

NO SOY CONFORMISTA:
REASSESSING NECESSITY AND OPPORTUNITY MOTIVATIONS FOR
MICRO ENTREPRENEURSHIP IN LIMA, PERU

BY

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THESIS

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ABSTRACT

Increasingly, in the field of entrepreneurial studies, venture creation is dichotomously conceived as an activity willfully undertaken to seize a business opportunity or reluctantly performed as a last resort in the face of a weak and/or inaccessible labor market. This schema purports that an entrepreneur's disposition is fixed at the moment of business start-up, and is indicative of future performance. Opportunity types are more likely to reap substantial profits, expand, hire more workers, and ultimately contribute, on a macro-level, to higher rates of economic growth. Necessity types are subsistence-oriented, survival is the goal, and thus their contributions to national wealth are negligible. My findings, derived from open-ended, unstructured interviews with twenty-seven migrant micro entrepreneurs in Lima, Peru, complicate the "necessity-opportunity model", and its implications. Participants' narratives demonstrate that motivations co-exist, and tend to shift as firms and their founder's develop; cultural and social dimensions are often just as influential as economic forces in inducing venture creation; human, social, and financial capital are the more relevant variables determining a firm's growth potential. I also delve into entrepreneurial theory and use historical analysis to challenge the necessity-opportunity model's theoretical foundations. I conclude by demonstrating how policy recommendations based in the dichotomy are misguided, and how they threaten to undermine the socio-economic advances made by Andean *empresarios* over the last two decades.

Keywords: microenterprise, entrepreneurship, necessity, opportunity, Lima, Peru

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CHAPTER 1
INTRODUCTION

The Andean *Empresario* and “the Peruvian Economic Miracle”

“We are all mutants.” This according to Peruvian nuclear physicist Modesto Montoya, featured in an interview with the Lima-based daily *El Comercio* (Noriega, 2011, p. 4). The piece is meant to generate interest and also inform the general readership on a very technical subject. Dr. Montoya knows his audience will consist mostly of laymen, and so he speaks plainly, using simple analogies and common metaphors to relate key concepts and ideas. He begins by explaining basic principles of evolution, advances in the mapping of the human genome, and even to what extent the popular comic series “X-men” is based on hard science and what can be dismissed as pure Hollywood fiction. Then, the subject of “superhumans” is raised and Montoya too leaves the confines of strict scientific interpretation to spin a narrative using the fabric of his discipline, but stylized and ultimately exaggerated by the modern Peruvian experience.

He claims that having first emerged from Africa, then traversing the Eurasian landmass, crossing the Bering strait, navigating the greater part of the Americas, and making home of the high and forbidding Andes, the ancestors of native Peruvians would have had to meet and pass innumerable tests of natural selection for their genes to comprise today’s pool. And for this reason, Dr. Montoya provocatively suggests that “the Andean ethnicity is hyper selected” (Noriega, 2011, p. 4). But, the interviewer remains skeptical, after all what proof is there? Why was this superiority not manifested nearly five hundred years prior when a small Spanish expeditionary force managed to conquer and subjugate the Incan empire? Why is Peru’s economic and political position today amongst nations still so modest? If we are genetically first-

rate, why are we still considered third world? Montoya's response is "wait, be patient, the story is still unfolding" (Noriega, 2011, p. 4). He asserts that a low-protein diet, coupled with the oxygen-starved environment of the highlands, inhibited the full expression of the innate talents and abilities of Andean peoples. But, now descended unto the coast and nourished by a modern diet "they are producing the economic miracle. In Northern Lima (a zone of concentrated Andean or *provinciano* settlement) there are people wealthier than in San Isidro, Miraflores, Monterrico, and La Molina (considered bastions of traditional power and wealth) combined" (Noriega, 2011, p. 4).

The retelling of this exchange is not meant to suggest Andean peoples are somehow economic *ubermensch* destined to profit and prosper. Instead what it illustrates, is how far and rapidly recently urbanized internal migrants in Peru have advanced socio-economically in the last two decades, and how this Horatio Alger-like narrative of the hard-working and enterprising *provinciano*, progressing and achieving success in spite of humble origins and little means, is embedded in Peru's new cultural DNA (Bird, 2010).

An overwhelming number, nearly 98% of the total, of *empresarios* are considered micro entrepreneurs. These smaller firms employ 84% of all economically active Peruvians (CreceMype, 2012). Meanwhile in the United States microenterprises employ only 11% of the workforce, with larger high growth industries contributing to the far greater share of economic activity (Shane, 2009). This contrast in the prevalence and importance of micro entrepreneurship in Peru and the United States is also generally observable between transitioning and advanced industrial economies (Kelly et al., 2010). Where Dr. Montoya sees biology and evolutionary forces inducing this proliferation of lower-level business activities in places like Lima, researchers in the field of entrepreneurial studies place the focus of analysis on economic

dimensions. One school of thought, increasingly gaining acceptance, holds that developed and developing market societies exert separate economic imperatives producing two related, but in many ways distinct subsets of entrepreneurial types: those driven by necessity and those driven by opportunity.

The theory of the necessity and opportunity-driven entrepreneur

“The necessity versus opportunity-based entrepreneurship model” emerged from literature that sought to explore the link between entrepreneurship and economic growth (Reynolds et al., 2001). That higher rates of economic growth should be positively correlated with higher levels of entrepreneurship, on the surface, seems obvious. “Entrepreneurs create new businesses, and new businesses in turn create jobs, intensify competition, and may even increase productivity through technological change” (Acs, 2007, p. 2). However, in 2001 the conventional wisdom came under serious scrutiny when the Global Entrepreneurship Monitor (GEM) launched a major comparative and empirical study (Reynolds et al., 2001). And as is so often the case, GEM found that theory and reality did not march in lockstep. Results indicated that many developing countries with unusually high rates of entrepreneurial activity, especially when compared to their developed counterparts, exhibited relatively disappointing rates of economic growth. How were these results to be explained?

For one, all the self-employed cannot be lumped into one category. In developing countries, for many people, employment is unavailable or in some way unsatisfactory. Self-employment then is arrived at not by choice, but necessity, as the only or surest means of subsisting. In contrast, the developed world’s labor market is capable of adequately employing most of its economically active population, and those unfortunate enough to find themselves out

of a job can usually rely on a more robust social safety net to make ends meet (Reynolds et al., 2001). Self-employment in wealthier economies thus conforms more to the traditional entrepreneurial archetype of a creative and dynamic innovator who recognizes and exploits opportunity (Bosma & Harding, 2006). GEM and studies conducted employing the “necessity-opportunity model” conclude that intentions matter.

“Evidence suggests a systematic relationship between the prevailing start-up motive in a country and the chance of new business survival. Countries that primarily exhibit opportunity-driven entrepreneurship seem to show a lower share of early-stage business failures than countries with higher shares of necessity-driven entrepreneurship” (Minniti et al., 2005, p. 10).

“It is clear from this study that the motivation of the entrepreneur does in fact influence the direction and nature of the existing or proposed business entity” (Reynolds et al., 2002, p. 15).

Those entrepreneurs who are forced or reluctantly enter into business, won't apply themselves or their resources effectively and thus won't grow or perform as well as those who willingly create businesses.

The necessity-opportunity theory of entrepreneurship confronts the Andean *empresario*'s reality

In the summer of 2011 I conducted field research in Lima, Peru, with the intention of exploring the influences of non-market exchange systems on small and micro business development. I had chosen micro and small business leaders as the main informants and focus of analysis for my study, despite having very little forehand exposure to ideas and theories concerning entrepreneurship. After reviewing the literature on entrepreneurship in the developing world I noticed that the necessity-opportunity dichotomy was a recurring and central theme.

After grasping the concept, it intuitively registered, and came to bear heavily on how I formulated my line of questioning and made sense of participants' responses. With each interview I found myself trying to place participants on either side of the necessity-opportunity dividing line. As I did, I increasingly became frustrated as the line blurred, and participants seemed to oscillate between the two poles. The more I came to know and understand the activities and life stories of participants the more uncertain I became. Was I inaccurately reading responses? Was I failing to appropriately apply definitions? What accounted for my inability to identify participants as either necessity or opportunity-based entrepreneurs?

Searching for clues I returned to interview transcripts, and to questions addressing participants' personal attributes and motivations. I noticed a common response: "*No soy conformista*". Colloquially and figuratively the expression means to not accept one self and things as they are, to have goals and aspirations, and to strive for their attainment. Literally the phrase translates as "I am not conformist" or "I don't conform". And here I had my answer. While most of the small and micro entrepreneurs I spoke with would likely be labeled as necessity-based entrepreneurs by GEM and other similar studies, I found that they and the narratives they were presenting were not conforming to these definitions.

Where theory and the Andean *empresario*'s reality disconnect

While the necessity versus opportunity-based entrepreneur is a useful model, like most models, it has some limitations:

Firstly, it assumes that all entrepreneurs fall neatly into either one, of two rigid categories, "With respect to motivation, GEM classifies business owners as being either necessity-driven or opportunity-driven" (Minniti et al., 2005, p. 11). However, one must consider

that the self-employed might be influenced to greater, lesser, or even equal degree by both motivations concurrently, or an entirely different motivational type altogether. This weakness is even admitted by studies incorporating the model. As a 2010 study on female entrepreneurship in Canada notes “while the categorical distinction between “push” and “pull” entrepreneurs ensures a uniform interpretation of responses, this dichotomy represents an oversimplification of the factors responsible for new venture creation” (Robichaud et al., p. 65).

Secondly, these two typologies are static, since subjects are labeled according to their status at the moment of venture creation, and the possibility of shifting opportunity or necessity motivations are not considered as firms and their founders develop. The model assumes once a necessity or opportunity entrepreneur, always a necessity or opportunity entrepreneur. However, businesses and their owners evolve and adapt over time in response to changing conditions. The accessing of new social networks and/or the rechanneling of old ones, are the mechanisms through which process is set in motion and change is realized (Aldrich, 1986). As these networks are navigated participants face new burdens or are exposed to new possibilities that alter, but do not necessarily subsume previously-held necessity and opportunity motivations for venture start-up or continued engagement in entrepreneurial activity.

Thirdly, the typology is too narrowly constructed. Necessity and opportunity motivations are assigned according to an individual’s relationship to the market structure. Under the model self-employment is undertaken as the result of perceived “business opportunities” or as a “last resort” (Reynolds et al., 2002, p. 16). Essentially entrepreneurship is conceived as being driven by monetary considerations: the “necessity” of subsistence or the “opportunity” of attaining substantial wealth. This conception ignores *compensational differential theory*, which holds that non-pecuniary factors, largely culturally-defined, such as personal autonomy, ability to remain

close to family, and enjoyment of work, also influences decision-making (Carr, 1996; Blau, et al., 1998).

Fourthly, the necessity and opportunity framework gives far too much weight to the role of an entrepreneur's motivation for venture start-up as a predictor of future performance and profitability.

“Growth aspirations . . . vary dramatically between necessity and opportunity entrepreneurs. About 14% of opportunity-driven entrepreneurs expect their new ventures to produce twenty or more jobs in five years. In contrast, 9 of 10 necessity-driven entrepreneurs expect their new firms to provide no more than five new jobs in the next five years” (Reynolds et al., 2002, p. 9).

The assumption is that necessity versus opportunity-driven motivations explains this divergence, and therefore opportunity types are more valuable or even superior to necessity types. The logical conclusion is that in the developing world, in places like Peru opportunity types should be supported and encouraged, whereas necessity types should be ignored or even discouraged in the implementation of public policy.

“In particular low-income nations need to strengthen their small and medium sized sectors. These policies should be focused on existing firms rather than individual entrepreneurs . . . part of the goal should be to reduce the number of necessity entrepreneurs” (Reynolds et al., 2003, p. 44).

This approach ignores *resource theory*, the notion that levels of human, social, and financial capital is the most relevant variable explaining diverging outcomes (Bates, 1989). Micro entrepreneurs almost by definition are enmeshed in deficient or even wholly shut-out from networks, which facilitate access to “financial support (Velez-Ibafiez, 1983), customers (Light, 1972), information (Balkin, 1989), and labor (Waldinger, 1986)” all those resources necessary to ensure success and profitability (Sherraden et al., 2004, p. 25).

