



Financing as a factor of success or failure for SMEs in Mexico

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ABSTRACT

SMEs are essential for the Mexican economy, being the main providers of formal employment and large contributors to the country's Gross Domestic Product (GDP). However, the high mortality rates within the first years of existence reflect the difficulties faced by new entrepreneurs to survive in the market, the lack of financing is a constant, due to different factors directly or indirectly linked to the enterprise, such as its short time on the market, the owner's credit history or the owner's educational background. This article aims to reflect through the analysis of the different variables that influence access to financing for Mexican SMEs, making it a determining factor for success or failure in its first years of existence.

INTRODUCTION

Small and medium-sized enterprises (SMEs) are one of the main means of promoting Mexico's economic development, in addition to contributing to a better distribution of resources within the country and this is because SMEs generate about 72% of formal jobs and contribute to 50% of the Gross Domestic Product (GDP) (Jiménez-Martínez et al., 2020). Despite their relevance, about 80% of them will fail within their first three years of existence (Reyes, 2020).

Resources are essential for a company to achieve its objectives, in this case, economic resources are crucial for the operation of a company, and lacking or not having what is necessary will prevent development and self-sufficiency since thanks to them it is possible to invest in technology and innovation, personnel training, growth in the market and even in some cases, subsist.

It can be said that access to financing is a barrier that prevents entrepreneurship and the subsequent consolidation of SMEs in Mexico, being the main cause of mortality and also the brake on their development (Rodríguez et al., 2018). It is common for entrepreneurs not to apply for any type of financing as a result of ignorance of the procedures to obtain it, in addition to the belief (false or true) of the difficulty of obtaining it or because they are not obtained at the time they are needed (Lara et al., 2019).

It is a reality that the three main limitations to accessing financing through a financial institution are interest rates, banking bureaucracy, and guarantees (García, 2018). The limitations on the part of government financing are based on the lack of knowledge of the existence of support programs, bureaucracy, corruption, and lack of continuity in the face of the change of administration.

Financing is therefore the key to business success and development and is especially accentuated in small and medium-sized companies, where it plays a very important role within their operation, being one of the great first challenges (even before talking about competitors) for a new company in the market.

METHODOLOGY FOR LITERATURE REVIEW

The articles contemplated for the literature review about topics related to those present situations that directly influence whether a small or medium-sized company manages to be successful in its market or, on the contrary, fails in its attempt to be profitable and has to rethink its business plan or even its disappearance.

The Google Scholar search engine was used, which yielded a total of 16,300 results through the keywords “financing”, “SME” and “Mexico”. If you add the word “success” to the search, you get 16,100 results, and swapping it for “failure” gets 12,000 results, and changing “Mexico” to “Mexican” yields 8,630 results.

For the formation of this article, 30 scientific articles were considered, of which 14 were selected for analysis and information extraction. For information leakage reasons, the following criteria were used.

Inclusion criteria

Items must meet the following criteria.

1. Research from digital repositories of existing scientific journals in Google Scholar.
2. Research with a publication date of 2018 to date.
3. Research that relates financing as a factor of success or failure of small and medium-sized enterprises in Mexico.

Exclusion Criteria

1. Research with a publication date of 2017 or earlier.
2. Research on small and medium-sized companies that exist or exist outside of Mexico.
3. Research that does not consider financing as a factor of failure or success for small and medium-sized enterprises in Mexico.

Bibliographic search

The keywords and descriptors used for the information were “business success”, “business failure”, “bank credit”, “financing programs”, and “entrepreneurship”.

Next, the evaluation of the bibliographic quality.

The author of the article	Research from digital repositories of existing scientific journals in Google Scholar.	Research with a publication date of 2018 to date.	Research that relates financing as a factor of success or failure of SMEs in Mexico.
Álvarez, A. et al 2022	X	X	X
Dávila, K. 2021	X	X	X
Jiménez-Martínez, L. et al. 2020	X	X	X
Reyes, J. 2020	X	X	
De los Santos, L. et al 2020	X	X	X

The author of the article	Research from digital repositories of existing scientific journals in Google Scholar.	Research with a publication date of 2018 to date.	Research that relates financing as a factor of success or failure of SMEs in Mexico.
Saavedra, M. & López, G. 2019	X	X	X
Lara, M. et al 2019	X	X	X
García, P. & Carrillo, S. 2019	X	X	X
García, A. 2018	X	X	
García, P. 2020	X	X	X
Portal, M. et al 2018.	X	X	X
Rodríguez, A. et al 2018.	X	X	
Hernández, R. & Cruz, M. 2018	X	X	X

Source: Authors.

