operated from home. See also Rhyne and Otero (1992).

interior of the country, and the rest of the country (Moya Pons and Ortiz 1994)<sup>249</sup>. Therefore, their financing use and needs should differ<sup>250</sup>.

- Continue research on financial systems development<sup>251</sup>; for instance, throughout the history of the Dominican Republic, how they have impacted microenterprises and how they can be improved<sup>252</sup>.
- Conduct studies on productivity, innovation, and digital technology.

Innovation and technology, transportation, and communication changes are altering how financial services are delivered and lending relationships are (Elyasiani and Goldberg 2004)<sup>253</sup>. It would be interesting to see how these changes impact the Dominican microenterprise<sup>254</sup> and if it potentiates their financing access<sup>255</sup>.

Microenterprises in the Dominican Republic often perform accounting practices informally, manually, and with a notebook<sup>256</sup>. The latter is locally known as *la macota del negocio*<sup>257</sup>. We believe these practices can be improved through innovation and digitized processes. They could improve financing access thanks to producing valuable information about the business. Furthermore, it may ease the relationship with lenders, such as banks, as information asymmetry problems are reduced.

Recently, software and digital platforms in the Dominican market have been introduced to make managing small businesses more efficient. For instance, *Claro* could provide solutions to SMEs mainly in Latin America,<sup>258</sup> including software, e-mail

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<sup>249</sup> See also Ortiz, Cabal, and Mena (2014).

<sup>250</sup> For instance, according to Aga and Reilly (2011), firms' location can determine credit access. See Okpara and Wynn (2007) and Fatoki and Asah (2011).

<sup>251</sup> See, e.g., Berger and Udell (2006).

<sup>252</sup> St-Pierre and Fadil (2011), in their recent literature review in entrepreneurial finance (with publications from 1996 to 2010), provide evidence that, in general, the development of financial institutions helps small and medium enterprises solve their problems and increase their access to finance. In the Dominican Republic, Aristy-Escuder (2015) encourages the development of the financial system so that small and medium can progress sustainably. See also *Superintendencia de Bancos de la República Dominicana* (2015). The World Bank (2007) indicates that well-functioning financial systems need broad access and depth and explain that small firms are one of the primary beneficiaries of the development of financial systems. Other examples are Hall, Hutchinson, and Michaelas (2004); Beck, Demirguc-Kunt, and Martinez Peria (2007); Rojas-Suárez (2007); Sanguinetti et al. (2011) and La Rocca, La Rocca, and Cariola (2011).

<sup>253</sup> There has been a "revolution in payment technology that renders distance unimportant, proliferation of investment options that make consumers less dependent on banks, deeper and broader financial markets that largely facilitate direct financing, and commoditization of financial assets" (Elyasiani and Goldberg 2004, 325).

<sup>254</sup> See, e.g., Aybar Jiménez (2020).

<sup>255</sup> Can digital technology make financing access easier for microenterprises in rural areas or home businesses, for example?

<sup>256</sup> See, e.g., Murray (1996) and Aybar Jiménez (2020).

<sup>257</sup> See, e.g., Murray (1996). *La macota del negocio* translates to English as the business notebook.

<sup>258</sup> Santo Domingo, Bogotá, Guayaquil, Santiago, Buenos Aires, and Sao Paulo (Claro Cloud 2020a). They also provide services in Miami.

accounts, videoconferencing, website, security, storage space, information backup, and virtual servers<sup>259</sup>. In the context of our interest, special attention should be given to accounting tools such as *Software Contable Claro Negocios*<sup>260</sup> and marketing techniques<sup>261</sup>.

Other aspects worth investigating in applying digital technology and digitized processes are the ones related to developing personal and business networks and acquiring resources from these—the access to funds from international or alternative sources<sup>262</sup> or applying bootstrapping techniques. The use and effect of tools and information found online for microenterprises. The evolution of the value chain<sup>263</sup> and how it has impacted and transformed the enterprise and its financing. For instance, marketing and sale with social media and e-commerce websites; human resources management with remote work and co-working spaces; logistics and procurement with globalization and advancements in transportation and communication; technology development with data mining or activities automation, and so on.

- Do more research on globalization and microenterprises. How does it look like? Can Dominican microenterprises become small multinationals? How? And if they are, how do they do it? How do they finance it? Future studies should propose productive ways to compete worldwide and access resources to go international.
- Study sustainable development in microenterprises in the Dominican Republic.
- Further research can guide the Dominican government to offer adequate support to microenterprises in different areas<sup>264</sup>. New policies can be created and current ones improved, considering the needs and opportunities of each enterprise (type, objective,

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<sup>259</sup> See “¿Qué es Claro Cloud?” (Claro Cloud 2020b).

<sup>260</sup> “Software Contable Claro Negocios” is “an application in the cloud, designed for SMEs that require administrative, accounting and legal control of their business in operations such as: purchases, sales, inventories, electronic invoicing, point of sale and payroll” (Claro Cloud 2020c).

<sup>261</sup> For other tools examples, see Visionwin (2021), Alegra (2021), Holded (2022), and SeniorConta (DSG Software 2022)

<sup>262</sup> Alternative financing sources include, for example, peer-to-peer lending, crowdfunding, online lenders, and invoice trading.

<sup>263</sup> See “The Value Chain and Competitive Advantage” (Porter 1998).

<sup>264</sup> For example, the U.S. Small Business Administration (SBA) and its partners offer free or low-cost counseling and training in all states. This includes assistance in federal contracting, access to the federal capital, export and trade, and connecting with mentors. They also provide entrepreneurial training and counseling and pay special attention to veterans, women, and minority-owned businesses (U.S. Small Business Administration 2021). For more examples of policies, see Rojas (2017).



and lifecycle)<sup>265</sup>. The government and researchers should consider several aspects<sup>266</sup>.

Examples include:

- Making regulations easier for microenterprises,
- Incentivizing formality<sup>267</sup>,
- Improving access to finance<sup>268</sup> and social security,
- Encouraging entrepreneurial attitude, productivity, and growth,
- Designing and providing training in several areas (human, technical, financial)<sup>269</sup>,
- Helping enterprises during crises (e.g., COVID-19)<sup>270</sup>,
- Promoting innovation<sup>271</sup>, sustainable development, and internationalization,
- Supporting efforts of NGO-based programs<sup>272</sup>,
- Controlling corruption<sup>273</sup> and violence, and,
- Ensuring the protection of property rights<sup>274</sup>, among others.

In addition, the follow-up, impacts, uses, and efficacy of plans proposed and undertaken should be studied.

Research and governmental support should be targeted towards reducing economic, institutional, legal, and technical obstacles microenterprises face in the Dominican Republic<sup>275</sup>.

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<sup>265</sup> See Mead and Liedholm (1998) and Liedholm (2002).

<sup>266</sup> See, e.g., De la Torre, Gozzi and Schmukler (2006).

<sup>267</sup> See the discussion on “formality of the business” pages 428-431.

<sup>268</sup> See, e.g., Tucker and Lean (2003) and Berger and Udell (2006).

<sup>269</sup> See, e.g., The Small Business Development Centers (SBDC) in the United States.

<sup>270</sup> See, e.g., Álvarez, López, and Toledo (2021).

<sup>271</sup> See, e.g., Dahlstrand and Cetindamar (2000) and Wessner (2002).

<sup>272</sup> See Rhyne and Otero (1992). NGO stands for non-governmental organization.

<sup>273</sup> Friedman et al. (2000) study of 69 nations around the world indicates that countries with high levels of corruption, bureaucracy, and a weaker legal environment manifest greater informality. See also the study of Beck, Demirgüç-Kunt, and Maksimovic (2008) and the one of Autio and Fu (2015).

<sup>274</sup> Beck, Demirgüç-Kunt, and Maksimovic’s (2008) study covering financing patterns of 48 countries provide evidence that better property rights protection increases external financing in small firms, in particular, due to its effect on bank financing.

<sup>275</sup> See, e.g., Pissarides (1999).

It is relevant to point out that in the past several years, numerous efforts have been made in the Dominican Republic to support micro, small, and medium-sized enterprises (MSME). Some of these include the following<sup>276</sup>:

- Law 488-08 for the development and competitiveness of these enterprises approved in 2008<sup>277</sup>.
- The creation of PROMIPYME to support the sector with financial and non-financial programs to potentiate the enterprises' efficiency, modernization, growth, and value-added contributions to the national economy<sup>278</sup>.
- The establishment of a vice minister in the ministry of industry and commerce of the Dominican Republic to promote micro, small and medium-sized enterprises<sup>279</sup>.
- Digital platforms to access various services, such as the *Ventanilla Única de Formalización*, to formalize businesses<sup>280</sup>.
- A simplified tax payment regimen was established by regulation No.265-19—known as *Régimen Simplificado de Tributación (RST)*<sup>281</sup>.
- The development of laws to facilitate accessing traditional financing, particularly with banks. This is the case, for example, of law 45-20<sup>282</sup> enacted on February 18, 2020, establishing a legal framework so that MSMEs can use tangible or intangible assets, movable or fixed, as collateral for a credit<sup>283</sup>. These assets include, for instance, inventory, equipment, motor vehicles, current assets, accounts receivable, crops, rights to execute contracts, and rights to compensation, among others. The law will work with a centralized public electronic platform registering the creation, modification, cancelation, and

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<sup>276</sup> See, e.g., some of the initiatives performed in 2018 by the Ministry of Industry, Trade, and MSMEs in their MSMEs management report 2018 (Ministerio de Industria, Comercio y Mipymes (MICM) 2019a). See also the interview of Ignacio Mendez, the first Vice Minister of Mipymes in the Dominican Republic from 2012 to 2020 (2020).

<sup>277</sup> See Law 488-08 (Congreso Nacional de la República Dominicana 2008) and Aristy-Escuder (2012). See also law 187-17, which modifies paragraph I of Article 1 and Articles 2 and 22 of Law 488-08 (Congreso Nacional de la República Dominicana 2017a).

<sup>278</sup> See “¿Quiénes Somos?” (Consejo Nacional de Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa 2021).

<sup>279</sup> See article 17 Law 37-17 (Congreso Nacional de la República Dominicana 2017b) and “*Sobre el Viceministerio MIPYMES*” (Ministerio de Industria, Comercio y Mipymes (MICM) 2021b).

