

**UNIVERSIDAD ESAN**



**Centralization of Private Firms in Peru**

**In collaboration with:**



**Master in Management  
IESEG School of Management – Paris, France**

**Research work presented in partial satisfaction of the requirements to  
obtain the degree of Magíster en Administración by:**

**Jethro ATOCHE PILCO**

**Master Program at ESAN: International MBA**

**Advisor: Benoît Roux**

**February 21<sup>th</sup>, 2020**

“IESEG School of Management and Universidad ESAN do not express approval or disapproval concerning the opinions given in this paper which are the sole responsibility of the author.”

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## **Acknowledgements**

The experience of writing the master's thesis has been quite exciting and tough, as it has been a challenge to write it while I still had classes. This fact produces me a greater feeling of satisfaction.

First of all, I would like to thank everyone who, from the academic and professional side, gave me their support. I've learned a lot from them.

I would also like to thank my family and friends who motivated me to pursue, because they know that, personally, these recent times have been hard for me. Their emotional support and advices helped me to face the challenges with a positive attitude.

Finally, I hope, despite all the limitations, to make a contribution to my country, since I'm very interested in its development.

## **Abstract**

The aim of this research is to understand the way in which business location decisions are made in Peru, based on the phenomenon of centralization of companies in the city of Lima, the capital of Peru.

The research begins by contextualizing the problem, giving a general description of the environment, in this case, Peru. This description goes from the social and economic history of the last 50 years. Then, the research contextualizes the characteristics of the companies in Peru, taking as reference data from the main companies in the country.

The literature review studies many theoretical methods for calculating the most efficient location for the company. Thus, the efficient use of resources, the reduction of costs or the maximization of profits will be important variables for decision-making. Feasibility studies and business plans were also reviewed to analyze decision-making in the cases raised.

In a period of 2 months, 12 interviews were conducted with entrepreneurs, decision makers and experts in the economic and social reality of the country. The goal was that, based on the experience and background of each participant, deepen the reasons for the location decision.

The findings suggest that the reasons may be based on the issue of inequality in the country, and may have a more social profile, reflecting the characteristics of Peruvian entrepreneurs.



## **CHAPTER I. INTRODUCTION**

## 1.1 Research Problem

Peru is a developing country, located in South America. According to the International Monetary Fund, in 2018, Peru was the sixth largest economy in Latin America, in terms of GDP (World Bank, 2018). In a relative manner, we could say that comparatively Peru is in a good position in the region, but it doesn't mean, in fact, that the expected development is being achieved in order to solve the main nations' problems. Indeed, under this apparent development, there is a rather bitter truth: there is a huge development gap between the regions or departments, where only few concentrate the greatest amount of services and economic activity (Regional Competitiveness Index -INCORE, 2019).

According to the Peruvian economist Efraín Gonzales de Olarte, in the paper: "Concentración y Centralización: Enemigos del Desarrollo Regional Convergente y Equitativo", 2017; Peru is a centralist and concentrated country, this means that while the concentration refers to the agglomeration of economic power in a certain geographic space, centralization is an institutional and political phenomenon, linked mostly to state entities. Thus, under this phenomenon called centralization, Lima, the capital, is established as the main hub "taken" by centralism and concentration.

Having said that, this thesis will take as a starting point the problem of the centralization of private firms in Peru, to then focus in the causes of this phenomenon; generating the following research topic: Why do most private firms in Peru decide to settle down in the capital Lima and not in other regions?

Through the investigation, it will be analyzed the nature of the problem, the origin of this phenomenon, as well as the consequences of having this type of structure.

The main questions to answer are:

- What are the factors that determine the location decision of the firm?



- What are the business challenges that companies must face to diversify geographically?
- What measures should Peru take to counteract this phenomenon?

To answer these questions, this study will research the ways in which decentralization of firms can be encouraged in Peru, since it is thought that the current structure of businesses development is not sustainable in the long term. In the same way, it seeks to provide a generic guide for entrepreneurs when analyzing risks of implementing businesses in the provinces. Finally, this research also wants to explain why business diversification could be the basis of the development of a city. Having responded to these questions, this thesis seeks to contribute to the studies already done and provide a comprehensive view on these problems. Thus, businessmen will be able to evaluate the convenience of taking into account the issues raised in this research, in favor of an improvement in the country's development.