Towards reconciling theory with the Andean *empresario*'s reality

Following other studies, I would argue for a more nuanced and dynamic approach that does not fix Peru's self-employed on either side of two separate and distinct poles, but rather momentarily situates and potentially resituates them along a necessity-opportunity continuum, recognizing the role of culturally and socially embedded networks and mechanisms in facilitating movement (Rosa, 2006; Williams, 2009). To universally house, segregate, and evaluate all self-employed inside a rigid and static necessity-opportunity dichotomy awkwardly contends with the traditional, long-held, and substantiated views of entrepreneurship as a socially and culturally influenced, ever-evolving, dynamic process (Kirzner 1997; Schumpeter 1934).

This study then, at least on some level, reaffirms Dr. Montoya's assertion. We are all mutants, never in stasis, ever changing, capable of evolving, adapting to and at the same time altering our environments. The entrepreneur is constantly transforming and being transformed by his or her larger social, economic, and political environment in a process of co-evolution. In order to remain relevant in explaining, mapping, and perhaps even influencing change, researchers and policymakers understanding of entrepreneurship itself must also evolve. Towards this end the necessity versus opportunity-driven entrepreneur model is a step in the right direction. It is a novel analytical tool and gives new insight on longstanding questions concerning the formation and development of businesses and the link between entrepreneurship and economic growth. However, while the general premise is laudable, my examination of necessity and opportunity motivations among migrant Andean micro business owners in Lima, Peru reveals that the model's rigid, static, and universal construction inadequately reflects and explains a dynamic, fluid, and diverse phenomenon. Through the narratives of participants I have attempted to distill a more true-to-life, up-to-date conception of entrepreneurship that expresses

the phenomenon as a resource dependent, culturally and socially influenced process. This conception is offered as a basis, a starting point for the recasting of the necessity-opportunity theoretical schema into a model more congruent with the reality it seeks to explain.

Thesis outline

Both Chapters 2 and 3, critically evaluate the theoretical underpinnings used to construct the necessity-opportunity model. Chapter 2 traces the historical development of the Andean *empresario* from Spanish conquest to the present day. The transmutability of economic forms and actors is shown, and juxtaposed with the necessity-opportunity model's overly stable and rigid construction. Chapter 3 explores the meaning of entrepreneurship and micro entrepreneurship, demonstrating how any model seeking to explain these phenomena must incorporate notions of process, and appreciate the central role resource availability plays in affecting economic performance.

Chapter 4 introduces the field research project. The choice of qualitative and ethnographic methods is explained and justified. By pursuing a "thick description" and focusing on life histories, this idea of process, and the social and cultural components embedded in entrepreneurship, is more likely to emerge. Chapter 5 presents the narratives, the details of the working and non-working lives, of Lima's micro entrepreneurs. Their experiences suggest a conception of entrepreneurship, which does not conform to the static, rigid, universal, and dichotomous interpretation of the necessity-opportunity schema. Chapter 6, the conclusion, demonstrates how this flawed model explaining entrepreneurial activity, may adversely affect policy decisions and undermine or undo the recent advances made by Lima's migrant micro entrepreneurs.

CHAPTER 2

THE ANDEAN *EMPRESARIO* IN CONTEXT

An appreciation of the Andean *empresario*'s reality requires an examination of the greater context. The D.I.Y. style of capitalism so prevalent today in Peru is not just a story of individual motivations aggregating in a developmental trend, but also a confluence of social, political, economic, cultural, and ideological forces. Spanish conquest of the Americas, the meeting and merging of two alien worlds, is the trigger; the most acute and abrupt turn on a historical course that leads to modern Peru. This chapter charts four major developments since conquest - (1) the displacement of Andean communal forms of economic production by a national wage labor system (2) indigenous rural-to-urban migration and Lima's demographic explosion (3) legal and neo-liberal reform in the wake of radical insurgency (4) the Peruvian economic miracle and the rise of the new Andean middle class. An exposition of the forces that forged and continue to shape "popular capitalism" in Peru demonstrates that the phenomenon's emergence was neither accidental nor inevitable. Historical change is not rudderless, and these labels like "necessity" and "opportunity entrepreneur" are not inconsequential.

The names, places, and events mentioned in this chapter are highly specific to the Peruvian context; however, it is worth remembering that many of the historical themes covered here such as colonialism, liberalism, industrialization, urbanization, neo-liberalism, and emerging market economies also emanate from and play out on the larger, Andean, and Latin American and global stages.

The displacement of Andean communal forms of economic production by a national wage labor system

Following conquest, Francisco Pizarro founded Lima “The City of Kings” on January 18th, 1535 as an administrative and commercial center for the newly conquered Andean territories. The coastal settlement served as the principal warehouse and embarkation point for the shipment and transfer of Peru’s wealth to Europe, harvested by indigenous *corveé* labor under the *encomienda* system (Furtado, 1970). This veiled form of slavery, which co-opted the mechanisms of Inca socio-political organization, was justified by the characterization of indigenous peoples as pagan, exotic, ignorant, child-like, and even sub-human – the basis for the *Indio* stereotype (Mahoney, 2010). The effective exploitation of the native labor force required the control and restriction of population movements to prevent rebellion and ensure a ready supply of workers for coastal plantations and highland mining operations. This, combined with an imperial prohibition on most manufacturing activities in the colonial Americas, kept the population of Lima relatively small and mostly non-indigenous throughout the colonial period (Mahoney, 2010).

The beginning of the 19th century would witness the disintegration of the Spanish colonial system in Peru, and set the stage for further fragmentation of Andean social and economic forms. The deposition of Spanish King Ferdinand VII by Napoleonic forces in 1808 gave impetus for early Latin American independence movements. In 1825 the *criollo* elite elected Simón Bolívar, the leader and architect of the campaigns for South American liberation, President of the new Peruvian republic (Larson, 2004). Bolívar introduced reforms to ostensibly benefit and improve the position of indigenous communities; most notably repealing the Indian tribute or head-tax (Larson, 2004). However, the elite feared these challenges to the status quo

and in 1828 forced a frustrated Bolívar's exit and the restitution of the head tax. From 1830 until 1854 the Peruvian state depended almost exclusively upon this racially based tribute to finance the state and repay high interest loans from European nations, especially Great Britain, disbursed to field, arm, and supply national armies of liberation (Larson, 2004).

By the middle of the 19th century the zeitgeist of free market liberalism rapidly begins to supplant a mercantilist-based global economic system. Where mercantilism stressed the strict protection and regulation of domestic industry and maintaining favorable terms of trade, liberalism championed Adam Smith's *invisible hand* and David Ricardo's *principle of comparative advantage* to efficiently allocate resources and foster dynamic growth. In 1854 Peru could finally afford to launch its own free market restructuring with the commercial exploitation of *guano* (Larson, 2004). Found in massive quantities on the arid southern Peruvian coast, the commodity was highly valued in foreign markets for use as an agricultural fertilizer. This new source of foreign exchange generated enough independent state revenue to allow for the repeal of the Indian head-tax, which in turn would facilitate the incorporation of the indigenous population into the modern economy as free landholders and wage laborers (Larson, 2004). The old colonial and early republican order recognized the right of indigenous peoples to traditional Andean ways of life and communal ownership of land in exchange for tribute. Now traditional communal ways of life came under direct attack as land was privatized, made available to be bought and sold on the free market. A vast majority of native peoples had little to no formal education, at best a rudimentary conception of the processes and functions of a modern free market economy, and little understanding of what rights they possessed, much less how they might be exercised. Coastal elites projected political and legal power in the rural interior divesting indigenous peoples of newly privatized communal lands through intimidation, manipulation, and artifice.

Divested of these lands, the means of subsistence through traditional systems of exchange rooted in reciprocity and house-holding, Andean peoples became economically atomized as independent wage laborers.

Indigenous rural-to-urban migration and Lima's demographic explosion

This free market conversion made a once land-tied native labor force more mobile, setting the stage for increasingly greater rates of rural-to-urban migration during the twentieth century. The first major surge in urbanization occurred during President Augusto Leguía's modernization campaign (1919-1930) known as the *Oncenio*, which exposed Peru to a highly open foreign investment regime (Palmer, 1980). Oil, mineral, and rubber concessions were auctioned off and exploited by European and increasingly American private interests. At the same time agricultural exports, particularly from large *haciendas*, increased markedly. These extractive and agricultural industries rapidly expanded, consuming and displacing smaller mostly indigenous holdings. With greater amounts of the nation's wealth bottlenecking in Lima, many of these dislocated artisanal producers gravitated toward niches in the growing urban informal trade sector, more than doubling Lima's population between 1908 and 1931 from 172,927 to 376,097 inhabitants (Champion, 2006).

After the Second World War and a sharp decline in export earnings, Peru underwent a fundamental shift from a primary commodity export-oriented led growth model to state-led development and the promotion of industrialization through import substitution (Sheahan, 2001). The state implemented tariffs hikes, artificially raised exchange rates, and handed over massive subsidies to nurture and shield infant domestic industries from foreign competition. The increased investment created new factory jobs and relatively much higher wages than those

found in the countryside, affecting a strong pull factor for migration. Ironically, the military junta's land reform program, designed to improve conditions for Peru's rural poor, proved an equally powerful push factor. Between 1968 and 1980 "30% of all peasants and agrarian producers were allocated 9,672,017 hectares of land", but without the economic and technical assistance needed to make these newly acquired lands productive (Leonard, 2006, p. 1269). Furthermore, price controls on foodstuffs, originally imagined to support the urban poor and indirectly subsidize industry, hurt farmers who could previously barely make costs at market price. Between 1975 and 1980 agricultural production annually declined at a time when population rates rapidly expanded (Leonard, 2006). Industrialization (the push factor) coupled with mismanaged agrarian reform (the pull factor) ballooned Lima's population from 649,000 inhabitants in 1940 to over 3.3 million by 1972 (Sheahan, 1987).

By the late 1970's it was clear that Import Substitution Industrialization policies had largely failed. The capital-intensive nature of modern manufacturing techniques generated far less employment than originally expected. Lavish industrial subsidies increased borrowing and artificially high exchange rates increased the cost of this borrowing contributing to a worsening sovereign debt crisis. Protectionist policies made domestic industries inefficient and globally uncompetitive. Without state support large manufacturers went out of business, shriveling an already anemic formal labor market (Sheahan, 2001). With industry failing to absorb a swelling unskilled indigenous labor force, the urban working class resorted to informal self-employment to subsist. They became taxi-drivers, market vendors, carpenters, restaurateurs, seamstresses . . . in other words they became informal small and micro business owners. And with a large, concentrated, and growing Andean population in Lima these informal, small scale enterprises found and thrived on a ready-made and accessible co-ethnic market.

Legal and neo-liberal reform in the wake of radical insurgency

By the early 1980's rising unemployment, inflation, and general discontent from decades of economic and political mismanagement strengthened fledgling radical socialist insurgencies like the Shining Path. The rural poor suffering the worst of the violence exited en masse to take refuge in the city centers, namely Lima, where the security situation was better, speeding the pace of indigenous rural-to-urban migration. By the late 1980's and early 1990's the crisis reached critical mass, economic problems deepened, Lima was besieged, the Shining Path was on the verge of toppling the democratically elected government and installing a Maoist-style regime. Advocating a doctrine, loosely based on the Andean-specific historical dialecticism of early 20th century Peruvian communist political philosopher José Carlos Mariátegui, the Shining Path and lesser insurgency movements denounced capitalism as an externally imposed system burdening, oppressing, and exploiting indigenous peoples, a more subtle but no less insidious force than colonialism and liberalism, incompatible with traditional Andean ways of life (Gorriti, 1990). They evoked nostalgia for the might, grandeur, and prosperity of the Pre-Colombian Incan Empire, contending that only a return to the collectivist past and an embrace of a socialist future could address the poverty and injustice suffered for centuries by Peru's indigenous peoples.

Peruvian economist Hernando de Soto, a committed free market reformer, took the opposite and weberian view, forcefully arguing that an Andean ethic stressing hard-work, savings, and reinvestment, was in fact perfectly suited for successful market activity. He saw the swelling ranks of Lima's indigenous self-employed not as hapless victims begrudgingly engaging in market exchange for survival, but rather as natural business leaders worthy of capitalism's honorific title of "entrepreneur". In 1986 de Soto published *The Other Path*, a

riposte and alternative to the socialist Shining Path ideology, positing that the stunted and uneven growth of the Peruvian economy did not represent a failure of markets, but rather the failure of legal institutions and processes to facilitate access to markets and the productive potential of an enterprising yet excluded underclass. Through legal incorporation, recognition, and entitlement Peru's urbanized "real revolutionary class made up of the micro, small, and medium-sized entrepreneur" could transition from the informal economy to the formal sector thereby reducing liability and transaction costs and opening lines of credit vital in expanding and improving businesses, wealth, and ultimately standards of living (1986, p. xviii).

