Business as Usual: Challenges to Entrepreneurship in Mexico

Mckayla Henderson
Dr. Tom Copeland, Faculty Advisor
Values and Capitalism: Young Public Policy Scholar
American Enterprise Institute
INTRODUCTION

In 2011, Mexico ranked as the hardest working industrialized country in the world; its workers averaged 45 hours per week, an additional 519 hours annually more than the typical American worker.¹ According to the Global Entrepreneurship Monitor (GEM) conducted in 2014, 19% of the Mexican population is actively involved in entrepreneurial endeavors, placing it above the average for Latin American countries.² Mexico is consistently noted in the minds of global investors, as it is a country rich in natural resources and is in close proximity to the US market. Additionally, its government has publically made strides toward market-opening reforms, including the North American Free Trade Agreement (NAFTA).

With the country’s eager population and governmental strides, why is it that these entrepreneurial initiatives and endeavors have not expanded more?³ Ultimately, though statistics may show that entrepreneurship abounds in Mexico, what they do not portray is that the vast majority of these enterprises are concentrated among low-risk, low-value added endeavors that require minimum investments of capital. Additionally, studies many times leave out the fact that most attempts to open a business are met with stringent and expensive legal requirements that often leave the entrepreneur operating small, under-the-table businesses. This paper takes a comprehensive look at the complexity of Mexican entrepreneurship, both through research and field study to see the stories behind the statistics. Ultimately, this project seeks to understand why Mexico’s seemingly strong entrepreneurial endeavors has not significantly aided its population and economic well-being through studying the nation’s economic and government systems as well as its cultural tendencies. This paper reviews the obstacles facing

entrepreneurship in Mexico for businesspeople of all economic levels, and ultimately concludes that in order to better foster an entrepreneurial environment, the country needs to understand key economic, sociocultural, and political factors pertaining to business ownership.

**LITERATURE REVIEW**

Literature suggests that there are three primary explanations behind why Mexico lags behind in entrepreneurial expectations: economic, socioeconomic and political. Within these schools of thought are numerous subcategories that further define a specific issue that affects the Mexican business owner. It is important to note that due to the topic’s complexity, many scholars attribute the issue to more than just one factor or subcategory. Overall, however, the following three explanations are the most widely accepted regarding entrepreneurial difficulties in Mexico.

Various scholars point to economic factors in hopes of explaining Mexico’s entrepreneurial impediments. Economists Fabre and Smith argue that economic impoverishment and lack of venture capital are two primary factors. Their research reveals that high levels of poverty and low levels of venture capital lead to a high rate of informality (operating without legal documentation). The country’s high levels of impoverishment, thus, make it difficult to legally formalize businesses due to the capital required to obtain legal paperwork. This combined with the length of time it takes to legally initiate a business in Mexico, leads to a higher percentage of businesses being unregistered. It is argued that owning a low-risk, unregistered business often serves as the only option for those living in poverty, as it enables enterprises to evade both the profit-draining taxes and exhaustive regulations placed on entrepreneurs. Poverty levels cripple not only the society but also the individual. “Because few people in Mexico have significant personal savings, most are compelled to find re-employment quickly ... This problem
is aggravated in Mexico by the fact that most homes are one-earner families."\textsuperscript{4} Impoverishment also makes it difficult, if not impossible, to leave low-earning employment in order to attempt more high-value-added, entrepreneurial ventures. Ultimately, the scholars conclude that if Mexico is to create a friendlier business environment, it must first seek to improve its debilitating poverty rates which complicate and weaken the country’s entrepreneurial endeavors.\textsuperscript{5}

Necessity Entrepreneurship is another economic concept explored in literature. Necessity Entrepreneurship leads to low-risk, low-profit enterprises, which are widespread amongst those of lower economic status. Scholars Lora and Castellani conclude that many businesses within Latin America, Mexico in particular, are informal, growth-resistant, or low-profiting, because of the entrepreneur’s inability to experiment. Necessity entrepreneurship restricts one’s ability to attempt new, expansive ideas due to its sole focus on meeting basic everyday needs. Due to high rates of unemployment and low-wage jobs, many individuals choose to engage in the entrepreneurial sector as a “strategy of economic survival rather than as a rational choice among alternative occupations.”\textsuperscript{6} Ultimately, Lora and Castellani agree with Fabre and Smith that because of low economic growth and lack of sustainable employment, many opt for necessity entrepreneurship, which encourages both low levels of growth and productivity.\textsuperscript{7}

Some scholars turn from economic reasoning to sociocultural explanations to understand the low entrepreneurial success rates in Mexico. Brewer studied the cultural factors that go into starting a business in nations such as the Philippines and Mexico. He concludes that both countries suffer from two main factors: a “culture of poverty” and “progress resistant” cultures.

\textsuperscript{5} Fabre and Smith, “Building an Entrepreneurial Culture in Mexico,” 5-20.
\textsuperscript{7} Lora and Castellani, "Entrepreneurship in Latin America," 25-47.
Because Mexico faces high poverty rates (over 50% of its population), its population has a need for quick money. Longevity within businesses is often cut short, however, primarily due to short-term planning and poor execution. Brewer finds that the vast majority of business people are based in *culturally* rooted necessity entrepreneurship (unlike Lora and Castellani’s focus on the economic reasons for it). He closely correlates necessity entrepreneurship with the culture of poverty, and concludes that these intertwined issues promote a poverty-driven mindset that has led much of the country’s population to become what he refers to as “progress-resistant.”