<sup>280</sup> See “*Formalizate*” (Ministerio de Industria, Comercio y Mipymes (MICM) 2022). See also “*Ventanilla Virtual*” (Ministerio de Industria, Comercio y Mipymes (MICM) 2018c).

<sup>281</sup> Created in 2019. See “*Régimen Simplificado de Tributación*” (Dirección General de Impuestos Internos (DGII) 2021b; 2021a) and *Reglamento No. 265-19* (Medina 2019).

<sup>282</sup> See “*Ley de Sociedades de Garantías Recíprocas*” (L. Guzmán 2021; Banco Central de la República Dominicana 2022). Measure discussed in the literature. See, e.g., Berger and Udell (2006) and Sanguinetti et al. (2011).

<sup>283</sup> See “*Ley No. 45-20 sobre Garantías Mobiliarias*” (Congreso Nacional de la República Dominicana 2020).

execution of guarantees in the country. Law 45-20 will take effect on January 20, 2023<sup>284</sup>.

- The creation of centers that provide free training, coaching, and consulting services to MSMEs and entrepreneurial initiatives (known as *Centros Mipymes*)<sup>285</sup>.
- The organization of initiatives that bring rural communities the multiple MSMEs supporting services offered by different institutions known as *La Ruta Mipymes*.
- The encouragement of entrepreneurial attitude through the National Network of Entrepreneurship of the Dominican Republic<sup>286</sup>.
- The development of small business support programs during the COVID-19 crisis, such as *Fondo de Asistencia Solidaria para Empleados (FASE)*, *Quédate en Casa*, *Programa de Asistencia al Trabajador Independiente (Pa' ti)*, and *Ponte en Marcha*<sup>287</sup>. Plus, measures that made tax and debt payments more flexible. Additional facilities to perform specific procedures, among others.

In addition to the government support mentioned above, other organizations support the sector. This is the case, for example, of commercial banks that provide unique services targeting MSMEs<sup>288</sup> and FONDOMICRO with their studies and scientific publications. The latter has been a key institution in the Dominican Republic, betting on the sector's development since the 1990s<sup>289</sup>.

Most of the advancements previously mentioned, except for FONDOMICRO, are recent. They have happened in the past five (5) to ten (10) years. Therefore, it is still too early to assess its impacts, uses, and real benefits for MSMEs in the Dominican Republic. For instance, empirical evidence from our sample, collected in 2017 and 2018, indicates that microbusiness financing government support is insignificant and

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<sup>284</sup> See Law 170-21 (Congreso Nacional de la República Dominicana 2021) and *Ministerio de Industria Comercio y Mipymes* (2021a). See also the interview of Ignacio Mendez, Vice Minister of *Mipymes*, from 2012 to 2020 (2018).

<sup>285</sup> See “*Informe Nacional Centros Mipymes República Dominicana 2019*” (Ministerio de Industria, Comercio y Mipymes (MICM) 2020).

<sup>286</sup> See “*Red Nacional de Emprendimiento República Dominicana*” (October Studio 2021), the entrepreneurship law 688-16 (Congreso Nacional de la República Dominicana 2016; Ministerio de Industria, Comercio y Mipymes (MICM) 2018a), the decree 160-18 for the regulation of the fund *CONFIE* (Ministerio de Industria, Comercio y Mipymes (MICM) 2018a) and the National Entrepreneurship Strategy for the next four (4) years according to the Ministry of Industry, Commerce and MSMEs (Ministerio de Industria, Comercio y Mipymes (MICM) 2019b).

<sup>287</sup> For further details see “*Situación económica y de mercado de las mipymes en República Dominicana por la crisis del COVID 19*” (Ministerio de Industria, Comercio y Mipymes (MICM), Observatorio Mipymes, and Programa de las Naciones Unidas para el Desarrollo 2020).

<sup>288</sup> See Fermín (2021) for a quick overview of the banking sector's special programs for Dominican MSMEs. For an overview of Latin America's banking sector, see Sanguinetti et al. (2011) and Narita et al. (2014). See also Berger, Goldmark, and Miller (2007).

<sup>289</sup> See the institution publications section on their website (FondoMicro 2022).

considered unsuitable<sup>290</sup>. Future research can come in handy to study these aspects and evaluate government programs' effectiveness over time.

In addition, numerous areas still need improvement and research, such as business informality, productivity, digital innovation, sustainable development, internationalization, and state legitimacy.

As mentioned in this thesis, 98% of small and medium-sized enterprises in the Dominican Republic are microenterprises, and nine (9) out of ten (10) operate informally (Ortiz, Cabal, and Mena 2014; Fundación Reservas del País, FondoMicro, and Data Crédito 2019). This situation makes it harder for them, sometimes impossible, to access any governmental support<sup>291</sup>. Future research can study the motives behind informality and how it can be resolved over time<sup>292</sup>. Additional areas of analysis can include businesses created as a solution to unemployment, poverty<sup>293</sup>, inequality, and exclusion.

In addition, some studies emphasize that state legitimacy and the quality of regulation are essential if informal enterprises are to be formalized<sup>294</sup>. Therefore, research in this area is necessary.

In the meantime, the Dominican government hopes to motivate entrepreneurs to formalize their business activities as physical persons or legal entities. Accordingly, they have made efforts to ease the commercial registry, the national taxpayer registry (known locally as RNC<sup>295</sup>), and the registration of employees in the ministry of labor or the social security treasury. Nowadays, the primary mechanism used by the government to simplify procedures is the platform known as *Formalizate!*<sup>296</sup>

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<sup>290</sup> Years after our data collection in 2017 and 2018, government efforts and strategies targeted facilitating access to credit for MSMEs. Two (2) laws were developed in particular. These ones are: (1) "*Ley No. 45-20 sobre Garantías Mobiliarias*" and (2) "*Ley de Sociedades de Garantías Recíprocas*". However, they are not fully operational. In addition, the simplified tax payment regimen –locally known as *Régimen Simplificado de Tributación (RST)*– has not yielded the expected results due to a lack of effective communication with entrepreneurs (Mejia 2020).

<sup>291</sup> For example, according to Mejia (2020), in a publication made in "*Forbes Centroamerica*" entitled "*Microempresas de RD, sin acceso a créditos gubernamentales*," explain that more than one (1) million microenterprises lost the opportunity to benefit from governmental support to survive COVID-19 health crisis due to informality.

<sup>292</sup> See footnote reference 225 regarding informal enterprises page 440.

<sup>293</sup> See, e.g., Mead and Liedholm (1998) and Thapa (2008).

<sup>294</sup> See, e.g., Loayza, Oviedo, and Servén (2005); Distinguin, Rugemintwari, and Tacneng (2016); and, Assenova and Sorenson (2017).

<sup>295</sup> RNC means *Registro Nacional de Contribuyentes*.

<sup>296</sup> See *Formalizate* (Ministerio de Industria, Comercio y Mipymes (MICM) 2022).

According to the Vice-Minister of the promotion of MSMEs from 2012 to 2020 in the Ministry of Industry, Commerce, and MSMEs, there are two (2) significant challenges the Dominican government needs to face: the payment of taxes and the cost of social security (Méndez 2019). He explains that entrepreneurs consider they have to pay a lot of taxes and a high social security cost. Plus, they are unwilling to commit to the bureaucracy it entails, and entrepreneurs evade it by remaining informal. Therefore, the government is working on possible solutions.

In regards to digitalization, more than ever before, the COVID-19 pandemic crisis has shown the importance of the application of digital technology in the value chain and business models. Therefore, it is key to study how microenterprises innovate and are transformed using digital technology and digitized processes. For instance, digital payments, e-mailing, e-commerce, social media, geolocalization, SEO<sup>297</sup>, accounting software, etc.<sup>298</sup>.

The COVID-19 crisis has also invited us to reflect on the economic and social model that sustains our way of life. A system of endless consumption. Increasingly dense and sprawling urban centers. Business operations aim to pursue enterprises' core objective: maximizing shareholders' profits. Progressively indebted states limit their ability to support their population and others. The deterioration of flora and fauna. The only way to continue advancing our societies and, therefore, small businesses is under sustainable development criteria. That is to say, being responsible for our environment and maintaining a social commitment. More research in these areas can help achieve this type of development in the Dominican Republic and small businesses in the country<sup>299</sup>.

Internationalization of the enterprise is another topic recurrent nowadays. However, little is known about Dominican microenterprises that go international and build ties with other countries. How do they do it? What are their approaches? How do they

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<sup>297</sup> SEO stands for Search Engine Optimization. "SEO is the science of customizing elements of your website to achieve the best possible search engine ranking" (Ledford 2009, 34). The objective is to stand out from other websites and appear in the first few pages of search engine results. "Indeed, it's the sites that land on the first pages of results that get the most traffic, and traffic is translated into revenue, which is the ultimate goal of search engine optimization" (Ledford 2009, 34).

<sup>298</sup> See Aybar Jiménez (2020).

<sup>299</sup> Haslam (2004) and De la Cruz (2012), for example, expose the need for further progress on the issue of corporate responsibility in the Dominican Republic.

finance it? Why did they decide to internationalize their businesses? What are the strategies and best practices to go international?

Research should guide microenterprises and the government. It can help them grasp better what is happening in these businesses and the environments where they operate. Moreover, most importantly, it can support the design of good practices and strategies to reduce informality and improve critical areas. These last ones include small businesses' productivity, innovation, digitalization, sustainable development, and internationalization in the Dominican Republic.

- Future research should study financing access dynamics of microenterprises in the different states of the economy. For instance, how do small enterprises operate and get financed when the economy is flourishing and stagnating<sup>300</sup>?

## 5. Methodologies to consider

- Research with grounded theory methods should be continued to understand how micro and small enterprises function in specific situations and identify their real needs to assist them better.

In small business finance, St-Pierre and Fadil's (2016) international survey on researchers' knowledge and academic practices in entrepreneurial finance provides evidence that there is a gap between the knowledge developed and the needs of the field. The authors encourage researchers to get closer to SMEs and their owners and managers to redefine their work. To use qualitative approaches and different areas of knowledge such as finance and entrepreneurship. To achieve a holistic view of what happens in small enterprises and make contributions that are not disconnected from reality. In our view, grounded theory methods are ideal for what the authors recommend.