For his policy plans de Soto in 1990 found an eager partner in newly elected President Alberto Fujimori. With official state support de Soto's think tank *the Institute for Liberty and Democracy* designed and implemented a comprehensive legal reform program targeting the registration and entitlement of small and micro-businesses. At the same time Fujimori introduced a far-ranging neoliberal reform package that included privatization of state owned enterprises, reduction of public employment and expenditures, foreign trade and investment liberalization measures, and a new and more disciplined national currency. These reforms together became known as 'Fujishock' due to the sudden-nature and initial social and economic hardship the programs inflicted (Ypeij, 2000).

However, by the mid-1990's, economic indicators started to reverse course and into the latter half of the decade Peru experienced robust and consistent growth. After a stronger and more coordinated state intelligence effort, the Shining Path was leaderless and in retreat. An improving security situation further bolstered an improving economy. De Soto received a lion's share of the credit for the turn around, and along with microfinance pioneer Mohammed Yunus, he became a darling among international development circles, pushing 'micro enterprise as a

solution for third world poverty' into the policy mainstream (Roy, 2010). The legal reforms implemented in Peru, facilitating business registration and property titling for the poor, became the model for the way forward.

'The Peruvian Economic Miracle' and the Rise of the New Andean Middle Class

Now into the second decade of the twenty-first century the Peruvian economy continues to surge. Since 2005 GDP has grown at an average annual rate of 7.1%, while the average rate of inflation, forever a specter haunting Latin American economies, over this same period remained below 4% (World Bank, 2012). Looking over the distant horizon, projections indicate the boom times will become less an aberration and more the norm for the medium-sized South American nation. JP Morgan predicts growth to chug along at a robust 6% over the next few years, while the rest of Latin America manages around 3.7%, and into the middle of this century HSBC sees the Philippines as the only other economy in the world with more growth potential (García, 2012).

In the last five years 3.5 million Peruvians have officially moved from impoverished or low-income into middle income households (Kritz, 2011). The most dramatic transformation is taking place in the *conos* or newly urbanized districts surrounding Lima, inhabited mostly by first, second, and third generation migrants of indigenous descent mostly from highland departments. These places like *Los Olivos*, *Puente Piedra*, and *Independencia* are burgeoning centers of commercial activity and increasing affluence as evidenced by the construction of two, three, and even four story homes and shopping centers rivaling any of those found in post-industrial consumer societies. The engines spurring this development in the *conos* are small and micro enterprises built *poco a poco*, little by little in small workshops, storefronts, and

marketplaces. Together they employ an estimated 84% of the nation's economically active population, create as much as 64% of the nation's wealth, and account for 98% of all existing firms (CreceMype, 2012).

A number of high-profile success stories have emerged. The most often cited example is *Gamarra*, the textile production, retail, and wholesale cluster located in the central *Limeño* district of *La Victoria*. In the 1960's the intersection of avenues Gamarra and Hipólito Unanue began as a modest open-air textile market. By the 1970's vendors started to move backwards in the supply chain and opened small workshops designing and manufacturing clothing for the consumer needs and fashion tastes of a growing co-ethnic market in Lima. The immediate area around Gamarra re-zoned exclusively for industrial and commercial textile activity, and with a growing reputation, larger producers, distributors, and retailers sub-contracted to and established backward linkages with the cluster's firms. Gamarra is now the center of Peru's growing textile industry counting "170 shopping centers with 17,000 locations owned and operated by 10,000 *empresarios* who employ more than 50,000 workers", attracting 60,000 customers daily, and generating annual revenues in excess of \$1.5 billion (Ramirez, 2011). Many firms are thriving micro and small enterprises, working out of spaces no larger than 150 square feet.

From these smaller concerns have emerged several large global firms. For instance, the largest branch within the Gamarra cluster at its inception couldn't claim title to a single square foot of property. In the 1970's thirteen year old Alquilino Flores began as an itinerant T-Shirt vendor in Gamarra and ended up as the President of international textile giant *Topitop*. The company's retail division manages outlets across Peru, Venezuela, and Colombia and its production facilities export to the United States, Europe, and Brazil for international brands such

as *Old Navy*, *Hugo Boss* and *Under Armour*, amassing annual sales in excess of \$275 million (Moffett, 2011).

Another ‘success story’ is the *Unicachino* foodstuff wholesalers and retailers (Yapuchura, 2008). The *Unicachi*, a close knit Aymara ethnic community from the high, windswept Altiplano of Puno, first came to Lima as seasonal migrant *charqui* or dried meat vendors in the 1940’s. By the 1950’s many poorer and landless *Unicachinos* permanently settled finding steady year round work in the city’s fish processing plants. Throughout the 1960’s and 70’s they founded a number of community and civic organizations as a way of sustaining links with their Aymara heritage and promoting economic development projects in their native Puno. After the fishmeal industry collapsed many *Unicachinos* remained in Lima and returned to market work by converting these community and civic organizations into business associations. Families set-up their own independent, small retail or wholesale outfit, but also associated and contributed time, money, and effort to a community investment group that would purchase property, construct and maintain market facilities, provide logistical support, and engage in mass-marketing campaigns to the mutual benefit of all members. These traditional, network-based, collective business practices are still yielding major dividends. Today a total of eight *Unicachi* investment groups, with assets including supermarkets, retail and wholesale marketplaces, and shopping malls valued in excess of US\$50 million, provide safe, secure, and legal employment to thousands (*Responde*, 2005).

These dramatic rags-to-riches tales among groups like the *Unicachi* and in places like Gamarra are increasingly not seen as outliers, but rather as blueprints, veritable roadmaps to greater socio-economic mobility, thrusting entrepreneurship firmly into the cultural mainstream. Today 40.3% or roughly 4 out of 10 economically active adults in Peru are involved in some sort

of entrepreneurial activity, compared with a figure of just 8.3% or less than 1 out of 10 in the United States, or 11.1% and 27.2% respectively in neighboring Chile and Ecuador (Fairlie, 2010). These high rates of independent business ownership are unlikely to abate in the future as 33.5% of Peruvian youth between the ages of 15 and 29 either currently own or plan to start their own business in the coming year (Garcia, 2012).

Although the tandem rise of Peru's economy and the micro entrepreneur has been sudden and impressive there is still a strong sense that now is no time for complacency, the project remains somewhat incomplete. 15.3% of *Limeños* are still living in conditions of poverty, and that 76.3% of rural Peruvians are as well, suggests migration flows aren't likely to abate in the coming years (Instituto Nacional Estadística e Informática [INEI], 2009). The urban economy still exhibits an unusually high degree of informality with over 50% of all workers monthly drawing a salary from unregistered firms (De Althaus, 2007). Nearly all of these undocumented businesses are microenterprises, making micro entrepreneurs highly vulnerable to corruption and crime, unincorporated in state health and disability insurance and pension schemes, and less likely to obtain favorable credit terms and lower interest rates on loans (De Althaus, 2007). The gains realized by the Andean *empresario* are promising, but remain immature, unconsolidated, and ultimately fragile.

The implication for the necessity-opportunity theoretical model

Pan out, observe the entire developmental arc of Peruvian micro entrepreneurship, and one feature stands out in sharp relief: the rapid rate of change under which economic forms go. Each upheaval seems to arrive sooner than the next. Centuries of colonial forms gives way to less than one hundred years of liberalism, succeeded by mere decades of state-led development,

before the dawn of the current neo-liberal era. This free market system is viewed as the most transformative, productive, and at the same time, for better or worse, highly unstable. Yet, the necessity-opportunity theoretical model relies on a stable definition of capital formation and entrepreneurship. However, as the following chapter will explain, the idea or conception of entrepreneurship is anything, but stable.

CHAPTER 3

THE MEANING OF (MICRO) ENTREPRENEURSHIP: THEORETICAL IMPLICATIONS

As currently constructed, does the necessity-opportunity model of entrepreneurship accurately reflect motivations for venture start-up, explain outcomes, and enhance our understanding of entrepreneurship in Peru and in general? These are the questions driving my research. However, before engaging the controversy that these questions raise, the polemics contained within these questions themselves require attention. Entrepreneurship is still a relatively new and unsettled field of research (Shane & Venkataraman, 2000). How do we define entrepreneurship, micro-entrepreneurship? Can market stall owners, street vendors, and informal workshop managers really be considered micro entrepreneurs? These are questions without definitive answers, subject to multiple interpretations.

An examination of these broader issues, here, in this chapter is relevant to my specific argument for two reasons. For one, it disciplines and structures the critique. In offering criticism there is often a tendency to approach the issue from separate planes, and argue past the propositions put forth so there is never a meeting at a substantive point of contention. My purpose is to debate the merits of the model, not semantics. I am not attempting to throw out and replace the components structuring the model; the problem is in the mechanics. The model is misassembled and lacks additional elements for it to properly function, for it to more accurately reflect and explain reality. The other reason for touching on these larger themes then is that a more complete understanding reveals the foundational flaws in the model, and how these defects produce misleading assumptions and results that distort and unfairly undermine micro entrepreneurship in Peru and likely elsewhere.

Traditional and established conceptions of entrepreneurship

The first question – what is entrepreneurship? - is probably the most contentious. The term is derived from the French word *entreprendre* and literally means “one who does or undertakes”. Richard Cantillon, an early eighteenth century French-Irish economist is credited with coining the term in the context of economic activity. His definition emphasized risk, the combination and employment of resources toward a calculated yet uncertain expectation of greater return in the form of monetary profit (Cuervo et al., 2007). With the publication of John Stuart Mill’s “Principles of Political Economy” (1848) the word and concept enters into the mainstream. Mill also associates financial risk, but additionally stresses the managerial function, an involvement in decision-making and the day-to-day operations that shape the firm. Max Weber weighed in from a socio-cultural perspective, theorizing that certain values like hard work, frugality, and individualism originating from social or religious customs, attitudes, and belief systems fostered an ethic conducive to successful entrepreneurial activity (2003). Alfred Marshall’s *Principles of Economics* (1890) set out the four factors of production: land, labor, capital, and organization. The entrepreneur was the single most crucial economic actor, coordinating these factors in the realization of productive activity. He identified expert knowledge, leadership, and vision as hallmark traits. However, mere possession of these attributes, even in the highest degree, does not guarantee success. Marshall posited that success, growth and profit attainment, was also a function of and largely dependent on prevailing economic conditions.

With the consolidation of the industrial revolution, the advent of increasingly sophisticated technologies, and the growing pervasiveness of capitalistic production into every facet of modern life, twentieth century thinkers compiled an important and impressive body of

literature focusing on the role of the entrepreneur as an important economic actor. Among the most salient thinkers was Austrian economist Joseph Schumpeter who first and foremost conceived the entrepreneur, as a midwife of economic change.

“Innovation is the outstanding fact in the economic history of capitalist society or in what is purely economic in that history, and also it is largely responsible for most of what we would at first sight attribute to other factors . . . for actions which consist in carrying out innovations we reserve the term Enterprise; the individuals who carry them out we call Entrepreneurs” (1934, p. 102).

Innovation can take many forms: the invention of a new product, a novel method of production, a revolutionary way of organizing production, the opening of a new market, or the discovery of a new source material. Through innovation the status quo is cast off and the market is disrupted, thrown into a frenzy of “creative destruction”. The new superior or lower priced product takes command of the market, forcing other firms to imitate. Those unable to adapt, fail and make room for nimbler, more efficient competitors.

Where Schumpeter saw an entrepreneur’s purpose in disrupting market forces, Israel Kirzner saw their function in returning these same forces to equilibrium. He envisioned entrepreneurship as the discovery of profit opportunities, which inevitably emerged in the churning and flux that naturally occur in the relation of the forces of supply and demand. Through “unconscious learning” the entrepreneur recognizes and, motivated by profit, seizes market opportunities, similarly alert actors compete to capture any remaining profit opportunities until supply wholly satisfies demand.