Furthering the connections between entrepreneurship and culture, scholars such as Brewer, Lewis, and Harrison hold that religion – specifically Catholicism – is yet another key impediment for Mexican businesspeople. Brewer believes that Mexico’s “progress-resistant” culture is due, in large part, to its Spanish colonization and the strong Catholic influence which permeated the culture. He concludes that Catholicism essentially “nurtures fatalism and dependency.” Lewis and Harrison both agree with Brewer and add that Catholicism, “a religion that subtly rejects the pursuit of monetary gain and capitalism,” has played a pivotal part in deterring the spirit of entrepreneurship in regions such as Mexico.

Fanfani also believes that Catholicism plays a major role in low entrepreneurial success rates, and argues that Catholicism largely goes against “Capitalist ethics.” The most significant contradictions include Catholicism’s emphasis on social welfare, negation of individualism, and the desire for overall economic equality. Fanfani argues that because Catholicism focuses heavily on one’s actions as a means to a positive afterlife, looking out for the social needs of entire communities, as well as the most equitable outcomes for everyone involved, is crucial.

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While Capitalism does not seek to promote injustice, Fanfani concludes that it has a much greater tendency to place a higher value on capital over justice and equality. Ultimately, he holds that Catholicism and Capitalism are essentially opposites, and cites social concern as the main dividing factor.\(^\text{11}\)

A lack of education is an additional element believed by some to hinder entrepreneurial growth in Mexico. Vargas-Hernández points out that a large part of Mexico’s economic stagnancy, as well as its entrepreneurial difficulties, is due to its high percentage of undereducated individuals. He correlates the country’s lack of education with its high rates of business failure. He further argues that education acts as a critical piece in shaping an individual, and thus plays an important part in “furthering the values people wish to preserve and maintaining the success of the economy.”\(^\text{12}\) A particular concern regarding the country’s education is its lack of educated women. He found women to be extremely willing and able in regards to entrepreneurial activity, and believes that more attention needs to be placed on providing them with educational opportunities. Ultimately, in order to properly foster a healthy entrepreneurial spirit, Vargas-Hernández contends that the overall lack of access to education and training needs addressing.\(^\text{13}\)

Culturally embedded cynicism and skepticism toward the government is yet another factor that has been cited as a critical element affecting the Mexican entrepreneur. Scholars including Rios, Brewer, and Johnson all argue that paired with the country’s extremely high levels of corruption are low levels of trust in the government. Skeptical sentiments toward the


\(^{13}\) Ibid.
law and government have permeated the culture itself, making this mistrust a common and accepted mindset of the Mexican people.\textsuperscript{14} This mentality negatively affects entrepreneurial efforts in Mexico, as the desire to formalize businesses is nonexistent due to the culturally embedded lack of trust and respect toward the country’s corrupt government.\textsuperscript{15}

Aside from economic and sociocultural reasoning, there are politically rooted explanations regarding entrepreneurial difficulties within Mexico. Political corruption is amongst the most heavily cited contributors. According to Riding, corruption is one of the most pivotal challenges facing entrepreneurs in Mexico as it occurs in every sector of the government. With a population that has become accustomed to a corrupt government, Riding argues that Mexico’s political sphere functions openly on bribery, illegal behavior, and ineffective bureaucracies. Corruption affects all levels of government. Corruption is often employed by citizens, attempting to avoid consequences or bureaucracies; by law enforcement looking to supplement their meager wages with bribes; and by officials bypassing the due process of law. Corruption is so heavily embedded within the country that it affects every individual on every economic and professional level. For the entrepreneur, if an individual wishes to comply with Mexico’s overly complex government regulations, he or she faces a bureaucratic maze. Thus, the option is often either to take the long, honest, and frustrating path or opt for the short, efficient, and corrupt route. Ultimately, Riding concludes that Mexico’s political corruption has saturated the system to such an extent that the nation’s population and institutions would not know how to function without it.\textsuperscript{16}

Crime is yet another factor that scholars point to when discussing politically based entrepreneurial impediments in Mexico. Rios suggests that the country’s high crime rates and

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\textsuperscript{14} Brewer, “Culture, Poverty, and Necessity Entrepreneurship,” 70-88.
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lack of police support drive entrepreneurs to operate out of fear and thus make them less likely to pursue expansionary business ventures. Because of the country’s minimal, corrupt, and unreliable civil police force, many entrepreneurs must depend on private security to ensure the safety of their business. Thus, with 42.8% of firms paying for outside security, the reality of opening and maintaining a business in Mexico requires much more than sufficient start up capital. Extortion is also a constant plague as it accounts for anywhere from 19% to 38% of Mexico’s middle class income. Ultimately, Rios concludes that those considering entrepreneurial activity in Mexico are often too skeptical to risk investing money because of the high and largely unpoliced levels of criminal activity.17

Rios argues that crime is further aggravated by Mexico’s broken and unreliable judicial system. Though fundamental to the health and growth of any market system, enforcing contracts in Mexico is extremely difficult and unpredictable: it takes 421 days and costs 20% of the contract value to enforce a contract in Mexico. Furthermore, it is through judges’ discretion that prosecutors are appointed and dismissed. Not only does this invite corruption, but additionally prosecutors, though underpaid, face no standardized procedures to evaluate their work. Ultimately, due to Mexico’s unpredictable justice system and high levels of corruption, Rios concludes that to bolster entrepreneurial activity, it would first be beneficial for the country to create a professional career service for prosecutors, public lawyers and local judges.18

Riding too concludes that Mexico’s judiciary system rarely provides justice. He finds that the Supreme Court, though it is one of the only institutions that is known for refusing bribes, is susceptible to political pressure as it is constantly met with “cases challenging the legality of

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18 Ibid.
administrative decisions or the Constitutionality of government decrees invariably dismissed.”

