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Financing Strategies for Small and Medium Enterprises in Mexico

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This is to certify that the doctoral study by

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Abstract

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MS, Universidad de las Américas Puebla, 2002

BS, Benemérita Universidad Autónoma de Puebla, 1993

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

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Abstract

At least 33% of small and medium enterprises (SMEs) in Mexico do not survive the first year and 65% close during the first 5 years of operations. SME survival is essential for a globally competitive market and professional development opportunities for SME employees. Grounded in the pecking order theory, the purpose of this qualitative multiple case study was to explore strategies four Mexican SME leaders used to obtain appropriate financing for their sustainability and growth during and beyond 5 years of beginning operations. Data were collected from semistructured interviews, organizational documents, and social media platforms. Data were analyzed using thematic analysis. Four themes emerged: financing sources, determinant factors of financing preferences, barriers for financing, and strategies to overcome barriers for financing. The key recommendations are for SME leaders to acquire financial literacy, professionalize the management, provide enough reliable financial information to potential lenders, and maintain positive credit track records and long-term relationships with banks. The implications for positive social change include the potential for SME leaders to promote the growth and profitability of their companies that contribute to improving the welfare of their employees and communities.

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Dedication

To my children Emmanuel, Fernando, and Fatima, my husband Ezequiel, and my granddaughter Vanessa; they are the reason behind me trying to be a better person, who inspires them to follow their dreams and goals. They fulfill my life with love, hope, and joy.

To my beloved mother and grandmother who gave the grounds and the love to be the strong woman I am.

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I want to thank my family for their patience, support, encouragement, and love. I would not have been able to achieve this goal without them. Thank you to my chair, Dr. Theresa Neal, for her professionalism, encouraging words, guidance, and support. Also, thanks to Dr. Roger Mayer and Dr. Kim Critchlow for their contribution to improving my work. Special thanks to my friend and fellow scholar Mario for sharing this journey with me; it was challenging but amazing.

Thanks to the Universidad de las Americas, Puebla, an institution that provides me with the means to live, an enjoyable career, and the opportunity to work under the leadership of a person who inspires me to be a better professional and person. Thank you, Dr. Derbez; without your support, this dream would not have been possible.

Finally, I want to thank the participants of this study for sharing their time, experiences, and points of view. Their contribution may allow other SME leaders to successfully manage their enterprises, enhancing the SME sector and Mexico´s economy, which could result in positive social change.

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Section 1: Foundation of the Study

The purpose of this qualitative multiple case study was to explore financing strategies that leaders of small and medium enterprises (SMEs) in Mexico use to obtain appropriate financing to promote the growth and survival of their enterprises. The SME sector has relevance in economies worldwide. Thus, the financing of SMEs to ensure SME success is one of the main challenges that the sector faces.

Background of the Problem

SMEs play a major role in economic activity, in both developed and developing countries (Erdogan, 2018). According to Mol-Gómez-Vázquez et al. (2018), SMEs are important not only because of their contribution to the gross domestic product (GDP), but also to the generation of employment, income distribution, and innovation. Moreover, Stanley and Mabutho (2016) pointed out that SMEs, in addition to being the anchor of economies, provide services to specific and disadvantaged markets while representing training opportunities for workers. For example, in Mexico, micro, small, and medium enterprises (MSMEs) represent 99.8% of the total businesses, generate 67.9% of the total employment, and contribute 45.3% of the GDP (Instituto Nacional de Estadística y Geografía, 2019a).

Despite the importance of SMEs in the world, many do not survive for a long time in the market because new SMEs face many operational and financial constraints (Pérez-Elizundia et al., 2020). One of the key barriers that SMEs face is the lack of financing. Accessing bank financing is vital for SMEs to survive and to grow; however, they face many difficulties in obtaining it (Erdogan, 2018; McCarthy et al., 2017). Therefore, the

purpose of this qualitative study was to explore financing strategies that SMEs' leaders in Mexico apply to access funding sources to obtain appropriate financing for the survival and growth of their businesses.

Problem Statement

SMEs in developing countries often do not have enough resources to face the competition that globalization presents; thus, many cannot remain in a competitive global market (Milošević et al., 2019). According to the Instituto Nacional de Estadística y Geografía (2016), 33% of the entrant enterprises in Mexico do not survive the first year, and 65% close during the first 5 years. The general business problem is that some Mexican SMEs lack adequate management, funding sources, and financial planning to promote their sustainability and growth. The specific business problem is that some Mexican SME leaders lack strategies to obtain appropriate financing for their sustainability and growth during and beyond 5 years of beginning operations.

Purpose Statement

The purpose of this qualitative multiple case study was to explore strategies that SME leaders in Mexico use to obtain appropriate financing for their sustainability and growth during and beyond 5 years of beginning operations. The targeted population consisted of leaders of four SMEs in Mexico who have implemented successful strategies to obtain appropriate financing for their sustainability and growth during and beyond 5 years. The implication for positive social change includes providing strategies to other SME leaders in Mexico that may allow them to develop financial planning and to access

appropriate financing to support their sustainability and growth. In this way, those leaders can improve the welfare of their employees and communities.

Nature of the Study

There are three methods to conduct a research study: quantitative, qualitative, and mixed. Researchers use the quantitative method to measure and analyze data through statistical techniques to examine the significance of the relationship among variables or between groups (Goertzen, 2017). Using the quantitative research method, researchers classify and count data to test hypotheses, but they may miss an understanding of the contextual situation (House, 2018). In contrast, using a qualitative research method allows researchers to understand the whole picture of a business problem through words more than numbers (House, 2018). Through the qualitative method, the researcher can obtain a deeper insight into a business problem by using a more subjective approach in the research (Levitt et al., 2018) but may lose out on analyzing data objectively. Using the mixed method, a researcher combines the objectivity of a quantitative method with the deep insights of a qualitative method (Saunders et al., 2019). Because I did not intend to test hypotheses or relationships among variables or between groups in my study, I used the qualitative method to explore the strategies that some Mexican SMEs' leaders have used to obtain appropriate financing for their business' stability and growth during and beyond 5 years of beginning operations.

There are several research designs to use for a qualitative study such as ethnography, grounded theory, and case study (Saunders et al., 2019). Because I did not intend to study a culture or social world of a group, which is the main purpose of

ethnography (Saunders et al., 2019), I did not use an ethnographic design. Using a grounded theory design involves a conceptual process of data to develop a theory in an intensive and reflective process (Saunders et al., 2019). I did not intend to develop a theory; therefore, grounded theory design was not appropriate for this study. I selected the multiple case study design because using a qualitative case study design allows researchers to explore the findings and understand the interaction between the subject and the context of the case, replicated across multiple cases (Saunders et al., 2019). The case study design was appropriate to collect and to analyze data regarding the strategies that some leaders of Mexican SMEs have implemented to obtain appropriate financing for their sustainability and growth beyond 5 years. I used a multiple case study design and not a single case study to have the opportunity to compare the results across different cases and to obtain greater reliability.

Research Question

What strategies do leaders of some Mexican SMEs use to obtain appropriate financing for their sustainability and growth beyond 5 years of beginning operations?

Interview Questions

1. What financing strategies did you use to grow and sustain your SME during and beyond 5 years of beginning operations?

2. How did you assess the effectiveness of the strategies for financing through and beyond 5 years of beginning operations?

3. What were the key barriers to implementing your organization's strategies for financing to grow and sustain your SME beyond 5 years?

4. How did your organization address the key barriers to implementing your organization's strategies for financing to grow and sustain your SME beyond 5 years?

5. According to your experience, how important was it for your SME to maintain a long-term relationship with banks?

6. What additional information can you add that may apply to the strategies that you used to obtain financing for growth and sustainability in your SME during and beyond 5 years of beginning operations?

Conceptual Framework

Pecking order theory, developed by Myers and Majluf (1984), was the conceptual framework for this study. Pecking order theory is a capital structure theory. The main objective of the decision-making process, according to pecking order theory, is maximizing the firm's value, which relates to capital structure (Kumar et al., 2017). Capital structure refers to the funds with which a company finances its investments, whether through retained earnings, long-term debt, or equity (Kumar et al., 2017). Modigliani and Miller (1958) developed the seminal work of capital structure, and their proposition constituted the basis for the latterly developed theories of capital structure equity.

Through the pecking order theory, Myers and Majluf (1984) postulated that companies adopt a hierarchy of financing sources, and that asymmetric information increases the cost of financing. According to the pecking order theory, companies prefer internal financing to debt, but debt is preferred over equity if they need external funding

and the reason for those preferences is information asymmetry, which demands more premiums for debt and equity (Rao et al., 2019). The objective of this study was to explore the financing strategies that allow SMEs to succeed. Therefore, the pecking order theory represented a potentially appropriate lens through which to analyze strategies to obtain appropriate financing for SMEs' sustainability and growth beyond 5 years of beginning operations.

Operational Definitions

*Asymmetric informati*on*:* Asymmetric information occurs when insiders possess more information or knowledge on their future than the opposing parties in an economic transaction (Martinez et al., 2019).

Capital structure: Capital structure refers to the funds with which a company finances its investments whether through retained earnings, long-term debt, or equity (Akingunola et al., 2017).

Financing strategies: Financing strategies are the plans that an organization follows to finance its operation and investment needs to meet its main goals, either through internal or external resources (Martinez et al., 2019).

SMEs: SMEs are enterprises in the commerce and service sector that have more than 11 and fewer than 100 employees, and sales between $4 million and $250 million pesos; in the industry sector, they are enterprises that have more than 11 and fewer than 250 employees, and sales between $4 million and $250 million pesos (Instituto Nacional de Estadística y Geografía, 2019b).

Assumptions, Limitations, and Delimitations

Assumptions

Assumptions are aspects of a study or phenomenon that the researcher considers true without having evidence (Faubert, 2020). I made three assumptions in developing this study. The first assumption was that some SME business leaders have used successful strategies to obtain appropriate financing for their businesses' sustainability and growth. Accessing financing is vital for SMEs to survive and to grow; otherwise, they cannot invest in innovation and technologies to improve their competitiveness (Erdogan, 2018). The second assumption was that participants would answer all the questions openly, honestly, and completely, reflecting their real experiences. The third assumption was that the information obtained would allow identifying the successful strategies that some SME business leaders have implemented in their businesses.

Limitations

A limitation is a situation that represents the potential weaknesses of the study that are not in control of the researcher (Theofanidis & Fountouki, 2018). The limitations are related to factors such as research design and funding issues (Theofanidis & Fountouki, 2018). It is essential to establish the limitations of research so that readers can understand the threats to the validity of the study. The first limitation was the willingness of participants of being honest and thorough in their responses. The second limitation was that the participants were voluntary and they could decide to withdraw at any time. Therefore, in the end, the sample cannot be representative of the population. Finally, the results of this study may not be transferable to other regions or contexts, because the

specific factors of the region within an SME operates are important for the behavior and the choices of SME leaders.

Delimitations

Delimitations, which are under the control of the researcher, are the boundaries of a study (Theofanidis & Fountouki, 2018). They indicate what will and will not be part of the study (Theofanidis & Fountouki, 2018). According to Yin (2018), delimitations derive from how the researcher defines the research question. One delimitation of this study was the size of the companies to be analyzed: SMEs. Another delimitation was that the interviews were conducted with business leaders, excluding middle-level management. The third delimitation was the geographical location of the targeted population; only Mexican companies participated.

Significance of the Study

SMEs are foundational for the economies around the world. SMEs contribute significantly to the generation of employment (Erdogan, 2019). In Mexico, MSMEs are accountable for seven out of 10 job positions (Instituto Nacional de Estadística y Geografía, 2019a). Therefore, SMEs' survival becomes essential to the economy of the country. However, many of the SMEs do not survive more than 5 years because their leaders lack adequate strategies to manage and finance the companies (Erdogan, 2018). Therefore, SMEs' leaders need to find the appropriate funding sources to lead their companies to sustainability.

Contribution to Business Practice

The insights obtained from this study's findings may provide leaders of SMEs in Mexico with an understanding of effective financial strategies that allow them to enhance their capabilities resulting in growth, profitability, and companies' sustainability. SMEs face several challenges in a competitive world because they do not have the resources of big companies. One of the main constraints for SMEs is the lack of financing not only for their working capital but also as their investment needs change with growth (Stanley & Mabutho, 2016). Accessing formal sources of funding is essential to promote the growth and survival of the SMEs when internal funds are insufficient and sources of informal funds are too expensive or risky (Koisova et al., 2017).

Implications for Social Change

The findings of this study may contribute to positive social change by providing owners and managers with information on strategies that may allow them to develop financial planning and to access appropriate financing to promote the growth and profitability of their companies and improving the welfare of their employees and communities. Furthermore, by developing a successful SME sector, SMEs' owners and managers could promote the growth of the national economy because SMEs generate employment, contribute to the gross domestic product (GDP), satisfy market needs, and bring professional development opportunities to their workers. In this way, SME sustainability can benefit workers' families.

A Review of the Professional and Academic Literature

Considering the importance that external finance has in the survival and development of SMEs, it is of great interest for academics and researchers (Berger & Udell, 2006). The purpose of this qualitative multiple case study was to explore strategies that Mexican SME leaders use to obtain appropriate financing for their sustainability and growth during and beyond 5 years of beginning operations. According to Saunders et al. (2019), a critical analysis of the existing literature constitutes the grounds of the research by providing the context and the conceptual framework for the study regarding SMEs' financial challenges in developing countries in general, and México in particular.

The literature review consisted of peer-reviewed articles related to pecking order theory, other capital structure theories, SMEs, and SMEs' financing in developing countries. The review includes both quantitative and qualitative research studies with information that support or does not support the conceptual framework of this study. The primary databases used in this literature review included ProQuest, Directory of Open Access Journals, ScienceDirect, Taylor and Francis Online, Emerald, and Walden University online library resources. The key search terms for researching the literature review include *capital structure decisions*, *capital structure theories, developing countries, financial literacy, financing for SMEs, México, pecking order theory, qualitative studies, quantitative research,* and combinations of these keywords. Of the resources reviewed for this study, 94.4% are peer-reviewed. A total of 161 resources were used for this study, and 85% of the resources were within 5 years of anticipated study completion of July 2021.

Table 1

Source of Data for Literature Review

	Total	Total within 5 years of expected graduation date	% (Within 5 years of 2021)
Peer-reviewed journals	79	67	84.81%
Nonpeer-reviewed journals	0	0	0.00%
Government source	1	1	100.00%
Total	80	68	85.00%

The literature review starts by addressing the origin of capital structure theories to arrive at the pecking order theory, which was the conceptual framework for this study. Second, I discuss the main aspects of the pecking order theory and determinants of capital structure, followed by a discussion of SMEs' financial constraints and the factors that promote or prevent those constraints. Finally, other issues that SMEs face to survive and grow are presented.

Capital Structure and the Origin of Capital Structure Theories

Capital structure has been a topic of study for many researchers because of its importance to the value and survival of companies (Abeywardhana, 2017; Akingunola et al., 2017; Kumar et al., 2017). Nevertheless, the divergent conclusions of these studies keep capital structure as a contentious topic in financial research (Abeywardhana, 2017; Akingunola et al., 2017; Oktavina et al., 2018). Therefore, researchers are still analyzing the capital structure decisions of companies around the world no matter their size, age, or profitability. In the following paragraphs, I synthesized the primary literature on capital structure decisions and capital structure theories.

Capital structure refers to the combination of debt and equity used by a firm to finance its investment (Akingunola et al., 2017; Alarcón, 2018; Kumar et al., 2017). Organizations need to decide their optimal capital structure because of its high impact on the organization's ability to perform well in a competitive environment (Abeywardhana, 2017; Kumar et al., 2017; Oktavina et al., 2018). Moreover, an optimal capital structure can enhance the development and growth of an organization because it involves not only the working capital financing but also the long-term investment financing (Kumar et al., 2017). The mix of debt and equity impacts both the value of the firm and the cost of the capital. While the fiscal benefits can reduce the cost of the debt and allow shareholders not to share their benefits, the higher the debt, the riskier is the firm because it can increase the cost of capital (Abeywardhana, 2017). Abeywardhana (2017) pointed out the need for every company to analyze not only its conditions but also its regulatory and economic environment. Therefore, capital structure decisions become essential to the performance of a company.

Capital structure constitutes one of the main concerns for SMEs because they face more limited access to external finance than large companies (Martinez et al., 2019). Smaller companies represent a higher risk for creditors and investors because of the information asymmetry issues that affect their access to funding sources (Martinez et al., 2019; McCarthy et al., 2017). Therefore, SMEs' capital structure is essential to promote their survival and growth, especially in developing countries, where the financial constraints are higher because of the weakness of the financial markets (Martinez et al.,

2019). For instance, in Mexico capital venture, crowdfunding, and angel investors are incipient industries, therefore they are not seen as a financing options for SMEs.