Aside from Schumpeter and Kirzner several original 20th century thinkers and their ideas deserve mention. Frank Knight’s *Risk, Uncertainty, and Profit* (1921) conceptually defined and separated risk and uncertainty in the formation of profits. Risk is taken when the probability of success or failure are roughly discernible that is decisions under these circumstances are

objectively calculated. Decisions under conditions of uncertainty on the other hand have no knowable probability, and thus are made subjectively and intuitively. This interpretation again emphasizes entrepreneurship as a process, in this instance as a performance made in navigating risk and uncertainty.

William Baumol and Mark Casson expanded on and went beyond Weber's analysis of culture's effect on entrepreneurship by considering the significance of other external factors, incentive structures, and the larger historical and political context surrounding the entrepreneur. Baumol differentiated between productive (e.g. innovation), unproductive (e.g. rent seeking), and destructive (e.g. organized crime) entrepreneurship, and societies' function in incentivizing each type. He also introduced a historical perspective to the study of entrepreneurship citing cases from ancient Mesopotamia, imperial China, and renaissance Europe to support his theories (2003). Casson did much the same, paying particular attention to Victorian England. Casson highlighted the importance in creating and accessing networks for entrepreneurs, and how this function is shaped by cultures and institutions (2010).

Uniquely, psychologist David McClelland sought to measure the underlying motivations propelling entrepreneurial activity and surprisingly concluded that behind and superior to the profit motive is a need for achievement and power (1987).

It is beyond the scope of this paper to provide an in-depth and exhaustive survey of entrepreneurial thought and theory. The purpose here rather is to give an expansive and authoritative list of characteristics and elements that give a composite picture of what is meant when the term entrepreneur is used. Literature constructing, defending, or employing the necessity-opportunity model tends to only generally and indirectly delimit particular conceptions

of entrepreneurship and the entrepreneur. Given the absence of a definitive rendering, I won't attempt to produce my own or cherry-pick a definition to suit my argument. However, it can be safely assumed in each case any interpretation should include most if not all the fundamental considerations put forth by the abovementioned theorists.

Inveterate qualities of entrepreneurial activity and the theoretical foundations of the necessity-opportunity model

The necessity and opportunity model's construction not only ignores, but in some cases directly contradicts dominant themes in the study of entrepreneurship. One only needs to look at the language used in describing entrepreneurship. Terms like dynamism, change, process, and evolution are found in abundance. Take Schumpeter's explanation of his principle of "creative destruction" in *Capitalism, Socialism, and Democracy* (1976),

"Capitalism...is by nature a form or method of economic change and not only never is but never can be stationary . . . the opening up of new markets, foreign or domestic, and the organizational development from the craft shop to such concerns as U.S. Steel illustrate the same process of industrial mutation—if I may use that biological term—that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one" (p. 83).

Schumpeter frames capitalism as an inherently restless system, expressed here by the repeated mention of the descriptor "incessant", and the entrepreneur as the principal agitator. Of course, as the market shifts so too does the entrepreneur. As Kirzner explains in *Competition and Entrepreneurship* (1973), the entrepreneur conditions the market just as well as the market conditions the entrepreneur.

"To explain how yesterday's market experiences can account for changes in plans that might generate alterations in prices, in outputs, or in the uses of inputs...it is

necessary to introduce the insight that men...learn from their experiences in the market. It is necessary to postulate that out of the mistakes which led market participants to choose less-than-optimal courses of action yesterday, they can be expected to develop systematic changes in expectations concerning plans” (p.71).

Here, Kirzner relates how the entrepreneur adjusts and develops as the process of entrepreneurship unfolds. In contrast the necessity-opportunity model assigns necessity or opportunity labels precisely at the moment of venture creation, offering no criteria for reassigning designations at any other stage as changes occur. This is a static, unchanging, and remarkably stable method for classifying a phenomenon that at its core concerns the exchanging of one state of affairs for another, the collecting, combining of seemingly disparate resources to realize a wholly different product. The process of entrepreneurship should not just be thought of as transformational for good, services, methods of production, and markets, but also for entrepreneurs themselves.

The rigid dichotomous construction of the model is ill-equipped to reflect this notion of process and evolution. Change should not be represented in a binary form where something is wholly one thing, one moment, and wholly another, the next. As Kirzner and Schumpeter point out, change for the entrepreneur develops, it may happen in leaps or bounds or through inexorable crawl, but is never arrived at instantaneously. To better accommodate the mutative nature of entrepreneurship, the either-or presupposition (an entrepreneur can be either a necessity-type or an opportunity-type) should be replaced by a sliding scale or spectrum so that an entrepreneur can be represented to greater or lesser degrees by necessity and opportunity motivations concurrently.

The other glaring omission, in the formulation of the necessity-opportunity model, is a socio-cultural component. As framed by the schema, the necessity-driven entrepreneur's

motivation is primarily determined by external economic and political conditions, namely the lack of suitable employment and the unavailability of an adequate social safety net. Meanwhile, the opportunity-driven type's motivation is determined mostly by internal psychological factors like creative expression and the need for achievement or power as postulated by McClelland (1987).

GEM's research participants are asked simply whether they are involved in entrepreneurship "because you have no better choice of work" or because you decided to "take advantage of a business opportunity" (Reynolds et al., 2003, p. 54). If the participant checks the former response they are identified as being necessity-driven, check the latter and the opportunity tag sticks. Neither category considers the role socio-cultural influences might have in determining motivations, despite the strong academic pedigree of socio-cultural thought in the study of entrepreneurship since at least the publication of Weber's *The protestant ethic and the spirit of capitalism* (2003). The possibility must be considered that some cultures might engender such a strong inclination toward independence and self-sufficiency that the path of entrepreneurship might be chosen regardless of the ease of entry into the labor market. So that the "no better choice of work" response might apply not because adequate wage labor is unavailable, but rather because of family or community pressures or a strong personal preference for entrepreneurial activity exists. And what of lifestyle entrepreneurs? Hypothetically, an elderly retired person might launch a business neither because he or she must do so to subsist nor because an opportunity is recognized, but only motivated by a desire to become engaged in the community, as a way of being socially active. By ignoring social and cultural components the necessity-opportunity model is more likely to make false positive categorizations as in the case of the former example, and less likely to cast a wide enough of

net to capture all entrepreneurial activities as in the case of the latter hypothetical. Here, wouldn't a response like "because no better avenue for community involvement is available" or "to take advantage of an opportunity for greater personal fulfillment" be the far more representative motivation?

Those aspects related to the phenomenon of micro entrepreneurship that further exposes the model's foundational flaws

One particular subset of entrepreneurial activity, which exposes the N-O model's weaknesses, is micro entrepreneurship. Defining the micro enterprise in Peru, at least from a legal standpoint, is fairly straightforward. Two criteria must be satisfied: annual sales figures and number of employees. Any firm that employs no more than ten workers and reports no more than S./ 525,000 (Approximately \$190,000) in annual sales qualifies as a micro enterprise (SUNAT, 2012). So, legally a micro enterprise is a business on a very small scale in terms of organization and production.

More generally though, looking beyond the strict legalistic interpretation, like entrepreneurship, the features that describe micro entrepreneurship in developing countries such as Peru aren't so straightforward. Nevertheless, most micro enterprises are recognized by five principal characteristics: (1) operations confined to a relatively small area (2) limited financial resources (3) less capital and more labor-intensive (4) less specialization and division of labor (5) unregistered, unlicensed, or informal (Bangasser, 2000).

Micro enterprise tends to be defined in relative terms that connote inferiority, characterized less by what it is and more by what it is lacking. Likewise necessity-driven entrepreneurs are defined by a lack of opportunity, access to the formal labor market, and

availability of state support. Both micro entrepreneurs and necessity entrepreneurs by definition would be expected to exhibit higher levels of poverty, suffering from deficits in human and financial capital. So in places like Peru that most necessity-driven entrepreneurs are also micro entrepreneurs comes as no surprise. Naturally many of the same negative conceptions attached to micro entrepreneurship are shared by necessity entrepreneurship. In fact GEM found higher levels of necessity entrepreneurship are associated with a whole host of negative social and economic indicators, and conversely higher levels of opportunity entrepreneurship are associated with positive or desired indicators:

“ . . . lower levels of household income are strongly associated with higher levels of necessity entrepreneurship . . . ” (Reynolds, et al., 2001, p. 17).

“Income disparity or inequality tends to be higher in less developed countries, where there are also higher levels of necessity entrepreneurship.”

“ . . . countries that are well integrated into the global trading economy have much lower levels of necessity entrepreneurship.”

“ . . . countries with higher levels of economic development generally have a lower prevalence of necessity entrepreneurship.” (Reynolds, et al., 2001, p. 20).

However, can we really conclude that motivations, the variable that differentiates the two types, determine outcomes? My contention here is not that the negative associations with necessity-driven type don't exist, but rather that the necessity motivation itself is not responsible for the conditions that surround and create it. Necessity motivations are likely only correlative to poorer performance and the relative lack of resources available to necessity types is in fact the causative factor that explains these results. After all entrepreneurship is essentially the coordination and transformation of resources in order to realize a profit. Naturally if an entrepreneur is left with lesser resources in either quantity or quality than a competitor, he or she is far more likely to derive a lesser profit than the latter. Harking back to Alfred Marshall's

factors of production, no matter how well organized, creative, or decisive, no matter how much psychic energy invested by an entrepreneur, if land is marginal, labor unskilled and in short supply, and capital barely there at all, significant profit is unlikely to materialize. Inferior inputs result in inferior outcomes. These kinds of studies obfuscate the real problem, which is structural and independent of motivation - lack of education, infrastructure, access to technology and credit, informality – all those features that degrade factors of production and are synonymous with necessity and micro entrepreneurship in Peru and the developing world.

For this reason the model must more convincingly underscore the link between structural disadvantages, motivation for venture start-up and performance, identifying the first as the more causative, and the second as more intermediary in the determination of the third. In this way the message sent to policy and decision-makers is less about discouraging or neglecting necessity entrepreneurship and more about improving conditions so that micro entrepreneurship is better resourced, becomes more based on opportunity motivations, and ultimately more productive.

Are the self-employed really micro entrepreneurs?

Poorer relative performance has led many to question whether or not those commonly referred to as “micro entrepreneurs” should be called entrepreneurs at all. Marxists claim that street vendors, market workers, small workshop owners and the like work for subsistence and not capital accumulation, and thus are more the urban corollary of rural peasantry than junior equivalents to larger capitalists, and that “petty-commodity producers” is a more appropriate term (Binford & Cook, 1991). Similarly, though from a very different ideological perspective, others contend that since most micro business owners are unable or have no intention of multiplying resources, employing others, or generating economic growth they don’t qualify as

entrepreneurs, and are more accurately described as simply “self-employed” or “own-account workers” (International Labor Organization, 1993).

The argument is that the term micro entrepreneur is an artificial construction, a marketing tool generated by micro-finance and international development hype machines. Eagerly accepted and promoted by a “Washington Consensus” policy elite, desperate to present a viable market-based solution to poverty. Standards of living can rise only so far, only so many can escape poverty by printing T-Shirts, selling foodstuffs, refurbishing used auto parts, engaging in labor intensive and low skill activities (Shane, 2009). The notion that every micro firm in the developing world possesses the aspirations and potential of the *Unicachinos* or a *Topitop* is blind optimism. Real, sustainable growth is in bio-technology, telecommunications, computing, finance, advanced manufacturing; capital and knowledge intensive industries. The self-employed in transitioning economies are treading water not propelling economies forward.

However, this premise contradicts some of the findings of my research as well as more prominent and extensive studies by Buechler and Buechler (1992) in Bolivia and MacGaffey (1987) in Zaire (now the Central Democratic Republic of Congo) which suggest that microbusiness owners seek to “accumulate capital and act in an enterprising fashion” (Eversole, 2003, p. 104). Are microbusiness owners entrepreneurs in the Schumpeterian sense? No, but to be fair, most business owners that are commonly referred to as entrepreneurs in the developed world wouldn’t meet Schumpeter’s criteria either. Game-changing innovations that rearrange markets – the steam engine, synthetic plastics, the internet- are rare. However, applying a more Millian and Kirznerian definition microbusiness owners in the developing world would certainly be included as entrepreneurs.