Lower level judiciaries garner even less respect from the Mexican people and are extremely vulnerable to economic pressures, which often lead to corruption. Due to Mexico’s overly complex yet extremely unorganized and slow judicial system, bribes many times present themselves as the most feasible option. This is further aggravated by the meager wages earned by judges. Ultimately, Riding contends that the unreliable judicial system in Mexico perpetrates crime and illegal behavior, which negatively affects both the country’s overall economy and the individual entrepreneur.

Scholars such as Bolio, Remes, and Lajous cite Mexico’s regulatory complexities as key political impediments to the country’s entrepreneurial activity. Not only is it financially burdensome to start a formal, legalized business in Mexico, especially in comparison to its peer countries, but the costs associated with any sort of start up or expansion are excessively high. Permits for construction, for example, are three times the average income per capita as opposed to Chile where they are slightly over half the average income per capita. These scholars also find government regulations placed on independent businesses to be excessive and overly complex especially because variations within the law occur regularly. When the laws do change, those affected are rarely notified and often end up paying extremely high fines due to being in violation of small alterations to already overly complex laws. Ultimately, Bolio, Remes, and Lajous argue that due to such complicated and unpredictable regulation and legislation, many, if not most, entrepreneurs are left paying fines they cannot afford, and thus are significantly hindered.

In summary, scholars have studied a variety of the important factors that impede Mexican entrepreneurship. While it is clear that Mexican entrepreneurs are indeed disadvantaged, the explanations as to why this is so are both complicated and widespread. Though many academics have cited individual contributing factors, there is a lack of comprehensive research that considers the overall issue. For example, from an economic stance, the argument could be made that Mexico’s poverty rate is simply too high, thus preventing potential business people from attempting any entrepreneurial endeavors due to unabsorbable financial risks. While this is a valid concern, it only solves a portion of the problem. In essence, if the only attempts made to advance entrepreneurship are economic based, then the much needed elements brought by understanding societal norms and political involvement will be wrongfully ignored. The same can be said for both sociocultural and governmental factors. While understanding these elements individually is important, all three (economic, sociocultural, and political) must be discussed in unison when looking for a complete understanding of the question being asked.

**METHODOLY OF THE STUDY**

While it is apparent that economic, sociocultural, and political factors all play critical roles in entrepreneurial endeavors within Mexico, I wanted to understand if there are elements within each category that are more important than others. I conducted field research in Puebla, Mexico, a city of 1.4 million people in south central Mexico. I carried out a series of interviews with Mexican business people with questions focusing on the contributing subfactors found in the literature. I conducted twelve interviews using the same general inquiries which included the origins of their business, pro’s and con’s of owning an enterprise in Mexico, the role of government in business, and suggestions they wish they knew when they first opened. Each interview was recorded, with the consent of each participant. The language spoken in every
interview was Spanish. Thus, upon completion, the interviews were individually transcribed and later translated into English. The names of the respondents have been changed for privacy purposes.

The interviewees came from a range of sociocultural backgrounds. Half of the business owners were female. Each individual held a different economic status, some owning medium to large businesses and other barely making enough to remain open. The age of each business also varied considerably, ranging from five to twenty plus years of operation. The enterprises were all unique from each other providing a wide array of goods including: medical, mechanical, aquatics, catering, floor installation, textiles, machinery, house alarms, musical education, food, and fishing gear.

To best understand the hindrances faced by the Mexican business owner, the interviews were conducted as a method of gaining additional, hands-on insight on the topic. The responses rendered from this study reveal the most pertinent obstacles that affect today’s Mexican entrepreneur. In the following sections of the paper, both the findings from the study and the three main categories (economic, sociocultural, and political) from the literature will be discussed in more detail. Through comparing the interviews with the literature, it became clear that there are specific factors within each category that affect entrepreneurship. Though there are certainly additional factors that could fit under the three categories, the following are the most consistently noted within both literature and entrepreneurs based in Puebla, Mexico.

THE “OTHER” MEXICAN PESO CRISIS

Mexico’s economic state has proven to be one of the most significant influences on its population’s entrepreneurial efforts. 53.2% of the country’s population lives under the national
poverty line. Additionally, the daily minimum wage is 70.10 pesos ($4.19 dollars), a 4.2% wage increase as of 2016. This places the country well below most of its Latin American peers, and dead last among the 34 countries ranked by the Organization for Economic Cooperation and Development. While only approximately 13.7% of all Mexicans reportedly live on or less than the minimum wage, the national daily wage average is 294.5 pesos. Not only are wages low, but recent tax spikes have also sparked concern amongst the Mexican people. At the beginning of 2014, a fiscal reform introduced a number of new taxes that were allegedly aimed at the wealthy. These taxes, however, managed to instead significantly affect the economically challenged. One of its increases included a value-added tax of 16% on various forms of public transportation. Additionally, as part of the government’s drive to fight obesity, the new taxes also incorporated a tax of one peso per liter on soft drinks and an 8% tax increase on particularly calorific foods.