- Petty and Bygrave (1993), in their article "What Does Finance Have to Say to the Entrepreneur," argue that progress in emerging and immature disciplines such as small

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<sup>300</sup> See, e.g., Liedholm (2002) for a general view. See also Álvarez, López, and Toledo (2021).

businesses and entrepreneurial finance can only be achieved by more careful thinking and better empirical analysis. We share their view on considering more purely exploratory and empirical research, in-depth field studies, and inductive logic to advance entrepreneurial finance or any other subject related to small businesses in the Dominican Republic.

- Contemplate action research for internal and external financing access success in Dominican microenterprises. Entrepreneurs interviewed in this research work expressed their willingness and interest to become financial literate and apply the best finance practices in their businesses. Furthermore, they indicated that they are willing to learn, attend classes and apply the knowledge acquired.

In addition, the application of action research can be beneficial to reduce micro businesses informality in the Dominican Republic and increase their productivity. Furthermore, it can establish the mechanisms required to potentiate innovation, digitalization, internationalization, and sustainable development in these firms.

For us, MSMEs centers known as *Centro Mipymes* in the country can be of great value for applying action research (or any other type of research for that matter). These centers provide free training, business consulting, technical assistance, and networking services to entrepreneurs or people with business projects (see Ministerio de Industria, Comercio y Mipymes (MICM) 2020). The centers have experts and specialized personnel from academia to ensure the services provided. Some of the universities and educational entities that are part of the network are BARNÁ Management School, *Instituto Tecnológico de Santo Domingo* (INTEC), *Pontificia Universidad Católica Madre y Maestra* (PUCMM), *Universidad Autónoma de Santo Domingo* (UASD), *Universidad Nacional Pedro Henríquez Ureña* (UNPHU), and *Instituto Tecnológico de las Américas* (ITLA).

Educational institutions can mobilize their researchers to produce academic knowledge. They can intervene and/or participate in the different topics and problems presented in the centers, current entrepreneurs, or future ones. Valuable empirical data can be collected about MSMEs while teaching and applying techniques that are essential for the advancement of research and, in consequence, the reputation of educational institutions. Furthermore, Dominican case studies can be created so

students can apply the knowledge, models, and techniques they learn in universities and educational entities. This makes their education more adapted to the Dominican reality.

- Consider longitudinal approaches to evaluate financing<sup>301</sup>.

Longitudinal studies may provide evidence about financing in the different lifecycles of Dominican microenterprises. In addition, it can be helpful to study specific financing questions regarding bootstrapping or business angels<sup>302</sup>.

This type of research can help study other areas of interest, such as entrepreneurial behavior, thoughts, or emotions concerning financing and decision-making.

- As more data about MSMEs in the Dominican Republic is collected over time, databases can facilitate quantitative studies and the use of larger samples. In addition, quantitative methods may predict specific phenomena in predetermined contexts, environments, and time constraints.
- Synergies with other fields of study, such as entrepreneurship, psychology, and sociology, can provide insight into the reality of microenterprises. For instance, in this research work, the law of proximity of Moles and Rohmer (1978) derived from the psychology of space. Furthermore, the results highlight the relevance of the effectuation theory of Sarasvathy (2001) in entrepreneurship to Dominican owner-manager governance and business financing.

Future collaboration with other fields is critical to potentiate the development of more adapted knowledge to MSMEs in financing and other areas.

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<sup>301</sup> Cook (2001) indicates that most surveys in developing countries are performed ad hoc and at a single point in time. He adds the following: “few compare different points in time, and fewer still attempted to use the same database for follow-up work” (2001, 4).

<sup>302</sup> For instance, Freear, Sohl, and Wetzel (2002), after reviewing twenty (20) years of research on the angels of the venture capital market, explain that longitudinal studies are needed to understand several areas better. They highlight, in particular: angel and entrepreneurial venture behavior, information flow and quality, relationships with market segments, formal and informal relationships, and the problems facing business angels.



## Concluding remarks for chapter 4

This chapter discussed the major findings and results of this thesis. We discussed what was expected from the data and what was found, comparing and contrasting our results with previous studies and researchers.

This research work is a theory divided into sections (Eisenhardt and Graebner 2007) with four (4) main focuses. The first is regarding the owner-manager characteristics, management, and financing decisions. The second concerns Dominican microenterprises financing access configurations, including the strategies and financing sources to create, operate, and invest in the enterprise. Third, it focuses on the set of proximities studied. Last, it reviews additional elements identified as relevant but not included in the previous three (3) sections.

The resulting theory is what we call an informed constructivist grounded theory<sup>303</sup>. It is informed because there is no tabula rasa of knowledge as more classic grounded theory (GT) methods would advise. It benefits from using the existing literature and theoretical frameworks to create and understand the phenomena studied (see Thornberg 2012). It is constructivist because it is developed with naturalistic inquiry axioms in mind (Guba and Lincoln 1985). Knowledge is considered a construct resulting from interaction among participants in true-to-life settings. Thus, it serves the context in which knowledge has been created—time, place, culture, and situation— (Charmaz 2006; Le Moigne 2012). Furthermore, it is grounded because the research process and product are founded on empirical data from ten (10) case studies (i.e., microenterprises) in the Dominican Republic.

This chapter also explained the research limitations and provided suggestions for future research. The limitations included methodology, resources, time, the complexity of the area studied, and the impact of the COVID-19 pandemic on its development.

Last, various recommendations were included in five (5) categories for future research. These were (1) owner-manager and governance, (2) the enterprise characteristics, (3) financing sources, (4) macro-environmental factors, and (5) the methodologies to consider in later studies. Further research about microenterprises (and SMEs, for that matter) can develop

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<sup>303</sup> For a general overview of the paradigm, methodological, and quality aspects framing this research, see table 46, pages 263-267.

theories and models better adapted to these businesses' reality, particularly those in the Dominican Republic.

## GENERAL CONCLUSION

The last section of this research work concludes the study by providing a general overview of its theoretical and conceptual framework, research paradigm, methodology, and data analysis. Furthermore, it summarizes the key findings linking back to the research objectives. Then, it reviews its theoretical, methodological, and managerial contributions and finishes with recommendations based on the research outcomes.

This research work concerned small business financing in Latin America, especially microenterprises of the Dominican Republic. Hence, holding the title “Optimizing the financing access in Latin America: the case of the Dominican Republic microenterprises.”

Our research objective was to identify the key elements necessary for a micro business, particularly in the Dominican Republic, to have access to financing from an entrepreneurial point of view. By identifying these elements and using them in their favor to acquire financing, micro businesses would be able to carry out their projects and activities in a smoother fashion. Creating, therefore, a positive domino effect in the Dominican society and contributing to its development.

An exhaustive literature review was carried out. The fields of the literature considered were related to small businesses and their financing.

First, we focused on the conceptual and theoretical framework of microenterprises. We have covered this field since its beginnings, pointing out that small businesses are more than just a reduced number of employees. Next, we go over the quantitative and qualitative definitions, in general, to get into our main focus. What is considered a small business in Europe, the US, Latin America, and other prominent organizations were compared. We determined that small businesses are specific and diverse. We also concluded that small businesses should be studied as a concept rather than miniature enterprises (Hertz 1982) and that they are too heterogeneous to be lumped into a single category (J. S. Ang 1991). Nevertheless, it seemed evident that the owner-manager central role is dominant for all small businesses (Marchesnay and Fourcade 1997; Marchesnay 1998).

The small business concept retained for this research is Pierre-André Julien (1990), who proposes an approach that joins diversity and specificity into one definition. He summarizes a

complex phenomenon with quantitative and qualitative information that can be applied to any small business regardless of its particularity in what he calls the typology of “continuum.”

The second main field covered in our thesis is financing—particularly the financing of small businesses. We reviewed the financing options and practices (self, debt, and equity financing), focusing on how these work for small businesses. A significant conclusion is drawn: the classic finance theory is distant from small businesses’ specificities and reality, and they need their financial theory (see Pettit and Singer 1985; P. Hutchinson 1999; Abdulsaleh and Worthington 2013). Therefore, we use the theory of managerial choice (Norton 1991) as an adapted application to our case. It states that finance theory needs to appropriately consider the owner-manager goals, preferences, beliefs, and expectations to understand better how businesses finance their operations and growth.

Searching for a micro-financing approach tied to our main interest, we explored Latin America’s small and micro-business financing. Then, we introduced the concept of proximity, stating that it is adapted to micro-business financing. Afterward, we started talking about a mixture of proximities as crucial elements to access financing for a Dominican micro-business.

Another relevant field of study in our research is psychology, specifically the psychology of space.

Since the entrepreneur’s central role imposes itself in the small business literature, we focused on the entrepreneur as the primary driver of financing access. To get funds, he/she will rely on a mixture of proximities—hierarchical, spatial, patrimonial, information systems, relational, temporal, and economic. The law of proximity of Moles and Rohmer (1978) is therefore mobilized.

Regarding the research paradigm, this thesis is a product of constructivism (see Guba and Lincoln 1985). Knowledge is a construct resulting from the interaction between the subject and the object, and the truth is regarded as relative rather than absolute, as supported by positivism.

It is exploratory research that relies on compiling, using, and analyzing multiple data sources such as interview transcripts, notes from observations, documents, and bibliographical sources. The aim was to understand the phenomena studied in their natural settings in-depth and derive meaning from the participants’ points of view to generate theory. It uses abductive reasoning to provide the best explanation possible given the empirical data and the literature background.

The sampling followed a theoretical and purposive strategy (Ritchie, Lewis, and El am 2003; Schwandt 2007). As a result, cases were rich in information and ideal for in-depth studies (Patton 2015) to achieve the research objectives.

Ten (10) microenterprises (cases) were chosen, sharing the same definition under Dominican law 488-08 (Congreso Nacional de la República Dominicana 2008)<sup>304</sup> and with literature review considerations. This translated to an enterprise with one (1) to ten (10) employees with up to RD\$ 6,000,000.00 (six million Dominican pesos) in annual revenues and no more than RD\$3,000,000.00 (three million Dominican pesos) in assets<sup>305</sup>. The enterprise could be formal or informal, a family business or not, and carried out by a natural person or a legal entity as stated in the SMEs Dominican law. In addition, the case selection respected the distribution of the dominant economic activities of microenterprises in the Dominican Republic: commerce (46.8%), service (38.4%), and manufacturing (14.8%). Thus, the ten (10) microenterprises were divided the following way: one (1) from the manufacturing economic activities, five (5) from commerce activities, and the last four (4) from service activities.