So despite the heavy criticism levied against the necessity-opportunity model in this chapter, this discussion of the appropriateness of identifying microbusiness leaders as entrepreneurs, highlights the usefulness of the schema. The term necessity entrepreneur recognizes the economic potential and function of some microbusiness owners in transitioning economies without romanticizing their activity or condition, or restricting their challenges to one of only size and scale in the way the term micro entrepreneur does. The basic premise of the model is correct, there are qualitative differences in entrepreneurial activities, and these differences are wrapped up in separate motivations for venture start-up. Nevertheless, the interpretation of entrepreneurship as a static, resource independent and universal phenomenon, needs changing. How my research seeks to challenge this conception is treated in the following chapter.

CHAPTER 4

METHODOLOGY

“ . . . the profit opportunities entrepreneurs discover are not a matter of objective observations of quantities, but a matter of perspectival interpretation, a discerning of the intersubjective meaning of a qualitative situation. Profits are not measured they are “read” . . . this reading of profit opportunities necessarily takes place within a larger context of meaning against a background of discursive practices, a culture” (Lavoie, 1991, p. 36).

Project overview

Field research took place over the course of ten weeks during the summer of 2012 in Lima, Peru. While I observed participants in their day-to-day working lives, the bulk of my data is derived from open-ended, unstructured interviews. All exchanges were tape-recorded and transcribed. Direct quotations appearing hereafter from participants in English, are my own translations from the original Spanish.

Population

Candidates were recruited through various means: a “cold-call” technique (simply approaching storefronts, workshops, market stalls etc. without prior introduction in an unsystematic way), informal contacts (asking Limeño friends and acquaintances from previous visits to facilitate introductions), and formal contacts (asking lawyers, accountants, and business organizations to arrange introductions). To be considered, candidates must have solely or in partnership owned and operated a microenterprise and have been born and spent the majority of their formative years outside of the Lima metropolitan area.

I chose to focus on rural-to-urban migrants for three principal reasons. (1)The origins and so much of the mythology surrounding the emergence of the Andean middle class is rooted in the

phenomenon. (2) A large proportion of internal migrants are placed under the micro and necessity entrepreneur umbrella. (3) In many parts of rural Peru, traditional Andean social customs and practices are more pronounced than in urban centers, allowing for a clearer exposition of culture's influence in the determination of motivations.

Research Site

Lima province is divided into 43 districts. A contiguous, densely populated grouping of 30 urban districts comprises the city proper. Conventionally these districts collapse into four major sectors: *Lima Norte, Central, Sur, y Este* (Northern, Central, Southern, and Eastern Lima). I managed to arrange and conduct 27 interviews with micro business owners in 7 of these 30 districts. 2 (1:Vitarte;1:Santa Anita) took place in Eastern Lima, 3 (Cercado de Lima) in Central Lima, 2 (Chorillos) in Southern Lima, and 20 (12: San Martín de Porres; 6: Los Olivos; 2: Independencia) in Northern Lima. The ratio and geographical distribution of sources was less the product of premeditated design and more the result of circumstances. Due to the short duration of the project (ten weeks in total), the sheer size of Lima, the city's congestion, and often helter-skelter nature of the public transportation system, for the purposes of feasibility, I originally decided to limit my project to Northern Lima. Of Lima's three periphery (*Norte, Este, and Sur*) *conurbanas* or *conos*, Northern Lima is considered the most socially and economically dynamic, at the epicenter of the emerging Andean middle class, while at the same time it exhibits considerable diversity. Here, first, second, and third generation Limeños are intermixed and widely dispersed (Arellano & Burgos, 2004). The gated neighborhoods of Los Olivos, where residents possess and are accustomed to all the modern conveniences and trapping of Western suburbia, can abut the *asentamientos humanos* or human settlements of San Martín de Porres, where many roads are still unpaved and households lack regular water and electrical services. As

a socio-economic microcosm of the larger city, my concentration on Northern Lima mitigated mobility constraints while still providing access to a fairly representative sample of micro business owners.

Research Challenges

Nevertheless as a non-native outsider, time not space proved the principal obstacle in the way of effective data collection. Making contacts and cultivating relationships as an unknown in an unfamiliar place, asking questions rarely or never asked before is a journey fraught with false starts, wrong turns, and dead ends. In an effort to maintain the project's momentum I quickly adopted the attitude that 'beggars can't be choosers' following leads that sometimes placed my participants outside of Northern Lima, thus my inclusion of data sources from the city's other three major sectors. However, since the project's original confinement to a single designated sector owed fully to the consideration of expediency, not substance, the violation of this design element does not untowardly affect or skew my findings.

Although, in the end geographically less selective, every effort was made to recruit participants that could reasonably be considered "entrepreneurs". Since the necessity-opportunity schema assigns labels according to disposition at the moment of "venture start-up", the first screening factor applied is the interview candidate's role as the firm's primary founder or principal founding partner. While seemingly straightforward, the reality is that disentangling the protean members of a multi-generational household firm to find the single creative, originating force is sometimes a near impossible task. For example, in a tailor shop where the elder father is the firm's financier, daily tends the front desk, and acts as the chief liaison with customers; and his son possesses and applies the technical expertise, takes the measurements,

and makes the alterations; and his wife administers, manages the accounts, and contracts with suppliers; where no single individual decides 'I am going to create a business', but rather where a firm almost organically coalesces around familial bonds and the natural abilities of each member, who then is the "entrepreneur"? As Bryan Roberts notes in *Cities of Peasants* (1979),

"small-scale markets sellers, people offering to wash cars and so on, often appear to make little or on income and, in surveys of poverty, are classed among the desperately poor. They are undoubtedly poor, but it is important to examine the household and not the individual as a unit of economic enterprise" (p. 128).

The necessity-opportunity labels are individualistic, while this may be appropriate for the economic practices and modes of thinking in developed societies, in much of the developing world, and in Peru and Latin America especially, the household not the individual is the chief economic unit.

Ensuring that the participants were in fact "micro" entrepreneurs also posed several challenges. Applying the state's criteria - 10 employees or less and no more than 190,000 *nuevos soles* in annual sales - proved easier on the first account than on the second. Many informal business owners do not keep written accounting records, and when asked to generally describe cash flows, household and business expenditures were typically conflated. I purposefully avoided questions that directly solicited exact sales numbers to avoid embarrassment, and also to allay suspicions that I might be a cleverly disguised state agent and auditor sent to collect on undeclared activities. In determining the number of workers employed by a firm, my line of questioning could be more direct; however, the answers provided rarely sufficed. Family members, though involved in a variety of activities seemingly essential to the functioning of the enterprise, often were not counted as *empleados* or *trabajadores*. 'He or she isn't an employee,

he or she is my cousin, sister-in-law, father etc.’ emerged as a common response. Many part-time employees weren’t considered as workers for the firm either, regarded instead as *ayudantes* or helpers. As Bronislaw Malinowski points out in *Argonauts of the Western Pacific* (1978) this is the usefulness of ethnography, disambiguating what individuals do and what they say they do. Nevertheless, despite the vagaries in accounting for employees, most every firm I encountered involved five or fewer workers. As problematic as the state’s two part criteria is, I relied more on identifying the general characteristics of micro enterprise - low level organization, labor intensive production, informality, lack of specialization - features discernible from a combination of observation and inquiry. But, in the end, the “micro” categorization of enterprises is admittedly more art than science.

Conducting open-ended, unstructured interviews is a very time-intensive process. Thus, the method’s principal drawback and limitation is a very small sample size. To draw conclusions on a population of 2.5 million micro entrepreneurs in Peru based upon the life histories and experiences of only twenty-seven of their members invites warranted criticism. Therefore, to mitigate this problem, and in a way verify my own results, I will consult and rely heavily on previous ethnographies done on small-scale entrepreneurs in Lima. Norma Adams and Nestor Valdivia’s *Los otros empresarios: Etica de migrantes y formacion de empresas en Lima* (1991) examines the production and manufacturing sectors. The working and non-working lives of twenty micro and small entrepreneurs are detailed through unstructured interviews and participant observation. This study, along with Annelou Ypeij’s more recent *Producing against poverty: Female and male micro-entrepreneurs in Lima, Peru* (2000) , is topically and methodologically similar to my own research, adding depth and breadth to my findings.

The case for a qualitative and substantivist approach

The tension between schools of thought based in qualitative and quantitative methods is longstanding, and numerous metaphors and analogies have been devised to explain the rift. Alan Watts, a popular expert on Eastern philosophies, gives a succinct summary in his parable of the “prickles and goo” (1995). He says there are generally two types of people inhabiting our planet the prickly-kind who are “precise” and demand “rigor” in everything and the gooey-kind who are seen as “vague and mystical”. Both lack perspective as the one’s head is too high in the clouds and the other’s so low that it is almost buried. But, as Watts notes, reality is neither comprised of goo nor prickles, but is rather “prickley-goo” and “gooey-prickles”.

In economics this same kind of tension exists, but instead of gooey-types and prickly-types there are Substantivists and Formalists. My argumentation leans on and owes heavily to the former’s school of thought. Substantivism, as developed by Karl Polanyi, holds that social values, norms, customs, and obligations are inseparable, part and parcel of human economic activity. Our material production and reproduction is influenced by and “embedded” in all spheres of life, and not just relegated to that which we call “economics”(Granovetter, 1985). In contrast Formalism suggests that the dictates of the market is the primary, dominant, and even perhaps the exclusive force influencing economic choice. Human action is rational and thus predictable, given limited alternatives and scarce resources, selected outcomes will invariably gravitate toward those that offer the greatest potential for utility maximization.

The key assumption here, on which the necessity-opportunity model rests, and my hypothesis questions, is universality. Formalists would claim that Peruvians or U.S. Americans, the poor or the rich, the young or the old, or any other categories of groups we could conceive do

not function according to distinct rationalities, and that any divergence in outcomes corresponding to each one of these groups is explained instead by unique market conditions under which a single or universal rationality is applied. If rationality is a constant, then we need only to differentiate and tier constraints on utility maximization to produce categorizations that can usefully and reasonably predict decisions and ultimately their outcomes. In other words, if we had two actors one in Lima, Peru and the other in Luanda, Angola with both facing very similar situations – they’re hovering around the poverty line, lacking formal education, frozen out of a rigid labor market, without a state welfare program to provision basic needs, with meager capital for investment – the assumption is that their motivations would approximate, thus broad categorizations like that of necessity and opportunity entrepreneur are justifiable. A substantivist point of view on the other hand would argue that motivations cannot be so neatly bound, packaged, sealed, and delivered as truth, and that radically different socio-cultural influences and life histories would intervene into even the most preternaturally symmetrical market-based incentive structure to complicate and splinter individual motivations.

Formalism dominates the study of economics today, and since entrepreneurial studies are often considered a subset of economics this demand for “precision”, “rigor”, and quantification of data pervades the field (Neergard & Ulhoi, 2007). The academic community is self-aware of these biases and predilections. Several members have come forth, recognizing the value in and calling for the performance of more qualitative studies treating entrepreneurship (Bygrave, 1989; Gartner & Birley, 2002; Hindle, 2004).

The case for an ethnographical approach

Ethnography, a methodology most strongly associated with qualitative approaches, drives my research. This was a conscious decision, made to provide added perspective and moderate a field of inquiry that tends more toward quantitative analysis. This is not to say that economic decisions aren't guided in some degree by a universal rationality, but only that non-market forces play a considerable role as well. Ethnography is most capable of detecting and eliciting nuance, exploring those spaces that potentially exist between necessity and opportunity motivations by way of what Clifford Geertz described as "thick description" (1973). Formalistic methods of inquiry are excellent tools for generating "thin descriptions", that is, providing objective or "etic" accounts of phenomena. Questions of *what*, *when*, *where*, and *how* are generally answerable with just a "thin description". But, *why* we do what we do, that which motivates us, is something deeply individual, psychological, and not always evidently rational. "Thick descriptions" explore and delve into the subjective or "emic" account, allows for, and even assumes, the existence of alternate rationalities informed by unique social and cultural patterns. So while introducing quantitative methods might lend my study an air of authority, especially given its place in the field of entrepreneurial studies, a qualitative, descriptive, and interpretative approach that in some instances complements, and in many more ways complicates, already substantial quantitative findings, in the end is likely to yield more significant insights and explanatory power.

With this in my mind, I asked participants questions that elicit reasons for rural to urban migration; pre-urban structures and patterns of social and economic life, expectations before, during, and after urbanization, the adaptation process, reasons or factors that led to business startup, and strategies for business development and growth. This line of questioning is

purposefully tangential and indirect to the greater research question. The goal is not to be precise here, to pinpoint particular motivations at specific moments, but rather to reveal outlines so a more complete, detailed, and ultimately “thick description” of motivations can emerge.