While the reasons behind Mexico’s high poverty levels are vast and complicated, the nation’s economy is unarguably a crucial element that contributes to disadvantaging entrepreneurial efforts. This occurs specifically in regards to limited venture capital. Because of minimal pay and high taxes, there is often a dearth of risk capital available to the entrepreneur. This affects one’s ability to financially invest in his or her business. In addition to the minimal pay limiting one’s ability to save up for and invest in his or her company, the entrepreneur must also take the consumer into consideration. An example of this is low market demand, which

25 Ibid.
26 Ibid.
could be due to a myriad of factors such as high poverty rates or raised taxes. The business owner therefore must then also consider the effects this will have on sales and whether or not profits will remain sustainable. Thus, it is clear that Mexico’s economy plays not only a role in the general well being of the country, but also has a significant impact on entrepreneurship. The entrepreneurs I interviewed in Puebla suggest that the two key economic factors that impact Mexico’s entrepreneurial endeavors most are widespread impoverishment and lack of capital.

Juan is the owner of a business that provides swimming pool installation and maintenance. Having inherited it from his father, the business has been in the family for over twenty years and employs less than ten people, only a handful of which are non-relative workers. Juan, though not in a constant state of economic struggle, mentions Mexico’s economy as one of the main impediments to successfully running a business. Amongst other issues, such as a lack of trust in the government, Juan says, “if one wants to run a good business, he needs to first have a year’s worth of investment saved up so that he won’t have to depend on the business’ revenues during its ‘set up’ phase.” When asked whether taking out a loan would be a viable option, he adamantly responded “no,” and that one must avoid the Mexican banks at all costs due to their excessively high interest rates. Juan recognized his privilege in having inherited his father’s business, which included the property. He openly admits that, had the facility and land not been previously owned by his father, his profits would be significantly lower.29

Additionally, Juan blames the economy for the population’s general mentality of buying what is cheaper over what is better quality. Juan believes that because of Mexico’s lack of a middle class, the vast majority of people simply buy the most affordable product rather than investing in the quality products he sells at his shop. “People here [in Mexico] always go for

29 Juan, "Entrepreneurship in Mexico Through Juan's Eyes," Interview by author, November 24, 2015.
what is cheapest, even when they don’t have to. People don’t see quality, they see price. It’s a mentality of poverty that affects my business since I only know a very few rich people who would actually be interested in what I sell.” The issue he has found with this is these individuals tend to do business in U.S. dollars. With the Mexican exchange rate at an all time high, the transaction often leaves him at a disadvantage. Ultimately, Juan expresses a clear concern for his country’s economic state. He believes that to be successful, an individual must have a well-thought out financial plan, which he foresees being extremely difficult due to the country’s staggering economy.\footnote{Ibid.}

Necessity entrepreneurship, is another critical subcategory that fits under the economic impediments facing the Mexican entrepreneur. Necessity entrepreneurship is largely a consequence of Mexico’s poor economy and plagues the lower economic class, those who are living close to or below the national poverty line. It typically begins with either an unemployed individual in need of sustainable work or a working person in need of a better income. As a result, he or she opts to engage in independent entrepreneurial activities in hopes of obtaining a livable profit. “It is understood thus that these individuals are ‘pushed’ into entrepreneurship, and therefore, tend to lack the required business administration know-how that would allow them to launch and grow a profitable business.”\footnote{Brewer, “Culture, Poverty, and Necessity Entrepreneurship,” 7.} Ultimately, necessity entrepreneurship often hinders entrepreneurial endeavors within Mexico.

Emanuel is a middle aged, impoverished father of four. He owns a small business that involves repairing and replacing automobile brakes. Having lived on approximately five dollars a day his entire working life, Emanuel decided to start an enterprise in hopes of better providing
for his family. Both his education and finances were limited when he opened his business. However, because of his preexisting economic state and main goal of feeding his family, he was unable to consider economic and educational factors in order to best prepare himself prior to opening. When asked about the greatest difficulty, without hesitation Emanuel responds, “Money is and will always be the biggest problem, especially when you start from nothing.” Due to a complete lack of savings, he reports having to frequently sell his most expensive belongings in order to propel his business forward. This, however, leaves his family without a car, amongst other basic living necessities. Ultimately, though attempted multiple times, Emanuel has never been able to advance beyond “survival mode” and constantly battles to keep his business open and running.32

Furthering his frustrations are what he refers to as “monopolies” held by the Mexican government. Two years ago the Governor of Puebla, likely to be an upcoming presidential candidate, made plans to revamp the state’s transportation system. By replacing buses with a metro system, not only were drivers put out of work but so were mechanics. Because the metro operates through government affiliated corporations, private mechanics no longer have the volume of business they once had fixing buses. According to Emanuel, ever since this change, his already struggling business has hit a new low. He thus attempts different ideas to compensate his loss; however, with his scarcity of risk capital and his need to provide for his family, Emanuel is largely unable to venture far from what his business already does.33

Emanuel explains that his problem is intensified due to the high taxes placed on entrepreneurs of all economic statuses. He says, “Taxes here are incredibly high, sometimes all my money goes to them and if I don’t pay I face even higher fines. The worst part is you pay for