The financial decisions of a company are determined by several dynamic factors, such as the specifics of the firm, the industry in which a company belongs, and the micro and macroeconomic environment in which it operates (Kumar et al., 2017). Other factors affecting a firm's capital structure are the availability of credit, the cost of financing, and the development of the equity market, all of them, factors that in turn are affected by asymmetric information (Martinez et al., 2019). The analysis of factors affecting the capital structure and how asymmetric information affects them are explained through capital structure theories.

In deciding the optimal capital structure, several theories have arisen through the years; nevertheless, there is no agreement of the optimal capital structure (Neves et al., 2020). There are five main theories of capital structure:

- capital structure irrelevancy theory

- trade-off theory

- agency cost theory

- the growth cycle

- the pecking order theory

Although I selected pecking order theory as the conceptual framework for my study, a general understanding of the main theories is beneficial for understanding capital structure. Information on the five main theories appears below.

Capital structure irrelevance theory of Modigliani and Miller (1958) is seen as the foundation of capital structure theories (Abeywardhana, 2017). In their first approach, Modigliani and Miller established the idea that under perfect market conditions capital structure is irrelevant and the value of the firm lies in its capacity to generate earnings and the risk of its underlying assets. In perfect market conditions everyone is a price taker, firms and investors can borrow and lend at the same rate, all have equal access to relevant information, and there are no transaction costs such as taxes or bankruptcy costs (Modigliani & Miller, 1958). Additionally, other assumptions were part of their model, such as homogeneous expectations, homogeneous business risk, and perpetual cash flows. In 1963, Modigliani and Miller recognized that a higher proportion of debt maximizes the firm's value because of the fiscal benefits of paying interests through their deductibility. Nevertheless, it does not mean that companies should use all the possible debt since there are other factors to consider making finance decisions (Martinez et al., 2019). Even though the capital structure irrelevance theory has been considered the seminal work for modern finance, it is based on several assumptions that are not only unrealistic but contradictory (Ardalan, 2017).

Contrary to the modified Modigliani and Miller's argument, Ezirim et al., (2017) pointed out those decisions about financing have a tremendous potential effect on the firm's value since there is a significant relationship between the leverage and the value of the firm. Therefore, after Modigliani and Miller's work (1958, 1963), several studies were developed to analyze the determinants of firm's capital structure; in the next paragraphs, some of them are mentioned.

Baxter (1967) introduced bankruptcy costs to capital structure theories, which counteract the benefits of paid interests. Because of debt financing represents a decrease in the net assets value in bankruptcy, which causes the reduction of the firm's value. Baxter pointed out that those firms with stable net incomes can afford leverage with less risk of ruin. However, those companies that face variability in their net incomes will face difficulties to assume the debt costs with the consequent risk of bankruptcy. After Baxter's work, other researchers formalized what is known as the trade-off theory. Kraus and Litzenberger (1973) pointed out the classical version of the trade-off theory (TOT) in which the optimal level of debt considers the trade-off between the fiscal benefits of de debt and the cost of insolvency. According to the TOT, firms should look for the optimal capital structure that balances interest payment benefits with bankruptcy costs to maximize the value of the company (Rahman, 2019). In other words, in deciding the capital structure, entrepreneurs should balance benefits with potential leverage costs.

Jensen and Meckling (1976) introduced the agency theory, which established that because of the separation of ownership and control, a tension arises between management and external financers. Managers do not always act in the best interest of shareholders or debtholders and do not look for maximizing the value of the company; therefore, there is a conflict of interest between managers and shareholders and between managers and debtholders (Jensen & Meckling, 1976). Under the conditions previously indicated, there are agency costs that represent the monitoring costs of outside shareholders and bondholders and the bonding expenditures of the manager/agent (Jensen & Meckling, 1976). Jensen and Meckling pointed out that without considering taxes and bankruptcy

costs and based on agency theory, an optimal capital structure can be determined. According to agency theory, the optimal capital structure will be a mix of equity and debt that minimize agency costs.

In 1977, Ross introduced asymmetric information to capital structure theories. Ross (1977) argued that, since managers have inside information, their financial decisions have an impact on the market's perception of the value of the company, in such a way that increasing leverage can be interpreted as a signal of an increased in the expected returns. The concept of asymmetric information, along with the cost of financing, was essential for the development of the pecking order theory, which is the conceptual framework of this study.

Later, Berger and Udell (2006) proposed a conceptual framework that includes the national lending infrastructure, government policies, and lending technology as key factors on credit availability for SMEs. The lending technology includes the primary information source, policies and procedures, loan contract structure and monitoring mechanisms, in turn, lending infrastructure is considered as the existence of different types of financial organizations and the rules and conditions under which these institutions operate (Berger & Udell, 2006). According to Berger and Udell, there is an association between policies, financial structures, and credit availability for SMEs. The association starts with the government policies that influence financial institution structure and lending infrastructure, which, in the end, determines the lending technologies that have effects on the access to financing for SMEs. Lack of appropriate

lending infrastructure and technology and government policies prevents SMEs from obtaining financing for their survival and growth.

McNamara et al. (2017) tested Berger and Udell's (2006) lending infrastructure framework finding that the leverage of SMEs is higher in environments with more efficient bankruptcy regimes and less restrictive regulatory environments of banks. Therefore, lending infrastructure does represent a determinant of SME leverage. Moreover, McNamara et al. incorporated the lending infrastructure framework with the main theories of capital structure, finding that there is resonance between Berger and Udell's framework and TOT, agency costs theory, and pecking order theory. Pecking order theory constitutes the conceptual framework for this study.

Pecking Order Theory

The conceptual framework for this study was the pecking order theory developed by Myers and Majluf (1984), which is one of the capital structure theories. Pecking order theory introduced the factor of information asymmetry; it establishes that firms have a hierarchy in their financing preferences in which retained earnings are first, followed by debt, and finally equity (Myers & Majluf, 1984). The rationale behind those preferences is asymmetric information, which demands more premiums for debt and equity (Rao et al., 2019).

Myers and Majluf (1984) pointed out that when managers of firms have information that investors do not have, those investors do not know the net present value (NPV) of the investment opportunities of firms or the value of losing those investment opportunities safely. Because of the information asymmetry, investors expect higher

returns; therefore, the stock is issued under its real market value. Through the pecking order theory, Myers and Majluf established that there is an order of the financing preferences of firms, which relies on the information asymmetry and costs of financing. The financing preference order is that internal resources are preferred over debt or equity, but debt is preferred over equity.

Myers and Majluf (1984) set the main properties of the pecking order theory as follows:

- Regarding external financing, using debt is better than using equity.

- For the best interest of existing stockholders, to forego good investments is better if internal resources or debt are not available to finance them, instead of issuing risky securities. Nevertheless, stockholders are better if the firm has ample financial slack to undertake good investment opportunities.

- By restricting dividends of issuing stock in periods of small information advantages, firms can build financial slack to cover possible investment opportunities.

- Firms should not pay dividends if they have to issue stock or risky securities to recover the cash. The model implies a dividends policy in which changes in dividends are correlated with managers' estimates of the value of assets in place.

- If the firm issues stock to finance investment when managers have superior information, the stock price will fall, other things equal. However, if the firm issues a secured debt to finance investment, the stock price will not fall.

- If a slack-rich firm merges with a slack-poor firm, the value of firms combined will increase. Nevertheless, the negotiations of that kind of mergers are difficult unless the slack-poor firm's managers can convey unique information to the buyers.

According to the pecking order theory, changes in debt are not the result of looking forward to an optimal debt ratio but looking forward to satisfying funding needs that cannot be covered with internal resources following a hierarchical order (Serrasqueiro & Caetano, 2015). For instance, Simatupang et al. (2019) pointed out that Indonesian companies do not consider non-debt tax shields in determining their capital structure; instead, companies prioritize the financial needs of the organization. Therefore, the reasons behind a change in debt are the financial needs that cannot be covered by internal funds, and not an optimal debt ratio.

Pecking order theory predicts that the relationship between profitability and debt is negative (Oktavina et al., 2018). In other words, if a company produces enough profits to finance its operation and investment needs, it will not use debt or equity as funding sources. Nevertheless, if internal funds are not available, companies choose debt because of the tax advantage, while equity is the last in the preferences because of the high cost that it involves (Akingunola et al., 2017).

According to Akingunola et al. (2017), the reason behind the financing preferences established by the pecking order theory is that retaining earnings constitute a convenient and cheaper funding source than others. Likewise, the hierarchical order responds to the need of owners and managers to maintain private information of the

companies; by using internal funds, SMEs' leaders stay in control (Agyei et al., 2020). Therefore, internal funds are preferred over debt, but debt is preferred over equity because capital markets require more information disclosure. Moreover, choosing equity as a funding source implies to share ownership with new investors; another reason why companies use equity as the last resource (Musta, 2018).

According to Pérez (2017), the pecking order theory is consistent with obtaining financial resources easily and with less risk, taking investment decisions by preferring investments with more profitability and less risk, minimizing the costs of agency, and maintaining most of financing with internal resources. Moreover, Alarcón (2018) pointed out that the pecking order theory is consistent with maintaining the financing of firms at a low level of risk. Defenders of pecking order theory consider leverage as disadvantageous versus internal sources because of the flexibility and low cost that represents internal funds (Martinez et al., 2019). Therefore, firms with high profitability resort less on external financing, considering their capability to retain earnings and use them to finance operations and investment (Serrasqueiro & Caetano, 2015).

The pecking order theory is one of the most recurrent theories used to explain the capital structure decisions of SMEs (Alarcón, 2018; Pérez, 2017). It can be explained not only for the significant information asymmetry between lenders and borrowers but also for the high cost of external financing and the SMEs owners' desire to keep the control of their companies (Trinh et al., 2017). According to Nunes and Serrasqueiro (2017), Portuguese SMEs that belong to the hospitality industry adjust their level of short-term debt to cover their financial needs if internal funds are insufficient, which is consistent

with pecking order theory. Additionally, Nunes and Serrasqueiro identified those companies with low growth and high cash flow rely less on short-term debt than those with high growth and low cash flow, which supports pecking order theory. Other studies' findings that are consistent with pecking order theory are mentioned below.

In supporting the pecking order theory, Simatupang et al. (2019) found that the profitability of companies has an inverse effect on their leverage level; companies prioritize the use of internal funding in the presence of good financial conditions because it represents the less risk. Also, Yousaf and Iftikhar (2018) found that factors such as profitability, size, non-debt tax shield, liquidity, and the tax rate have a negative impact on capital structure. The findings confirmed that Pakistani automotive firms avoid debt in their capital structure, which is consistent with pecking order theory (Yousaf & Iftikhar, 2018). Yousaf and Iftikhar observed that Pakistani firms have low percentages of long-term debt in their capital structure and that debt is borrowed mainly with banks.

Furthermore, Matias and Serrasqueiro (2017) found that profitability and total debt of Portuguese SMEs have a negative relationship, which confirms that they prefer internal funds for financing in concordance with pecking order theory. Moreover, Matias and Serrasqueiro found that profitability was the variable that better explained the capital structure of a sample of Portuguese SMEs. Other variables, such as size, profitability, age, and asset structure, explain the capital structure decisions of Portuguese SMEs (Matias & Serrasqueiro, 2017). The relationship between these variables and total debt, short-term debt, and long-term debt are close to the predictions of pecking order theory (Matias & Serrasqueiro, 2017). The positive relationship between size and total debt is

consistent with the postulates of pecking order theory because the bigger the size of the company, the lesser the information asymmetry between the firm and creditors with the related better credit conditions (Matias & Serrasqueiro, 2017). Similarly, the negative relationship between profitability and total debt shows that Portuguese SMEs prefer internal funds over debt as long as they can rely on retained earnings in concordance with pecking order theory predictions (Matias & Serrasqueiro, 2017). The relationship between age and debt, and asset structure and debt also corroborated the predictions of pecking order theory (Matias & Serrasqueiro, 2017).

Matias and Serrasqueiro (2017) found a negative relationship between age and short-term debt and a positive relationship between age and medium/long term. Their findings corroborated the predictions of pecking order theory, but also the predictions of TOT by considering that age improves the reputation of firms, which at the same time reduces the cost of debt. Regarding asset structure, Matias and Serrasqueiro pointed out that as long as tangible assets grow, they have a positive effect on the level of total debt and long-term debt, but a negative effect on the level of short-term level. According to the pecking order theory, the relationship between tangible assets and debt ratio is positive; therefore, Portuguese SMEs' capital structure decisions corroborate the predictions of pecking order theory (Matias & Serrasqueiro, 2017).

After conducting a study to analyze the determinants of the capital structure of Indian SMEs, Rao et al. (2019) found that capital structure decisions are consistent with pecking order theory, even if the presence of TOT cannot be rejected. Rao et al. identified that profitability, tangibility, size, age, growth, liquidity, non-debt tax shield, cash flow,

and return on equity are factors that influence the capital structure of SMEs in India. Additionally, Oktavina et al. (2018) conducted a study to analyze the capital structure decisions of family firms in Indonesia. For the analysis, Oktavina et al. considered profitability, asset structure, growth opportunities, firm size, and business risk as factors affecting capital structure decisions. Oktavina et al. found that those firms prefer to use retained earnings over debt and equity to finance their operations, which is consistent with pecking order theory.

Musta (2018) analyzed the financing needs of SMEs of Albania, focusing on age and size as determining factors. Musta found that the primary source of financing was retained earnings not only for working capital but also for investing no matter the age or size of companies which aligns with the pecking order theory. According to Musta, the rationale behind Albanian companies' preferences is the skepticism of leaders to use debt because of the bureaucratic and lengthy process for lending.

Although the pecking order theory considers the information asymmetry as the underlying assumption to follow a hierarchical order in financing preferences, there can be several other reasons that explain those preferences. Neves et al., (2020) identified that Portuguese firms follow the hierarchical order predicted as the pecking order theory; Neves et al. identified factors such as profitability, asset tangibility, size, age, risk and growth opportunities are factors in explaining the capital structure decisions.

Trinh et al. (2017) examined the relationship between financial leverage and investment decision with its corresponding financing sources choices for SMEs in Vietnam. They found that higher financial leverage increases the new investment and the

use of external financing; however, when financial leverage rises, the seeking for

investment with external funding diminishes (Trinh et al., 2017). The results are

consistent with pecking order theory considering that internal funds finance the growth of

the company when financial leverage is low due to unavailable external financing. To the

extent to the success of the company allows it to access external financing, the leverage

increases. However, the increase stops at a certain point to avoid the financial risk

associated with high leverage (Trinh et al., 2017). According to Trinh et al., the results

can be explained as the result of the dynamic nature of the pecking order theory.

Trinh et al. (2017) pointed out that there is a dynamic nature in the hierarchy of

funding sources preference. Accordingly, young and small SMEs tend to rely on internal

financing sources for new investments because they do not have access to external

financing (Trinh et al., 2017). To the extent that they operate successfully and generate

profits, they improve their chances of accessing external funding sources for new

investments (Trinh et al., 2017). Therefore, older and bigger successful SMEs experience

a transition from internal financing to external financing because higher financial

leverage increases the accessibility to external finance until the point in which financial

leverage does not represent a high risk (Trinh et al., 2017). As a result, the funding

sources preference established by pecking order theory responds to a dynamic feature.

Albuquerque et al. (2017) conducted a study to examine the finance decision of

owners and managers of Portuguese SMEs incorporating conservatism and secrecy as

cultural values. Albuquerque et al. found that there is an inverse relationship between

conservatism and secrecy, and debt; consequently, Portuguese SMEs' owners and

managers select to finance their companies in concordance with pecking order theory. Accordingly, Dos Santos Morão Lourenço and Oliveira (2017) found that size, growth, and profitability are the main factors affecting the debt level of Portuguese SMEs of Santarém's district. Dos Santos Morão Lourenço and Oliveira also found that the increase in profitability of SMEs is associated with a decrease in debt and that the increase of tangible assets is associated with a decrease in medium-term and long-term debt. Additionally, Portuguese SMEs use mainly short-term debt over medium-term and long-term debt. The results of the study conducted by Dos Santos Morão Lourenço and Oliveira are consistent with the pecking order theory.

Contrary to the postulates of pecking order theory, according to the TOT, there is an optimal debt ratio that allows taking advantage of the fiscal benefits of debt while minimizes the chances of bankruptcy (Kraus & Litzenberger, 1973). Accordingly, the TOT sustains that there is an optimal capital structure that maximizes the value of the organization through the equilibrium between costs and benefits of issuing debt and equity (Agyei et al., 2020; Ardalan, 2017; Jadoua & Mostapha, 2020). Ardalan (2017), through a qualitative study, found that while at the beginning, debt increases the share price, there is a point in which the share price starts to fall; thus, there is an optimal point of debt or capital structure for the firm which is consistent with TOT. Therefore, the TOT and pecking order theory have been considered as contrasting theories.