CHAPTER 5

NARRATIVES AND ANALYSIS

The “evidence” presented in this chapter is derived from participant’s narratives. Together this evidence points to a definition of “entrepreneurship” that incorporates most if not all of the elements identified by the literature and thinkers in Chapter 3: factor control and conversion, risk, creativity, dynamism, discovery, alertness etc. However, certain themes or features that the necessity-opportunity framework glosses over or even neglects prominently figure in participants’ decisions to enter and continue to engage in business activities. Participants’ stories reveal and emphasize that entrepreneurship is a socially and culturally influenced, resource dependent process.

Entrepreneurship as a process

Marcelina , 40, is a small grocer in Northern Lima’s district of San Martín de Porres. In the early 1990’s her husband was killed while returning from Lima on a routine trip. Marcelina along with her infant son were left in the highlands of Ancash. After a brief stay with her mother-in-law, she moved to Lima and found work in a factory producing home construction supplies. For the first four years she juggled work, raising her son as a single parent, financially supporting relatives in Ancash, and finishing her high school degree. Then after twelve years the factory’s ownership decided to dissolve its charter and reconstitute. Marcelina was invited to return to work, but under the condition that her years of service not count toward the reclamation of benefits legally owed to her as a long-time employee. She declined.

I was tired. I didn’t want to continue . . . I thought to myself, I better find a job to busy myself . . . then I thought better of it, no, it’ll be the same. Very tiresome. I’ll have to arrive at a certain time, leave at a certain time, if I arrive late they’ll

complain or they'll request I stay, no, better I don't. And then I decided to start my bodega.

At first she struggled to keep her fledgling store solvent, the small severance package she received lasted only a few months, quickly consumed by inventory and day-to-day expenses. Her fortunes changed though after a conversation with a member of her community. Entrepreneurship is often compared to a conversation, an exchange between the consumer who expresses a need or want and the entrepreneur who receives and processes that message and in turn carries out a plan that in some way attempts to satisfy the consumer's unmet need or want. Of course, this process isn't always literally expressed as a conversation, but in Marcelina's case it was:

“People would arrive and ask “Señora do you have this or that” and I would take note of what people needed and what they bought daily. At first people would come asking for beer and soda . . . and I noticed one man would drink his beer on this corner here, and I asked him if he could bring me a case, eventually I bought a second. And little by little I'd buy more. After a year and half I was buying a lot, not like the small bodegas that buy a hundred at a time, I was buying eight, nine hundred at a time. Two, three times a week. Then the vender told me why don't you sell wholesale, and I said “well, I can't do that, I don't have the capital”. He said “no, we can help you by selling at a discount until you start earning a profit”. I accepted and I was doing this for 2 or 3 months and they left me with 8 clients. Then they called me and said “Señora, the gentleman that usually does the sales can't arrive today can you make the sales?” And suddenly I was selling to other bodegas . . . at first they gave me credit since the initial quantity was on the order of two or three thousand units . . . that quantity was a lot . . . I was worried, could I afford this? But when you are in debt, it pushes you to continue forward at an ever faster rate, looking for more clients. I didn't just attend to their usual clients, I sought more, and now I have 30-40 clients.”

At first Marcelina seems to be a textbook case of a necessity-based entrepreneur, forced out of a job and wholly dissatisfied with alternative employment options she turns to venture-creation for relief from a problematic labor market. But, as we followed Marcelina's story a little further and view venture creation as a process, we discover opportunity motivations figure more prominently in her reasoning and actions. Marcelina no longer appears as a prototypical

necessity entrepreneur. She is observing, recognizing, and exploiting opportunity signals emitted by both consumers and suppliers, at first reluctantly and almost haphazardly and then later confidently and purposefully, accepting and managing risk, growing and expanding her clientele and profit potential. As we allow the story and process to develop motivations shift from that of a necessity to an opportunity-based entrepreneur.

Most cases I encountered did not exhibit such linear and clearly articulated movements along the necessity-opportunity continuum. Most were more ambiguous. For Bernabé, 48 a cobbler with a small makeshift 3' by 12' workshop that juts rather obtrusively onto the pedestrian walkway of a tributary road that feeds into one of the main thoroughfares of the Northern Lima municipality of Los Olivos, the pull motivation was always strong.

“Since childhood I was always very independent, I didn't much like small town life, I liked to go from one place to the other, I was very restless . . . in my hometown I had many options because I have land there, opportunities to start businesses, many ideas, but I came here to Lima. I didn't want help from my family, the money I have is the money I earned, I was always very independent and I still am.”

In Cajamarca he had “stable work” employed full-time at a local sports complex. Bernabé recognizes for most such a life would suffice, but he had, as he puts it, “plans”. So he moved himself and his family to Lima and studied shoe repair, a trade he dabbled in while still in Cajamarca, when he realized he “could make a lot more than as an employee”.

Bernabé exhibits characteristics of an opportunity entrepreneur: a strong and independent will, someone who could secure but chooses to forgo a relatively comfortable living with a steady paycheck. But in other ways Bernabé does not conform to the definition. For one, he has no plans to expand, no desire to add to his small, but loyal clientele or to hire any more assistance than the part-time employee he already has. Ideally he'd like to purchase new

machinery, but admits investing in his home and his family are much higher priorities than expanding capital stock. He has plans to someday purchase a property in order to rent to tenants, but no longer seeks out traditional entrepreneurial opportunities. “Maybe I’m somewhat tired of it (shoe repair), but I put up with it for my daughter who is studying and my younger children.” With a home of his own, a daughter in Brazil studying medicine, trappings of the emerging middle class in Peru, the main function of Bernabé’s business is now to maintain not advance his socio-economic status. He feels more compulsion, more push than pull; he becomes more necessity-driven than opportunity-driven in his attitude toward continued self-employment. Both Bernabé and Marcelina illustrate the shifting nature of necessity and opportunity motivations, and how intentions at the moment of venture start-up might not be so indicative of future performance.

Fecundo, 37, who was born and raised in Apurimac, but now works and resides in Santa Anita demonstrates how motivations not only shift, but also co-exist and compete. He owns his own utility truck and works as an independent contractor distributing orders filled by a large foreign chemical company. But his main project and ambition now is a small textile operation jointly run by himself, his wife and her brother. When I spoke with Fecundo the nascent firm was still in the very early stages, the property had already been acquired along with some of the machinery, but actual production wouldn’t likely begin for another few months. His tone throughout the interview could change drastically because of all the uncertainty, at times he spoke with a great deal of trepidation at others with ebullient excitement. He worried about what failure might mean for his three children, how he’d balance paying the still outstanding loan on his truck and the new ones he took out to finance the venture, he sometimes lamented the extra hours he put in, juggling his first job with the demands of the new business. He relished the

thought of “truly being independent” of making it big, reminiscing on how far he had come and projecting how much farther his children would go in life, he spoke excitedly about growing his business and maybe one day even exporting directly to the United States or Europe. He alternately described his project as a regrettable burden and a grand adventure.

If asked whether he started his own business “to seize a business opportunity” or because “he felt he had no other choice” the answer might very well be driven by whatever train of thought he happened to be on, decided by a bout of pessimism or a spell of optimism. This isn’t to suggest that Fecundo’s answers are inconsistent and that I or anyone else as “impartial” outside observers are needed to interpret his “real” motivation, but rather that the question, phrased in a binary form, fails to appreciate the fluid and hybrid nature of motivations.

Entrepreneurship as a resource dependent process

Almost by definition necessity-based entrepreneurs are marginalized and economically disadvantaged segments of society, and it is this lack of resources, an initial imbalance of social, human, and financial capital and not innate qualities, characteristics, or motivations that explains poorer results. Those I interviewed were extremely adept at recognizing and even creating business opportunities, but also extremely limited in their ability to exploit or develop these opportunities.

Access to financing was a frequently mentioned problem. When formal credit can’t be drawn on community and family resources were often tapped. Most participants, especially women, were at one time members of *juntas* or rotating credit associations. *In Producing against poverty: Female and male micro-entrepreneurs in Lima, Peru* (2000) Annelou Ypeij succinctly describes how these systems work,

“These are informal savings and credit systems that are organized with friends, relatives, and *compadres*. The various participants deposit a pre-arranged sum at fixed periods, and in each period one of the participants receives the total sum deposited. Those who borrow the money pay a modest interest on the loan, which is then paid out to those who receive the money at a later stage in the system” (p. 66).

Even though Sebastiana, 50, a school supply outlet owner, is now eligible for commercial finance she still prefers to use her community’s rotating credit association. “I participate in the *junta* whenever I can, the daily, the weekly, the monthly, you name it”. Family members rarely provide direct investment to budding firms instead these networks are primarily used to ease the transitional phase following migration. After arriving in Lima for the first time and before starting their own business many participants lived with and/or found work with or through cousins or siblings already settled in the city. Ypeij illustrates a typical case,

“Manuel, a furniture producer, has recruited his nephew as an *operario*. He allows him to use the woodworking machines once he has customers of his own. Manuel gives him advice and practical assistance, and the nephew states that he wants to work completely for himself in the future” (2000, p. 125).

Walter, 25, from Puno, who sells produce in *Los Olivos*, told a similar story. He came to Lima when he was 17. He lived with his sister also a vender and became her *ayudante* in the same stall he now owns. After three or four years she opened another larger, more profitable *abarrotes* kiosk, and shortly thereafter her own *cevicheria* restaurant. As Walter puts it, she has already made it, “progressed, she even has her own home.” She left Walter the market stand he now runs. But, again, since the location is rented from the market’s *cooperativa*, aside from a scale and a few baskets, Walter inherited very little actual physical or financial capital.

At the outset most micro-entrepreneurs are forced to rely on bootstrapping strategies. Paulina, 36, a vegetable vender with a market stall in San Martín de Porres gives a fairly typical response when asked how she financed her project “little by little, there was no bank loan, no

contributions from my family, little by little nothing more.” What’s harvested from this seed capital is used to meet basic household needs and the remainder either reinvested in the business or dedicated toward the purchase of land and the construction of a home. These assets can then be used as collateral to secure commercial bank loans. But the process is slow, the loans small and the interest rates usurious, opportunities can’t be jumped on and are more often slowly crept up on.

Lower levels of human capital also have a retarding effect on business. Rufina, 29, owns and operates an internet café, but she sees real opportunity abroad. She has promised financial support from “friends” in Spain and Belgium who are receptive to her idea of exporting handcrafted wooden beehives that her husband’s family produces in Ancash. But, she just doesn’t know where to begin:

“It’s much easier to sell internationally than here in Peru, there are more open doors, I’d prefer a thousand times to export than sell here. But, I lacked orientation, I would have done it, but I need guidance . . . there are a lot of requirements.”

Her internet café project has been sidetracked as well due to infrastructural bottlenecks. “We don’t have enough electrical capacity; this is my only problem just light, if not uf! If I had light my business would be growing. Me, I don’t like to stay as I am, I want to grow, but now I’m a bit stuck”. Informality is another problem pervasive among necessity-based entrepreneurs, which implies a number of competitive disadvantages. With little to no recourse to legal authorities and arbiters informal firms are susceptible to intimidation and less able to enforce contracts. A reality Jacinta, 39, who owns an unregistered hardware store, knows all too well.

“Sometimes they (the customer) ask for credit and we draw up a document that says they have to pay on such and such a date . . . at first they always pay you on time then they take out a lot of credit and then disappear. This happened to me

once on one project, I loaned S./ 3,5000 in materials, and I went to the foreman's office to demand payment and he threatened me, he was a *narco*, until now he still hasn't paid, many things could happen to me or my children, so I just let it go."

Informal firms are also precluded from a number of important business opportunities such as establishing forward linkages with larger formal firms, exporting, and bidding for state contract. Associating with partners becomes more problematic too. This practice allows micro business leaders to overcome problems of scale by pooling resources to make large bulk purchases that reduce the cost of inputs or merchandise. The greater prevalence of informality combined with the lesser availability of resources tangible and intangible, and not motivation factors for venture start-up, explains why traditionally defined necessity entrepreneurs are not as successful as their opportunity counterparts.