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33 Ibid.
these taxes and they promise you things like medical insurance, but the public health providers here are so bad, it’s better to not even go.” When asked if he ever considered taking out a loan, he replies that to do so banks ask for good credit, which most individuals living in poverty lack. He also explains that interest rates are extremely high, and thus loans are often not feasible. Instead, Emanuel states that if money is needed, it is best to seek it from family members, if at all possible. He also suggests for newcomers to take a class in accounting as he, holding limited knowledge on the topic, struggles with managing money. Ultimately, though struggling, Emanuel is unable to close down his enterprise due to financial necessity, and is in a cycle in which advancement is highly unlikely. Emanuel exemplifies necessity entrepreneurship and many of its accompanying complexities which have left him no better off than his previous five dollars a day job.³⁴

While not every interviewee gave identical answers in regards to economic concerns, all twelve, regardless of their economic standing, allude to the country’s poverty as an issue facing their enterprise. Most commonly citied issues include high interest rates, lack of venture capital, low sales, and impoverishment. The economic factors thus apply to every entrepreneur in some way. It should be noted, however, that the lower economic class is at a severe disadvantage in economic terms as they face troubling issues such as necessity entrepreneurship. Ultimately, from an economic perspective it is clear that if Mexico intends to advance its entrepreneurial endeavors, the nation’s impoverishment must be addressed. Though this would specifically aid the poor businessman, it would positively affect every other economic class as well.

**WHY CULTURE SHOULD NOT BE IGNORED**

Though a wide range of economic factors play an essential role in disadvantaging entrepreneurial activity in Mexico, one must also take into consideration additional contributing

elements, sociocultural being one of them. In order to best understand this factor, one must consider the country’s history and the roots of its people. With a clear class divide reaching deep into its past, Mexico remains a largely split nation between the incredibly wealthy and the incredibly poor. Its conquering by Spain began this division as the Indigenous were seen as less than the Spanish, and were thus treated as inferior. Mexico, however, is no longer a country made up of solely Indigenous peoples and Spanish conquerors. Since its independence in 1810, the Mestizos (mixed-race) have emerged as the dominant population and now make up most of today’s Mexican citizenry.

With the Mestizos came a distinct culture, one that is heavily embraced today as the “Mexican culture.” This culture is communal and family-oriented, and has the tendency to clash with Western cultures. For example, for many Mexicans, family and community-based values significantly trump the desires of rugged individualism. This means that many Mexicans would prefer maintaining small, low-profiting businesses because, though they may yield only small monetary gains, communal and familial values would still be met. While a portion of Mexico’s limited entrepreneurial advances have cultural explanations, it must also be added that “many Mexicans remain small-business people because they lack the skills, contacts or possibilities to become more entrepreneurial, or better paid and better treated—but more routinely taxed—salary earners.”35 Ultimately, sociocultural factors play a complex yet important role in understanding the entrepreneurial environment. Not only do they affect cultural norms, but also permeate family, education, and the government matters.

Luis is a single male who owns a music school. His business began five years ago and has since continued to grow and expand. Luis comes from a high-income family and has completed high school as well as various business courses. Luis has an intriguing perspective.

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regarding entrepreneurship in Mexico. His first concern is the nation’s education system. While many have explored the link between low levels of education and limited successful entrepreneurial activity, Luis instead correlates Mexico’s entrepreneurial difficulties with its “shame-based teaching style.” He believes that from a young age, creativity is both discouraged and stunted due to a shame culture found in Mexico which keeps its children operating out of the fear of being wrong. For example, in many Mexican schools following instructions and getting the correct answer often trumps being creative and innovative. In addition to this, Luis argues that certain family values, such as a firm commitment to closeness, held by many Mexicans are contrary to individualist cultures often coupled with successful entrepreneurial advancement. These two cultural factors, he argues, place the Mexican business person at a disadvantage.36

As mentioned above, Luis believes the difficulties of being an entrepreneur in Mexico stem largely from the country’s educational methods.

Our educational system is designed to train followers, not leaders. As kids we are trained to follow instructions and never to think outside of the box. When kids go to school they are told that every time they study hard and get good grades, they’ll be on the path to success. So they follow the instructions just as they were told to. Time goes by and before they realize it, they’re graduating from high school. And here is where I think a lot of the problems of the future business owners of this country begin.

Not only does Luis blame the Mexican education system for training followers instead of innovative thinkers, but he also contends that culture and family values also have the tendency to negatively affect healthy entrepreneurial endeavors. He blames the media and popular culture for youth falling in love young and acting irresponsibly. Luis argues that:

It's either one of these two cases: Most of the youth here in Mexico fall in love and they think that love will solve all their problems, even the economic ones. If you have a boyfriend or a girlfriend, you don't have to worry, everything's going to be fine, at least that's what Latino soap operas, TV, radio, and the rest of the Latino media teaches us; we'll be “motivated” by falling in love with someone else. So they marry while they're

young and in most cases, become parents at a very young age. The rest of the youth, the ones who pursue a professional career, never choose a career based on their driven passion (because they don’t even know what are they passionate about), they choose a profession because they are looking for job security, benefits, and how much they’ll get paid. We are taught to believe that the only way of making money is by climbing a corporate ladder rather than being creative and starting something on our own initiative. So, many of the young graduates who go on to business schools begin to climb the corporate ladder as employees, not entrepreneurs. Most parents here in Mexico do not care that their child has been trained to be a follower, on the contrary, they’re happy with it. Neither parents nor teachers push you to be creative in any way.