The pecking order theory and the TOT are the most widely tested theories in explaining the capital structure of companies (Yousaf & Iftikhar, 2018). Several authors have looked forward to which one, pecking order theory or TOT, explains better the

capital structure decisions of companies, (Martinez et al., 2019; Neves et al., 2020).

While there are study findings that support the pecking order theory (Adair & Adaskou,

2018; Kumar et al., 2017; Matias & Domingues, 2019; McNamara et al., 2017), there are

others that support the TOT (Jadoua & Mostapha, 2020; McNamara et al., 2017; Sardo &

Serrasqueiro, 2017). Therefore, there are no conclusive results regarding which one of

those two theories explains better the choices of capital structure theories (Neves et al.,

2020). Moreover, some authors argue that pecking order theory and TOT are not

mutually exclusive; instead, they are complementary conceptual frameworks in

explaining the capital structure decisions of SMEs (McNamara et al., 2017; Serrasqueiro

& Caetano, 2015).

After conducting a study in a peripheral region of Portugal, Serrasqueiro and

Caetano (2015) found results consistent with pecking order theory, such as the negative

relationship between profitability and debt, and age and debt, which suggest that SMEs

preferred internal funds over external funding sources. Older and more profitable

companies are more capable of retaining earnings to finance their operations and

investments. Nevertheless, there were also results consistent with TOT referred to as the

adjustments towards the optimal debt ratio that companies made (Serrasqueiro &

Caetano, 2015). Moreover, they obtained results consistent with both theories, such as the

positive relationship between size and debt. With this in mind, Serrasqueiro and Caetano

concluded that pecking order theory and TOT are not mutually exclusive in elucidating

the capital structure of SMEs.

Simatupang et al. (2019) found evidence that supports pecking order theory but also pointed out that the funding surplus has a positive effect on capital structure, which supports TOT. The results obtained by Simatupang et al. support that pecking order theory and TOT are not mutually exclusive. Moreover, Nunes and Serrasqueiro (2017) found that TOT better explains the capital structure decisions regarding long-term debt because of the adjustments toward a target ratio in long-term debt, while pecking order theory explains better the capital structure decision regarding short-term debt. Also, Nunes and Serrasqueiro pointed out that size and asset tangibility have a direct relationship with long-term debt. In contrast, growth, non-debt tax shields, and risk have an inverse relationship with long-term debt. Nevertheless, the same factors do not affect the short-term debt, which is affected by financial deficit with a positive effect, and cash flow, age, and low growth with a negative effect (Nunes & Serrasqueiro, 2017).

In another case of findings supporting that pecking order theory and TOT are not mutually exclusive, Agyei et al. (2020) analyzed 187 SMEs in Ghana to establish which of the two theories explain their financial decisions. The results showed that both theories are complimentary in explaining the Ghanaian SMEs financial choices. Additionally, Agyei et al. pointed out that there are factors such as profitability, liquidity, firm size, age, growth, and tangibility of assets that influence capital structure decisions. The results indicated that Ghanaian firms' capital structure decisions follow both theories, pecking order theory, and TOT. While taking debt is considered as a second option as long as internal financing is not enough, once the need for taking debt is present, a target capital structure is considered, taking into account the benefit and costs of debt.

Several studies have emphasized that neither pecking order theory nor other theories explained by themselves the capital structure of companies (Allini et al., 2018; Nunes & Serrasqueiro, 2017; Simatupang et al., 2019). There are factors such as profitability, tangibility, size, growth opportunity, and funding surplus that affects the capital structure decisions (Agyei et al., 2020; Allini et al., 2018; Simatupang et al., 2019). Through an analysis of Egyptian listed firms, Allini et al. (2018) found that most profitable firms use internal funds as a source of financing. Nevertheless, Allini et al. also found that if external financing were required, the companies preferred equity issued over debt, following which they called the revised pecking order theory.

The conceptual framework for this study was pecking order theory because it explains better the financial decisions of SMEs around the world. There are several studies with results consistent with pecking order theory (Alarcón, 2018; Matias & Serrasqueiro, 2017; Musta, 2018; Nunes & Serrasqueiro, 2017; Oktavina et al., 2018; Pérez, 2017; Rao et al., 2019; Simatupang et al., 2019; Yousaf & Iftikhar, 2018). Even if there are several theories explaining capital structure decisions, and some of them are contrary to pecking order theory, it is which better explains the financial decisions of SMEs in developing economies.

SMEs' Importance and Economic Barriers

SMEs play a paramount role in all economies around the world, whether developed or developing. According to Abbasi et al. (2018), SMEs are the backbone of economies because they are the basis of innovation and advancement; through their participation in the market, SMEs improve the competition level and the supply of goods.

Moreover, SMEs have a significant role in creating a workforce, contributing to the gross domestic product, innovation, and entrepreneurship (Karadag, 2017; Milošević et al., 2019; Mol-Gómez-Vázquez et al., 2018; Ur Rehman et al., 2019). Considering all the benefits that SMEs bring to society, their survival is of great interest to scholars, researchers, businesspeople, and governments. In understanding the SMEs' importance and barriers, the first step is to define them.

Despite the importance of SMEs, there is no general definition that applies to them around the world. Mphela and Shunda (2018) pointed out that there is no agreement regarding the definition of SMEs because the public sector defines them in concordance with each government policy, while private sectors have their own definitions. According to Madani (2018), the most used criterion in defining SMEs is the number of employees, and another criterion relates to the political issues around the world. In Mexico, the number of employees, the sector to which they belong, and the sales are the criteria used to define SMEs (Instituto Nacional de Estadística y Geografía, 2019b).

Considering that the present study was developed in Mexico, the definition for this study's purpose was the following: SMEs are enterprises in the commerce and service sector that have more than 11 and fewer than 100 employees, and sales between $4 million and $250 million pesos; in the industry sector, they are enterprises that have more than 11 and fewer than 250 employees, and sales between $4 million and $250 million pesos (Instituto Nacional de Estadística y Geografía, 2019b). No matter what definition is used, the importance of SMEs as drivers of socio-economic development cannot be overemphasized, especially in developing countries.

In developing countries, SMEs represent the anchor of economies (Chaudhry et al., 2018). According to Erdogan (2019), SMEs generate not only income and employment but also contribute to the expansion of middle class and reduction of poverty. Moreover, the United Nations Industrial Development Organization (as cited in Stanley & Mabutho, 2016) pointed out that SMEs provide services to specific and disadvantaged markets. In the same vein, Mol-Gómez-Vázquez et al. (2018) argued that the SME sector is not only important because of its contribution to the GDP but also because SMEs are foundational to employment generation and innovation, while Castela et al. (2018) pointed out that the need of SMEs to innovate has led to SMEs to be more competitive and capable to eliminate obsolete products. SMEs play a significant role in economic activity not only as job creators but also as agents of social stability, either in developed or in developing countries (Erdogan, 2018). Therefore, it is imperative to understand and enhance the factors that allow the growth of SMEs (Jadoua & Mostapha, 2020).

For instance, in China, SMEs are essential for growth and stability because they are responsible for 60% of the total industrial production and 75% of job creation (Yang et al., 2019). In Botswana, SMEs contribute greatly to the GDP and employment (Mphela & Shunda, 2018). Countries like Mexico are no exception. In México, SMEs play a key role in economic activity, job creation, and providing services and goods (Pérez-Elizundia et al., 2020). Granted the importance of SMEs in the economies of developing countries around the world, it is essential to understand the main barriers that SMEs face in growing and surviving.

Despite the importance of SMEs around the world, many of them do not survive for a long time in the market since they face many operational and financial constraints (Chaudhry et al., 2018; Milošević et al., 2019). According to Awasthi and Mathur (2017), SMEs face several issues in operating their business, such as the lack of efficient and affordable technology, lack of effective marketing, lack of skilled workforce, supply chain, and last but not least significant lack of adequate and timely financing. Moreover, the lack of strategic planning, the lack of experience in the field, lack of thorough market analysis, and, more important, lack of funding sources as the main constraints of SMEs startups. Struggling in accessing funding sources is continuously pointed out as the primary challenge of SMEs (Bernardino & Santos, 2020).

McCarthy et al. (2017) agreed that one of the primary limitations of SMEs is the lack of financing, which compromises their competitiveness and their ability to grow on a long-term basis. Moreover, Karadag (2017) pointed out that one of the more significant challenges of SMEs is the lack of adequate financial management. The combination of unavailable funding sources and inefficient financial management can be lethal for SMEs. Financial support is essential for companies to grow and survive, moreover, for SMEs. Erdogan (2018) pointed out that accessing bank financing is vital for the survival and success of SMEs. Nevertheless, SMEs face several difficulties in obtaining financial support (Erdogan, 2018). Granted the importance of financing for SMEs, it is important to analyze the factors that are preventing SMEs to access funding sources.

Several factors prevent SMEs from accessing financing sources, such as the non-formalization of the SME sector, the financial illiteracy and lack of training of SMEs'

managers and owners, and the lack of collateral security for loans (Stanley & Mabutho, 2016). Additionally, high non-performing-loan ratios, lack of innovation and viable business models, lack of track and banking records, and finally, lack of accounting systems, internal control, and governance structure are other factors affecting the access to bank loans of SMEs (Stanley & Mabutho, 2016). Moreover, Erdogan (2018, 2019) pointed out that banks take into account factors such as the duration of the relationship between an SME and the bank, the industry in which the SME acts, the firm age, and experience. However, one of the main difficulties that bankers stressed out is that the managers of SMEs do not know what they need or what they want (Erdogan, 2018), which is related to the lack of financial literacy and lack of skilled management. Also, bankers worry about the commitment of SMEs to their credit obligations, which affect the profitability of the banks. The qualitative study of Erdogan provided an insight into some factors that can overcome the restrictions of financing for SMEs. Small and medium businesses with low debt, adequate equity base, with a long-term relationship with the bank, which makes projections to the future, and that give a positive impression to the bankers in on-site visits have more opportunity to access bank financing (Erdogan, 2018).

While it is true that knowing the factors that allow SMEs to access bank loans is useful, it is also true that not all SMEs meet the conditions to fulfill the bank´s requirements. Banks are reluctant to provide credit to SMEs without sufficient assets, proven track records, adequate capitalizations, and collateral because they consider SMEs high risk and nonprofitable businesses (Yang et al., 2019). Therefore, banks rationed

credit for most SMEs borrowers, which affects SMEs' performance (Akinsola & Ikhide, 2019). Due to the difficulties that small businesses have to overcome in accessing bank financing, they turn to informal funding sources, affecting their performance negatively.

Another factor that affects SMEs' chances of accessing traditional funding sources is the lack of financial planning due to management's poor business, economic, and financial skills (Győri & Czakó, 2018). Financial planning is an essential tool for making decisions in the firms; however, SMEs do not use it because a high percentage of their management lacks knowledge and skills to implement it efficiently. It is essential to emphasize the importance of financial planning to improve SMEs' performance; the plan must consider concepts such as financial products, handle money, indebtedness, planning, insurance, and solvency (Győri & Czakó, 2018). According to Báez et al. (2017), the lack of knowledge and skills to manage appropriate financial control and planning prevents SMEs' successful performance. Strategic planning and financial planning are fundamental to the decision-making process because there is a positive relationship between financial planning and the firms' success (Báez et al., 2017).

Financial literacy is essential to manage an enterprise. According to Ismanto et al. (2020), the financial management capabilities highly and positively influence the SMEs' performance. It is essential to include the characteristics of owners and managers in the studies of capital structure decisions because they must to know how to manage the finances of their business, including ratios and financial risk issues to determine the best options for growth, development, and competitiveness of their companies (Ismanto et al., 2020). Moreover, financial literacy defined as the knowledge and skills of different

financial tools to make sound decisions plays a paramount role in creating financial well-being (Győri & Czakó, 2018). According to Folke et al. (2020), financial literacy helps individuals manage finances effectively trough the understanding of economic and financial concepts. Nevertheless, Győri and Czakó (2018), after conducting a study on SMEs' financial literacy and behavior in Hungary, found that 35.5% of the SMEs analyzed face the lack of resources, mainly by the low financial literacy level of their owners.

Hussain et al. (2018) pointed out that financial constraints can explain the high failure rate among SMEs. A reason behind SMEs' inadequate capital structure is the lack of financial knowledge and skills of their owners or managers that derives in asymmetric information issues. Lenders using such information find complicated to evaluate the credit risk, and consequently, they ask for collateral that increases the access cost and opportunity to obtain finance (Hussain et al., 2018). Concluding, financial literacy is essential for SMEs' growth and sustainability by reducing the impact of asymmetric information and helping owners and managers to make better decisions (Ismanto et al., 2020).

Governments, banks, and entrepreneurs should develop strategies to enhance the performance of SMEs, considering that they are foundational for economies. For instance, since owners and managers of SMEs lack financial training, the government could support financial literacy programs to help SMEs to improve their financial management and, in this way, to enhance their outcomes as engines of the economy (Erdogan, 2018). Some countries have developed the concept of clusters funding, which

groups small and mediums firms of a particular industry into a cluster to offer them credit programs tailored to their needs (Engel et al., 2017).

The leading players in enhancing SMEs in developing countries are governments, banks, and SMEs themselves, which, working together will accomplish the goal of improving the SMEs' performance for the benefit of the economy of their countries. According to Kersten et al. (2017), SME finance has a positive effect on firm performance, capital investment and employment; therefore, government's efforts to promote the conditions for credit access for SMEs are essential. For instance, some governments, such as China's government, have realized the importance of enhancing SMEs' capabilities and emphasize the SMEs' development as the driver of the national economy (Lu et al., 2020). The current conditions of economic markets demand that companies can grow, change, improve, and reinvent themselves continually, otherwise, their survivor chances are minimum (Dos Santos Morão Lourenço & Oliveira, 2017). With this in mind, it is crucial that governments, private sector, and researchers look forward to developing tools to enhance the SMEs' performance.

Other Factors Affecting SMEs Financial Performance

Both internal and external factors affect SMEs' financial structure. According to Di Pietro et al. (2019), a firm's capital structure determination is affected by a combination of the characteristics of the firm and the environmental conditions of the location in which the firm operates. Profitability, age, asset structure, growth, firm size, business risk, and investment opportunities are internal factors that affect the capital structure of SMEs (Oktavina et al., 2018). Among the external factors that affect the

financing opportunities of SMEs are financial sector conditions, education level of owners and managers, financial literacy of owners and managers, economic and business environment, and corruption.

Financial Sector Conditions

Access to finance is crucial for SMEs. Accessing external sources of financing can enhance firms' ability to grow and to take advantage of investment opportunities (Luo et al., 2018). Nevertheless, SMEs experience many barriers to access bank financing. One of the main constraints is insufficient sources of internal financing and the lack of access to external financing (Jadoua & Mostapha, 2020; Trinh et al., 2017). The lack of financing affects SMEs' productivity, growth, innovation, and export capability (Andries et al., 2018). Therefore, it is crucial to study all the factors that can prevent or promote credit availability for SMEs.

One of the factors affecting the credit availability for SMEs is the condition of the financial sector, especially the banking concentration sector, which constitutes the primary source of financing for SMEs. Banks become essential for SMEs as the primary funding source, considering the underdeveloped financing system in developing countries (Fosu et al., 2020; Karadag, 2017; Luo et al., 2018). In analyzing the impact of banking concentration as a determinant of firms' capital structure, there are two main theories: market power and information-based theory. According to the market power hypothesis, there is a higher probability of credit rationing for SMEs if the banking sector is concentrated and therefore has high market power (Andries et al., 2018). Banks with market power are more selective in their lending process and tend to lend to larger and

corporative firms (Nizaeva & Coskun, 2018). Increasing the competition among banks will result in more credit availability for SMEs (Andries et al., 2018). In other words, there is a positive relationship between a low concentration in the bank sector and credit supply for SMEs. In contrast to the market power theory, information-based theory indicates that the higher the banking market concentration, the higher the access to credit for enterprises (Lu et al., 2020). In this sense, Fosu et al. (2020) pointed out that having quality and quantity of potential borrowers' credit information can lead banks to boost lending.

According to Mol-Gómez-Vázquez et al., (2018) in credit markets with high levels of information asymmetry issues, banking concentration allows banks to mitigate those issues by sharing information on borrowers; having less information asymmetry allows banks to increase the credit availability for SMEs. Moreover, Hamadi and Awdeh (2020) pointed out that if the banking sector is concentrated, banks can collect information, monitor, and forge a long-term relationship with borrowers, which allow them to assign the credit resources effectively. Therefore, according to the information-based theory, higher bank concentration leads to an increased level of SMEs leverage (Lu et al., 2020). The reasoning behind the information-based hypothesis is the relationship between the firms and the bank (Lu et al., 2020). If banks collect more and better SMEs' information have more incentives to facilitate credit to SMEs to establish a long-term relationship (Hamadi & Awdeh, 2020).