DEVELOPMENT

The company

Small and medium-sized enterprises in Mexico are of great importance to the national economy, they are the main generator of employment and contribute more than 50% of the Gross Domestic Product (GDP), but despite this, in our country, they have a very short life cycle and a very high percentage of them will disappear between 12 and 24 months of life (Rodríguez et al., 2018).

Our country has one of the highest mortality rates of SMEs, it is estimated that 8 out of 10 SMEs will fail in just their first three years of operation and the problem spreads when it is detected that those companies that manage to survive their first three years, 70% will not be able to reach five years of existence (Álvarez et al., 2022).

According to Dávila (2021), this is mainly because companies are not in a position to meet market demand and this is possibly because they do not have the tools or capital to deal with

the economy. This is aggravated when in the first years of life there is a lack of internal financial resources, uncertainty is greater as they are new and unknown in the market, in addition to having to face the risk that the public does not know about the company (Rodríguez et al., 2018).

SMEs require financial resources to achieve their objectives, but they face difficulties such as excessive paperwork, lack of guarantees, and bureaucratized institutions, in addition to the lack of financial knowledge to obtain and apply the resources obtained from the owner (Saavedra & López, 2019).

According to Jiménez-Martínez et al (2020), most SMEs do not consider financing as an option, among the main reasons are high interest rates from banking institutions, requirements to apply for loans, credit payment terms, in addition to lack of economic solvency and low profits on the part of the company.

It is important to note that the lack of financing limits investment capacity, so the company cannot expand its production capacity or is unable to develop technology and innovate in its products, which can lead the company to failure and its eventual closure (Reyes, 2020).

Linked to this are other factors that influence the failure of an SME, such as not having specialized personnel, not having competitive salaries, poor quality of products and services, lack of competitiveness, and lack of inventory control (Hernández & Cruz, 2018).

The entrepreneur

It is common that, given the lack of job opportunities and high demand for employment, entrepreneurship becomes an alternative to insert oneself into the labor market through the generation of goods and services. But the entrepreneur must be more than a citizen without a job, he must have the ability to take risks, see opportunities where others do not, and be able to innovate, as Rodríguez et al (2018) state.

Among the existing qualities and aptitudes that are considered necessary within the profile of a successful entrepreneur, some become relevant when considered by financial institutions when a loan or credit is requested.

The educational level is considered important, since a higher educational level generates confidence in the relationship with financial institutions, as well as experience, which is considered a factor that directly influences the availability of financing for companies, since the more years you have in the market, it is understood that the appropriate capacities and skills have been developed that ensure a greater capacity for action (Portal et al., 2018).

In addition, there is a relationship between the age of the entrepreneur and financing. Younger people seek high business goals and because they have low emotional costs of bankruptcy, they use personal resources to a lesser extent as a form of financing, while older entrepreneurs

are less likely to resort to financing mainly because of their risk aversion and the personal costs of bankruptcy of a business operated for several years (Portal et al., 2018).

That is why the requirements to be a good entrepreneur have been modified due to current trends and progressive technological change so that the management of SMEs demands quick decision-making, broad capacity for analysis and knowledge of the market in which they participate, efficient use of resources and the ability to interpret financial and accounting information. Therefore, the success of the company is linked to the ability to develop that knowledge (García & Carrillo, 2019).

According to Álvarez et al (2022), entrepreneurs need to adopt better tools and create their own strategies in search of the development of the company, so it is necessary to resort to financing since it will allow access to new technologies, to be able to train personnel in the best possible way and to show efficiency in their administrative operations.

Staff training is essential, as García and Carrillo (2019) point out, since low productivity, low quality of products and services, the inability to respond to the changing market, as well as the lack of knowledge of customer needs, have an impact on poor performance of companies.

In Mexico, entrepreneurs commonly believe that accessing bank credit is expensive, bureaucratic, and slow, so their lack of knowledge about the options provided by financial institutions and preferring informal financing can lead to the worsening of the company's financial situation (García & Carrillo, 2019).

If the SME does not generate the expected income that allows the entrepreneur to survive, he will be left without resources to cover his expenses such as transportation, meals, and housing, so it will be more feasible to close the company and take a job where he has a fixed and secure salary (Reyes, 2020).

Banking institutions

Banking institutions play a highly relevant role in financing the productive activities of SMEs (De Los Santos et al., 2020).

When an SME decides to access a loan, this application becomes a new challenge to face, since some of the limitations to obtaining a loan are the lack of mortgage guarantees, the little interest of banks in the collateral offered by the applicant, and the perception of financial institutions that SMEs are high risk compared to a large one (Reyes, 2020).

This is due to several reasons, such as the high mortality of SMEs, the lack of reliable information about companies, asymmetric information, moral damage, dependence on credit schemes based on guarantees, a market structure with little competitiveness, and opaque information to the consumer, widespread informality, among others, which make it difficult to

grant credit and in some way force SMEs to resort to other types of financing to continue their operations (De Los Santos et al., 2020).