## **1.2 Introduction**

To put into context the problem studied, it is pertinent to present certain information about Peru, in order to facilitate the understanding of the context in which the problems are developed.

The Republic of Peru is a sovereign country since 1821, that is, the country officially has 198 years as an independent republic; so, it could be said that it isn't a very old country. Peru was part of the Viceroyalty of Spain for nearly 300 years, so they owe them many cultural influences. The capital Lima is established as the economic, financial and political center of the country.

### 1.3 Peru's Context

#### Geographic Characteristics

Peru is located west of South America, being the 3rd largest country in the region with 1'285,215 km<sup>2</sup> (Libro Blanco de la Defensa Nacional, 2017), after Brazil and Argentina. It shares boundaries to the north with Ecuador and Colombia, to the east with Brazil, to the southeast with Bolivia, to the south with Chile; and to the west with the Pacific Ocean.

It is a country that is characterized by having very varied ecosystems. According to the Ministry of Environment, Peru has 84 of the 104 existing ecosystems on the planet, so it is a country with a very rich nature, but at the same time very vulnerable to climate change. The country consists mainly of 3 major natural regions: The Coast: located in the west of the country between 0 and 500 meters above sea level, mainly composed of deserts and coastal valleys. Highlands: located in the center of the country, between 500 and 6425 meters above sea level and composed of mountains and large valleys; as well as mountain ranges, among them: The Andes Mountains. Finally, The Jungle: located in the west of the country between 80 and 3800 above sea level, is the region with the largest area, but where, paradoxically, fewer people live. This region is the Amazon, which is composed of large forests and rivers, and is very rich in fauna and flora.

**Table 1.1 – Territorial Distribution of the Regions**

	<b>Area (km<sup>2</sup>)</b>	<b>Percentage (%)</b>
<b>Coast</b>	136,233	10.60
<b>Highlands</b>	391,991	30.50
<b>Jungle</b>	756,991	58.90
<b>Total</b>	1,285,215	100.00

Source: Ministry of Defense of Peru

Elaboration: Own elaboration

**Figure 1.1 – Main Regions of Peru**



Source: Research Gate (online)

### **Political Division**

The geopolitical division of Peru is organized into 24 departments or regions and one constitutional province: Callao. These regions are divided into provinces, and provinces into districts. The capital Lima is located on the central coast and is the most dynamic city in the country.

Since its creation in 2002, each region is managed by the Regional Government. According to La Plataforma Digital Única del Estado Peruano, "The Regional Governments are those that are in charge of the public institutions, responsible for the superior administration of each region, with political, economic and administrative autonomy for the matters of their competence, within the framework of a unitary and decentralized State". Through the creation of Regional Governments, the Peruvian state intends to promote decentralization,

unfortunately, to date, no significant improvements have been achieved. In Figure 1.2 is seen the geographical distribution of each region.

**Figure 1.2 – Departments of Peru**



Source: Viaja a Perú (online)

Generally, the concentration of population is found on the coast, then to a lesser extent in the mountains and finally in the jungle, where the population density is quite lower compared to the rest of the regions.