There are studies whose results support market power theory and studies whose results support the information-based theory. In supporting market power theory, Andries

et al. (2018) found that higher bank concentration represents more credit rationing for European SMEs. Andries et al. also corroborated that SMEs face more financial constraints than large firms. Furthermore, Di Pietro et al. (2019) pointed out a relationship between the financial system and SMEs' capital structure, finding that more concentrated banking sectors lead to lower debt levels, while a more developed financial system increases the level of debt. In contrast, through a study conducted with 21 emerging countries, Abadi et al. (2016) found a positive and significant relationship between banking concentration and SMEs' level of debt, which supports information-based theory. Moreover, Chen and Vashishtha (2017) found that borrowers increase disclosure information after banks mergers to meet the informational demands in a changing environment to maintain and increase access to financing sources. The conflicting results about the relationship between banking concentration and firms' leverage may respond to a dynamic situation.

Carbó-Valverde et al., (2017) analyzed the effect of market power on the availability of credit for companies, and on firm investment. They found that, in the short-term, banking concentration affects credit availability and the firm's investment negatively, while in the long-term, the relationship turns positive. In regard to the importance that SMEs have as engines of the economy, enhancing the financial infrastructure to support SMEs' access to finance becomes essential for the development of the economy (Andries et al., 2018).

Education Level of SMEs' Owners and Managers

According to Karadag (2017), the education level of owners and managers of SMEs plays an essential role in the financial performance of the firms. As long as the education level of owners and managers increases, the general managerial capabilities increase, too, with the logical benefits that it represents for the SMEs' success (Karadag, 2017). Moreover, Chowdhury and Alam (2017) pointed out that owners' skills and education level affect the financial management of SMEs positively because of the capability to build up relationships with banks and to manage well the borrowed funds. Therefore, the education level of owners and managers do represent a factor affecting access to credit, financial performance, and SMEs' success.

Financial Literacy of Owners and Managers

Timely and adequate access to financial resources allows SMEs to grow and survive. According to Hussain et al. (2018), financial literacy (FL) is closely related to accessing financing; therefore, FL is one of the primary resources for the growth and survival of SMEs (Hussain et al., 2018). The importance of financial literacy relies on its capability to solving information asymmetry issues, balancing out insufficient collateral issues, and reducing monitoring costs (Hussain et al., 2018). Therefore, enhancing financial literacy allows SMEs to improve their chances of accessing financing and becoming successful.

Economic and Business Environment

Economic and business environment is essential to enhance SMEs sector. Having an appropriate economic environment would allow SMEs to grow and to improve their performance (Ur Rehman et al., 2019). Chandra et al. (2020) pointed out that SMEs in

developing countries face several challenges that they must overcome through governmental and institutional support. Lack of that support, weak legislative system, excessive bureaucratism, political instability, and unfair competition hinder SMEs from succeeding.

Legislative and bureaucratic systems that prevent SMEs from a timely solution to their financial and operative issues result in vulnerability for SMEs (Barkhatov et al., 2016). According to Barkhatov et al. (2016), as long as the legislative system in which SMEs operate is restrictive, the number of SMEs closing increases. In the same vein, Nizaeva and Coskun, (2018) pointed out country characteristics that affect the level of financing constraints of SMEs in Western Balkan countries. Some of the factors mentioned are custom and trade regulations, tax rates, tax administration, labor regulations, courts, licensing, and costs of registering property. Moreover, weak institutions, close linkages with stagnant economies, and macroeconomic conditions are factors hindering SMEs' growth, especially in developing countries (Drinkwater et al., 2018). In contrast, having an appropriate economic environment would allow SMEs to grow and to improve their performance (Ur Rehman et al., 2019).

Besides the legislative system, another barrier to SMEs is the bureaucratic system which is a long and complicated process in obtaining credit. The process takes a large number of days to resolve disputes in courts (Barkhatov et al., 2016; Nizaeva & Coskun, 2018). For instance, if an SME has to wait 3 years for credit approval, that impacts its ability to accomplish with its financial compromises. As a result, the SME might need to

close (Barkhatov et al., 2016). As has been noted, governments must provide policies that enhance SMEs' access to financing and thus enhance their chances of survival.

Corruption

One of the difficulties that SMEs find preventing their ability to compete and survive in markets is corruption. The impact of corruption on SMEs' performance is present in several aspects such as administrative barriers to market entry, complications of business activities, increasing costs, and declining profitability (Suleimenova et al., 2018). For instance, Chowdhury and Alam (2017) conducted a study to analyze the issues that affect credit access for SMEs of Bangladesh, and they found that corruption by bank officials is one of the most significant barriers affecting SMEs' credit access. Moreover, Galli et al. (2018) pointed out the positive relationship that exists between corruption and self-restraint attitudes of firms of 11 Euro-area countries preventing applying for loans, which prevent the having the financial support to operate and survive. Corruption does represent a problem to address between financial institutions and SMEs.

Wellalage et al. (2018) found that the level of corruption prevents banks' capability to support creditors' rights and promote SMEs' credit constraints. As well, SMEs deplete their profits because of the bribes they have to pay. For instance, most of the SMEs in South Asian economies used to pay bribes to get things done, around 68% of SMEs pay bribes, and corruption relates with an increase in the SMEs credit constraints. Corruption does reduce SMEs' credit access; therefore, policymakers must focus on legislation and policies to reducing the unethical behavior and allows SMEs to reduce

their credit constraints. According to Wellalage et al., anticorruption measures would enhance the SMEs performance to contribute to the economic growth.

Transition

The fact that SMEs are constrained from accessing proper and timely funding sources represents one of the main barriers to their growth and survival. The success or failure of SMEs affects the economy of the country in which they perform because of their contribution to the GDP, employment generation, the supply of goods and services, and poverty alleviation. The present study aims to understand strategies that leaders of some Mexican SMEs use to obtain appropriate financing for their sustainability and growth beyond 5 years of beginning operations.

Section 1 included the background of the problem, problem and purpose statement, nature of the study, research question and interview questions, conceptual framework, operational definitions, assumptions, limitations, and delimitations of the study, significance of the study, and finally, a review of the literature regarding SMEs, capital structure theories, pecking order theory, and financial constraints of SMEs. The background of the problem establishes that despite the importance that SMEs have for economies around the world, they face several constraints regarding access financing for their development, growth, and survival. In the problem statement, I addressed the general business problem, which is that some Mexican SMEs lack adequate management, funding sources, and financial planning to promote their sustainability and growth. As well as, in the problem statement, the specific business problem is established, which is that some Mexican SME leaders lack strategies to obtain appropriate financing for their

sustainability and growth during and beyond 5 years of beginning operations, are pointed out. The nature of the study section established the methodology and design of the research. The conceptual framework establishes the lens through which the business problem was analyzed, which was the pecking order theory. The last part of Section 1 is a review of the existing literature regarding capital structure theories, pecking order theory, SMEs and economic barriers, and other factors affecting SMEs' financial performance.

In Section 2, I address the research process is addressed, providing the steps to follow, which include the purpose statement, the role that as the researcher, I had in the study. Also, I address the eligibility criteria, strategies to gain access to the participants, and strategies to establish a relationship with participants. Following, I establish the research method and the research design that was a qualitative multiple case study and research design. Ethical research, data collection, data organization, data analysis, and reliability and validity are discussed in Section 2.

Finally, in Section 3, the presentation of the findings, the application to the professional practice and social change, the recommendations for actions and further research, and the conclusions will be addressed.

Section 2: The Project

Purpose Statement

The purpose of this qualitative multiple case study was to explore strategies that Mexican SME leaders use to obtain appropriate financing for their sustainability and growth during and beyond 5 years of beginning operations. The targeted population consisted of leaders of four SMEs in Mexico who have implemented successful strategies to obtain appropriate financing for their sustainability and growth during and beyond 5 years. The implication for positive social change includes providing other Mexican SME leaders strategies that may allow them to develop financial planning and to access appropriate financing to support their sustainability and growth, and in this way improved the welfare of their employees, and communities.

Role of the Researcher

Through the qualitative method, the researcher can obtain a more in-depth insight into a business problem by using a more subjective approach in the research (Levitt et al., 2018). The case study is a strategy that involves in-depth research on a topic or phenomenon within its real-life context, in which the researcher is the primary data collection instrument (Birt et al., 2016; Marshall & Rossman, 2016; Yin, 2018). Hence, for this study, I was the primary data collection instrument and I tried to ensure avoiding bias and introducing personal worldview into the interpretation of the results.

The role of the researcher involves getting access to the participants (Marshall & Rossman, 2016; Yin, 2018). In that phase, I followed a strategy not

only to gain access but also to make the participants comfortable during the process. In obtaining access to the participants, it was essential to inform them and the organization the purpose of the research, the boundaries of their participation, and the time that they would need to devote to their participation. Also, it was necessary to establish credibility as the researcher by developing relationships, demonstrating knowledge of the topic, and using suitable language (see Saunders et al., 2019).

In conducting the research for this study, avoiding bias was essential to ensure the quality of the research. Biases can misrepresent the real experience of participants in the phenomenon under research (Wadams & Park, 2018). Therefore, my role as the researcher included being careful in every step of the process to avoid bias and personal interpretations. According to Morse (2015), there are three types of researcher bias in qualitative research. The first one is the bias of the questions, which can occur in the research design if the researcher tries to do a comparative sample with nonequivalent samples or experiences. The second one is the sample bias because, in qualitative research, the researcher uses small samples instead of large and random samples. As the researcher, I was careful about choosing a sample with the purest examples of the behavior or phenomenon to investigate. Finally, the third bias is the tendency of the researcher to see what he or she anticipated (Morse, 2015). If the researcher expects some result, it is easy to emphasize the data that fits with those results. Therefore, my role as the researcher was to use strategies to mitigate the possible

bias in conducting the research. Some of those strategies were bracketing, working inductively and investigator responsiveness, and critical reflexivity.

Bracketing implies that the researcher tries to put aside previous knowledge, personal beliefs, values, and previous experiences related to the phenomenon under study in such way that they do not influence the results, which helps to achieve rigor in the research (Wadams & Park, 2018). I have previous knowledge of the topic under research because I was employed in the financial system for many years. However, I did not include any participant with whom I have been personally involved or employed. Also, following Moguel et al. (2019), I worked inductively, which means questioning the data analytically, challenging assumptions, and analyzing findings in a new way. Working inductively involves the researcher's responsiveness. Finally, the critical reflexivity allows the researcher to identify the values, beliefs, and assumptions regarding the study to understand how those forces can influence the results of the research (Wadams & Park, 2018). I reflected critically during the research process.

The research should be conducted under ethical principles that protect the rights of human subjects. Therefore, I adhered to the principles and guidelines established in *The Belmont Report*. The basic ethical principles established in *The Belmont Report* are respect for persons, beneficence, and justice (National Commission for the Protection of Human Subjects of Biomedical and Behavioral Research, 1979). Respect for persons involves recognizing the autonomy of

persons and to protect those whom for some reason, have diminished autonomy.

To apply the principle of respect for persons, I ensured that participants gave

informed consent, that they clearly understood the implications of their

participation, and that they participated voluntarily as established in *The Belmont*

Report (National Commission for the Protection of Human Subjects of

Biomedical and Behavioral Research, 1979).

The second principle is the beneficence, which consists in do not harm

participants and maximize possible benefits while minimizing possible damages

(National Commission for the Protection of Human Subjects of Biomedical and

Behavioral Research, 1979). In adhering to the beneficence principle, the

researcher must assess if the benefits of the research are more significant than the

risks. Finally, the third principle is justice, which relates to the distribution of

benefits and burdens during the research process. Justice involves that the

researcher exhibit fairness in the selection of the subjects to participate,

protecting vulnerable subjects (National Commission for the Protection of

Human Subjects of Biomedical and Behavioral Research, 1979).

To collect data, I conducted semistructured interviews through

videoconference following an interview protocol (Appendix A). Saunders et al.

(2019) pointed out some aspects to be considered in conducting semistructured

interviews. Those aspects are the appearance of the researcher, opening the

interview, the appropriateness of questions, demonstrating attentive listening

skills, scope to test understanding, dealing with difficult participants, recording

data, and finally, closing the interview (Saunders et al., 2019). Following Turner (2010), using an interview protocol allowed me to conduct in-depth, qualitative interviews effectively following a standardized system and avoiding bias by asking all the participants the same questions worded to obtain thick and rich data. According to Turner, the interview protocol must include the preparation of the interview, the configuration of the appropriate questions to answer the research question, and the implementation of the interview.

Moreover, Castillo-Montoya (2016) emphasized the importance of the alignment between the interview questions and the research question; the more aligned the research questions and interview question are, the more useful the gathered information is. Also, interview questions must be accessible and understandable to promote conversation (Castillo-Montoya, 2016). To analyze the data, I established a coding system to identify themes arising from the data gathered until no further coding is possible. Through a coding system, I could enhance the validity and certainty of the findings.

Finally, the role of the researcher includes obtaining all the needed institutional approval to protect human subjects (Yin, 2018). I followed all the policies and procedures established by the Institutional Review Board (IRB) of Walden University. Therefore, I did not establish any contact with participants before the IRB approved my proposal.

Participants

The participant's selection was based on those who met the requirements to answer the research question. Therefore, the eligibility criteria included (a) participants whose businesses have been in the market for more than 5 years, (b) participants who have been successful in obtaining financing for their enterprises, (c) participants established in Mexico, and (d) participants over 18 years and familiar with the research topic. The participants for this study were leaders of four SMEs in Mexico, who have implemented successful strategies to obtain appropriate financing for their sustainability and growth during and beyond 5 years of beginning operations.

I looked for potential participants in the business associations in México, such as the business coordinating council (CCE, by its acronym in Spanish), Puebla Businessmen Club (CEPAC, by its acronym in Spanish), Puebla Chamber of Commerce, Service, and Tourism. Once, I had identified a group of at least nine candidates to participate; I established the first contact through e-mail or social media. In that first opportunity, a brief interview by video conferencing or telephone was the instrument to identify if the potential participant meets the criteria eligibility focusing on the research question. Initial contact with potential participants allows me evaluating not only the appropriateness of their participation but also their willingness to participate in the research. I asked for participants' consent who met the eligibility criteria by sending the informed consent form, to get the four participants.

According to Saunders et al. (2019), gaining access to participants involves strategies such as (a) being familiar with the organization, (b) taking advantage of

existing contacts and developing new ones, (c) providing enough and precise information

regarding the purpose and the benefits of the research, (d) using suitable language, (e)

clarifying any concern of the organization about granting access, and (f) establishing

credibility. I took advantage of my existing contacts to establish the first contact with

possible participants. Once I made the first approach, I let them know precise information

regarding the research, emphasizing the benefits of the research using suitable language.

After selecting the participants from those who responded and met the criteria, I

sent them a formal letter asking for their informed consent to participate in the research.

Obtaining informed consent was the first step to build a trustworthy relationship.

Establishing a positive relationship with participants is paramount to the research process.

According to Malterud et al. (2016), if there is clear and robust communication between

the researcher and participants, the researcher obtains more information power than if the

communications are ambiguous. In conducting personal interviews, the researcher can

communicate and build rapport with participants (Irani, 2019). Establishing rapport

between the researcher and participants is essential to obtain open and honest

participation, and therefore, reliable information (Malterud et al., 2016). To establish that

rapport, I informed the participants of the study's objective, the possible benefits and

losses, the required time for their participation, their right to maintain their privacy, and

their right to withdraw and any time.

Research Method and Design

The objective of this study was to explore strategies that SMEs' leaders use to

obtain appropriate financing for their sustainability and growth during and beyond 5

years of beginning operations. In this section, I explain the reason behind choosing a

qualitative method and a multiple case study design to conduct this study. The researcher

chooses the method and design that better fit to find the answer to the research question. I

selected the qualitative method that allows the researcher to obtain an in-depth

understanding of the phenomenon within its real context, as pointed out by Saunders et

al. (2019).

Research Method

I chose the qualitative method to conduct the present study because it is the most

appropriate to understand the phenomenon under study within its real context. The

qualitative method allows the researcher to get the experiences and emotions of

individuals participating in the phenomenon, and in this way, to understand the whole

problem in a more subjective approach (Saunders et al., 2019). Also, through qualitative

methods, the researcher allows participants to share their living experiences, encouraging

them to be meaningfully involved in the research.

There are three methods to conduct a research study: quantitative, qualitative, and

mixed (Saunders et al., 2019). The quantitative method allows to analyze data using

statistics or to test the relationship between variables (Goertzen, 2017). Because of the

aim of this study was not testing hypotheses, measuring data, analyzing causal

relationships between variables, or making numerical predictions and generalizations, the

quantitative method was not used.