Microenterprises studied retained common characteristics while seeking a wide range of diversity to potentiate building theory (see Eisenhardt 1989; Hlady Rispal 2002).

The data analysis was founded on raw data from the field (Glaser and Strauss 1967) to reach analytic or naturalistic generalizations (Stake 1978; Yin 2014). Nonetheless, there is no tabula rasa of knowledge as the more classic GT versions would advise (see Glaser 1978; 1998; 2001; 2005). Instead, the whole is inspired by informed grounded theory (Thornberg 2012) under a constructivist paradigm approach (Charmaz 2006; 2014).

Raw data were primarily synthesized and analyzed using computer software. The verbatim transcriptions (narrative data) coding was performed with the computer software NVivo, and the tabulation of numeric responses was made with Excel. Graphs and tables in this thesis summarize and present the patterns of the empirical data.

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<sup>304</sup> The Dominican Republic Law 488-08 of Micro, Small and Medium Enterprises (2008) was modified in 2017 by law 187-17. This last one changes paragraph I of Article 1 and Articles 2 and 22 of Law No. 488-08 (Congreso Nacional de la República Dominicana 2017a). See the sampling section for more details on this change and how it impacted the research (pages 210-220).

<sup>305</sup> The quantitative criterion privileged to include an enterprise in the sample was the one (1) to ten (10) permanent employees. In addition, meeting the annual revenues and the enterprise assets market valuation established by the Dominican law 488-08 were strongly desired but not imperative for the selection. For more details, see the population and sampling section in chapter 2, pages 210-220.

In addition, coding responded to an integrated approach comprising codes emerging from the narrative data (grounded theory) and codes already pre-established from existing literature (framework analysis).

Each case underwent the same process of coding and tabulation in an intra-case study first to perform an inter-case analysis using constant comparative methods and present it in this final work.

Data analysis followed four (4) main phases: organizing, reading, comparing, and interpreting the data.

This research work's resulting theory was divided into four (4) main sections (see Eisenhardt and Graebner 2007). First, a particular focus was given to the owner-manager central role in the management and financing decisions. Second, the financing access strategies and sources to create, operate, and invest in microenterprises were detailed. Third, the study of proximities as crucial drivers to access funds and how owner-managers proximity preferences influence financing access were discussed. Last, additional elements deemed relevant by entrepreneurs or the literature that could not be comprised in the previous three (3) sections were included.

Key findings indicate that owner-manager personal characteristics play a central role in microenterprises management and financing decisions. It is shown that Dominican entrepreneurs identify with their businesses and therefore influence how the enterprise is managed and financed. Owner-managers manifest a strong debt aversion. They do not like to borrow and will only do it if they have no capital available, no other option, and only if it is strictly necessary to improve and achieve specific objectives. They tend to remain with what they know and control, such as self-financing and cash generated from the business. Owner-managers' preferences, goals, strategies, debt aversion, risk tolerance, and financing conditions are some of the main drivers of their financing decision.

Further results suggest that financing access for microenterprises in the Dominican Republic is an actor-dependent process. Owner-managers are the creator of their financing opportunities, where they prioritize strategies to generate internal sources of funds first. Then, they continue only, if necessary, with external funds—which is often considered a loan in a bank). Furthermore, financial bootstrapping is a key entrepreneurial skill for Dominican micro-owner-managers to access financing despite its lack of recognition in the classic finance literature.

Overall, empirical evidence suggests that financing sources for microenterprises are limited and vary depending on the enterprise's objective. These are self-financing from the owner-manager set of resources or the business cash generation capacity, proximity capital, and commercial banks debt financing.

When the enterprise starts, a micro business in the Dominican Republic primarily relies upon the creator's savings and proximity relationships—i.e., friends, family members, and well-known individuals to the entrepreneurs.

For operations, financing sources were mainly from business cash generation, bank financing, account payment delays, and business reserves. The strategies to obtain these sources of funds were building and keeping a good trajectory, being proactive, having strict cash flow management control, and taking advantage of the benefits a mixture of financing sources can offer.

To invest, funds came from banks, business operations retained earnings, self and governmental entities financing, and proximity capital (family and friends). The five (5) strategies to obtain these funds were the following. First, controlling the business and personal life to ensure the efficient use of resources and profits to reinvest them in the enterprise. Second, setting performance goals to meet growth objectives. Third, obtaining proximity capital because they are close to the entrepreneurs' reach (short in distance and relationship-wise). Four, building and keeping a reliable professional and personal trajectory. Last, consolidating valuable partnerships to help grow the business.

Regarding the proximities studied, results indicated that proximities act like key drivers to access financing while, at the same time, they are influenced by owner-managers' pre-established preferences.

Hierarchical proximity leads when compared to other proximities mainly due to the owner-manager wiliness to keep control of the enterprise and the utility maximization principle.

Spatial proximity showed that distance nearness to the fund provider potentiates accessing funds for a Dominican microenterprise. Nevertheless, when making financing decisions, owner-managers were willing to travel long distances to opt for financing sources they considered to work best for them. They valued client treatment, feeling comfortable, and the financing solutions proposed.

Patrimonial proximity's main findings indicated that having assets, goods, or resources that serve as collateral is essential to access funds, notably bank financing. Nevertheless, there is a reluctance to use assets as collateral, especially personal assets. They rather lose the business opportunity if they are not in control or do not feel comfortable with the financing conditions –e.g., financing cost, risk level, and equity and business partners. They favored growing slowly but surely.

Information system proximity results highlighted that, in general, owner-managers find ways to limit their financial obligations as much as possible. In addition, they refrain from requesting from several institutions or people simultaneously. The more outstanding obligations, the harder it is to keep control and the riskier the enterprise. Entrepreneurs in our sample will wisely weigh each financing option to avoid this situation and find alternative ways to borrow. Other findings for this proximity revealed that entrepreneurs value direct and personal relations with their fund provider. However, it does not guarantee access to funds or better benefits. They appreciate confidentiality but know it is challenging to achieve because databases with information, including credit scores and tracking records, are of easy access to many people nowadays.

It is found that relational proximity is essential for Dominican owner-managers to access capital and intensely conditions their financing decision-making. Our findings indicated that having high trust between the owner-manager and the fund provider and being familiar with their credibility and reputation are essential to access funds. In addition, if the enterprise and the owner-manager benefit from a well-established trajectory and professionalism, it smooths any operational and financial support process. These aspects are essential to getting funds but also play a central role in financing decisions. For example, the entrepreneur only pursues the financing option if there is trust or reputation.

Other results suggested that feeling comfortable and having good relations with the fund provider condition the financing decision-making. Plus, values and principles differences are not barriers if they decide to get a specific source of capital.

The study of temporal proximity pointed out the value of liquidity and working capital management for owner-managers and enterprise survival. Furthermore, it is found that it is not all about the short-term but a mixture of short-term and long-term financing. Therefore,



combining both funding periods is essential to guarantee business stability, avoid liquidity problems, and minimize risk.

Economy proximity findings indicated that some owner-manager value that fund providers know the industry, economic activity, and the market in which the microenterprise operates when making financing decisions.

The study of the data helped comprehend other elements deemed relevant in the literature and entrepreneurs' access to funds. These include the business profitability or project, evaluated with the business operations and sustainability. The pitch and business plan, however, are accomplished intuitively and informally. The business team is responsible for the enterprise operations and the generation of future cash flows. The business formality, in particular, is to obtain credit. Last is the high-quality service and products to keep clients and the business cash generation capacity.

This research has provided theoretical, methodological, and practical contributions.

At the theoretical level, this research enriched the academic knowledge on the subject by complementing small business and financing research in general. It also used an original and globalizing theoretical foundation and a unique Latin American and Dominican interest.

We highlight using a novel conceptual framework mobilizing theories that have not been used before in the Dominican Republic context. These were the theory of managerial choice (Norton 1991) and an adaptation to the law of proximity (Moles and Rohmer 1978; Torrès 2011). We study the microenterprise as they are overlooked by the small and medium enterprise (SME) literature which rarely differentiates enterprises sizes. The microenterprise is analyzed as a concept and not as a miniature enterprise—only paying attention to quantitative details. Furthermore, we focused on owner-managers as few finance researchers include them in their work. In their studies, they fail to consider entrepreneurs' characteristics, preferences, objectives, governance, experience, and abilities. This research work provided theory to understand better the financing access of microenterprises in the Dominican Republic. Last, it furnished guidance for future research and contributed to the nascent field of entrepreneurial finance.

Regarding the methodological contributions, this thesis helped reduce the knowledge gap in the context studied, inspired by what we call informed constructivist grounded theory. It generated theory from various but similar case studies or microenterprises and was guided by

prior knowledge and raw data from the field to accomplish its objectives. The researcher's investment in the field was prolonged, and primary data collection was in person with direct contact with entrepreneurs in their natural settings. Interviews followed a guide with a combination of semi-directive and closed questions. During the process, we tried to make entrepreneurs feel comfortable by explaining, among other things, that there were no right or wrong answers and that they could add further details to any of the questions anytime. Furthermore, the data were analyzed with the help of computer software—i.e., Nvivo and Excel.

While this approach does not revolutionize qualitative methodology, the strategy was necessary to advance the emerging field of entrepreneurial finance. Most studies in this domain are guided by positivist views of science, quantitative methodologies, and statistical and econometric methods. Researchers develop knowledge remaining distant from entrepreneurs and influenced by classic finance theory principles—e.g., optimal allocation of resources, perfect markets, rationality, separation of ownership, and management. They base their studies on public data, focus on the generalizability of results, and aim to publish their work in top-ranked journals (see, e.g., St-Pierre and Fadil 2011; 2016; St-Pierre 2018). These practices can only promise knowledge disconnected from the needs and realities of small businesses and consequently deliver scarce managerial contributions<sup>306</sup>.

Scientists studying small businesses need to rethink their research practices, approach entrepreneurs, get immersed in the field, and acknowledge the peculiarities of enterprises of small dimensions. In our view, this can only be achieved with qualitative methodologies, particularly case study research and grounded theory (as used in this thesis).

Concerning managerial contributions, this research work can guide the financing access of microenterprises. Therefore, it was essential to understand the owner-manager central role in the management and financing decisions of the enterprise. The strategies that lead to secure financing sources to launch, operate, and invest, and the role of proximities when accessing funds and making financing decisions.