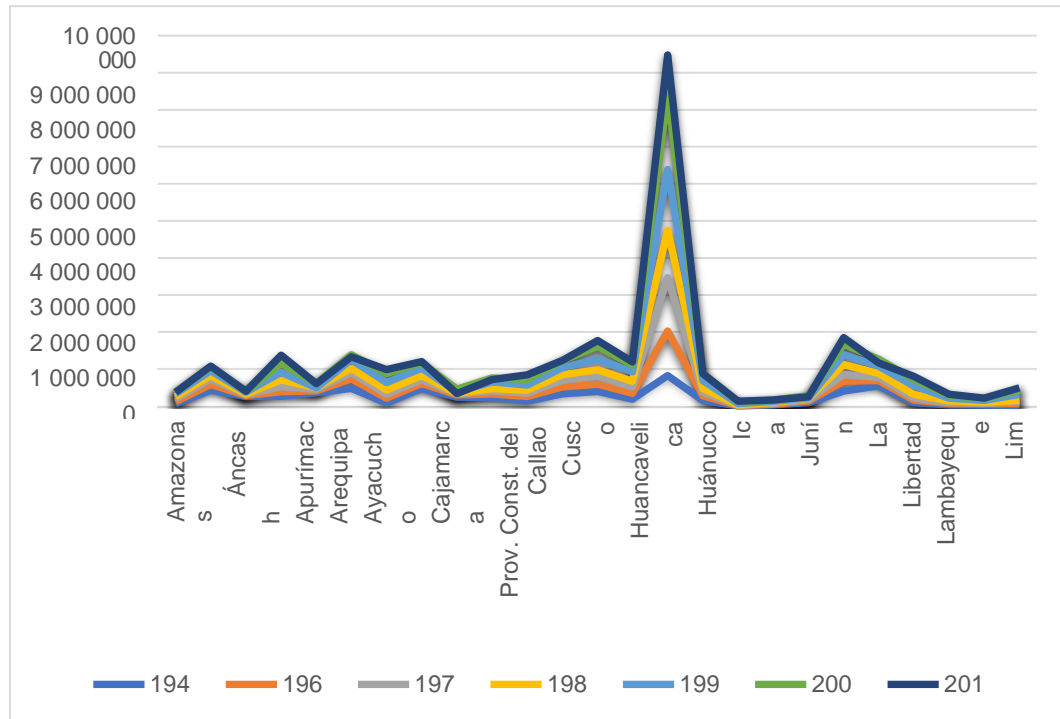
**Table 1.2 – Peruvian Population by Region**

<b>Region</b>	<b>Population</b>
Amazonas	379,384
Áncash	1,083,519
Apurímac	405,759
Arequipa	1,382,730
Ayacucho	616,176
Cajamarca	1,341,012
Prov. Const. del Callao	994,494
Cusco	1,205,527
Huancavelica	347,639
Huánuco	721,047
Ica	850,765
Junín	1,246,038
La Libertad	1,778,080
Lambayeque	1,197,260
Lima	9,485,405
Loreto	883,510
Madre de Dios	141,070
Moquegua	174,863
Pasco	254,065
Piura	1,856,809
Puno	1,172,697
San Martín	813,381
Tacna	329,332
Tumbes	224,863
Ucayali	496,459

Source: Instituto Nacional de Estadística e Informática (online)  
Elaboration: Own elaboration

On the other hand, it can be seen that over the years the population has been increasing in each region. Lima is the department with the greatest increase, which is much higher than the rest of the departments, especially after the 80s; according to the information provided in the censuses of 1940, 1961, 1972, 1981, 1993, 2007 and 2017. See figure 1.3.

**Figure 1.3 – Variation of the Peruvian Population**



Source: Instituto Nacional de Estadística e Informática (online)  
 Elaboration: Own elaboration

### Social Structure

Peruvian society is very diverse in many aspects. According to the last census made by Instituto Nacional de Estadística e Informática - INEI, 2017; Peru has a population of 31,237,385, and it is considered a relatively unpopulated country, because it has a population density of 25 people/km<sup>2</sup> (World Bank, 2018). According to the World Bank, we have an average life expectancy of 75 years, 72 for men and 77 for women. On the other hand, we have a Human Development Index of 0.753 for the year 2018 (United Nations Developed Program, 2018), which is an average level, and similar to the indexes of the rest of Latin American countries.