Entrepreneurs as a **culturally influenced**, resource dependent process

The argument could be made that even recognizing the structural impediments to growth, most micro-business owners aren't natural entrepreneurs. They are round pegs forced by circumstances into a square hole and for them business formation, ownership, and management is not an organically constructed lifestyle. No matter how many opportunities that are eventually stumbled upon, whatever modicum of success is achieved, entrepreneurship is an instrument of survival, an externally imposed and not an internally driven process. This line of reasoning gave rise to the argument that the very term "necessity entrepreneur" in itself is a misnomer. Again the ILO claims that "necessity entrepreneurs" aren't entrepreneurs at all and should be called "own-account workers" instead (1993). Again, I disagree. In fact from my data one could argue that many of the participants I interviewed, which the ILO and others might designate as "own-account workers", display several values and innate characteristics supremely favorable to and

suggestive of entrepreneurial activity: a strong work ethic, an inclination towards savings and investment, independence, and persistence. These key and defining values in some cases are traceable to an agrarian past, the migrant experience and the hardships that participants' faced. Rufina, originally from Apurímac, one of Peru's most impoverished interior departments, explains:

“We *provincianos* understand hard work. We embrace work. We have been incentivized since childhood, and thanks to this we are progressing. But you ask a wealthier person in what to do they work? Their work depends on the inheritance they might have received, it depends on whether or not their parents have money or if they were provided an education. I am telling you this because I know a lot of people, you ask them, “if you ran into some extra cash, what would you do?” They'd say “I went dancing, I took a trip, I went carousing”, but if you ask a *provinciano* they'd say “I went to plant, I went to buy cattle”, you see, they think more in progressing.”

Marcelina places it in even starker terms, drawing her husband, a native *Limeño*, into the conversation to illustrate her point:

“He is a *Limeño*. What has he done? He hasn't done anything he retired four years ago from his work applied for his benefits, and nothing. That's why I say *Limeños* are lazy, they don't try to better themselves, they don't think of the future? They are a bunch of vagrants. They don't know real work. Those that know how to get ahead are *provincianos*. We know how life is, what is to make money. If you don't work you don't eat. In *provincia* they plant, raise animals, there really isn't white collar work, and when they come here (Lima) they come with this mentality to keep striving for something better than what they knew, than the poverty of their mother and father. “

Testimonials from migrant entrepreneurs in Norma Adams and Nestor Valdivia's *Los otros empresarios: Etica de migrantes y formacion de empresas en Lima* (1991) echo the sentiments I encountered.

“In my village I learned how to work hard . . . I had to get up at four in the morning to tend to the animals, by eight I was in school. And after classes I had to help in the fields or see to the rabbits, collect firewood. It was like this every day.

I learned to be honorable, strong, persistent, to value hard work, and not waste time” - Oswaldo (p. 57).

Every single participant interviewed claimed to work between twelve to sixteen hours and many six or even seven days a week. Walter gave a fairly typical response:

“We usually only have Sundays free. We’ll take a one or two hour break between one and three and work until nine or ten at night and open at five-thirty in the morning, but I need to close and open too, so I arrive earlier and often I don’t get to bed until midnight. I only sleep three or four hours a night.”

This considerable investment of time and effort in work is equaled in financial discipline and commitment. Once basic household needs are met, most if not all spare income goes towards growing or maintaining ventures. I often gave participants some variation of this hypothetical: “say you won \$1,000 in prize money, how would you spend it?” Most answered without hesitation:

“I would invest in my business. Expand my inventory” –Manuel, 42, Event Organizer, San Martín de Porres.

“Invest first. Invest in more things here in my business.” –Andres, 40, Sandwich Shop Owner, Los Olivos

“I would improve my business!” –Mariluz, 63, Grocer, San Martín de Porres.

“If I had more money I’d invest in another business” –Alberto, 50, Carpenter, San Martín de Porres

Responses were invariably short and to the point, even curt as if to suggest that the answer is so obvious that my question hardly seemed worth asking. “Invest, invest, invest” was the mantra. This self-imposed austerity, the idea of delayed gratification, that sacrifice now is the surest path to a fecund future likely too has antecedents in experiences with subsistence agriculture. Mariluz, 63 a small grocer, grew up in remote and rural part of Arequipa,

“We raised corn, potatoes, cereals not to sell, but to consume, we planted once a year, we harvested once a year. There were no cars, no roads, so there was no other business, no other way to survive. You survived on what you could grow.”

Walter from Puno at twenty five years of age is much younger, but nevertheless tells of a very similar upbringing, “We produced for our own consumption, we made a little money selling cattle maybe milk that’s about all though.” At the beginning of the season fertilizer, pesticides, irrigation, and yes labor must be invested in, if not, months later that imprudence will exact an even harsher sacrifice. But even harvest’s end is no time for laxity. Seeds must be collected, stored and saved for next year’s planting season. These learned medium and long-term planning skills translate well when dealing with and weathering the vagaries and vicissitudes of market forces.

Adams and Valdivia also encountered a strong ethic stressing savings and reinvestment:

“I spend the minimum I can in household necessities, all the rest goes towards my business.” –Cesar (1991, p. 66).

“Sometimes I don’t have money and suddenly comes along a client that pays me, that money I can’t spend on just anything. In my mind that money came to me for production and not for anything else. We always have to be putting the money towards business expenses.” – Felipe (1991, p. 66).

“Pluriactivity” emerged as another common trait (Rosa et al., 2009). Many participants are serial and/or multi-invested entrepreneurs. Rosa, 53, owns a juice stand in San Martín de Porres and on the opposite of side of the main marketplace she opened another stand selling sweets. On the weekends she sells a popular dessert *masamorra de calabaza* outside the market’s entrance, she used to raise pigs and hens making and selling *caldo de gallina* year round and *chicarrones* during the holidays. And when the house she is constructing is completed she intends to open a shoe store. Felipe, 47, from Ayacucho operates out of a small 10’ by 12’ storefront in Los Olivos where he sells belt buckles and pirated videos, repairs watches, and dyes

fabrics in the back. This behavior can be seen as a survival strategy of diversification, but also as relentless probing and prodding of markets for opportunities. As the renowned inventor and entrepreneur Thomas Edison once quipped “I have not failed. I’ve just found 10,000 ways that won’t work”.

Another feature shared by most participants is a strong desire for individual autonomy and independence in their working lives. For most, this preference is expressed best through entrepreneurship. Alberto, 50, a carpenter originally from Ancash explains:

“The biggest advantage of having my own business is I am not beholden to anyone. If you want to you open today, another day you don’t want to so you don’t open for business. You’re independent. If you work for someone else, you have to be there at a certain hour, to work constantly every day, you won’t feel good doing that; however, if one is independent, you can rest two, three days, you can arrive at the hour of your choosing. If you want to close for the afternoon no one says anything.”

Adams and Valdivia also found this quality in abundance, and argue that this desire for autonomy has roots in pre-urban, agrarian attitudes toward labor.

“The idea of “being independent” is widely associated with “being free” in as much as in the availability of time as in controlling the process of production . . . this experience as an independent rural producer marks a preference for flexible modes of production, both in the nature of the work itself and the scheduling of tasks.” (1991, p. 52).

However, I did also find that this desire for autonomy may also emerge in part from unpleasant wage labor experiences. When I asked Susanna, 36 a market vender working in San Martín de Porres, what her principal motivation for starting her own business was, she replied, “Sometimes when you work for others they exploit you. So you have to work for yourself”. This is exactly the kind of response that validates the necessity-opportunity model. Necessity-types are those that pursue entrepreneurship as a last resort. This is the expression of a desire for

independence as a reaction. Susanna has no intention to expand, speaks with little emotion about how her business started and where it might going, entrepreneurship seems more a chore, “a necessity” than a calling, she’s resigned to it. But I wouldn’t call Susanna the rule nor the exception. She is a perhaps sizable, but not a dominant segment of the micro entrepreneurial population in Peru, and this is where the necessity-opportunity model errs. It assumes Susanna to be the rule.

The model takes microbusiness owners like Susanna uncovers an unsatisfactory work experience, and assigns this as the principal motivation for business formation. In some cases that determination would be appropriate; however, Adams and Valdivia’s story of Jacobo, a thirty-nine year old metal mechanic from Puno, illustrates that a more penetrating analysis of motivations may eventually reveal other more significant factors at play. Jacobo started his working life in Lima as a lathe operator for a foreign firm. The pay was decent, but due to an overall negative experience he decided to quit.

“They wanted to give me a raise. But it wasn’t that. Money has never been very important to me, what matters is that I am treated like a human being. That I am not used or overly pressured . . . no matter how much they pay me it doesn’t matter if I’m not treated well” (Adams & Valdivia, 1991, p. 53).

Jacobo soon found work again through a friend, and at his new company he had a markedly different experience.

“In that workshop I made alterations to compressors. We made a lot of money doing this. I began to love the company, to really appreciate it. He (the company’s owner) told me, “do what you want, name your salary”. He treated me well. But I’ve always had this idea that I should have my own company. So I went about buying my own tools” (Adams & Valdivia, 1991, p. 54).

Had Jacobo launched his own firm directly after leaving his first employer, one might infer that this experience shaped his decision, justifying a “necessity entrepreneur” label. Yet now that

entrepreneurship is undertaken despite adequate and gainful employment Jacobo would likely be identified as more opportunity-driven. Jacobo's larger outlook and disposition changes little from one situation to the next; however, the immediacy of each situation provokes the ascription of specific motivators. Whether or not these particular revealed influences are primary or just ancillary precursors to entrepreneurial activity can only be ascertained through a consideration of the much wider context. A deeper probing of Jacobo's case revealed that this strong pull toward entrepreneurship, a preference for working autonomy was the principal motivator that subsumed all others, as he states "I've always had this idea that I should have my own company", but when engaged in a discussion about a poor working experience that pull factor hardly surfaced (Adams & Valdivia, 1991, p. 54).

This is why I argue that the necessity-opportunity model is likely to produce so many typological false positives. Categorizations are made based upon shallow survey data derived usually from a single, simple question like "Were you involved in starting-up a business to seize a business opportunity or because you had no other choice for finding work?" (Robichaud et al., 2007, p. 56). The answer to this question could be highly variable changing from year-to-year, week-to-week, day-to-day, and even moment-to-moment.

Entrepreneurship as a culturally and **socially influenced**, resource dependent process

Sebastiana the owner of a school supply store in a Northern Limeño market is perfectly typecast as a necessity entrepreneurship. In her words she became an *empresaria* because . . .

“. . . I was looking for a way to make ends meet, for the needs we had, I was recently married, and soon after my husband and I arrived here (Lima), he became very sick, almost one year he was hospitalized, before he was a police officer, but we didn't have any medical insurance, all costs were out of pocket, our monthly income wasn't covering all the expenses. I had young children to provide for.”

This is fourteen years ago, but since then her situation hasn't changed all that much. She's still overburdened with one son suffering from a chronic kidney condition and another attending university full-time. Her parents' "health" and her brothers' "needs" add more financial strain. As for her husband, well, she says he's little help, he's "*conformista*". She doesn't particularly enjoy her work, she talks disparagingly about business in general, "too much competition" she says "far too competition". At various intervals customers stop by the counter and solicit her attention, she doesn't acknowledge them, until I offer to pause the interview, she then curtly directs the client to her *ayudante*. Her words, tone, actions all suggest her small firm is a chore, a dreadful necessity. But when she describes her path to entrepreneurship one can't help but notice the role opportunity plays. She resumes her story, fourteen years ago with her husband hospitalized,

"My children were still young, I couldn't leave them alone for very long, I didn't have family nearby to leave them with. But, we needed to eat, I had to go to the market. From here (her home) we would walk 20-30 minutes every day to the nearest market. I used to go with several women from here, and we thought to ourselves, why not open market here? There were twelves, but as for me, I had no idea what I could possibly do, what could I sell? I thought well 'I could sell poultry' . . . without knowing anything about poultry. We started together, myself and three other women, and each one of us began with one chicken apiece. The following week we took our earnings and we were each able to sell two chickens, the following week three, the following week more, just like that. We continued to the point where we selling two, three, four, five, up to fourteen crates, twelve chickens a crate every day. I eventually stopped because it's a filthy and disgusting business . . . to this day I can't stand chicken. I did out of necessity. But we founded this market here, it was our idea."