This thesis's results can be used by owner-manager to make informed decisions. Consultants and support agencies can assist microenterprises and entrepreneurs with financial planning, strategy, and capital acquisition. It could be helpful to identify solutions to traditional financing sources such as bootstrapping techniques, effectuation, and network resources

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<sup>306</sup> See Barton and Gordon's (1987) critique of capital structure theory and research.

acquisition. It can be beneficial to develop programs for educational assistance, workshops, training courses, and practitioners' seminars. Moreover, the government can benefit from our findings to improve policies and laws to assist microenterprises better and incentivize their development and productivity.

In general, the results of this thesis allow us to make the following main recommendations to optimize microenterprises financing access. First, owner-managers should develop their networks. Building a personal and business reputation that ensures trust, credibility, and legitimacy with institutions and individuals is essential. Over time, the business will benefit from an established trajectory that it can use to its advantage. For instance, negotiating payment terms with suppliers and speeding up invoicing can be financial bootstrapping techniques that are relatively cost-effective and powerful complements to traditional sources.

Entrepreneurs should develop a relationship with banks even before they become creditworthy to start building a trajectory (with formal and informal exchanges and using few services) and minimize information asymmetry problems in the long run. Entrepreneurs can work their way up with bankers little by little. They should consider the benefits of operating formally to enhance profits, access to resources, networks, and reputation. It is vital to prioritize liquidity, working capital control, value savings, and retained earnings for the enterprise's survival and development. Enterprise operations must be transparent. Plus, keeping good books, records, and balance sheets is beneficial. Last, owner-managers need to ameliorate their financial literacy and practices. They can, for instance, follow training courses to strengthen their skills and understanding of all business functions, particularly finance and accounting<sup>307</sup>.

In addition to internal recommendations, we propose external ones as well. It is inadequate to solve small businesses financing access by concentrating on the entrepreneurs or microenterprises alone. Besides effective work practices, organizations need systems that allow them to function appropriately. One with the necessary conditions so that structures can progress efficiently. In this respect, we share the following main suggestions.

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<sup>307</sup> "Los Centros Mipymes" in the Dominican Republic can be a great place to start. According to Fernández W. (2015), with data from the first survey on Economic and Financial Culture made by the Dominican Central Bank in 2014 and a study of the OECD in 2013, the Dominican Republic ranks among the countries with the lowest level of financial literacy. He explains that as financial education increases, the preference for using financial services increases, broadening the economy's growth capacity. Furthermore, according to the national MSMEs survey by FONDOMICRO in 2013 in the Dominican Republic, only 22.3% of microentrepreneurs have a higher education level (Ortiz, Cabal, and Mena 2014). The remainder is as follows: 3.5% with no formal education, 36.4% with basic education, and 37.7% with high school/technical education. Several studies in different countries around the world have shown that the lack of knowledge in financial management limits enterprise growth and can cause bankruptcy (see, e.g., Schmitz 1982; Okpara and Wynn 2007; Hamrouni and Akkari 2012; Eniola and Entebang 2016).

The Dominican government should continue its efforts to support microenterprises. It shall persist with policies that facilitate access to external sources of funds, particularly credit, such as law 45-20<sup>308</sup> and mutual guarantee entities<sup>309</sup>. Furthermore, it should continue encouraging entrepreneurs to leave informality behind by facilitating formalizing procedures<sup>310</sup>—e.g., to procure the commercial and national taxpayer registries<sup>311</sup> and the enrollment of employees in the Ministry of Labor or social security. Once formalized, procedures to meet the enterprise’s obligations with the state should be simple, transparent, and affordable. Entrepreneurs are constantly multi-tasking and need their time to operate the business<sup>312</sup>. The government can also motivate entrepreneurs by highlighting the benefits of formality. For example, it can explain that formal businesses access financing and support programs (private or public) more easily. In addition, it improves transparency primarily due to the distinction between the owner-manager and the enterprise (thus, fewer agency relationship problems) and more standardized reporting (therefore, fewer information asymmetries complications). Finally, it nourishes legitimacy and trust, gaining a greater capacity to access resources and attract customers.

It is recommended that the state continue to provide training, coaching, and consulting services to microenterprises and entrepreneurial initiatives at minimal or no cost through its institutions, particularly with the Ministry of Industry, Commerce, and MSMEs and the MSMEs centers<sup>313</sup>. Microenterprises need to make their processes more efficient, innovate, export, and learn about the available resources and facilities.

The government needs effective and transparent communication with entrepreneurs. Few know the processes to be carried out, their obligations, rights, facilities, and possible opportunities for their business. This information must be clear and available via secure websites, mobile applications, toll-free numbers, and contact emails. Moreover, it should be complemented by communication strategies in the media—e.g., the press, radio, television, and social media— and even by visiting rural areas and organizing events for educational purposes.

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<sup>308</sup> See “*Ley No. 45-20 sobre Garantías Mobiliarias*”—in Spanish (Congreso Nacional de la República Dominicana 2020).

<sup>309</sup> See “*Ley de Sociedades de Garantías Recíprocas*”—in Spanish. (L. Guzmán 2021; Banco Central de la República Dominicana 2022).

<sup>310</sup> The primary mechanism used by the government to simplify procedures is the platform known as “*Formalizate!*” (See Ministerio de Industria, Comercio y Mipymes (MICM) 2022)

<sup>311</sup> Locally known as RNC: “*Registro Nacional de Contribuyentes*”.

<sup>312</sup> For instance, a simplified tax payment regimen created in 2019 known as “*Régimen Simplificado de Tributación*” (RST) has not yielded the expected results due to a lack of effective communication with entrepreneurs (Mejía 2020). Financial reporting should be simplified too.

<sup>313</sup> According to Aristy-Escuder (2015), most microentrepreneurs in the Dominican Republic have a limited educational background with a bias toward primary education. Moreover, Fernández W. (2015) explains that the country ranks among the nations with the lowest level of financial literacy.

Finding innovative ways to include small enterprises in the country's long-term development plans is necessary. For instance, when the government makes a tender for a specific project, proposals that include more local MSMEs will score higher than those comprising a few or none. In this fashion, accomplishing these projects can improve Dominican society's economic and social welfare. Furthermore, the government can support alliances with the private sector to encourage the selection of small businesses for their projects. It can organize networking events or workshops. It can enable digital platforms with repertoires of small businesses in the country and their details. It can empower women entrepreneurs and so on.

It is vital to improving the quality of the institutional environment, regulations, and the legitimacy of the Dominican state. Several studies have found that lacking trust in the government and its institutions fosters informality and tax evasion. Plus, it raises costs, lowers formality benefits, and sinks enterprises' use of external finance (see, e.g., Friedman et al. 2000; Cull et al. 2006; Beck, Demirgüç-Kunt, and Maksimovic 2008; Autio and Fu 2015; Distinguin, Rugemintwari, and Tacneng 2016; Assenova and Sorenson 2017). Aristy-Escuder (2015) argues that the Dominican Republic suffers from weak institutions that do not allow MSMEs to develop adequately. This weakness combines bureaucratic obstacles, inefficiencies in public services (education, health, security, water, and electricity, among others), and corruption. All these aspects limit the capacity for sustained growth of the national productive sectors, particularly MSMEs<sup>314</sup>.

The Dominican government's initiatives to support the development of micro, small, and medium enterprises in the country in the past several years are noticeable (and we encourage them to continue). However, there is still much to be done for this sector to progress. For instance, entrepreneurs need to participate in designing and implementing policies. Supporting programs must coordinate among them. Reliable and valid data and information systems are necessary to perform in-depth analysis and develop strategies and programs<sup>315</sup>. Furthermore, little is known about the real benefits and efficacy of the efforts made thus far. These aspects await future action and research.

Moving on to other ideas, we consider that the country's financial systems must continue to develop. As entrepreneurs ameliorate their financial literacy and regulatory frameworks are

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<sup>314</sup> See also Ortiz, Cabal, and Mena (2014) and *Observatorio Mipymes* (2020).

<sup>315</sup> See Dini and Stumpo (2020).

strengthened to minimize abuses and protect users, more microenterprises would use financial services with greater confidence, and their reliance on internal sources of funds may be reduced. Several authors have defended the value of modern, safe, and controlled financial systems and adequate financial knowledge from users to access finance and enhance productivity growth. Some of these are, for example, Cull et al. (2006); Beck, Demirgüç-Kunt, and Maksimovic (2008); St-Pierre and Fadil (2011); Aristy-Escuder (2015); Fernández W. (2015); and Wellalage and Lock (2016).

This thesis shed some light on microenterprise financing with a particular interest in their owner-manager and the Dominican context. While this research does not solve the current challenge of limited financing sources micro businesses face, it provides useful, valid, and reliable knowledge. One that can optimize accessing the financing options currently available and perhaps encourage developing options and techniques more adapted to their reality. Likewise, thanks to the ground and the theory, it contributed new concepts and provided the needed guidance so that entrepreneurs could enhance their financing access in general.

Findings should be interpreted considering the research work limitations. For example, its small sample, the uniqueness of each enterprise, data collection time and location, available resources, and cultural and language differences, to name a few. Additionally, it must be remembered that the knowledge created here serves the context in which it has been created—time, place, culture, and situation—(Charmaz 2006; Le Moigne 2012). Like a key would, for instance, to open the door it has been manufactured for (Glaserfeld 1988).

Further research about small businesses is necessary. Theoretical and practical knowledge must be developed on these organizations whose characteristics and governance defy classic theories. Instead, we need theories that serve MSMEs, picture their authenticity, and provide viable solutions for their needs to unlock their potential and progress. Additional qualitative research can only be beneficial in achieving this objective. There is still much to be done in the nascent field of entrepreneurial finance and countries like the Dominican Republic.

In conclusion, we want to leave the reader with the following reflection. The analysis of the results of this research and according to what the literature on the subject studied shows, there are no given, standard or identical methods to optimize microenterprises financing access. It is understood that internal and external factors can influence this access. However, from an entrepreneurial perspective, we understand that finance access optimization could be explained

thanks to Hebert Simon's ideas of bounded rationality. This one suggests that individuals do not generally seek to "optimize" but rather to "satisfy" a certain level of their needs. With this in mind, it can be argued that microenterprises' financing access optimization occurs when entrepreneurs fully satisfy their funding needs by whatever means they choose within their context. Can this be, or would this be, "the one fit all" microenterprises financing access formula? The generalization that has not yet been achieved in the small business financing field?