Ultimately, Luis holds strong convictions that the economy and government are not the only ones to blame in regards to the obstacles entrepreneurs face when trying to open a business in Mexico. Instead, he asserts that the country’s culture and family values play a pivotal role that must be considered when attempting to address this complex issue. Though Luis’ points are crucial to better understating the issue, it is important to note that often the success rate of one’s enterprise is based on Westernized standards (profitability) which, though not negative, can be unhelpful if differing cultural values, such as time with family, are not taken into consideration when measuring success.37

Luis furthers his reasoning with a cultural trend he finds to be incapacitating: the lack of comradery and partnership between Mexican entrepreneurs. In his experience he finds that whenever someone has a business, he or she wants to be the sole “owner” of that business, meaning he or she would prefer to have 100% equity of an unsuccessful business, rather than look for a strategic partner that could potentially help raise profits. Luis states:

Being “your own boss” is seen as a “cool thing” in this country, and I mean, it should be a cool thing. But the issue here in Mexico is that I’ve seen businesses where it doesn’t matter how many years have gone by, the owner is always physically present in the facilities of their business. They are afraid that if they leave, the business will go bankrupt because they were not there. They think they are the soul of their business and the reason why their business is “working so well.” So they spend their entire life managing a business that will go nowhere near success because they can’t let other people in to help them expand.

37 Ibid.
Ultimately, Luis makes it clear that though the culture of Mexico is one to be admired, it carries aspects that do not fully aid the country in becoming more entrepreneurial friendly. At the end of his interview, Luis said in frustration, “The most important thing is the lack of ambition and conviction in what they’re doing. No one really has a bigger picture of what their businesses can become. That’s why I think very few businesses really make it here in Mexico.”

Culturally imbedded skepticism is an additional factor found to affect entrepreneurship in Mexico. Much of this skepticism can be drawn from the country’s high levels of corruption. According to the 2015 Corruption Perceptions Index, a ranking of countries based on how corrupt their public sector is perceived to be, Mexico ranked 95 out of 168. In 2011, the country placed 26 out of 28 in regards to the Bribe Payers Index, which ranks “the world’s wealthiest and most economically influential countries according to the likelihood of their firms to bribe abroad.” In 2010 Mexico fell into the 44th percentile ranking for Control of Corruption which “reflects perceptions of the extent to which public power is exercised for private gain.” It goes without saying thus, that Mexico’s corruption levels are high. Understandably, Mexicans’ confidence in the government is exceedingly low. Interestingly, however, not only is there a lack of trust in the government but also amongst the people, as many Mexicans exhibit a general lack of trust in any non-familial relationship.

Each interviewee brought up skepticism as an issue. Though the majority of complaints revolve around corruption, every business owner, no matter their economic standing, all articulated a skepticism either regarding other individuals or the Mexican government. Married

38 Ibid.
40 Ibid.
41 Ibid.
couple Dr. Susana and Dr. Oscar, owners of a homeopathic medical clinic, agree. Both trained
doctors, they have owned their business for over 20 years. Because they are a part of the medical
field, Susana and Oscar do not face as many difficulties with the government in regards to laws
and regulations. Despite this, however, both doctors cite an overall lack of trust in the
government as an issue pertinent to imped ing an entrepreneurial spirit. Susana says that:

One of the biggest problems with doing business here is the lack of credibility found in
the government. No one can trust it because it tells you to be organized but it’s not even organized… There is so much corruption that there simply is no trust which has led to
there being no real care or respect about what the government does because it won’t
follow through on its word anyways.

Susana later states, “I as a Mexican, do not have trust that the government will look out for me,
they only care about big monopolizing business, but they don’t care about the people.” Not only
does she mention the common skepticism of the government, but also cites the overall lack of
trust amongst the Mexican people. Susana argues that a mistrust within her own people makes it
difficult to work together towards expansion. Ultimately, both Susana and Oscar agree that
skepticism is so culturally imbedded into the everyday of the Mexican people that it is a “norm.”
This leads to both an apathy toward the government and a strained relationship amongst citizens.
This lack of mutual trust hinders the cause of entrepreneurship as it entails Mexicans not entering
into business ventures together and customers not being sure if they can trust business owners.\footnote{Susana, "Entrepreneurship in Mexico Through Susana’s Eyes," Interview by author, November 21, 2015.}

Every business owner references culture as an important factor when discussing the
country’s advancements in entrepreneurship. Dr. Oscar makes an interesting point in regards to
culture and geographical location. He explains that Mexico is essentially made up of three sub-
cultures separated into northern, central, and southern Mexico. According to Oscar, those living
in the southern region tend to maintain a more traditional, indigenous perspective. Examples of
this include appreciating a slow pace of life and holding firm familial relations. Oscar argues that
the northern region of Mexico is the opposite of the south due largely to its close proximity to the US border. It thus generally adopts a Westernized perspective which often entails a greater appreciation for capitalism and materialistic goods as well as an urbanized and modernized way of life. The central region of Mexico is a mix between the two, holding traditional values dear while making strides toward modernization largely incentivized by capitalism. While the interviews took place in Puebla, Mexico, a central state in the country, each business owner identified the region of Mexico he or she is from and each response loosely follows Oscar’s argument. The smaller, more traditional businesses tend to belong to those from southern Mexico, and the larger enterprises generally are owned by those from Puebla or the North. Ultimately, however, it is important to note that sociocultural factors apply to every entrepreneur in some way, regardless of sociocultural background. These finding are important to understand when taking a comprehensive look at entrepreneurship in Mexico as they play a critical role in how the country and its people operate, specifically in regards to entrepreneurial efforts.44

WHEN GOVERNMENT CANNOT BE TRUSTED

While both economic and sociocultural factors play pivotal roles in understanding the business climate in Mexico, in order to fully understand the entrepreneurial situation it is necessary to study the political realm. Politics play a key role in entrepreneurship in Mexico because they are in charge of the legal matters regarding one’s business. This means taxes, legislation, law enforcement, and regulations. While this framework is applicable to most governments, Mexico’s difficulty comes into play when corruption, an overly complex government system, and informality mix with its already fragile institutions.