Peru is a multi-ethnic, pluricultural and multilingual country, historically it is common that there have been discrimination issues and exclusion. The last national census carried out in 2017 included questions regarding ethnic self-identification, which seeks to collect

information on the ethnic self-identification of people over 12 years old. The results are the following:

**Table 1.3 – Ethnic Self-Identification**

<b>Ethnic self-identification</b>	<b>Population</b>	<b>Percentage</b>
Mestizo	14,042,524	60.54%
Quechua	5,212,560	22.47%
White	1,366,931	5.89%
Afro descendant	828,894	3.57%
Aimara	548,311	2.36%
Amazonian	212,823	0.92%
Another indigenous origin	43,990	0.19%
Nikkei	22,535	0.10%
Tusan	14,307	0.06%
Other	132,490	0.57%
Doesn't know	771,026	3.32%
<b>Total</b>	<b>23,196,391</b>	<b>100.00%</b>

Source: Instituto de Estadística e Informática Perú  
Elaboration: Own elaboration

This is how the country ethnic diversity is proven. It can be said that the majority of Peruvians identified themselves as mestizos (a mixture of several races, usually between the white and indigenous races) with 60.54%. Second, Peruvians defined themselves as Quechua with a 22.47% population.

### **Main Economic Activities**

Peru is an emerging market, which mainly markets raw materials and natural resources. Among the main economic activities are the extraction of oil, gas and minerals; construction; transportation, warehouse, mail and courier services; manufacturing activities and general commercial activities; among others. The following table shows the economic impact of these activities updated to 2017.

**Table 1.4 - Main Economic Activities**

<b>Economic activities</b>	<b>GDP (€)</b>
Agriculture, Livestock, Hunting and Forestry	7,065,600
Fishing and Aquaculture	448,800
Extraction of Oil, Gas and Minerals	17,954,394
Manufacture	17,834,870
Electricity, Gas and Water	2,514,933
Construction	8,010,133
Commerce	14,461,867
Transportation, Warehouse, Mail	7,597,867
Accommodation and Restaurants	4,323,200
Telecommunications	6,017,333
Public Administration and Defense	6,925,600
Other services	31,545,629
<b>Gross Value Added</b>	<b>124,700,225</b>
Taxes on Production	11,421,421
Import Duties	1,010,680
<b>Gross Domestic Product</b>	<b>137,132,327</b>

Source: Instituto de Estadística e Informática Perú

Elaboration: Own elaboration

This GDP is also distributed throughout the regions, where it is observed the differences among each region.

**Table 1.5 – GDP by Region**

<b>Region</b>	<b>GDP (€)</b>
Amazonas	784,927
Ancash	5,140,327
Apurímac	2,056,178
Arequipa	8,191,175
Ayacucho	1,452,988
Cajamarca	2,902,408
Cusco	5,754,540
Huancavelica	895,341
Huánuco	1,552,917
Ica	4,333,559
Junín	3,980,502
La Libertad	5,540,988
Lambayeque	3,025,168
Lima	59,954,355
Callao	5,723,063
Lima Province	4,343,718
Metropolitan Lima	49,887,574
Loreto	2,138,530
Madre de Dios	638,674
Moquegua	2,306,262



Pasco	1,419,826
Piura	4,958,150
Puno	2,514,732
San Martín	1,585,890
Tacna	1,752,303
Tumbes	685,518
Ucayali	1,134,966
<b>Gross Added Value</b>	<b>124,700,225</b>
Product tax	11,421,421
Import duties	1,010,680
<b>Gross Domestic Product</b>	<b>137,132,327</b>

Source: Instituto de Estadística e Informática Perú  
Elaboration: Own elaboration

### **Trade Agreements**

On the other hand, Peru has trade agreements with several countries and groups of countries (Ministerio de Comercio Exterior y Turismo, 2019). Peru currently has agreements with: World Trade Organization, Andean Community, Mercosur, Cuba, Asia Pacific Economic Cooperation Forum, Chile, Mexico, United States of America, Canada, Singapore, China, EFTA, South Korea, Thailand, Japan, Panama, European Union, Costa Rica, Venezuela, Pacific Alliance and Honduras. Upon entering into force, the following agreements are in place: Guatemala, Trans-Pacific Partnership Agreement – TPP, Brazil and Australia. Finally, the following treaties are under negotiation: DOHA Development Program - World Trade Organization, Trade in Services Agreement (TISA), El Salvador, Turkey and India.