Yes, there is no debating she "did it out of necessity", but she also did it because she recognized that several women like herself in her community, would shop at another marketplace, if only it were a little more conveniently located. She recognized that there were enough women of this mindset that a profit could be made. And what are these untapped, undiscovered, unexploited

profits, but an opportunity? Sebastiana may have been mostly pushed by the force of necessity in her path toward entrepreneurship, but she was also pulled there by an opportunity.

Necessity and opportunity motivations are not only enmeshed in social processes and networks, but also can be defined by social forces. Herlinda, 74 works as a traditional healer out of a market stall in Independencia and demonstrates how necessity and opportunity aren't always presented in strictly pecuniary forms. She's very friendly, verbose, and by her own admission a little heavy. But, she assures me that her extra weight wasn't attained in the usual manner, "through my clients I've been exposed to a lot of negative energy, bad spirits are absorbed by the body and cause a lot of swelling." Just one of the many occupational hazards facing a *curandera*. She offers an array of services *pasada de huevo*, *pasada de cuy*, *floreceamiento*, card and palm reading. She learned the trade and acquired the "*don*" or gift from her grandparents in Apurimac. She's divorced now with several grown children who've each achieved a modicum of their own success. She told me she doesn't need to work, she has her home and enough money put away in savings to provide for her needs, besides even if her finances weren't in order she's confident her children would be there for her. From her small business she earns what can be at best described as a modest income, some months she hardly breaks even. She doesn't seem to fit under either the necessity or opportunity heading. So I ask her why she opens for business five days a week, twelve hours a day?

"For me this relaxing. If I stay in my house I'll just watch television or read novels, but doing that I'll age. I'm already 74. So I dedicate myself to this, it's my world, this is my home because you'll find me here more than in my own house. I'm here from noon until ten at night. It is something social for me, I have my friendships here, we chat, we meet, we go out to eat, here my friends are always stopping by. If I didn't do this I'd be alone."

Herlinda is what is often referred to as a “lifestyle entrepreneurship”, a person involved in an independent business activity primarily for self-fulfillment. The need for or want of money plays a distant role if any at all. Herlinda is driven in a way by necessity and opportunity, but it’s a psychological, social and not an economic kind as the necessity-opportunity model establishes. She’s in business because she saw an opportunity to express her unique talents and gifts, and a need to remain engaged in her community.

The lifestyle entrepreneur isn’t the only exception I encountered. In Central Lima I spoke to three young business owners in a cluster dedicated to sale of orthodontic goods and services. Each owns and operates a small office and specializes in the fabrication of dental prosthetics mostly caps, crowns, and dentures. Mario, 28, started his laboratory three years ago, and now supports five part-time employees. The hole-in-the-wall operations of Claudia, 26, and Rosa, 28, just debuted this year and for now they work alone. Not one of the three traced their independent status to economic constraints or opportunities. “I like what I do. It started out as a career now it’s a business . . . having one’s own business is the best route for gaining experience . . . one cannot just remain where they are, I am not *conformista*.” Claudia also mentioned practical experience, identifying her decision as a natural progression following graduation from the three year program all technicians complete. However, it wasn’t until I spoke with Rosa that I understood this emphasis on praxis. “Many of us, really most of us, go on to study orthodontology, as orthodontists we’ll have our own clinic and due to our experience here we’d also have our own laboratories to make prosthetics.” For Mario, Rosa, and Claudia the activity is a stepping stone, a kind of pre-professional intermediary stage. Entrepreneurship in this instance is not driven principally by potential profits or framed as a last resort, but instead represents an opportunity or perhaps even a necessity for the development along a specific career path, access

to professional networks. Proving again how potentially so much of the attraction and compulsion surrounding a phenomenon, venture creation, the necessity-opportunity model purports to explain lies outside the typology's narrow parameters. These gaps alone do not invalidate the model; however, combined with the sundry other deficiencies – the lack of dynamism, tendency toward false valuations, built-in biases, and over rigidity – exposed by participants' narratives, suggest the need for a major theoretical reconstruction.

CHAPTER 6

CONCLUSION

So what? Do these labels, necessity and opportunity, even matter? Isn't this just an academic exercise, a kind of taxonomical parlor game? Simply put, no. These labels- how they are framed and construed – are consequential. Despite popular notions of rugged individualism and bootstrapping, capital formation and reproduction is a process highly enmeshed in and dependent on external structures, institutions, and networks (Casson, 2010). In Peru the state, NGO's, and private lending institutions are increasingly important force multipliers propelling the burgeoning MYPE sector.

The state is the sector's largest customer having in 2009 purchased more than \$2.2 billion worth of goods and services from 24,000 small and micro firms (CreceMype, 2012). Microenterprises are indirectly subsidized through special tax breaks and incentives, and subject to reduced reporting and regulatory requirements (SUNAT, 2012). A number of publicly sponsored organizations and programs like *Exportafacil*, *Crecepyme*, *COFIDE* along with hundreds of other Peruvian and international NGO's offer capacity building, legal, technical, managerial, marketing, and logistical support services. Universities, institutes, and local municipalities have developed courses and extension services tailored to the sector's specific needs, tight budgets, and busy schedules. Long ignored by the formal financial sector, lending institutions are now aggressively courting MYPE's. Over the last five years microfinance loan disbursements have increased between 25% and 30% annually (ProInversión, 2010). Where previously only specialized lending institutions or *caja municipales/rurales* (local credit unions) served the *MYPE* credit market, now major commercial operations like

Banco de Crédito del Perú, Scotiabank, and BBVA Banco Continental are entering the fray. The increased competition means less onerous loan terms and falling rates of interest for MYPE customers.

The incredible growth of Peru's smaller firms since at least de Soto first galvanized and legitimized support for the *empresario* class more than two decades prior, has spurred this windfall of public and private investment, and this engagement by decision and policymakers in turn strengthens and amplifies the MYPE sector creating an even more attractive environment for further investment, initiating a virtuous cycle, a kind of snowball effect. As a result the MYPE sector is now placed firmly in the economic mainstream. However, as pointed out in Chapter 2 the sector still remains in a precarious position. Informality affects more than half of all firms and average household earnings barely exceed minimum poverty thresholds (DeAlthaus, 2007). Support provided by the state, NGO's, commercial banks, and other organizations is critical toward consolidating advances and making further in-roads.

The argument for continued support of the MYPE sector is implicitly, and in certain instances explicitly, challenged by the necessity-opportunity schema. As outlined in Chapter 3 there is considerable overlap between those firms counted as microenterprises and those considered necessity-driven. The necessity-opportunity dichotomy identifies necessity-driven entrepreneurs as inferior, or at least less desirable than opportunity-driven types. After all as GEM notes "intentions matter" opportunity-driven firms are more likely to increase and reinvest profits, hire more employees, and ultimately contribute to higher rates of economic growth (Minniti et al., 2005; Reynolds et al., 2002). Necessity-driven entrepreneurs on the other hand are the reluctantly self-employed, the objective is to stay afloat, subsist, not to grow and expand. For this reason policy recommendations informed by the necessity-opportunity

dichotomy suggest scaling back on investment in necessity or microenterprises, and redirecting resources toward opportunity, larger more established enterprises, and high growth industries (Reynolds et al., 2002; Reynolds et al., 2003; Shane, 2009). The rationale is that more growth-oriented firms in the economy will create more jobs, open the labor market and release necessity-entrepreneurs from the obligation of self-employment.

However, as the narratives in chapter 5 demonstrate this recommendation is based on an inherently flawed premise that fails to recognize entrepreneurship as a socially and culturally influenced, resource-dependent process. Looked at as a **process**, necessity and opportunity motivations are capable of co-existing, shifting and re-orienting an entrepreneur's outlook and potential. Viewed as **resource-dependent**, limits to growth potential are properly attributed to the unavailability and/or deficiency of human, social, and financial capital. Conceived as **socially and culturally influenced**, micro entrepreneurs aren't assumed to be held hostage by prevailing economic conditions. Re-conceptualized in this way, investments made in the MYPE sector are no longer framed as well-intentioned yet woefully misguided charity. Instead improved access to credit and technology, capacitation courses, tax incentives, targeted infrastructure programs all amount to a removal of structural disadvantages, roadblocks on the path from a necessity to a more opportunity-based engagement in entrepreneurial activity, predicated on the full and free expression of natural talents and abilities.

However, even supposing the fluid and multivariate nature of motivations, and the structural impediments to productive economic performance, a counterargument can be made that the MYPE sector in Peru is a bloated dead-end (Shane, 2009). How many *Limeños* can sell beer or snack food, repair shoes or sew t-shirts, run small workshops or market stalls? Where is the innovation, the creative destruction? The MYPE engine is too weak to propel millions more

out of poverty. Pouring more resources into the sector is not only wasteful, but also hazardous, inflating a bubble already on the verge of bursting.

Here we might return again to Dr. Modesto Montoya's advice, "wait, be patient, the story is still unfolding" (Noriega, 2011, p. 4). Entrepreneurship is a process, and an evolutionary one. The narratives in Chapter 5 focused on the mutative changes small business owners undergo in the course of a single lifetime, often moving from necessity to more opportunity-based conditions. This progress isn't inert. Momentum is transferring to subsequent generations, pushing the Andean *empresario* towards a new stage of development.

Elisa, 24 represents that future. Her parents are *provincianos* from Huancayo and Cajamarca, and upon migrating and settling in Lima they opened a small stand selling auto parts, in Elisa's words "to survive, to subsist day-to-day". That tiny informal family firm in time grew into three commercial paint retail stores in San Juan de Miraflores and Chorrillos employing fifteen full-time workers. There are plans to expand one location, open a new product line, purchase more inventory; however, Elisa and her education is the highest investment priority. As of now she is half-way through a four year degree in business administration. When asked why she's pursuing higher education, she responded without hesitation "It's necessary."

For her parents and their generation a university education was an unattainable opportunity, yet it is now framed by Elisa as a necessity. This represents not just an inter-generational forward movement along the necessity-opportunity continuum, but rather a progressive and fundamental shift of the entire spectrum toward a knowledge economy. Elisa isn't alone. Participants in this study have children pursuing degrees in law, medicine, and

engineering. Many more have ambitions for children not yet of college age. In *Ciudad de los Reyes, de los Chávez, los Quispe . . .*, a sociological survey of the new Lima highlights the trend, especially among third generation Limeños descended from *provincianos*, “the majority fill the academies and institutes of old central Lima and those education centers now expanding into the *conos*. Many of them are also becoming the majority in Lima’s universities” (Arellano & Burgos, 2004). And who is encouraging and financing this boon in human capital investment? The same individuals selling beer and snack food, repairing shoes and sewing t-shirts, running small workshops and market stalls. Micro entrepreneurs are laying the foundation for the next stage of economic development in Peru.

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APPENDIX A

Table 1-Participant Data

#	Source	Business	Sex	Age	Place of Birth
1	San Martín de Porres (SMP)	Grocer	F	30	Ancash
2	SMP	Internet Café	F	29	Apurimac
3	SMP	Carpentry Shop	M	50	Ancash
4	SMP	Hardware Store	F	41	Ancash
5	SMP	Grocer	F	40	Ancash
6	SMP	Hardware Store	F	30	Huancayo
7	SMP	Grocer	F	63	Arequipa
8	SMP	Market Vender	F	39	Ancash
9	SMP	Market Vender	F	53	Huanuco
10	Santa Anita	Textile Factory	M	38	Huancavelica
11	Ate Vitarte	Textile Factory	M	37	Apurimac
12	Los Olivos	Vegetable Vender	M	25	Puno
13	Los Olivos	Cobbler	M	48	Cajamarca
14	Los Olivos	Vender	M	47	Ayacucho
15	Los Olivos	Hair Salon	F	40	Lima
16	Los Olivos	Sandwich Shop	M	40	Lima
17	Cercado de Lima	Dental Prosthetics	M	28	Lima
18	Cercado de Lima	Dental Prosthetics	F	26	Cajamrca
19	Cercado de Lima	Dental Prosthetics	F	28	Apurimac
20	SMP	Event Organizer	M	42	Ayacucho
21	SMP	Vegetable Vender	F	36	Lima Province
22	SMP	School Supplies	F	50	Ancash
23	Los Olivos	Flower Shop	F	44	Ancash
24	Chorillos	Hardware Store	M	44	Huancavelica
25	Chorillos	Hardware Store	F	24	Lima
26	Independencia	Grocer	F	28	Piura
27	Independencia	Traditional Healer	F	74	Apurimac