One of the most pressing issues that disincentivizes and harms the health of Mexico’s entrepreneurial activity from a political standpoint is its arcane government. This inefficient

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system often leads to low productivity, minimal expansion, and informality due to fear-driven business plans. Entrepreneurs that do operate formally quickly learn the difficulties of following the intricacies of Mexico’s law.\textsuperscript{45} For example:

Not only is it far costlier to start a formal business in Mexico than in peer countries, but it also costs more to expand: construction permits cost three times the average income per capita vs. 67 percent in Chile. There are also wide variations in regulatory processes and regulations within Mexico (a complication also seen in other countries): it takes six days to start a business in Monterrey and 49 days in Cancún, and the simplest regulations—such as the height at which to hang a fire extinguisher—vary from state to state.\textsuperscript{46}

Furthermore, much of the country’s regulatory legislation penalizes medium sized enterprises. Microenterprises enjoy lower operational costs, such as electricity, and can potentially qualify for certain subsidies that cover up to eighty percent of costs.\textsuperscript{47} Small businesses are also given tax exemptions.\textsuperscript{48} However, though microenterprises might be treated preferentially, most do not have the resources to employ an accountant and lawyer to aid them throughout the complicated formalizing process. Thus, many small business owners simply do not register with the government and remain informal or turn to bribes. Mexico’s highly complex, arcane system thus incentivizes business owners to either remain small or participate in corrupt activity.\textsuperscript{49}

Ana and her family have owned an alarm business that sells and installs car and house alarm systems for the past twenty-three years. She comes from a high income earning family, those involved with the business all have at least a high school education and some hold university degrees. The main concerns regarding entrepreneurship expressed by Ana are Mexico’s overly complex government as well as high levels of informality. She expresses concern with how often the laws change and how inaccessible these changes are to the

\textsuperscript{45} Bolio, Jaana, and Tomas, “A Tale of Two Mexico’s,” 53.
\textsuperscript{46} Bolio, Jaana, and Tomas, “A Tale of Two Mexico’s,” 12.
\textsuperscript{47} Bolio, Jaana, and Tomas, “A Tale of Two Mexico’s,” 53-54.
\textsuperscript{48} Ibid.
\textsuperscript{49} Johnson, “Mexican Democracy,” 47.
entrepreneur. In order to stay on top of all of the variations, Ana states that you need to have a lawyer whose sole job is to monitor the law’s constant updates. Furthermore, Ana explains how many times the businessperson only has a few days to align him or herself with the new regulations until he or she faces fines for not complying with the new law. “The changes could happen any time and if you don’t act quickly, then automatically you are not complying and will owe the government money.”

Ana, like every other entrepreneur interviewed, holds very little faith in the government. She argues:

Mexico specializes in making overly complex legislation for the purpose of ticketing and profiting off of its own people. The laws are made to find out where you make a mistake and where they can catch you and fine you. They [the laws] are so complicated that you can mess up on anything. This helps them because they have a “right” to charge you money for not obeying their rules. This system is designed for you to pay irrelevant fees without even receiving the right service. Basically, they are strategically made to find your mistakes. This is a very big reason why it is so hard to operate a business formally in this country, the law is not on your side.

The government’s disorganization is an additional complaint commonly expressed. Ana stated “One time I went to go pay a fine that I owed, and after waiting three hours in line I paid it and was told that my records were all up to date. Come to find out, two days later I get another letter stating that I have an outstanding fine from back in 2014.”

A trend that Ana has noticed is that whenever the government is in need of money, there is an increase in regulation inspection.

They operate when they need money. This especially happens during campaigning seasons. We know during a certain time each year there will be government representatives coming around looking to fine people. Because we [our business] are formalized and try to keep up with the regulations, they target us first. It’s often too much of a hassle to inspect the small informal businesses, and those don’t give much money

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51 Ibid.
anyways. So, they [law enforcement] come knocking on our door because they know they can easily collect the fines that they were sent out to collect.

When asked if the government has helped her at all in regards to her enterprise, Ana promptly responds, “I can honestly say the government has not helped me in the slightest.”

Through conducting interviews, political corruption resulted in being the last contributing factor facing Mexico’s minimal advancement in entrepreneurial activity. As already noted, Mexico’s corruption levels are exceedingly high. Many scholars assert that the country’s longstanding issue with corruption essentially “enables the system to function, providing the ‘oil’ that makes the wheels of the bureaucratic machine turn and the ‘glue’ that seals political alliances.”

Due to the country’s incredibly complex political system, even those enforcing the laws are often left guessing in regards to what is legal and what is not. Because corruption is generally accepted at the highest governmental levels, many of the government’s own workers hold low standards for honesty. Thus they are often open to accepting bribes from business owners, bypassing certain bureaucracies that otherwise would have drained the entrepreneur of time and money. On the flip side, with extremely limited legitimate enforcement of its laws, those who own enterprises are often given the option by police officers or government officials to pay bribes for the purposes of tax evasion, expedited paperwork, or even beneficial court rulings. Ultimately, the issue of corruption has proven to be a vicious cycle that starts with the government and trickles down to enforcement and even civilians.