The mixed-method allows the researcher to combine quantitative and qualitative

techniques, which allows to obtain deeper and richer answers to the research question

(Şahin & Öztürk, 2019). The mixed-method was not suitable for this study because the focus was to explore the strategies that SMEs' leaders use to obtain appropriate financing for their business' stability and growth, and I did not analyze numerical data or test hypothesis.

Research Design

Several research designs are used to conduct a qualitative study; some of them are case study, ethnography, grounded theory, narrative research, and action research (Saunders et al., 2019). Case study design allows in-depth research of a phenomenon into real-life within its environmental context (Ridder, 2017; Yin, 2018). Moreover, according to Ridder (2017), case study design allows obtaining a better understanding of the *how* and *why* of things happening. I intended to explore the strategies that Mexican SMEs' leaders use to obtain appropriate financing for their sustainability and growth, and I consider that context matters. Therefore, the case study design was suitable to answer the research question for this study. Through the case study, the researcher uses the interpretive power to develop a deep understanding of personal experiences and the social meaning of the participants (Ji et al., 2019).

Other research designs did not fit with the purpose of this study. For instance, through ethnography design, the researcher aims to understand phenomena by observing and understanding a phenomenon in a real-life context, but considering the shared culture, practices, and beliefs of people (Marshall & Rossman, 2016; Rashid et al., 2019). I did not intend to study a phenomenon within a cultural or social framework; therefore, I did not use an ethnography design. In grounded theory, the investigator as the primary

data collection instrument and through an inductive approach derives in theory grounded from the data analysis (Merriam & Tisdell, 2016). I did not use the grounded theory because I did not intend to develop a conceptual framework through a reflexive approach to explain or predict a phenomenon.

Another design for qualitative research is narrative research, which focuses on the examination of human experiences through their life story (Ford, 2020). Through narrative inquiry, the researcher uses the stories as data; the story is essential to understand the meaning of the human experience (Marshall & Rossman, 2016; Merriam & Tisdell, 2016). I did not use narrative research because I was not looking for human experience. Finally, action research did not fit with this study because I did not intend to be a participant in this study. Action research merges praxis and inquiry because the researcher, besides to analyze a phenomenon, implements some actions to evaluate the findings after those actions (Helfaya, 2019).

I used a multiple case study to analyze data regarding the strategies that some leaders of Mexican SMEs have implemented to obtain appropriate financing for their sustainability and growth beyond 5 years. I chose a multiple case study design and not a single case study to have the opportunity to compare the results across different cases and to increase the validity of the study. In ensuring data saturation, I conducted semistructured interviews with open-ended questions to the targeted population until the point in which no new information arose, and no further coding could be done to reach data saturation. Also, following Maher et al. (2018), I used member checking,

documentation analysis, and secondary evidence to enhance credibility, dependability, confirmability, and transferability.

A key point in qualitative research is data saturation. In pursuing validity and reliability, reaching data saturation is essential. The researcher must collect data until the point in which there is no new information to answer the research question, and further coding is not possible (Lowe et al., 2018; Morse, 2015). To ensure data saturation, I focused on obtaining rich and thick data. According to Johnson et al. (2020), by collecting high quality and enough data, the researcher reaches data saturation. Therefore, in conducting this multiple case study, I conducted semistructured interviews with open-ended questions, asking the participant to be exhaustive in their responses. To ensure data saturation, I applied member checking and conducted additional interviews and coded the information carefully to recognize if no new themes arose. Member checking is a technique used for enhancing the credibility of results, which consists in returning the interpretation of the interviews to the participants to check the accuracy of the results (Birt et al., 2016).

Population and Sampling

The target population for this study consisted of leaders of four SMEs in Mexico who have implemented successful strategies to obtain appropriate financing for their sustainability and growth during and beyond 5 years. Because the scope of this study included only leaders, purposive sampling was the technique using in this study. In purposive sampling, the researcher deliberately chooses the participants with the required qualities (Etikan et al., 2016). Purposive sampling is commonly used in qualitative

research to identify and select those cases that provide enough information related to the phenomenon under research (Collingridge & Gantt, 2019).

I considered only one leader for each SME. In qualitative research studies, there is no determined standard in sample size (Marshall & Rossman, 2016; Yin, 2018). The certainty that the researcher wants to have, the nature of the theory, and the strength of rival explanations are factors to consider in determining the sample size (Yin, 2018). I considered that four cases were enough for this study because that sample size allowed me to explore and understand the strategies that SMEs' leaders in México use to obtain appropriate financing for the growth and sustainability of their companies. Moreover, Marshall and Rossman (2016) pointed out that the researcher should plan the sample selection considering practical issues such as comfort level of the researcher, access to subgroups or activities, and the time and costs to complete the research.

In qualitative inquiry, researchers use nonprobabilistic sampling methods such as convenience sampling, quota sampling, census sampling, snowball and purposeful sampling. According to Etikan et al. (2016), purposeful sampling in the case study is the selection of specific cases from which the researcher will collect data to answer the research question. Researchers use purposeful sampling to choose those cases that are suitable for the study and an adequate representation of the target population (Etikan et al., 2016). Moreover, purposeful sampling implies selecting rich cases to reach in-depth data understanding of the phenomenon under study, and to accomplish with the purpose of the research (Morse, 2015).

In achieving rigor in qualitative research, a critical issue is to ensure data saturation, which is achieved when there is enough information to replicate the study, no new information arises, and further coding is not possible (Lowe et al., 2018; Morse, 2015). Malterud et al. (2016) proposed the information power concept to achieve data saturation and determine sample size, which consists in that the more information the samples possess, the lower the number of needed participants. Considering that the purposeful sampling allows the researcher to identify and select individuals who have knowledge and experience regarding the phenomenon under study (Morse, 2015), a purposive sample was the most appropriate sampling strategy to get power information and achieve data saturation for this study.

Data saturation in qualitative research is not about the number of participants, but it is about enough and quality information. According to Yin (2018), no sample size can be considered appropriate for qualitative research. Instead, the sample size is determined by the purpose of the study, the use of established theory, the sample specificity, and the analysis strategy (Malterud et al., 2016). Rigor can be reached through the trustworthiness of the process (Maher et al., 2018). In getting a deep understanding of the phenomenon and data saturation, the researcher must explore and analyze data from different perspectives (Maher et al., 2018).

In obtaining quality information the researcher must consider the interview setting. According to Dawson et al. (2017), the interview setting affects the willingness of the interviewees to provide rich and thick information. Therefore, I was careful in selecting the appropriate way to conduct interviews, I ensured that participants felt

comfortable in a private and secure setting. I conducted virtual interviews; I used a

private conference room through Zoom, Teams, or Skype allowing the participants to

choose among the three platforms. Letting them choose the settings of the interview

increased their willingness to share information.

<div align="center">**Ethical Research**</div>

In conducting research involving human beings, ethics becomes essential.

Researchers must ensure to proceed within a context of morality and good practices,

avoiding any harm during the study (Ngozwana, 2018). The main ethical principles to

conduct research involving human beings are established in *The Belmont Report*, which

are respect for persons, beneficence, and justice (National Commission for the Protection

of Human Subjects of Biomedical and Behavioral Research, 1979). *The Belmont Report*

also includes requirements such as informed consent, disclosure, competency,

voluntariness, and selection of subjects (National Commission for the Protection of

Human Subjects of Biomedical and Behavioral Research, 1979). Likewise, Ngozwana

(2018) pointed out that the main aspects to consider in ethical research are the informed

consent, the right to withdrawal from the study, the confidentiality, and the anonymity.

Participants must make voluntary and informed choices about their participation

in the study because consent is the primary mean to protect human subjects in research

(Carey & Griffiths, 2017; Sugarman, 2017). According to Kraft et al. (2017), the

researcher must not only disclose enough information regarding the research to potential

participants but also provide the reasons to participate or not. Therefore, I requested each

potential participant to fill out and submit the informed consent form after having a

verbal dialogue with them explaining the objective of the study, the process, the

importance of their participation, and the possible benefits that the study will provide to

the society. Also, I informed the participants that they could withdraw from the study at

any moment just by sending an e-mail or submitting a hand-written note, and no further

explanation was necessary. None of the participants withdrew. I used suitable language to

ensure that they understood the purpose of the study and the potential risks and benefits

that their participation involved.

In the informed consent form, I established that the potential participants would

not receive any award or financial compensation for their participation, except for a copy

of the study and a thank you card. I ensured that potential participants understood the

implications of the study for positive social change by providing strategies to SME

leaders in Mexico that may allow them to develop financial planning and to access

appropriate financing to support their sustainability and growth. Enhancing the sector of

SMEs, leaders may improve the welfare of their employees and communities.

Informed consent is an essential process in research involving human subjects to

ensure compliance with ethical issues and protection of participants (Xu et al., 2020). The

informed consent allows the researcher not only to probe the willingness of participants

to collaborate in the study, but also to accomplish with legal regulations of Office of

Human Research Protection (Sugarman, 2017) and Walden IRB requirements. According

to Yin (2018), the researcher is responsible for obtaining all the needed institutional

approval to protect human subjects; therefore, I did not establish any contact with

potential participants until I received the Walden University IRB approval for the

proposal. Walden University's approval number for this study is 12-16-20-0755778 and it expires on December 15, 2021.

According to Carey and Griffiths (2017), the researcher must treat participants with respect and care to comply with ethical requirements. Therefore, I allowed participants enough time to read and understand the informed consent form until they clearly understand their role in the study, the time that will be required, the possible risks and benefits, and the implications for social change. Once they decided to participate, I asked them to send back the document.

In complying with ethical standards, the researcher must ensure to keep participants identities confidential (Gupta, 2017; Marshall & Rossman, 2016). I used alphanumeric codes such as P1, P2 and SME1, SME2 in referring to participants and companies to protect their identity and privacy. Also, I kept the gathered information for this study in a separate and password secured folder accessible only by me for 5 years as required by Walden University. After 5 years all the data, either written or electronic, will be destroyed.

Data Collection Instruments

In regards of qualitative research, several authors agree in considering the researcher as the primary data collection instrument (see Birt et al., 2016; Castillo-Montoya, 2016; Clark & Vealé, 2018; Marshall & Rossman, 2016; Yin, 2018). Hence for this study, I was the primary data collection instrument. According to Castillo-Montoya (2016), the researcher is the most useful instrument in qualitative research because through carefully listening, the researcher can adjust the path to gain a deep

understanding of the phenomenon under research. Moreover, Marshall and Rossman (2016) indicated that interviews, in combination with the observation, allow the researcher to get the meanings of participants regarding the phenomenon under inquiry.

According to Yin (2018), to enhance validity and reliability is necessary to have multiple sources of evidence. Therefore, I used three sources of data; the primary source of data was the interview and the secondary sources were organizational documents and social media pages. Through the company's documents, I corroborated data obtained in the interviews. According to Marshall and Rossman (2016), analyzing documents, the researcher can enhance the understanding of the insights of the participants of the study.

I conducted semistructured interviews with the selected participants. I followed a semistructured format with open-ended questions to promote conversation to obtain complete and rich data. Marshall and Rossman (2016) pointed out that through interviews, the researcher gathers data quickly, while clarification and follow up are possible. In conducting interviews, it is essential to follow a protocol to strengthen the reliability and quality of the obtained data (Castillo-Montoya, 2016). I interviewed participants following a protocol (Appendix A) that guided me during the interview process. The interview protocol (Appendix A) included an interview introduction script, a participant's introduction, the interview questions, and a wrap-up script.

During the data collection process, a way to enhance validity in case study research is to use multiple sources of evidence and to establish a chain that allows the reader to go from the research question to the case study findings with clarity through the procedures and resulting evidence (Yin, 2018). Therefore, I referred to the specific data

extracted from the study to present the findings, including the data collection techniques and data analysis techniques. Using a multiple case study allows the researcher to have the opportunity to compare the results across different cases, enhancing the reliability of the results (Yin, 2018). Hence, I conducted a multiple case study because it allows enhancing the reliability of this study's findings.

Triangulation refers to the use of multiple data sources, representing the possibility to look at the same business problem through more than one source of data (Abdalla et al., 2018; Yin, 2018). Having information from different sources allows the researcher to confirm, contrast, or develop the findings, at that same time it limits personal and methodological biases, leading to a more objective picture of the phenomenon under inquiry (Abdalla et al., 2018). I used semistructured interviews and company documents as sources of data to follow a methodological triangulation. Finally, to ensure the credibility of the findings, I used member checking. Member checking is the process through which the researcher asks participants to check the accuracy of the researcher's interpretation of the interviews by reviewing their transcription, and adding information, if necessary, until no new themes arise (Birt et al., 2016). After conducting the interview, I transcribed and interpreted the data. I shared the interpretations of the transcriptions with the interviewees, and I scheduled a member checking interview to ask them if the interpretation represented what they meant. Also, I asked for clarifications or additional information until no new data emerged. Through member checking interviews, I reached data saturation and enhanced the rigor of the study.

Data Collection Technique

This qualitative multiple case study aimed to explore financing strategies that leaders of small and medium enterprises (SMEs) in Mexico use to obtain appropriate financing to promote the growth and survival of their enterprises. I used semistructured interviews through videoconference as the primary data collection technique, and I complemented data sources through companies' documents to ensure reliability through methodological triangulation.

The interview is one of the most common data collection techniques in qualitative case studies according to several researchers (Bush & Amechi, 2019; Iyamu, 2018; Marshall & Rossman, 2016; Yin, 2018). Iyamu (2018) pointed out that a semistructured interview represents some challenges for the researchers, but it is still the most used technique because of the quantity of information it provides. Moreover, using interviews as a data collection technique allows the researcher clarification and follow up questions to explain complexities of the gathered data immediately (Marshall et al., 2018; Marshall & Rossman, 2016). I conducted virtual semistructured interviews as the primary data collection technique.

The interview allows the researcher to discover participants' experiences, understandings, and insights into a specific topic (McGrath et al., 2019). As a data collection technique, the interview has advantages and disadvantages. Within the advantages, Marshall et al. (2018) pointed out the flexibility of interviews that allows extended interaction between the interviewer and interviewees, which reduces the risk of bias. Moreover, Iyamu (2018) posited that the flexibility of interviews ensures the

relevance of data through a deeper understanding of participants' insights. The

opportunity for the researcher to probe responses and make sense of body language is

another advantage of interviews. Also, interviews allow building rapport between the

researcher and the participant facilitating the freedom to share information (Iyamu,

2018). Nevertheless, interviews as a data collection technique have challenges to address,

too. According to Yin (2018), bias due to wrong articulated questions, the bias in

responses, inaccuracies in the responses and interviewees answering what they think the

interviewer wants to hear are some of the weaknesses of interviews. Moreover, Iyamu

pointed out that the understanding of wording between interviewer and interviewee

represents a challenge to overcome in conducting interviews.

In conducting semistructured interviews through videoconference, I followed an

interview protocol (Appendix A). Following a protocol is essential to enhance the

reliability and quality of the research (Castillo-Montoya, 2016). An interview protocol

provides the researcher a guide ensuring the alignment of the interview questions with the

research question, to establish a guided and flexible conversation regarding a consistent

line of inquiry, and to gather rich and meaningful data (Castillo-Montoya, 2016; Yin,

2018). Following the interview protocol (Appendix A) allowed me to leverage the

advantages of the interview and mitigate the disadvantages. I used a recording device

during the interviews, after asking the participant approval, to gather the data accurately

instead of taking notes which can result in inaccurate data. The interview protocol

(Appendix A) that I followed comprises an interview introduction script, a participant's

introduction, the interview questions, and a wrap-up script. The interview introduction

script allowed me to establish the objective of the study, the process of the interview, the rights of the interviewee, the member checking process, and creating a trustable atmosphere. Following, I asked the participant to share with me some information regarding their background to establish the appropriateness of their participation. The next part was the interview questions, and finally, a wrap-up script to thank them for the participation, and to agree on the member checking process.

I used the company's documents, such as financial statements, loans agreements, policies, and procedures as secondary sources of data. According to Marshall and Rossman (2016), through reviewing documents, the researcher complements the data provided by participants of the study. Documents as a source of evidence allow the researcher to review them as much as needed, to obtain and objective data that can cover long periods (Yin, 2018). In contrast, documents can be challenging to access and find, incomplete, and inaccurate (Marshall & Rossman, 2016; Yin, 2018).

Member checking is an essential process to enhance the creditability of the findings of the inquiry. According to Birt et al. (2016), member checking allows participants to check the accuracy of the interview interpretation of the researcher. To ensure the credibility of the findings, I used member checking. Member checking is the process through which the researcher asks participants to check the accuracy of the researcher's interpretation of the interviews by reviewing their transcription (Birt et al., 2016; Iivari, 2018; Smith & McGannon, 2018). According to Iivari, (2018), member checking allows reducing bias in interview interpretations. Accordingly, I asked

participants to review the transcriptions and interview interpretations to obtain their agreement or clarification, as appropriate, until no new information emerged.