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## ANNEXES

### 1. Interview guide in English (translated from the original Spanish version)

**DATE:** \_\_\_\_\_ **START:** \_\_\_\_\_ **END:** \_\_\_\_\_

Greetings and welcome!

We are conducting an interview about microenterprises financing in the Dominican Republic. This interview is intended for entrepreneurs and is part of an academic research conducted by a PhD student in management sciences at the University of Bordeaux.

Thirty minutes are required to answer the questions. Please answer spontaneously, as there are no right or wrong answers. Only your opinion counts. The study is strictly confidential, and responses will be analyzed at a general level and not individually.

We thank you in advance for your time and value your trust.

The information collected is intended for academic research. The recipient is Paola Elena Aybar Jiménez, a research student at the University of Bordeaux. We inform you that you have the right to access the information concerning you by contacting [paola-elena.aybar-jimenez@u-bordeaux.fr](mailto:paola-elena.aybar-jimenez@u-bordeaux.fr).

#### Questions:

##### 1. What is the name of your enterprise?

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##### 2. Tell me about your enterprise. How was it started?

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**3. What does your enterprise do?**

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**4. What is the economic activity of your enterprise? Please mark with an X:**

- Manufacturing:** Food and beverage production, clothing and other textile manufacturing, wood products manufacturing, metal products manufacturing, and other manufacturing.
- Trade:** Wholesale, retail, motor vehicle sales, and repair.
- Services:** Construction, hotels and restaurants, real estate and business activities, salons, and other services.
- Other:** \_\_\_\_\_

**5. How many years have you been working in this profession? \_\_\_\_\_**

**6. How old is the enterprise? \_\_\_\_\_**

**7. Do you know “¡formálizate ya!”, the one-stop window to formalize your micro, small and medium enterprises? Please mark with an X:**

- Yes
- No

**8. What is your enterprise’s address?**

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**9. Enterprise employees:**

**9.1. How many permanent workers does the enterprise have (including the owners)?**

**Please mark with an X:**

- 1 worker
- 2 workers
- 3 workers
- 4 - 5 workers
- 6 - 10 workers
- More than 10 workers, specify: \_\_\_\_\_

**9.2. How many temporary workers does the enterprise have per month on average?**

**Please mark with an X:**

- 1 worker
- 2 workers
- 3 workers
- 4 - 5 workers
- 6 - 10 workers
- More than 10 workers, specify: \_\_\_\_\_

**10. What is your enterprise's average revenue?**

- Less than RD\$ 6,000,000.00 per year or less than RD\$ 500,000.00 per month
- Between RD\$ 6,000,000.01 and RD\$ 40,000,000.00 per year or between RD\$ 500,000.01 and RD\$ 3,333,333.3333... per month.
- Between RD\$ 40,000,000.01 and RD\$ 150,000,000.00 per year or between RD\$ 3,333,333.3341... and RD\$ 12,500,000.00 per month.
- More than RD\$ 150,000,000.00 per year or more than RD\$ 12,500,000.00 per month

**11. How much are your enterprise's assets worth on average?**

- Less than RD\$ 3,000,000.00
- Between RD\$ 3,000,000.01 and RD\$ 12,000,000.00
- Between RD\$ 12,000,000.01 and RD\$ 40,000,000.00
- More than RD\$ 40,000,000.00

**12. Who is responsible for the enterprise? \_\_\_\_\_**

**13. Indicate from 0 to 10 if you manage your enterprise based on the following criteria. 0 being never and 10 being always.**

<b>Criterion</b>	<b>0 Never</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10 Always</b>
<b>1. Beliefs</b>	0	1	2	3	4	5	6	7	8	9	10
<b>2. Preferences</b>	0	1	2	3	4	5	6	7	8	9	10
<b>3. Desires</b>	0	1	2	3	4	5	6	7	8	9	10
<b>4. Expectations</b>	0	1	2	3	4	5	6	7	8	9	10
<b>5. Goals</b>	0	1	2	3	4	5	6	7	8	9	10
<b>6. Conditions</b>	0	1	2	3	4	5	6	7	8	9	10
<b>7. Degree of risk</b>	0	1	2	3	4	5	6	7	8	9	10
<b>8. Debt Aversion</b>	0	1	2	3	4	5	6	7	8	9	10
<b>9. Strategy</b>	0	1	2	3	4	5	6	7	8	9	10
<b>10. Other(s):</b> _____ _____ _____	0	1	2	3	4	5	6	7	8	9	10

**14. Financing to create your enterprise:**

**14.1. How did you get the funding to start your business?**

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**14.2. What did you have to do to get the funds?**

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**15. Financing for operations:**

**15.1. How do you obtain financing for the enterprise's work/projects?**

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**15.2. What do you do to get the funds?**

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**16. Financing for growth:**

**16.1. How do you obtain financing for the growth of your enterprise?**

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**16.2. What do you do to get the funds?**

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**17. Which of these financings do you use for your enterprise? For each of the options, indicate a number from 0 to 10.**

Type of Financing	0 I have never used it	1	2	3	4	5	6	7	8	9	10 I always use it
<b>1. Self-financing</b>	0	1	2	3	4	5	6	7	8	9	10
<b>2. Funds from family members</b>	0	1	2	3	4	5	6	7	8	9	10
<b>3. Funds from close friends</b>	0	1	2	3	4	5	6	7	8	9	10
<b>4. Accounts payables payment delays</b>	0	1	2	3	4	5	6	7	8	9	10
<b>5. Bank</b>	0	1	2	3	4	5	6	7	8	9	10
<b>6. Lines of credit</b>	0	1	2	3	4	5	6	7	8	9	10
<b>7. Financial entity</b>	0	1	2	3	4	5	6	7	8	9	10
<b>8. Moneylender</b>	0	1	2	3	4	5	6	7	8	9	10
<b>9. Cooperative</b>	0	1	2	3	4	5	6	7	8	9	10
<b>10. Association</b>	0	1	2	3	4	5	6	7	8	9	10
<b>11. Stock market</b>	0	1	2	3	4	5	6	7	8	9	10
<b>12. Individual investors (venture capital, business angels, etc.)</b>	0	1	2	3	4	5	6	7	8	9	10
<b>13. Other(s):</b> _____ _____ _____	0	1	2	3	4	5	6	7	8	9	10

18. Who decides the financing for the enterprise? \_\_\_\_\_

19. Indicate from 0 to 10 if you make the company's financing decisions based on the following criteria. 0 being never and 10 being always.

Criterion	0 Never	1	2	3	4	5	6	7	8	9	10 Always
1. Beliefs	0	1	2	3	4	5	6	7	8	9	10
2. Preferences	0	1	2	3	4	5	6	7	8	9	10
3. Desires	0	1	2	3	4	5	6	7	8	9	10
4. Expectations	0	1	2	3	4	5	6	7	8	9	10
5. Goals	0	1	2	3	4	5	6	7	8	9	10
6. Conditions	0	1	2	3	4	5	6	7	8	9	10
7. Degree of risk	0	1	2	3	4	5	6	7	8	9	10
8. Debt Aversion	0	1	2	3	4	5	6	7	8	9	10
9. Strategy	0	1	2	3	4	5	6	7	8	9	10
10. Other(s):											
_____	0	1	2	3	4	5	6	7	8	9	10
_____											
_____											

**20. Do you know of any financing or fund for small and medium businesses in the Dominican Republic? Please mark with an X:**

- Yes
- No

**20.1. If yes, please specify which ones you know.**

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**21. Indicate the public institutions you know. Mark with an X how many options apply:**

- El Programa de Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa (PROMIPYME)/ Banca solidaria*
- La Corporación de Fomento Industrial (CFI)*
- El Instituto Nacional de Formación Técnico Profesional (INFOTEP)*
- El Instituto Dominicano de Tecnología Industrial (INDOTEC)*
- Other: \_\_\_\_\_

**22. Indicate the private institutions you know. Mark with an X how many options apply:**

- FONDOMICRO*
- La Confederación Dominicana de la Pequeña y Mediana Empresa (CODOPYME)*
- Asociación de Instituciones Rurales de Ahorro y Crédito (AIRAC)*
- Cámara de Comercio y Producción de Santo Domingo*
- Other: \_\_\_\_\_

**23. Indicate the NGOs you know. Mark with an X how many options apply:**

- Asociación Dominicana para el Desarrollo de la Mujer (ADOPEM), filial del Banco Mundial de la Mujer*
- Mujeres en Desarrollo (MUDE)*
- Fundación Dominicana de Desarrollo (FDD)*
- Asociación para el Desarrollo de la Provincia Espaillat (ADEPE)*
- Centro Dominicano de Desarrollo (CDD)*
- Cooperativas de Ahorros y Créditos y/o de Servicios Múltiples*
- Cooperativas de Servicios Múltiples Empresariales (COOPSEMUE)*
- Cooperativa de Ahorro y Crédito de Procesadores de la Harina (COOPROHARINA)*
- Other: \_\_\_\_\_



24. Indicate which of these CRITERIA ARE DETERMINANT TO ACCESS FINANCING for micro or small businesses. 0 being unessential and 10 being indispensable.

Criterion	0 It is not decisive	1	2	3	4	5	6	7	8	9	10 Indispensable
1. The owner-manager must make the financial decisions	0	1	2	3	4	5	6	7	8	9	10
2. The owner-manager must carry out the management of the funds	0	1	2	3	4	5	6	7	8	9	10
3. To have access to local sources of financing (branches, banks, investors nearby, etc.)	0	1	2	3	4	5	6	7	8	9	10
4. To have assets, goods, or resources that serve as collateral for the financing repayment	0	1	2	3	4	5	6	7	8	9	10
5. Limit the sources of funding requested	0	1	2	3	4	5	6	7	8	9	10
6. Do not simultaneously owe money to several intuitions and/or people	0	1	2	3	4	5	6	7	8	9	10
7. Have good relations (friends, family, partners, bankers, and representatives of public or private institutions)	0	1	2	3	4	5	6	7	8	9	10

<b>8. Have a high level of trust between the business owner and the financing provider</b>	0	1	2	3	4	5	6	7	8	9	10
<b>9. Know in advance the institution, program, or person financing</b>	0	1	2	3	4	5	6	7	8	9	10
<b>10. Share the same values and principles between the provider of funds and the owner-manager</b>	0	1	2	3	4	5	6	7	8	9	10
<b>11. Opt for short-term financing (you must repay within 12 months of the money borrowed)</b>	0	1	2	3	4	5	6	7	8	9	10
<b>12. Have a solid business plan</b>	0	1	2	3	4	5	6	7	8	9	10
<b>13. The business team</b>	0	1	2	3	4	5	6	7	8	9	10
<b>14. The profitability of the business or project</b>	0	1	2	3	4	5	6	7	8	9	10
<b>15. Good presentation of the project (pitch)</b>	0	1	2	3	4	5	6	7	8	9	10
<b>16. Business formality</b>	0	1	2	3	4	5	6	7	8	9	10
<b>17. Other(s):</b>											
_____	0	1	2	3	4	5	6	7	8	9	10
_____											
_____											

25. How critical are the following CRITERIA FOR YOU WHEN DECIDING ON A FINANCING? 0 being unimportant and 10 being extremely important.