For the past fourteen years Lupe and her husband have owned a machinery business that specializes in robotic maintenance. Though she does not fully blame corruption, she does cite it

52 Ibid.
54 Ibid.
as a key disincentive for healthy entrepreneurial activity. One of her main concerns is that the Mexican government discourages growth through both its laws and corrupt enforcement. Though Lupe pay for auditing in attempts to follow the country’s regulations, she continues to face various legal “enforcers” looking to fine her for a mistake she did not necessarily make. She explains:

Because we are a medium sized business that attempts to operate legally, the government keeps an eye on us because we are the easiest targets. They don’t care about those microenterprises operating informally because they would require more effort. We have all of our documents in place and they have all of our information. So whenever they need money, they can overcomplicate a regulation, and we are the first people they come to. It’s like they look for those who don’t engage in corrupt activity because they know we are the people that will most easily fill their “fine quotas.”

Lupe continues that because as a whole Mexico operates on a corrupted legal system, there is little one can do to fight the injustice. “Sure you can go pay the fees and spend the hours filling out a legal complaint, but it’ll be years until they get back to you and even then you better hope that the court hasn’t already received a bribe from the opposing party.” When asked what advice she would give to an entrepreneur starting out, she responds:

First, don’t dream big, because the way it’s set up, it’s almost impossible to expand without engaging in corrupt activity. Second, you must understand that you will constantly be tempted to participate in corruption. It happens so much here that is has become normal—It’s everywhere. See, you could play by the rules and try to do things legally or you could pay a few bribes and be left alone and actually make a decent profit. But either way, don’t expect the government to help you.

Throughout conducting field research political factors were the most consistently cited issues. Government corruption drives the majority of the issues listed among those interviewed. Interestingly, though corruption, informality, poor legislative and judicial processes, and arcane systems, upset every entrepreneur, the issues affecting the various businessmen and women vary

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56 Ibid.
depending on the economic status and size of the enterprise. Those with small, marginally profiting business are largely ignored by the authorities and, even if operating formally, seem minimally regulated. The same cannot be said for larger, more profitable business. Once an enterprise begins to grow, the government implements higher taxes, stricter regulations, and more stringent, often corrupt, enforcement. This not only discourages growth, but also often drains business of their profits. Therefore, in regards to political factors, though the repercussions may look different depending on the enterprise, all entrepreneurs are in some way affected. Thus, from a political standpoint, if Mexico hopes to effectively advance any sort of entrepreneurial effort, it must reconsider its policies, legislative and judicial process, and enforcement pertaining to the issue.

CONCLUSION

It is clear that the obstacles facing the Mexican entrepreneur are far from simple. Entrepreneurs confirm what scholars argue—that economic, sociocultural, and political challenges abound. Ultimately the interviews I conducted add depth and color to what the scholars say. Emmanuel, who sold his car to keep his brake business afloat, illustrates the economic challenges of poverty and the lack of capital. Luis, the music school entrepreneur who is concerned about creativity, emphasizes the role of family ties, education, religion, and ingrained skepticism within Mexican culture. Ana, the alarm system business owner, who struggles to keep up with changing regulations, highlights the political issues of informality, corruption, and an overly complex legal system as being the factors that are the most pertinent. Each category creates its own problems for Mexican entrepreneurship.

In response to these challenges, there are a number of different options available, all of which would encourage the entrepreneurial environment in Mexico. Economic obstacles may
begin to be addressed through education and business training, as well as widening access to microfinance programs. Some of this might happen through public-private partnerships with the international Chamber of Commerce, microfinance lenders, universities, and non-profits. Solving the deep-seated problem of poverty in Mexico is a more Herculean task.

Political factors are also challenging, as they require establishing and maintaining the rule of law, ending corruption, and addressing issues regarding professional ethics. A variety of US-based and international programs are available to help train judges, lawyers, and government employees, and professional business and public service organizations have codes of ethics that could be copied and adopted. Another option to be considered is simple deregulation as a policy response, as it has the potential to remove many of the political loop holes and opportunities for corruption. Ultimately, however, it will take enormous political will, popular support, and victory against forces of corruption (like the drug cartels) to fully establish the rule of law in Mexico.

Sociocultural factors are deeply ingrained in the Mexican way of life, and are not easily remedied by government involvement. What needs to be emphasized is strong civil society, including healthy family units, churches, business organizations, mentorships, and so forth. Pursuing the health of civil society is among the most beneficial actions that can be taken, and is possible in part because it originates with the Mexican entrepreneur, not with the government. Civil society not only empowers those involved, but also encourages ownership and accountability as the initiative begins with the individual and those most closely connected to the entrepreneur.

Lupe, the owner of a robotic maintenance company, understands the importance of civil society and the role it plays in running her business.
You can blame the government, and yes sure, they do play a very big role. But if we ever want to advance, we must understand that starting a business begins with us and what we as citizens can do, not the corrupted folks in power. I have a business that meets my and my family’s needs. Sure, it might not be huge and it struggles at times, but in the end it provides for my family while protecting my personal values. That is what I call success.\textsuperscript{57}

\textsuperscript{57} Ibid.
Bibliography