Data Organization Technique

A general strategy for analyzing the data is essential to conduct a case study (Yin, 2018). Data organization is the first step to analyzing the data after collecting it. Marshall and Rossman (2016) pointed out that having the habit of labelling audiotapes, carrying a backup recorder, and taking notes after collecting data allows the researcher to obtain accessible, complete, and organized data. Therefore, after conducting the interviews, transcribing, making notes, and gathering documents, I stored all the collected data in separated, labelled, and password secured files to facilitate the analysis process. Considering that transcripts of interviews constitute the primary data source, I ensured that transcripts are accurate. According to Moser and Korstjens (2018), in transcribing the interviews, essential aspects are the focus on the words of participants, transcribing the whole interview, and carefully reviewing the transcription versus the audio record. Also, Moser and Korstjens recommended making notes on the non-verbal actions such as pausing, emphasizing, tone of voice, coughing to consider the totality of the interview experience and make sense of the qualitative data gathered. Protecting the accuracy and veracity of collected data while conducting research is vital for the credibility of the findings (Renner et al., 2018).

I used NVivo software to organize and analyze the collected data. Using NVivo allows the researcher to manage the information in a single location, as well as, adding, modifying, connecting, crossing reference data, and recording ideas not to lose any

insight (Houghton et al., 2017). Also, the software is useful to index and classify data by persons or organizations, and to code the data. (Houghton et al., 2017). All data and information, either hard copies or electronic files, will be securely stored in labelled and password protected files for 5 years. After that time, all data will be destroyed.

Data Analysis

After collecting data from semistructured interviews with open-ended questions, organization's documents, member checking, and notes, I proceeded to data analysis. I used methodological triangulation to reduce personal biases and to enhance the possibility of reproducing the findings. Triangulation represents the opportunity to look at a research topic through the analysis of more than one source of data (Abdalla et al., 2018; Marshall & Rossman, 2016). Similarly, Fusch et al. (2018) pointed out that triangulation is the way to explore different levels and perspectives of the same phenomenon.

Getting data from more than one source allows the researcher to confirm, develop, or deny the research question, which helps to reduce researcher's biases and enhance credibility (Abdalla et al., 2018). Moreover, Fusch et al. (2018) pointed out that methodological triangulation strengthens the validity of the research by adding depth to the collected data. Methodological triangulation constitutes the most applied procedures to enhance credibility, and it involves the use of multiple methods to collect data about the phenomenon under study (Abdalla et al., 2018). Therefore, I used methodological triangulation through interviews, companies' financial reports analysis, and notes to

understand the real experience of the phenomenon under study. Through triangulation, I could identify convergence, inconsistency, or divergence of the obtained data.

I relied on the theoretical propositions of this study to identify themes and codes and to organize the analysis. According to Yin (2018), relying on theoretical propositions is one of the four general strategies to analyze data in qualitative research. Relying on theoretical propositions consists of taking the theoretical orientation to guide the case study analysis (Yin, 2018). Moreover, Marshall and Rossman (2016) pointed out that the researcher must use the research question and the conceptual framework as a guide for data analysis. The data analysis started by searching for patterns or concepts that align with the conceptual framework, taking notes that helped to identify themes and further codes. I established a coding system to identify themes arising from the collected data until no additional coding is possible. According to Morse (2015), a coding system allows the researcher to strengthen the validity and certainty of the findings.

Marshall and Rossman (2016) considered seven phases of analytic procedures, which are: (a) organizing data, (b) immersion in the data, (c) developing case summaries and possible themes, (d) coding the data, (e) bringing interpretations, (f) searching for alternative explanations, and (g) writing the report. The analytic procedure to analyze the data developed by Marshall and Rossman was used for this study. After conducting the interviews, I transcribed the interviews and organized the obtained data by topics, identifying key themes

related to the capital structure preferences of SMEs. I codified data according to key themes and considered all the evidence, investigated possible rival explanations, addressed the most significant explanations of the case study, and demonstrated knowledge of the prevailing thinking and literature about the research topic in analyzing the data as recommended by Yin (2018). Moreover, Marshall and Rossman emphasized that the researcher must demonstrate knowledge and ability to apply the terms related to the research question. I made sure to provide an in-depth and careful analysis of the data collected to answer the research question.

I used NVivo data analysis software as a tool for the data analysis process. According to Houghton et al., (2017), using software does not replace the researcher in essential tasks such as generating the codes and associations. Still, it can speed up the process, enhances rigor, and provides flexibility in analyzing data from different perspectives. I used NVivo to assign codes and categorize the data, identify themes, organize and store the material, do cross-referencing, and create memos to analyze the data and arrive at the conclusions.

Reliability and Validity

Establishing rigor in the research process is essential to achieve trustworthy findings. According to Da Silva Santos et al. (2020), in demonstrating the legitimacy of the research, rigor plays a paramount role. Reliability and validity are key in establishing the quality of the research. Reliability relates to replication and consistency, while validity refers to the use of appropriate data and measures, a well-done analysis, and the

possibility to generalize the findings (Saunders et al., 2019). To the extent that a research design can be replicated achieving the same findings is considered as reliable (Saunders et al., 2019).

Nevertheless, qualitative research is about reflecting the socially constructed reality of the participants; therefore, it cannot be replicated, and findings cannot be generalized. However, in qualitative research, rigor can be demonstrated by integrity and competence by conducting the research in a planned and trustable way following methodological procedures that allow ensure transparency (Da Silva Santos et al., 2020). Lincoln and Guba (1985) pointed out criteria such as credibility, dependability, transferability, and confirmability to establish the quality in the naturalistic inquiry.

Lincoln and Guba (1985) introduced the concept of trustworthiness in demonstrating the rigor of qualitative research allowing qualitative researchers to explore new ways to demonstrate reliability and validity. Lincoln and Guba developed parallel versions of reliability and validity in assessing the quality of qualitative inquiry. In this way, dependability competes to the reliability, credibility to internal validity, and transferability with external validity (Marshall & Rossman, 2016; Saunders et al., 2019). Also, confirmability is considered as a criterion to assess the quality of research (Lincoln & Guba, 1985).

Reliability

Dependability was addressed to establish the reliability of this study. Lincoln and Guba (1985) pointed out that the trustworthiness of qualitative methods depends on the clarity and transparency of the researcher's decisions. In this way, another researcher

should be able to arrive at comparable findings. Dependability means outlining all the

decisions and changes made during the research process, considering the flexible nature

of qualitative research to produce a reliable account of the research that can be evaluated

and understood (Houghton et al., 2013). In other words, dependability is about describing

the process of the research detailed to allow other researchers to repeat it (Maher et al.,

2018). In demonstrating dependability, the researchers must document data, methods,

decisions, and the final research, keeping a reflexive account of the research process

(Tobin & Begley, 2004).

According to Castillo-Montoya (2016), following an interview protocol

strengthens the reliability and quality of the obtained data. Moreover, Turner (2010)

pointed out that an interview protocol allows the researcher following a standardized

system and avoiding bias. In achieving dependability, I observed an interview protocol

(Appendix A) to follow a standardized system to interview participants, avoiding bias,

and looking for thick and rich data.

Also, I applied the member checking process to enhance the dependability of the

study. Member checking is the process through which the researcher will ask the

participants to verify the accuracy of the interpretation of the collected data (Marshall &

Rossman, 2016). Returning the interpretation of an interview or analyzed data to a

participant to validate, refuse, or complement is what represents member checking (Birt

et al., 2016). I transcribed the interviews; I interpreted the data and shared the

interpretations of the transcriptions with the participants during the member checking

interview to ask them whether the interpretation represented what they mean, or

clarification or additional information were needed until no new data arose. Finally,

Houghton et al., (2013) pointed out that using the software NVivo can enhance the

dependability and confirmability of the findings by running queries. I used NVivo to

analyze data and to enhance the dependability of the findings.

Validity

According to Saunders et al. (2019), validity is about the use of appropriate data

and measures, a well-done analysis, and the possibility to generalize the findings.

However, qualitative research is about reflecting the socially constructed reality of the

participants; therefore, it cannot be replicated, and findings cannot be generalized.

Therefore, in addressing the validity of the present study, I used the alternative criteria

developed by Lincoln and Guba (1985), which are credibility, transferability, and

confirmability.

Credibility

According to Lincoln and Guba (1985), credibility relates to the value and

veracity of the findings. Houghton et al. (2013) pointed out that credibility involves

conducting the research process demonstrating credibility through methodological

strategies such as triangulation, member checking, prolonged engagement, and peer

debriefing. In addressing credibility, the researcher must ensure that the representation of

the participants' socially constructed reality related to the research problem is accurately

reflected by the findings of the study (Maher et al., 2018; Saunders et al., 2019). I used

methodological triangulation, member checking, and data saturation in addressing the

credibility of this research.

Methodological triangulation means using different data collection methods to analyze the same problem (Abdalla et al., 2018; Yin, 2018). Abdalla et al. (2018) pointed out that obtaining data from different sources allows the researcher not only to confirm, contrast, or develop the findings, but also to limit personal and methodological biases, leading to objective and credible findings. According to Houghton et al. (2013), for methodological triangulation, the researcher must account at least two data collection methods in a multiple case study design. I used semistructured interviews and company financial reports as sources of data to follow a methodological triangulation.

Member checking reduces the potential researcher's bias by allowing participants being involved in checking and validating the findings (Birt et al., 2016). Following Birt et al. (2016), I conducted member checking interviews to ask participants to check the accuracy of the interpretation of the interviews by reviewing their transcription, and to ask information if necessary, until no new themes arise. Through member checking interviews, I reached data saturation and enhanced the rigor of the study.

The researcher must collect data until the point in which there is no new information to answer the research question, and further coding is not possible to reach data saturation (Lowe et al., 2018; Morse, 2015). In ensuring data saturation, I conducted semistructured interviews with open-ended questions to promote and open dialogue to get thick and rich data, until the point in which no new information arises, and no further coding can be done. I used an interview protocol (Appendix A) to ensure consistency in the data collection process, enhancing the rigor of the research.

Transferability

According to Saunders et al., 2019, transferability is the analogous criterion to external validity and relates to the possibility to transfer the study to another setting. Moreover, transferability relates to the ability to transfer the findings to other contexts by providing a full description of the research question, design, context, findings and interpretation of the particular research to bring the opportunity to the reader to evaluate if it is transferable or not (Maher et al., 2018; Saunders et al., 2019). The transferability of the findings must be judged by the reader and future researchers (Marshall & Rossman, 2016).

According to Lincoln and Guba (1985), the researcher must provide a detailed description of the research process and participants' experiences to allow future researchers to determine the transferability of the study. Therefore, knowing all the aspects of the research process will allow the readers evaluating the possibility to transfer this study to other context and participants looking for similar findings. In addressing transferability, I described the research process including the research question, the research design, the target population, the context of the research, the data collection techniques, the data analysis techniques, the interview questions, the informed consent (Appendix C), and the interview protocol (Appendix A). Also, I adhered to the research process to the described techniques and protocols, used a purposive sample, and pursued data saturation to allow readers and future researchers to determine if the findings are transferable. In this way, the readers and future researchers will be able to judge the transferability of this study.

Confirmability

Lincoln and Guba (1985) pointed out that confirmability is related to objectivity. Moreover, Tobin and Begley (2004) pointed out that confirmability means that data are accurate and neutral. Confirmability demonstrates that the findings of the study can make sense to someone else by the transparency of the process (Marshall & Rossman, 2016). Confirmability is closely associated with dependability; therefore, the same methodological strategies such as methodological triangulation, interview protocol, data saturation, and member checking can be used to demonstrate confirmability.

In achieving confirmability, I conducted semistructured interviews following an interview protocol (Appendix A). According to Castillo-Montoya (2016), following an interview protocol strengthens the quality of the obtained data (Castillo-Montoya, 2016), by avoiding bias following a standardized system (Turner, 2010). Likewise, I used methodological triangulation to reduce personal biases. Triangulation is the way to explore a phenomenon in different levels and perspectives (Fusch et al., 2018). Moreover, triangulation allows the researcher to confirm, contrast, or complement the findings (Abdalla et al., 2018; Yin, 2018). Semistructured interviews, companies' documents, and notes were the data sources I used to achieve methodological triangulation.

Also, I used the member checking to achieve confirmability. Member checking is the technique used for enhancing the validity of findings by returning the transcriptions of the interpretation of the interviews to the participants to check the accuracy of the results (Birt et al., 2016). Additionally, member checking allows the researcher to ensure data saturation by conducting additional questions until no new themes will arise.

Data Saturation

Data saturation plays a paramount role in ensuring quality in qualitative research. Data saturation means to collect data until the point in which there is enough information to replicate the study, no new information to answer the research question arise, and no new coding is possible (Lowe et al., 2018; Morse, 2015). The researcher reaches data saturation by collecting enough and high-quality data to answer the research question (Johnson et al., 2020). To ensure data saturation, I conducted semistructured interviews with open-ended questions to a purposive sample that is the most appropriate sampling to get power information and achieve data saturation (see Malterud et al., 2016). Additionally, I conducted four member checking procedures to ensure data saturation and enhance the findings' reliability.

Transition and Summary

In Section 2, I included the research process, providing the steps followed, which include the purpose statement, the role that I had as the researcher, the eligibility criteria of participants, and strategies to get access and to establish a relationship with participants. Also, in section 2, I presented the research method and the research design that was a qualitative multiple case study, ethical research matters, data collection, data organization, data analysis techniques, and finally reliability and validity issues.

In Section 3, I will address the presentation of the findings, the application to the professional practice and social change, the recommendations for actions and further research, and the conclusions.

Section 3: Application to Professional Practice and Implications for Change

The purpose of this qualitative multiple case study was to explore strategies that SME leaders in Mexico use to obtain appropriate financing for their sustainability and growth during and beyond 5 years of beginning operations. The participants of the study included four owners of SMEs in the industry and service sectors in México, who lead their enterprises successfully. All of them participated in an interview, which consisted of six semistructured questions to investigate their experiences in financing the development and growth of their enterprises. The findings of this study corroborate that SMEs' leaders in Mexico do follow pecking order theory in regards of their preferences to finance operations and growth of their enterprises.

Presentation of the Findings

The overarching research question of this study was "What strategies do leaders of some Mexican SMEs use to obtain appropriate financing for their sustainability and growth beyond 5 years of beginning operations?" To answer the research question, I conducted semistructured interviews that consisted in six open-ended questions, and reviewed documents of the companies. The interviewees were owners/directors of different industries in Mexico, who are identified as P1, P2, P3, and P4 to guarantee their anonymity. The demographic characteristics of the interviewees are the following:

Table 2

Profile of Participants

	Gender	Age	Years of experience	Highest level of education	Number of employees
P1	Male	36	10	Bachelor	30
P2	Female	35	15	Bachelor	52
P3	Male	60	35	Bachelor	116
P4	Male	68	40	Master's degree	52

After conducting data analysis and reaching data saturation using NVivo software four themes arose. The four major themes are (a) financing sources, (b) determinant factors of financing preferences, (c) barriers for financing, and (d) strategies to overcome barriers for financing. Each one of the major themes related to the conceptual framework are analyzed in the next paragraphs.

Theme 1: Financing Sources Preferences

According to the pecking order theory, companies prefer internal financing to debt, but debt is preferred over equity if they need external funding (Myers & Majluf, 1984). Several researchers support that SMEs capital structure preferences are consistent with pecking order theory (see Matias & Domingues, 2019; Ullah et al., 2019). Delikanlı and Kılıç (2021) pointed out that SMEs meet their financial needs to grow with internal resources in concordance with pecking order theory and following a cautious financing strategy. The four leaders interviewed agreed that their businesses' primary sources were personal savings, personal loans, or family contributions in the very beginning and internal sources during their businesses' development in alignment with the conceptual framework. P1 stated, "I started the business with my savings and a personal loan."

Similarly, P3 mentioned, "I entered as a partner of my brother by selling my car and contributing with that money. After that, we decided not to withdraw profits to grow the business." Also, P4 stated, "My father's personal savings were the initial capital of the business" and "normally, we usually try not to have credits in order to be calm." Through the review of documents, it was confirmed that internal resources constituted the financing for the start-ups of the companies. All participants pointed out that there are not funding sources available for start-ups in Mexico. For instance, P1 pointed out, "I did not have the opportunity to obtain financing for the start-up, in other countries, there are financing programs but not in México," while P2 mentioned, "financing sources are available for successful running enterprises but not for start-ups." Considering the participants' experiences, SMEs' leaders prefer internal sources as a result of the financing restrictions.