Criterion	0 Not important	1	2	3	4	5	6	7	8	9	10 Extremely important
1. Distance proximity	0	1	2	3	4	5	6	7	8	9	10
2. Financing cost	0	1	2	3	4	5	6	7	8	9	10
3. Collateral required	0	1	2	3	4	5	6	7	8	9	10
4. Manage the funds personally	0	1	2	3	4	5	6	7	8	9	10
5. Limit business owners	0	1	2	3	4	5	6	7	8	9	10
6. Have a direct and personal relationship with the person that will finance	0	1	2	3	4	5	6	7	8	9	10
7. Confidentiality	0	1	2	3	4	5	6	7	8	9	10
8. Limit the number of people and institutions that finance	0	1	2	3	4	5	6	7	8	9	10
9. To know the person or institution in advance	0	1	2	3	4	5	6	7	8	9	10
10. Sharing the same values and principles	0	1	2	3	4	5	6	7	8	9	10

<b>11. Sharing the same culture</b>	0	1	2	3	4	5	6	7	8	9	10
<b>12. Feeling comfortable with the person who finances</b>	0	1	2	3	4	5	6	7	8	9	10
<b>13. To have good relations</b>	0	1	2	3	4	5	6	7	8	9	10
<b>14. Have access to short-term financing options</b>	0	1	2	3	4	5	6	7	8	9	10
<b>15. Have access to long-term financing options</b>	0	1	2	3	4	5	6	7	8	9	10
<b>16. Have availability of funds quickly</b>	0	1	2	3	4	5	6	7	8	9	10
<b>17. Have several financing options</b>	0	1	2	3	4	5	6	7	8	9	10
<b>18. Formality requirement of the company</b>	0	1	2	3	4	5	6	7	8	9	10
<b>19. To know the economic sector or activity in which the company operates</b>	0	1	2	3	4	5	6	7	8	9	10
<b>20. Other(s): _____</b>	0	1	2	3	4	5	6	7	8	9	10

Finally, we require the demographic data necessary for this research. Again, we remind you that this questionnaire is confidential. However, if you do not wish to answer specific questions, you are entirely free not to do so.

**26. Last name(s):** \_\_\_\_\_

**Name(s):** \_\_\_\_\_

**27. Sex:**

Man

Woman

**28. Date of birth (day/month/year):** \_\_\_\_\_ç

**29. Personal Address:**

\_\_\_\_\_Ur

**banization/sector:** \_\_\_\_\_ **City:** \_\_\_\_\_ **Province:** \_\_\_\_\_

**30. What is your marital status? Please choose.**

Single

Married

Concubine

Separate

Divorced,

Widow(er)

Other: \_\_\_\_\_

**31. What is your academic level? Please choose.**

- No schooling or incomplete primary education
- Elementary
- High School
- Technical Education
- Higher Education
- Master's degree
- Doctorate/ PhD

**32. Finally, if you wish to comment on this study, please leave it in the space below.**

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We thank you for responding to this interview. Everything you provided will be beneficial for the continuation of our study. For questions related to this research, please contact [paola-elena.aybar-jimenez@u-bordeaux.fr](mailto:paola-elena.aybar-jimenez@u-bordeaux.fr).

## 2. *Guía de entrevista en español (original)*

**FECHA:** \_\_\_\_\_ **INICIO:** \_\_\_\_\_ **FIN:** \_\_\_\_\_

¡Saludos y bienvenidos!

Estamos realizando una entrevista sobre el financiamiento de las microempresas de la República Dominicana. Esta entrevista está destinada a empresarios(as) y forma parte de una investigación académica realizada por una doctoranda en ciencias de gestión de la Universidad de Bordeaux.

Se requiere de treinta minutos para responder las preguntas. Favor de contestar espontáneamente, ya que no hay ni buenas ni malas respuestas. Solo su opinión cuenta. Este estudio es estrictamente confidencial. El análisis de las respuestas se realizará a nivel general y no a nivel individual.

Agradecemos de antemano su tiempo y valoramos su confianza.

Las informaciones colectadas son destinadas a una investigación académica. El destinatario de estas es Paola Elena Aybar Jiménez, estudiante investigadora de la Universidad de Bordeaux. Ponemos a su conocimiento que usted tiene el derecho de acceder a las informaciones que le conciernan dirigiéndose a [paola-elena.aybar-jimenez@u-bordeaux.fr](mailto:paola-elena.aybar-jimenez@u-bordeaux.fr)

### **Preguntas:**

**1. ¿Cómo se llama su empresa?**

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**2. Hábleme de su empresa. ¿Cómo nace?**

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3. ¿A qué se dedica su empresa?

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4. ¿Cuál es la actividad económica de su empresa? Favor marcar con una X:

- Manufactura:** Producción de alimentos y bebidas, confección de ropas y otros textiles, elaboración de productos de madera, elaboración de productos de metal, otras manufacturas.
- Comercio:** Comercio al por mayor, comercio al por menor, ventas y reparación de vehículos automotores.
- Servicios:** Construcción, hoteles y restaurantes, actividades inmobiliarias y empresariales, salones y otros servicios.
- Otro:** \_\_\_\_\_

5. ¿Cuántos años tiene trabajando este oficio? \_\_\_\_\_

6. ¿Cuántos años tiene formada la empresa? \_\_\_\_\_

7. ¿Usted conoce “¿formálzate ya!”, la ventanilla única de formalización para las micro, pequeñas y medianas empresas? Favor marcar con una X:

- Si
- No

8. ¿Cuál es la dirección de su empresa?

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**9. Empleados de la empresa:**

**9.1. ¿Cuántos trabajadores fijos tiene la empresa (incluya propietario)? Favor marcar con una X:**

- 1 trabajador
- 2 trabajadores
- 3 trabajadores
- 4 – 5 trabajadores
- 6 – 10 trabajadores
- Más de 10 trabajadores, especifique: \_\_\_\_\_

**9.2. ¿Cuántos trabajadores por ajustes tiene la empresa por mes en promedio? Favor marcar con una X:**

- 1 trabajador
- 2 trabajadores
- 3 trabajadores
- 4 – 5 trabajadores
- 6 – 10 trabajadores
- Más de 10 trabajadores, especifique: \_\_\_\_\_

**10. ¿Cuáles son los ingresos de su empresa en promedio?**

- Menos de RD\$ 6,000,000.00 al año o menos de RD\$ 500,000.00 mensuales
- Entre RD\$ 6,000,000.01 y RD\$ 40,000,000.00 anuales o entre RD\$ 500,000.01 y RD\$ 3,333,333.3333... mensuales.
- Entre RD\$ 40,000,000.01 y RD\$ 150,000,000.00 anuales o entre RD\$ 3,333,333.3341... y RD\$ 12,500,000.00 mensuales.
- Más de RD\$ 150,000,000.00 anuales o más de RD\$ 12,500,000.00 mensuales.

**11. ¿Cuánto valen los bienes de su empresa en promedio?**

- Menos de RD\$ 3,000,000.00
- Entre RD\$ 3,000,000.01 y RD\$ 12,000,000.00
- Entre RD\$ 12,000,000.01 y RD\$ 40,000,000.00
- Más de RD\$ 40,000,000.00

**12. ¿Quién es el responsable de la empresa? \_\_\_\_\_**

**13. Indique del 0 al 10 si usted maneja su empresa en base a los siguientes criterios. 0 siendo nunca y 10 siendo siempre.**

<b>Criterio</b>	<b>0 Nunca</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10 Siempre</b>
<b>1. Creencias</b>	0	1	2	3	4	5	6	7	8	9	10
<b>2. Preferencias</b>	0	1	2	3	4	5	6	7	8	9	10
<b>3. Deseos</b>	0	1	2	3	4	5	6	7	8	9	10
<b>4. Expectativas</b>	0	1	2	3	4	5	6	7	8	9	10
<b>5. Objetivos</b>	0	1	2	3	4	5	6	7	8	9	10
<b>6. Condiciones</b>	0	1	2	3	4	5	6	7	8	9	10
<b>7. Grado de riesgo</b>	0	1	2	3	4	5	6	7	8	9	10
<b>8. Aversión a la deuda</b>	0	1	2	3	4	5	6	7	8	9	10
<b>9. La estrategia</b>	0	1	2	3	4	5	6	7	8	9	10
<b>10. Otro (s):</b>											
_____	0	1	2	3	4	5	6	7	8	9	10
_____											
_____											

**14. Financiamiento para crear su empresa:**

**14.1. ¿Cómo obtuvo el financiamiento para crear su empresa?**

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**14.2. ¿Qué tuvo que hacer para conseguir los fondos?**

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**15. Financiamiento para las operaciones:**

**15.1. ¿Cómo obtiene el financiamiento para realizar los trabajos/proyectos de la empresa?**

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**15.2. ¿Qué hace para conseguir los fondos?**

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**16. Financiamiento para el crecimiento:**

**16.1.¿Cómo obtiene el financiamiento para el crecimiento de su empresa?**

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**16.2.¿Qué hace para conseguir los fondos?**

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17. ¿Cuáles de estos financiamientos utiliza para su empresa? Para cada una de las opciones indique un número del 0 al 10.