One of the factors that has an important influence on the success or failure of a loan application to a financial institution is the purpose of the loan, since most companies request the loan as a current asset and that it be paid in the short term, being unattractive for the institution compared to those applications that seek to invest in assets (Jiménez-Martínez et al., 2020).

Another factor that generates a significant number of rejected applications is the ability to not comply with basic requirements requested by the institutions, since these failures are mainly linked to a lack of internal control and poor management of the company, it becomes a high-risk subject to grant a loan (García and Carrillo, 2019).

The credit bureau plays an important role in obtaining credit since it is a risk assessment to be considered by the financial institution when making a decision, to the point of being considered as the “blacklist” (García, 2020).

In this history, either of the entrepreneur or the company, you can find the records of compliance with the payment of their obligations (García & Carrillo, 2019), which is made up of a private company (outside banking institutions, governments, and other companies that grant credit), which gathers enough information so that an evaluation of credit behavior can be made and determine the type of risk that the applicant represents financially speaking, therefore, whether it is a company or individual that has late payments or insolvency, it will be registered and therefore is not subject to financing by formal institutions (García, 2020).

Pointing out that a negative behavior within the credit bureau can take up to 8 years to be eliminated, so it is common for some entrepreneurs to find it difficult to obtain financing for reasons as diverse as loans for failed companies, to debts for services such as electricity or telephony or some that are not even linked to the company, as debits in department stores.

These factors make banks see it as very costly, risky, and unprofitable to grant loans to SME entrepreneurs and, therefore, increase the barriers to accessing them (Saavedra & López, 2020).

On the other hand, according to Jiménez-Martínez et al (2020), surveys of Mexican SMEs showed that 31.7% do not request loans from financial institutions due to high interest rates, so it is more likely that suppliers will cover a large part of the financing, it should be noted that repayment rates for loans requested by SMEs are very high in our country (De Los Santos et al., 2020), according to ENAPROCE, only 8% of SMEs accessed financing, while the average interest rate was 13.86% (Lara et al., 2019).

Because of this, the owner tends to use their resources, and only when these are insufficient to ensure their operation do they resort to external financing sources (Saavedra & López, 2019). Even when applying for a loan, the applicant has more information about his company than that presented to the lender, so he will try to achieve greater profitability by paying a lower financial cost, so because of this attitude the necessary information will not be provided to justify the financing and it becomes a factor for the institution to reject the project (Saavedra and López, 2019).

In general, when requesting financing from a financial institution, a mortgage or pledge guarantee must be presented that covers between 70 and 80% of the loan requested, so that by not having that guarantee or not wanting to lose it due to high interest and years of payment or the inability to meet the obligations, they choose to sell the asset and self-finance (Hernández & Cruz, 2018), or in other cases, resort to informal financing.

Informal financing consists of loans or credits that generally do not pay an interest rate, since it is based on the proximity and trust that the entrepreneur has with the lender. In addition, some entrepreneurs prefer to use personal loans (requested in their name and not in the company's name), their credit cards, and their resources, and reinvest profits to achieve the needed financing (Lara et al., 2019).

Since the reinvestment of profits and suppliers are the main sources of informal financing for most SMEs, being considered more expensive than being financed through the banking system, this modality is much more accessible and faster to obtain (García, 2020).

The government

Due to the economic importance of SMEs both in terms of what they represent for the country's GDP and in the number of jobs they generate, different programs have naturally been developed to promote their development. It is important to point out, as García (2020) mentions, the objective of these programs is not only to finance as financial institutions do but to adapt the programs to the needs of each company and to allow it to streamline its processes and obtain a competitive advantage within the national and even international market.

In Mexico, there have been various programs to support SMEs since the late 1970s, starting with the creation of the National Commission for Industrial Development during the government of José López Portillo, through the Program for the Modernization and Development of Micro, Small and Medium Industry (PMDI) in the six-year term of Carlos Salinas de Gortari or in the government of Vicente Fox. where the now extinct Undersecretary for Small and Medium-sized Enterprises (SPYME) was created (Hernández and Cruz, 2018).

One of the most significant efforts has a recent record, which was derived from the National Development Plan 2013-2018, during the administration of President Enrique Peña

Nieto, with which the National Institute of Entrepreneurship (INADEM) was created, which was operating until 2019. It was a decentralized administrative body of the Ministry of Economy, to operate the National Network of Support for Entrepreneurs and make instruments, programs, and tools available to entrepreneurs that would facilitate access to financing (Rodríguez et al., 2018).

During the government of President Andrés Manuel López Obrador, the program was discontinued under the argument that acts of corruption and excessive bureaucracy had occurred, so the functions were transferred to the Development and Production Unit (UDP) (Jiménez-Martínez et al., 2020).