According to the four participants, it is not easy for running SMEs to obtain financing. Therefore, either retained earnings or working capital surpluses were the primary financing sources for the four leaders and their enterprises, as pecking order theory postulates. P1, P3, and P4 indicated that they could finance the operation and the growth of their businesses through retained earnings. The financial statements of the companies showed that retained earnings are used to finance the companies. P2 pointed out that "given the nature of their services, they are paid in advance through payment plans, and those financial resources are useful to finance the business's operation." The findings indicated that SMEs' leaders in Mexico use internal sources such as retained earnings to finance their companies' growth and survival.

Financing has been identified as one of the main challenges that SMEs face all over the world. According to Cainelli et al. (2020), SMEs experience several constraints in seeking bank loans, diminishing the likelihood of accessing bank financing. Godke Veiga and McCahery (2019) stressed that SMEs struggle to get bank loans because of their low productivity, small size, lack of diversification, and weak financial structures, besides the difficulties of providing high-quality collateral and proving their creditworthiness. SME leaders participating in this study agreed that access to financing is not easy. P2 indicated, "During 2020, I was looking forward to obtaining a loan for my company, but not even crazy, I would take it, the interest rate and collateral requirements were insane." Also, P1 pointed out, "banks ask for consolidated cash flow, and the procedures are bureaucratic." Obtaining a loan represents a challenge because of the requirements such as positive cash flows and collateral, bureaucratic procedures, and high-rate interests. SME leaders recognized the need to have bank financing, but all of them struggled to access it. The problems that represent to get a bank loan is a factor that contributes to the financial decisions of SME leaders aligns with pecking order theory.

Obtaining financing is a critical concern for SMEs sustainability (Coetzee & Buys, 2017). Conditions for SMEs in México are not the exception, as it has been recognized by specialized surveys of the Bank of México and the World Bank (Tregear, 2020). Banks tend to consider SMEs as high risky debtors considering their endogenous variables such as size, assets, gross fixed capital formation, production, sales, and mortality (Tregear, 2020). Therefore, SMEs are subject to a rigorous risk assessment process (Coetzee & Buys, 2017). Also, imperfect financial markets do contribute to the

financial constraints of SMEs (Tregear, 2020). The participants of this study agreed that

meeting the banks' requirements to obtain a loan and the high rates of interest prevent

small companies from obtaining appropriate financing during the early stages of their

life. Only when SMEs had reached financial stability and had assets to guarantee loans

could they get external funding in alignment with pecking order theory. For instance, P1

indicated that "only when your company is consolidated, you can negotiate good

financing conditions for your business." Accessing financing is difficult for SMEs

because banks consider SMEs as highly risky and tighten their conditions to grant a loan.

Despite the difficulties of obtaining external financing, participants recognized

that accessing bank financing is crucial during the enterprise's life cycle. In this regard,

P3 pointed out, "I do not believe that anyone that wants to grow his company has not

taken a bank loan." All the participants stated that once their enterprises become more

attractive for banks, they use loans to finance either working capital or asset acquisitions

as a second source of financing but always following a conservative strategy. For

instance, P4 stated, "having credit facilities provides you with confidence to operate your

business, but always following a conservative strategy to prevent any risk for the

company." The documentation provided for participants proved that external financing

such as bank loans is used conservatively. Bank financing has been recognized as the

primary external financing source for SMEs (Cainelli et al., 2020). After conducting a

study with Italian SMEs, Ullah et al. (2019) pointed out that they finance their working

capital and fixed assets through bank loans as enterprises grow. Nevertheless, older firms

with internal resources tend to reduce bank financing, consistent with a conservative

strategy and the pecking order theory. The findings of this study align with the pecking order theory following a conservative strategy.

Regarding equity as an alternative for funding, I found that it was the last in the SME leaders' preferences in concordance with pecking order theory. According to the participants, equity as a funding source is not suitable for SMEs in México. P1 and P2 pointed out that although they have looked for capital providers, they have not found good alternatives because new partners pretend advantageous conditions. P1 mentioned, "Although I presented the business to potential investors, I never found a suitable partner because they wanted to be the owner of the business and that I would remain as their employee." Additionally, P2 said, "I tried to get partners who were interested in capitalizing the company, but unfortunately, they did not value the years of experience, the market recognition, and the know-how." In contrast, P3 and P4 stated that they did not want to modify the ownership structure. For instance, P4 stated, "it is not in the plans to have new partners, I hope that one of my children will continue with the company." Participant of this study do not consider equity as a suitable financing source because they do not want to lose control of their companies.

According to the pecking order theory, internal funds and debt financing are preferred over external equity for financing because of the issuing costs and potential ownership structure changes (Wieczorek-Kosmala et al., 2020). Each country's business environment is another factor affecting SMEs' equity financing (Wieczorek-Kosmala et al., 2020). In developing countries with undeveloped financial markets, SMEs do not have affordable options to access capital market financing (Demirgüç-Kunt et al., 2020).

Additionally, financing through equity involved potential conflicts because equity providers could be more involved than banks because of as partial owners, they have an interest in and some control over how the enterprise performs (Dowling et al., 2019). This study's findings reveal that Mexican SMEs' leaders follow the financing preferences established by pecking order theory because of the difficulties in accessing external financing, their need to maintain control of their companies, and the country specifics in which financial markets are undeveloped.

Theme 2: Determinant Factors of Financing Preferences

The factors that influence funding sources' preferences are among the major themes that arose during the data collection process. During the interviews, three key factors were identified: low availability of appropriate external financing and obstacles to access it, a conservative financial strategy, and the need to maintain control of their enterprises. All the mentioned factors contribute to SME leaders in Mexico following the pecking order theory to finance their enterprises. According to the interviewees, the low availability of appropriate external funding and the difficulties obtaining it are reasons they prefer internal resources. For instance, P2 indicated, "the processes are too long, the requirements are many, the interest rates too high, and you end giving up on obtaining a business loan." Banks limit SMEs' financing supply because they consider that their limited solvency represents high risk (Tregear, 2020). In addition to the limited solvency, information asymmetry and agency problems increased the risk level associated with SMEs (Lussuamo & Serrasqueiro, 2020). Due to the lack of information, lenders perceive SMEs as risky borrowers, and therefore, they are unwilling to lend to small firms, and the

access to financing for SMEs become limited (Lin et al., 2020). The constraints to

obtaining financing for SMEs are more significant in developing countries because

financial institutions have local strategies to minimize the risk lending that SMEs

represent (Lussuamo & Serrasqueiro, 2020). Mexican SMEs' leaders interviewed agreed

that accessing bank financing in México is hard and that banks are unwilling and

unprepared to support the SME's sector.

The second factor was a conservative financial strategy which relates to the

personal preferences of businesses' leaders. All four participants pointed out that

financing is necessary but preferred to maintain a low level of debt, which was

corroborated in the financial statements. In this sense, P3 stated, "At the end of each year

we decided how much of the profits would be retained to support the operation and

growth, only after that we ask for bank credit when necessary." The tendency to maintain

a low level of debt is associated with the disadvantageous conditions of external

financing sources and aligns with the pecking order theory. According to Wong et al.

(2018), SME's personal preferences influence funding sources decisions, avoiding

external financing either because they do not want to be worried about debts or because

they prefer to maintain stability and operation without incurring high costs that debt

represents. P2 mentioned that "after facing disadvantageous conditions and bureaucratic

processes, I preferred to not having a business loan." Wong et al. pointed out that

personal preferences, goals, perceptions, and phobias greatly influence financial

management decisions according to risk aversion. In this sense, the study's findings

indicate that SMEs leaders in Mexico prefer to maintain low levels of debt to avoid costs and disadvantageous conditions.

Even if participants of this study have different personal views and preferences, they agreed that SMEs' owners tend to avoid high leverage levels because of the discouraging conditions in which financing is available. Managing conservative funding strategies allows a business owner to maintain control over managerial decisions (Wong et al., 2018). P3 stressed that "having debt is necessary to grow a company;" he also pointed out that "the strategy is to invite other family members to capitalize the company." P4 recognized the need to obtain loans but mainly as a backup plan, preferring to maintain low leverage debt. P4 indicated, "when you have an adequate movement with banks and positive cash flows, they offer you credit, but we basically try not to have loans." P1 and P2 agreed that they preferred to use internal funds because of the disadvantageous conditions and low availability of external finance. Finally, P3 and P4 recognized that business owners in the SME's sector did not differentiate between personal patrimony and the company's assets; therefore, they preferred not to offer collateral to get loans because of their reluctance to put assets at risk. Participants' attitudes and preferences align with the postulates of pecking order theory because SMEs' leaders prefer to obtain financial resources easily and with less risk (Pérez, 2017), which was corroborated through the documentation provided by the companies.

Among the factors that determine the financing preferences of SMEs' leaders, the need to maintain the control of the enterprise plays a paramount role. All participants agreed that they preferred to maintain control of their businesses. P1 and P2 have

considered capitalizing on their enterprises through new shareholders but without losing control. Nevertheless, it is not easy because potential shareholders pretend to acquire control or have more benefits than founding shareholders. P1 stated, "I could not make deals with potential investors because they pretend to obtain the control of the company." At the same time, P2 mentioned, "I tried to associate with investors, but unfortunately they do not value the company's history, and they prefer to open a new business in which they have full control." To conclude, in deciding the financial strategy, the need to maintain control over their enterprises is essential for SMEs' Mexican leaders.

Regarding capital markets, SMEs do not have access to them (Erdogan, 2018). Participants of this study stated that their enterprises cannot fulfill the requirements to participate in capital markets and that trying to accomplish those requirements is not affordable. P1 pointed out, "to access capital markets; I need to develop a corporate governance, which would represent a significant investment that right now I prefer to use for my company's growth." Also, P2 mentioned, "small companies cannot access capital markets; we could not accomplish the requirements." In contrast, P3 and P4 stated that they preferred to maintain the family nature of the company; both do not consider the entrance of shareholders who are not part of the family.

Finally, none of the participants mentioned alternative funding sources such as venture capital, angel investors, or crowdfunding, reflecting that SMEs' leaders do not know alternative funding sources because alternative financing options are not developed in Mexico. According to the Organization for Economic Co-operation and Development (2020), capital venture, crowdfunding, and angel investors industries are incipient in

México. Therefore, bank financing is the most common funding source for SMEs in México. However, the demand for financing is not covered, even though since 2012, there are positive trends in bank loans for SMEs (Organization for Economic Co-operation and Development, 2020).

Theme 3: Barriers to SMEs' Financing

The third theme is the barriers to SMEs' financing, emphasizing bank loans which are the main source of external financing for SMEs in Mexico. According to Nizaeva and Coskun (2018), the undeveloped stock market and inefficient contract enforceability in developing countries lead to the banking sector as the main source of external financing for SMEs. The main barriers that participants identified are (a) bank requirements, (b) high interest rates, (c) institutional and financial development of the country, (d) lack of professional management and financial literacy of SMEs, and (e) lack of relationship with creditors.

Participants of this study agreed that the first barrier to obtaining external financing is the impossibility to accomplish with bank requirements to obtain a loan. Among those requirements are the following:

- Having historical positive cash flows. Showing positive cash flows is particularly difficult in the early stages of any company. Traditionally, a startup cannot demonstrate to have positive cash flows. P1 and P3 emphasized that the banking system in México only provide loans to companies with historical positive cash flows.

- Providing collateral to guarantee the repayment of the loan. SMEs do not have properties to offer as collateral. All participants stated that it was impossible to obtain external financing without providing collateral. To access bank financing, SMEs must offer collateral to protect creditors from the risk of default (Lam & Yan Liu, 2020). All participants agreed that without collateral it is impossible to obtain long-term banking loans to promote the development and growth of companies.

- Having positive credit ratings. Banks required SMEs to have positive credit track records for the enterprise and for principal shareholders; nevertheless, SMEs that have not accessed formal funding sources lack credit records. Companies with acceptable credit track records during long periods of time have better chances to obtain bank loans (Lussuamo & Serrasqueiro, 2020).

- Presenting reliable and adequate financial information. Banks required reliable financial statements. Unfortunately, most SMEs present inadequate accounting information (Erdogan, 2018) because of either their reluctance to disclose information or the lack of professional financial management.

A significant barrier to access external financing for SMEs is the high level of interest rates. Regarding interest rates, Lam and Yan Liu (2020) pointed out that to compensate for the risk of default that SMEs represent, banks established a much higher interest rate than those provided to larger firms. Moreover, Lussuamo and Serrasqueiro (2020) indicated that SMEs' information opacity contributes to increasing financing costs with higher interest rates and collateral requirements in a more significant proportion. All

participants in the study pointed out that interest rates are higher in México than in other countries. P1 stated, "interest rates in Mexico are high, and to afford them makes the companies less profitable." P2 pointed out, "I prefer to finance the company with internal resources because the cost of financing is too high." Additionally, P3 and P4 established that external financing through bank loans is costly. With small firms having to pay a higher cost of financing, the risk of failure increases (Godke Veiga & McCahery, 2019).

According to this study's findings, the institutional and financial development of the economy constitutes another barrier for SMEs financing and contributes to the financing preferences of SME leaders that agree with the pecking order theory. P1 considers that "bureaucratism, financial, legislative, and institutional systems are related to the lack of appropriate financing to promote the growth and development of SMEs." P2 pointed out, "bureaucratism and lack of adequate financial schemes to support SMEs are within the main factors preventing the growth and survival of SMEs." P3 stated, "the government's institutional support is missing to enhance SMEs capabilities, and financial system should contribute to bringing orientation and adequate service to SMEs." Accordingly, Godke Veiga and McCahery (2019) stated that better legislative, tax, and financial systems could reduce administrative and operating costs, traducing to efficient markets that reduce the gap between demand and supply of SMEs financing. Moreover, McNamara et al. (2020) found that SMEs performing in countries with efficient judicial and legal systems, greater sharing of credit information, and higher levels of trust are less credit constrained. Thus, the level of financial and institutional development of an

economy is a crucial country-specific determinant of SMEs' financing constraints (Nizaeva & Coskun, 2018).

Participants identified the lack of professional management and financial literacy of SME leaders as a critical barrier to access external financing for SMEs. Even though most participants of this study are professionals with a financial profile, they recognized that they need to have a whole professional team to manage the company adequately. P1 mentioned, "I would like to professionalize the management of my company, having specialized labor in each position instead of having centralized management on me." Also, P2, P3, and P4 emphasized the need to have skilled professionals to conduct and report the company's finance; otherwise, obtaining external finance becomes harder. Particularly, P4 stated, "look, to obtain a credit is crucial to have good financial information prepared by professionals that knows what they are doing because when the financial information is not right, it is impossible to obtain a loan." Providing adequate financial reports is an essential requirement in applying for a bank loan. According to Jabbouri and Farooq (2020), access to an adequately educated workforce ease bankers in addressing the potential profitability of companies. For instance, wrong financial managers traduce in poor financial performance and quality of financial information, which negatively affects the possibility to access financing for their firms (Jabbouri & Farooq, 2020). Financial statements with quality issues will lead any company to a credit rejection.

The lack of long term and close relationships between SMEs and banks is another barrier in obtaining bank loans. All four participants agreed that the relationship with

bankers does not exist anymore. In this regard, P2 mentioned, "if SME leaders and bankers could establish a good relationship SME mortality would be reduced significantly." P1, P2, P3, and P4 consider that having a close relationship that allows creditors to know their companies and provide good service will enhance the business relationship resulting in less credit rationing. For instance, P2 had an excellent experience with a bank because they were interested in knowing the SMEs' needs and providing a good service. Nevertheless, once that banker left the bank, it was not possible to recontract the short-term loan.

Godke Veiga and McCahery (2019) stated that a mechanism to reduce asymmetry information is having a relationship between creditors and SMEs. López-Espinosa et al. (2017) pointed out that knowledge about borrowers through relationships can ease the loan contracting and reduce the loan price. Nevertheless, the banking system in México relies on figures more than in relationships, losing the opportunity to know the clients. The inability of banks to provide good service leads SME owners to prefer internal sources which align with pecking order theory.

Finally, corruption was identified as a barrier to access adequate financing for the participants of this study. According to Lussuamo and Serrasqueiro (2020), bribery is one barrier for SMEs in accessing bank financing. Because of bribery, SMEs feel discouraged from applying for bank loans (Galli et al., 2018). Moreover, Wellalage et al. (2018) identified that corruption in economies prevents banks from supporting creditors and promotes SMEs' credit constraints. P4 mentioned, "compete and survive in markets with

corruption is quite difficult." Summing up, corruption constitutes an additional barrier for SMEs in accessing appropriate financing.