<b>Tipo de Financiamiento</b>	<b>0 Nunca lo he utilizado</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10 Siempre lo utilizo</b>
1. Autofinanciamiento	0	1	2	3	4	5	6	7	8	9	10
2. Fondos provenientes de familiares	0	1	2	3	4	5	6	7	8	9	10
3. Fondos provenientes de amigos cercanos	0	1	2	3	4	5	6	7	8	9	10
4. Retraso de cuentas por pagar	0	1	2	3	4	5	6	7	8	9	10
5. Banco	0	1	2	3	4	5	6	7	8	9	10
6. Líneas de crédito	0	1	2	3	4	5	6	7	8	9	10
7. Financiera	0	1	2	3	4	5	6	7	8	9	10
8. Prestamista	0	1	2	3	4	5	6	7	8	9	10
9. Cooperativa	0	1	2	3	4	5	6	7	8	9	10
10. Asociación	0	1	2	3	4	5	6	7	8	9	10
11. Mercado de valores	0	1	2	3	4	5	6	7	8	9	10
12. Inversionistas individuales (capital de riesgo, business angels, etc)	0	1	2	3	4	5	6	7	8	9	10
13. Otro (s): _____ _____ _____	0	1	2	3	4	5	6	7	8	9	10

18. ¿Quién decide el financiamiento en la empresa? \_\_\_\_\_

19. Indique del 0 al 10 si usted toma las decisiones de financiamiento de la empresa en base a los siguientes criterios. 0 siendo nunca y 10 siendo siempre.

Criterio	0 Nunca	1	2	3	4	5	6	7	8	9	10 Siempre
1. Creencias	0	1	2	3	4	5	6	7	8	9	10
2. Preferencias	0	1	2	3	4	5	6	7	8	9	10
3. Deseos	0	1	2	3	4	5	6	7	8	9	10
4. Expectativas	0	1	2	3	4	5	6	7	8	9	10
5. Objetivos	0	1	2	3	4	5	6	7	8	9	10
6. Condiciones	0	1	2	3	4	5	6	7	8	9	10
7. Grado de riesgo	0	1	2	3	4	5	6	7	8	9	10
8. Aversión a la deuda	0	1	2	3	4	5	6	7	8	9	10
9. La estrategia	0	1	2	3	4	5	6	7	8	9	10
10. Otro (s):											
_____	0	1	2	3	4	5	6	7	8	9	10
_____											
_____											

**20. ¿Conoce en algún tipo de financiamiento o fondo para a las pequeñas y medianas empresas en la República Dominicana? Favor marcar con una X:**

- Si
- No

**20.1. Si responde afirmativamente, favor de especificar cuáles conoce.**

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**21. Indique las instituciones públicas que conoce. Marque con una X cuantas opciones apliquen:**

- El Programa de Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa (PROMIPYME)/ Banca solidaria
- La Corporación de Fomento Industrial (CFI)
- El Instituto Nacional de Formación Técnico Profesional (INFOTEP)
- El Instituto Dominicano de Tecnología Industrial (INDOTEC)
- Otro: \_\_\_\_\_

**22. Indique las instituciones privadas que conoce. Marque con una X cuantas opciones apliquen:**

- FONDOMICRO
- La Confederación Dominicana de la Pequeña y Mediana Empresa (CODOPYME)
- Asociación de Instituciones Rurales de Ahorro y Crédito (AIRAC)
- Cámara de Comercio y Producción de Santo Domingo
- Otro: \_\_\_\_\_

**23. Indique las ONG que conoce. Marque con una X cuantas opciones apliquen:**

- Asociación Dominicana para el Desarrollo de la Mujer (ADOPEM), filial del Banco Mundial de la Mujer
- Mujeres en Desarrollo (MUDE)
- Fundación Dominicana de Desarrollo (FDD)
- Asociación para el Desarrollo de la Provincia Espaillat (ADEPE)
- Centro Dominicano de Desarrollo (CDD)
- Cooperativas de Ahorros y Créditos y/o de Servicios Múltiples
- Cooperativas de Servicios Múltiples Empresariales (COOPSEMUE)
- Cooperativa de Ahorro y Crédito de Procesadores de la Harina (COOPROHARINA)
- Otro: \_\_\_\_\_



**24. Indique cuáles son LOS CRITERIOS DETERMINANTES PARA ACCEDER A UN FINANCIAMIENTO para las micro o pequeñas empresas. 0 siendo no determinante y 10 siendo indispensable.**

<b>Criterio</b>	<b>0 No es determinante</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10 Indispensable</b>
<b>1. La toma de decisiones financieras deben ser realizadas por el gerente propietario</b>	0	1	2	3	4	5	6	7	8	9	10
<b>2. El manejo de los fondos debe ser realizado por el gerente propietario</b>	0	1	2	3	4	5	6	7	8	9	10
<b>3. Tener acceso a fuentes locales de financiamiento (sucursales, bancos e inversionistas cerca etc.)</b>	0	1	2	3	4	5	6	7	8	9	10
<b>4. Tener bienes y recursos que sirvan de garantía para el pago del financiamiento</b>	0	1	2	3	4	5	6	7	8	9	10
<b>5. Limitar las fuentes de financiamiento solicitadas</b>	0	1	2	3	4	5	6	7	8	9	10
<b>6. No deberle a varias intuiciones y/o personas al mismo tiempo</b>	0	1	2	3	4	5	6	7	8	9	10
<b>7. Tener buena relaciones (amigos, familiares, socios, banqueros, representantes de instituciones públicas o privadas)</b>	0	1	2	3	4	5	6	7	8	9	10

<b>8. Alto nivel de confianza entre el propietario y el proveedor del financiamiento</b>	0	1	2	3	4	5	6	7	8	9	10
<b>9. Conocer de antemano la institución, el programa o la persona</b>	0	1	2	3	4	5	6	7	8	9	10
<b>10. Compartir los mismos valores y principios entre el proveedor de fondos y el gerente propietario</b>	0	1	2	3	4	5	6	7	8	9	10
<b>11. Optar por financiamientos a corto plazo (donde hay que pagar antes de los 12 meses de tomar el dinero prestado)</b>	0	1	2	3	4	5	6	7	8	9	10
<b>12. Tener un sólido plan de negocios</b>	0	1	2	3	4	5	6	7	8	9	10
<b>13. El equipo de la empresa</b>	0	1	2	3	4	5	6	7	8	9	10
<b>14. La rentabilidad del negocio o proyecto</b>	0	1	2	3	4	5	6	7	8	9	10
<b>15. Buena presentación del proyecto (pitch)</b>	0	1	2	3	4	5	6	7	8	9	10
<b>16. La formalidad de la empresa</b>	0	1	2	3	4	5	6	7	8	9	10
<b>17. Otro (s):</b> _____ _____ _____	0	1	2	3	4	5	6	7	8	9	10

25. ¿Qué tan importantes son los siguientes **CRITERIOS PARA USTED CUANDO DECIDE UN FINANCIAMIENTO?** 0 siendo no importante y 10 siendo extremadamente importante.

Criterio	0										10
	No es importante	1	2	3	4	5	6	7	8	9	Extremadamente importante
1. Cercanía en distancia	0	1	2	3	4	5	6	7	8	9	10
2. Costo del financiamiento	0	1	2	3	4	5	6	7	8	9	10
3. Garantías requeridas	0	1	2	3	4	5	6	7	8	9	10
4. Manejar los fondos personalmente	0	1	2	3	4	5	6	7	8	9	10
5. Limitar los propietarios del negocio	0	1	2	3	4	5	6	7	8	9	10
6. Relación directa y personal con quien va a financiar	0	1	2	3	4	5	6	7	8	9	10
7. Confidencialidad	0	1	2	3	4	5	6	7	8	9	10
8. Limitar el número de personas e instituciones que financian	0	1	2	3	4	5	6	7	8	9	10
9. Conocer la persona o la instrucción antes de	0	1	2	3	4	5	6	7	8	9	10
10. Compartir los mismos valores y principios	0	1	2	3	4	5	6	7	8	9	10
11. Compartir la misma cultura	0	1	2	3	4	5	6	7	8	9	10

<b>12. Sentirse cómodo con quien financia</b>	0	1	2	3	4	5	6	7	8	9	10
<b>13. Tener buenas relaciones</b>	0	1	2	3	4	5	6	7	8	9	10
<b>14. Tener acceso a opciones de financiamiento a corto plazo</b>	0	1	2	3	4	5	6	7	8	9	10
<b>15. Tener acceso a opciones de financiamiento a largo plazo</b>	0	1	2	3	4	5	6	7	8	9	10
<b>16. Disponibilidad de fondos rápidamente</b>	0	1	2	3	4	5	6	7	8	9	10
<b>17. Tener varias opciones de financiarse</b>	0	1	2	3	4	5	6	7	8	9	10
<b>18. Requerimiento de formalidad de la empresa</b>	0	1	2	3	4	5	6	7	8	9	10
<b>19. Conocer el sector o actividad económica donde ejerce la empresa</b>	0	1	2	3	4	5	6	7	8	9	10
<b>20. Otro(s): _____</b>	0	1	2	3	4	5	6	7	8	9	10

Para terminar, le requerimos datos demográficos necesarios para esta investigación. Le recordamos que este cuestionario es confidencial. Sin embargo, si no desea responder a ciertas preguntas, usted es totalmente libre de no hacerlo.

**26. Apellido(s):** \_\_\_\_\_

**Nombre(s):** \_\_\_\_\_

**27. Sexo:**

Hombre

Mujer

**28. Fecha de nacimiento (día/mes/año):** \_\_\_\_\_

**29. Dirección personal:** \_\_\_\_\_

\_\_\_\_\_

**Urbanización/sector:** \_\_\_\_\_ **Ciudad:** \_\_\_\_\_ **Provincia:** \_\_\_\_\_

**30. ¿Cuál es su estado civil? Favor elegir.**

Soltero

Casado

Concubino

Separado

Divorciado,

Viudo(a)

Otro: \_\_\_\_\_

**31. ¿Cuál es su nivel académico? Favor elegir.**

- Sin estudios o enseñanza primaria incompleta
- Primaria
- Bachillerato
- Educación técnica
- Educación superior
- Maestría
- Doctorado/ PhD

**32. Finalmente, si desea dejar un comentario sobre este estudio favor de dejarlo en el espacio correspondiente.**

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Le agradecemos por haber respondido a esta entrevista. Todo lo que usted nos proporcionó será de gran utilidad para la continuación de nuestro estudio. En caso de preguntas relacionadas a esta investigación favor de dirigirse a [paola-elena.aybar-jimenez@u-bordeaux.fr](mailto:paola-elena.aybar-jimenez@u-bordeaux.fr)