It is important to mention that according to a report presented by the National Observatory of the Entrepreneur, corruption is the main limitation of economic activity in general, specifically, entrepreneurship, since the owners of SMEs have mentioned that on at least one occasion they have had to pay some additional fee for their procedures to advance and their businesses to be able to start operations (Rodríguez et al., 2018).

Funds from consolidated government institutions have also been affected by changes in government, as was the case with the National Council of Science and Technology (CONACYT), which had a specific support program for companies dedicated to the development of scientific and technological knowledge, mainly in its development stage through temporary capital investment. This program was replaced in 2020 by the government of President Andrés Manuel López Obrador without providing information about its new way of operating (Jiménez-Martínez et al., 2020).

A different case with the National Entrepreneur Fund, which continues to operate after belonging to INADEM since 2014 and later being transferred to the UDP (Jiménez-Martínez et al., 2020), the objective of the FNE is to encourage production and innovation in micro, small and medium-sized enterprises, providing them with the necessary tools to join the national market innovatively and competitively (Rodríguez et al., 2018).

According to Reyes (2020), despite the efforts made by the different governments in Mexico to support SMEs, they have not achieved their objectives, and even a certain rejection by the entrepreneur to use a government-financed loan has been detected.

This is due to the lack of optimal ways to access the resources provided by the federal government since it is frequent that entrepreneurs are not aware of the existence of these support programs, added to the lack of interest and lack of confidence that it will be granted to them (Saavedra and López, 2019).

Changes in economic policy in Mexico affect the development of SMEs since they correspond to the interests of each party faction and discontinue or modify programs without

a real analysis of their operation or failure, according to Jiménez-Martínez et al (2020) there were better and greater conditions for an SME to obtain a loan at a lower interest rate, while with the government of President López Obrador, there is an exclusive interest in developing the southeast region of the country, providing support to companies with more than four years of existence and discouraging the opening of new SMEs.

As with financial institutions, the lack of information and ignorance of the existence of the different government programs, as well as the bureaucratization of applications are barriers to accessing financing, even though these programs are an indispensable factor for entrepreneurship and non-economic support (simplification of procedures) facilitate the creation of new companies (Rodríguez et al., 2018).

Public policies focused on improving regulations, tax and collection matters, promoting the creation and development of companies, and supplying the government will have a significant impact on the financing available to SMEs (Rodríguez et al., 2018). That is why it must be understood at all levels and areas that SMEs are the main source of employment in the country and that despite this there is a lack of support programs (and continuity in them) that allow for sustained development and make companies self-sufficient (García and Carrillo, 2019).

CONCLUSIONS

Small and medium-sized companies, within their particular characteristics, are limited by a series of factors from their gestation, through their start of operations and their eventual development, presenting a high incidence of failure in any of these stages.

It is extremely complicated for an entrepreneur to initiate government procedures in the face of corruption and bureaucracy, to later face the difficulties of entering a competitive market and in many cases unknown or poorly analyzed, to then have to resort to tools such as financing and have to overcome new difficulties such as complex requirements, long waiting times and the banking bureaucracy. While your company is at risk of failing or losing a competitive advantage.

The government should not limit its actions to providing support through non-refundable resources or loans with low interest rates, it is also obliged to develop comprehensive strategies that promote the development and strengthening of these companies, achieving self-sufficiency and competitiveness. It transcends beyond eliminating government bureaucracy or corrupt practices in the government, although in the first instance, they would make a great change in favor of the management of new SMEs in our country.

The entrepreneur must train and learn new skills that are already urgent in the trends of the globalized market, the SME can be a way to provide sustenance to a family, but in essence, it

is also a generator of employment and economic development, as well as the personnel that make them up, since education and training allows the optimal use of resources and consequently, better management.

A financial culture must be developed that is not only present among entrepreneurs, but throughout Mexican society, since this will allow new companies to be created by leaders capable of understanding and analyzing financial information and, therefore, can make decisions more quickly and effectively.

It is also important to differentiate the characteristics, needs, and scope of a small and medium-sized company to provide a more accurate analysis of the Mexican economic reality, especially in the central theme of this article, financing.

The criteria for granting loans or credit cannot be the same and the obligations acquired should not be covered in the same way, in addition to simplifying procedures and reducing waiting times for obtaining or rejecting an application, this should be replicated both in government programs and in financial institutions.

The only way to develop an economically competitive nation is to promote national companies and entrepreneurs and provide them with sufficient tools and resources for each line and market in which you want to participate since it is impossible to want to replicate successful models such as those applied in Silicon Valley without adopting the business culture and the governmental and financial strategies that are applied there. Since they are the ones that generate success and wealth in the region.

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