Theme 4: Strategies to Overcome SMEs Financing Barriers

Participants of this study stated that in financing the start-up of their companies, they used personal savings. P1 stated, "with my savings and a personal loan, I started the company," and P3 mentioned, "my father started the company with his resources." After the beginning, SMEs leaders use internal resources such as retained earnings and positive working capital to operate and grow their companies. Using internal resources aligns with the pecking order theory, which establishes that companies preferred internal resources in the first place, following by debt, and finally own capital regarding funding sources (Delikanlı & Kılıç, 2021; Guercio et al., 2020). According to Guercio et al. (2020), the order of preferences results from the wish of SMEs' owners to maintain control and avoid external costs. P1, P2, and P3 stated that they had to resort to informal funding sources such as personal loans and funds from family and friends during the first stages of their companies. Particularly, P2 mentioned, "I had to use a personal credit card to finance the company's operation because customers ask for credit." In this regard, Kent Baker et al. (2020) found that in developing countries such as India, SMEs use informal financing sources more often than formal ones. Using internal sources is the first financing strategy identified in this study.

The four participants of this study stated that an important strategy to overcome SMEs' barriers is to have a clear objective, define the path to follow to reach the objective, and be willing to work hard and manage the business efficiently. P4 stated, "to

manage adequately the enterprise is necessary to follow a strategic plan, reduce and

control expenses, have the qualified workforce and be congruent." The revised

documents allowed to corroborate that companies participating in this study do have clear

objectives and define a plan to reach their goal. P1, P3, and P4 pointed out that they

established a no withdrawal profits policy during the first years of their enterprises;

instead, all profits were reinvested in the company. On the other hand, P2 mentioned that

positive working capital was one of the main funding sources for the company's

operation. P2 pointed out, "in this business you ask por payments in advance, and with

those payments you can finance the company' operation." SMEs maintain the internal

resources financing until the financial structure and cash flows become stronger to access

bank financing.

Having financial literacy and conducting adequate financial management was a

strategy following by P3 and P4. Both participants pointed out that it is essential to

identify the company's needs and solve them in the best way. In this sense, P3 indicated,

"if businessmen do not have financial knowledge, they do not manage credit lines

properly, and in those cases, external financing instead of helping becomes a problem."

Financial literacy and professional financial management allow SMEs to perform

efficiently, identify financial needs, and find the most suitable ways to cover those needs.

For instance, participants mentioned that contracting the right bank loan is essential to

perform well financially. P3 indicated, "asset investment requires a long-term loan, but

working capital needs must be covered with short-term loans." Lack of a strategic vision

and adequate business management, along with poor knowledge of finance and

accounting, are critical problems in SMEs' performance (Rachidi & El Mohajir, 2021).

Moreover, Ismanto et al. (2020) stated that financial management capabilities affect

SMEs' performance positively by allowing SMEs' leaders to make good decisions to

enhance the growth and competitiveness of their companies. Understanding economic

and financial concepts allow owners and managers to manage finance effectively (Folke

et al., 2020). Financial literacy and appropriate financial management allow SMEs

leaders to establish successful financing strategies, as noted in this study's findings.

All participants agreed that providing reliable accounting information is essential

to obtain external financing. P3 and P4 stated that accurate financial reports ease access

to bank financing because it diminishes information asymmetry issues and increases the

trust of financial providers. Lussuamo and Serrasqueiro (2020) have stated that an

effective way to ease access to financing is to disclose as much information about the

firm as possible. Mitigating the opacity of information will allow SMEs access to more

favorable conditions loans. On the contrary, unreliable information leads to higher

interest rates and higher collateral requirements; even worse, it can lead to a credit

rejection (Lussuamo & Serrasqueiro, 2020). Furthermore, managers of the workforce

without adequate knowledge and skills affect a firm's performance negatively and low

the quality of financial reporting that increasing the risk for the financial institution in

granting loans (Jabbouri & Farooq, 2020).

Participants of this study agreed that having assets valuable to cover the

guarantees required from banks has been a suitable strategy to overcome financing

barriers for their companies. P3 and P4 have granted collateral using fixed assets to

obtain long-term loans for the growth and development of their business. P3 stated, "it is important to have assets to offer as collateral to obtain external financing."Therefore, they recommended that companies possess assets to offer as collateral to take advantage of accessing external financing but within a conservative financial strategy without taking excessive risks. Accordingly, Denbelo (2020) pointed out that SMEs specific factors such as poor financial records and lack of adequate collateral are obstacles in accessing financing identified by banks. Also, Jabbouri and Farooq (2020) stated that the shortage of collateral and the lack of attractive projects turns into hurdles for SMEs in obtaining external financing.

Finally, all four participants claimed that establishing long-term relationships with banks and maintaining positive credit track records are strategies to facilitate obtaining external financing from banks or other financial institutions. In this regard, Erdogan (2018) argued that a company that fulfills its financial obligations timely and with acceptable track records would ease its access to external funding sources. Trust and reputations that SMEs build over time reduce the restrictions in obtaining bank credits (Lussuamo & Serrasqueiro, 2020). Therefore, building a good reputation as a company that fulfills its commitments becomes essential for the growth and survival of SMEs.

Applications to Professional Practice

The findings of this study provide valuable insight regarding strategies that leaders of SMEs in México use to obtain appropriate financing for their sustainability and growth during and beyond five years of beginning operations. The obtained evidence allows readers to understand the factors influencing SME leaders' decisions regarding

financing sources for their enterprises. Knowing those factors allows owners and managers to understand the reasons behind financing preferences and the most effective strategies to overcome the barriers to access appropriate financing. Evidence showed that hierarchy in the financing preferences responds not only to personal choices but also to funding sources accessibility and managerial capabilities.

The findings could be beneficial for SME leaders, entrepreneurs, and scholars to establish effective business financing strategies. Despite there is extensive literature regarding SME access to financing barriers, the evidence gathered by this study contributes to the existent literature with an analysis of the strategies used by SME leaders in the Mexican context. According to Yang et al. (2019), lack of financing is one of the most determinant hurdles preventing the growth of SMEs. Consequently, the findings of this study could contribute to alleviating financing constraints of SMEs in México by enlightening their leaders with valuable information to set strategies to operating and growing their enterprises.

The data obtained showed that strategies such as having a clear objective, a strategic plan, and adequate business management are essential to overcome financing barriers. Likewise, managers must have financial literacy and accounting knowledge to conduct effective financing strategies. Providing reliable financial information, maintaining positive credit track records, and establishing a good relationship with bankers are effective strategies to access financing. Having this knowledge allow SMEs leaders to figure out how to overcome financing barriers and to contribute to the economic development of their regions and nation.

Implications for Social Change

The value of this study lies in its potential contribution to social change through the insight gained into financial strategies that SME leaders in Mexico use to obtain appropriate financing for the operation and growth of their enterprises. The findings of this study provide owners and managers with the factors that determine SME leaders' choices to finance their companies and the reasons behind those choices. According to the Instituto Nacional de Estadísta y Geografía (2019a), in Mexico, MSMEs represent 99.8% of the total businesses, generate 67.9% of the total employment, and contribute 45.3% of the GDP. However, despite their importance for economies worldwide, SMEs face limited access to external financing, which jeopardize their opportunities to grow and even survive (Zhao & Jones-Evans, 2017).

Considering the challenges that SME leaders faced in accessing external financing and the paramount role that appropriate financing plays for the profitability and growth of SMEs, the findings of this study allows SME leaders to understand effective strategies that participants of this study have implemented for the success of their companies. Furthermore, knowing successful experiences could allow other SME leaders to establish effective strategies to finance their businesses to achieve growth and sustainability. As a result, a stronger SME sector will create employment, contribute to the GDP, satisfy market needs, and bring professional development opportunities to their workers, making possible higher levels of prosperity for their communities and country.

Recommendations for Action

The findings of this study allow the readers to know the financing sources that SMEs leaders chose, the determinantal factors of financing preferences, the related barriers for financing that SMEs face, and the strategies to overcome those barriers. The conclusion of the study sheds light on the reasons behind the financing choices of SME leaders. In this sense, there is much to do to strengthen the SME sector. In the first place, within the factors that explain financing choices of SMEs leaders are the little availability of appropriate external funding and the difficulties they face to access it. There is room for the financial sector to close the existing gap between the supply and demand of external financing for SMEs. Banks and financial companies should develop special products for SMEs to support them with financing for the operation and growth of the companies, allowing them to survive and be successful. A strong SME sector represents for financial institutions the opportunity of having reliable and profitable customers.

Complying with the requirements of banks to access a loan, such as positive cash flows, collateral, and sound financial structure, is challenging for young SMEs. Additional to the requirements, bureaucratic procedures and high interest rates make external financing unaffordable for SMEs. Therefore, in a joint effort with financial institutions, the government should develop more support programs directed to ease the access to external financing for SMEs. The government should establish support schemes to guarantee SMEs loans and reduce interest rates and develop financial literacy programs for SME managers and owners to reduce information asymmetry issues and enhance managerial capabilities. Banks consider SMEs highly risky because of

information asymmetry, agency problems, and limited solvency (Lussuamo &

Serrasqueiro, 2020). Through special programs directed to guarantee credit granted to

SMEs and to subsidize interest rates, the government could enhance the SMEs sector,

which highly contributes to employment creation and GDP. Government intervention

represents a driving force in addressing SMEs' financial challenges (Denbelo, 2020; Du

et al., 2017). A strong SME sector traduces in development opportunities for the country,

which should be a government goal.

The findings of this study point out corruption as a barrier to access external

financing for SMEs. Corruption has been identified as a factor hindering SMEs to access

external financing, especially in developing countries. According to Phan and Archer

(2020), corruption increases companies' costs of obtaining external financing, weakening

the SMEs and financial markets. Therefore, both governments and financial institutions

should develop strong policies to prevent corruption on borrowing. SMEs face several

challenges to survive and perform in a competitive world; it becomes worst if they have

to perform in corrupt business environments. Van Vu et al. (2018) pointed out that

decreasing corruption contributes to improving firms' financial performance. Hence,

governments should promote an anti-corruption legal framework.

Finally, but no less critical, SME owners and managers should make efforts to

acquire financial literacy and professionalize their companies' management to perform

better financially and reduce asymmetry information issues. Providing enough reliable

financial information to potential lenders is crucial to improve the chances of obtaining

appropriate financing. Chit (2019) pointed out that the quality of financial information

does impact SMEs chances to access external financing, especially on those operating in weak legal and regulatory environment.

The results of this study could be of interest to SMEs leaders, academics, government, and financial institutions to conduct the actions above mentioned to enhance the SME sector, which significantly contributes to the Mexico's economy. To disseminate the results of this study, I will provide a copy to participants and enterprise associations. Likewise, I will be looking forward to participating in training courses for SMEs in Mexico.

Recommendations for Further Research

This study's findings represent the strategies that SME leaders in Mexico use to obtain appropriate financing for their sustainability and growth during and beyond five years of beginning operation. However, considering the nature of the study, qualitative multiple case study, the sample size was small because only leaders and documentation of four SMEs were considered sources of data. For this reason, further research could be conducted with a larger sample size and with a quantitative method that allows broadening the sample size. In addition, the interviewed leaders were just from two kinds of industries, services and manufacturing, from the south region of Mexico. Therefore, further research could be conducted considering different regions and industries in Mexico to broaden the scope.

Equally important to understanding the factors and reasons behind SME leaders' financial choices will be considering the point of view of financial institutions, which could be helpful to understand the two sides of the phenomena under study. Hence,

further research could be conducted with the participation of banks. Finally, further research regarding SME financing strategies could be conducted in different developing countries of Latin América that share cultural and historical values.

Reflections

Starting with this study, I focused on the conceptual framework to explain the capital structure decisions of SME leaders. During the process, I could understand that if it is true that some theories based on information asymmetry issues, agency problems, aversion to risk, and personal preferences does explain financial decisions, there are other reasons behind those choices. In the end, I consider that endogenous and exogenous factors influence equally the financial decisions of SME leaders. Among the exogenous factors stand out the institutional, legal, and regulatory environment. Through the findings of this study, I expect to contribute to social change by allowing small business leaders to learn from the experience of successful business leaders who achieve the sustainability and growth of their companies. SMEs are the engine of economies not only in developing countries but in Europe and the United States (Udell, 2020). Nevertheless, it is well known that the lack of access to financial resources is one of the principal obstacles to the growth and survival of SMEs, especially in countries with weak institutional environments and less developed financial sector such as developing countries. Therefore, efforts directed to enhance the SME sector in Mexico are of great importance, especially in global financial crises such as the one caused by COVID-19.

Conclusion

The findings of this study corroborate that SMEs' leaders in Mexico follow pecking order theory regarding their preferences to finance operations and the growth of their enterprises. In this sense, the four leaders participating in the study agreed that their businesses' primary sources of financing are internal resources, followed by bank loans. Pecking order theory, developed by Myers and Majluf (1984), was the conceptual framework for this study. Through the pecking order theory, Myers and Majluf pointed out that companies adopt a hierarchy of financing sources in which they prefer internal financing to debt, but debt is preferred over equity if they need external funding.

The findings also show that the determinants behind the financing preferences of SMEs are obstacles in accessing appropriate external financing, a conservative financial strategy, and the need to maintain control of their enterprises. Banks limit financing supply for SMEs because of considering them as highly risky customers. Information asymmetry, agency problems, and limited solvency contributed to classifying SMEs as risky. Accordingly, SMEs face barriers to obtain external financing. Some of those barriers are unaffordable bank requirements, high-interest rates, institutional and financial development of the country, lack of professional management and financial literacy and lack of relationship with creditors.

The strategies that successful SME leaders participating in this study have implemented are using internal resources such as retained earnings and positive working capital as the first option to finance their operations and, if possible, growth. To satisfy the needs of external financing, participants pointed out that they use bank loans. The

strategies that they use to overcome the barriers in obtaining loans are: (a) professionalizing the management of the company, (b) acquiring financial literacy and conducting financial planning, (c) providing reliable and sufficient financial information to potential lenders, (d) obtaining assets that can serve as collateral for loans, and (e) maintaining positive credit track records and long-term relationships with banks through building a good reputation as a company that fulfill its commitments.

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Appendix A: Interview Protocol

Interview Introduction Script

Hello, I would like to thank you for agreeing to participate in this study. As you know, I am pursuing a doctoral degree with a finance emphasis at Walden University. I am researching the strategies that Mexican SMEs' leaders use to obtain appropriate financing for their sustainability and growth during and beyond 5 years of beginning operations.

Your participation is essential for this study, considering your experience in the field under investigation. The interview will take about 1 or 1.5 hours, and if you agree, I will record the interview to ensure the registered data correspond with what you mean. It is important to let you know that your participation is highly appreciated but voluntary. Therefore, if at any moment, you prefer not to answer any question or want to end the interview just let me know.

Once I completed the transcription and interpretation of this interview, I will send you a summary by e-mail to ask you to review the information and confirm or deny that what is written represent what you mean. I will appreciate your feedback regarding your agreement or clarification request.

Finally, I would like to ensure that your identity and participation will be confidential; therefore, I will not use your name, the name of your company, or any data that can compromise the confidentiality of your participation. Do you have any questions?

Participant's Introduction

I would appreciate if you can provide me with a brief introduction of yourself. Your name, age, highest degree level, years of experience as a business leader, years in the company, etc.

Interview Questions

During the interview, I will observe the body language of the participants, as well as any other no verbal signal to be considered. I will paraphrase as needed and will ask follow-up probing question if necessary. Also, I will promote the conversation to obtain richer responses.

The interview questions are:

1. What financing strategies did you use to grow and sustain your SME during and beyond 5 years of beginning operations?

   Probing Questions

   a. What factors do you consider to choose your business's funding?

   b. What kind of funding sources have the business obtained since its beginning?

   c. What is the composition of your company's capital structure currently?

2. According to your experience, how important was it for your SME to maintain a long-term relationship with banks?

   Probing questions

   a. Do you work with just one or more banks?

   b. How well does your banker know your business?

3. What were the key barriers to implementing your organization's strategies for financing to grow and sustain your SME beyond 5 years?

Probing Questions

    a. What do you consider key barriers are common for SMEs?

    b. How do you relate those barriers to the business environment in México?

4. How did your organization address the key barriers to implementing your organization's strategies for financing to grow and sustain your SME beyond 5 years?

Probing Questions

    a. How difficult was it to overcome the barriers?

    b. Which aspects of your leadership contribute to overcoming those barriers'

5. How did you assess the effectiveness of the strategies for financing through and beyond 5 years of beginning operations?

Probing Questions

    a. How has the financing strategies that you have used enhanced your company?

    b. What can you provide as examples of the results that you can see after successful financing strategies?

6. What additional information can you add that may apply to the strategies that you used to obtain financing for growth and sustainability in your SME during and beyond 5 years of beginning operations?

Interview Wrap-Up Script

Those are all the questions. Once again, I want to thank you for being part of this study; your participation is invaluable. In the next week, you will receive the summary of this interview to confirm your responses to ask for clarification if needed. If you consider that you have any additional information that will be helpful, please let me know.