### **Historic Events**

First of all, this research intended to give the reader an understanding of Peru’s complex socio-economic and political history, in order to have an idea of the background on which companies will develop.

**Table 1.6 - Peru's Historic Events**

Year	Event	Description	Economic and Social Consequences	Event Analysis
1968	Military Coup d'etat: Army General Velasco Alvarado	– The coup against President Fernando Belaunde, due to military dissatisfaction with the primary-exporter economic model.	<ul style="list-style-type: none"> <li>– The state was placed as the main agent of the national economy: “State Capitalism”</li> <li>– Several private companies were nationalized: from 16% to 31%.</li> <li>– Accumulated losses of US \$ 2,500 million.</li> <li>– Public debt increased from 15% to 48% of GDP.</li> <li>– Inflation grew from 6% to 74%.</li> <li>– Poverty levels close to 50%.</li> </ul>	– It was a “de facto” government with strong socialist tendencies. Like any socialist government, attempted to homogenize the social status of the population and to make reforms that didn't work well, which destroyed many industries, such as agriculture and the fishing industry. In conclusion, it could be considered that it was the beginning of an economic and social decline that led Peru to overcome many years.
1969	Second Agrarian Reform	– Agrarian reform carried out by the military regime.	<ul style="list-style-type: none"> <li>– Collapsed of the agricultural sector.</li> <li>– The expropriation of agricultural property created informality and abandonment.</li> <li>– Only in 2005 the agricultural GDP of 1975 was recovered.</li> </ul>	– The way of giving well-being and better working conditions to the farmers wasn't correct, since the economic socialist model wasn't compatible with world market trends. The reforms didn't have the expected level and ended up seriously damaging the agricultural industry in Peru.
1975	– Military Coup d'etat: Army General Morales Bermúdez	– Known as the second phase of the Revolutionary Government of the Armed Forces.	<ul style="list-style-type: none"> <li>– Abandonment to government socialism imposed on Velasco government.</li> <li>– Privatization of many economy sectors.</li> <li>– Implementation of labor flexibility policies.</li> <li>– Opening to foreign capital.</li> <li>– New Political Constitution (1979)</li> </ul>	– Made to curb Velasco's reforms, but without enough strength to achieve significant improvements. The new constitution aimed to get Peru out of the military regime and lead the country towards a democratic regime.
1980	– Second election of Fernando Belaunde	– Represented the return of democracy, after 12 years of military governments.	<ul style="list-style-type: none"> <li>– Economic liberation was continued.</li> <li>– A new currency was created: Inti.</li> <li>– Management of external debt and the agrarian crisis product of the military government.</li> <li>– El Niño Phenomenon (GDP fell to -13.2%.)</li> <li>– Appearance of “Sendero Luminoso” and terrorist groups.</li> </ul>	– It was a government that didn't have enough strength to carry out the necessary social economic reforms. On the other hand, its lack of decision allowed terrorism to expand throughout the country. Violence forced many families to migrate and find safety and new opportunities in Lima, creating a debacle in the regions. The security conditions in which Peruvians lived were impoverished.
1985	– Election of Alan García	– Alan García, candidate of APRA, was the youngest president to assume the Presidency.	<ul style="list-style-type: none"> <li>– The resulting inflation from this government reach 2,178,482%.</li> <li>– The International Monetary Fund declared Peru ineligible (not subject to credit).</li> </ul>	– In economic terms, this government left Peru in the disaster. With levels of inflation never seen before and the growing problem of

			– Foreign investment was significantly reduced.	terrorism, that Garcia failed to combat.
<b>1990</b>	– Election of Alberto Fujimori	– Alberto Fujimori beat the writer and politician Mario Vargas Llosa in second round.	<ul style="list-style-type: none"> <li>– Economic shock of 1990: it had a high social cost, since poverty increased as a result of stabilizing the economy.</li> <li>– The currency changed: “Nuevo Sol”.</li> <li>– Inflation was significantly reduced to 139% in 1991, and GDP increased from -4.9 to 3%.</li> <li>– The country was reinserted into the international financial system.</li> <li>– Growth in the informal sector.</li> <li>– Foreign investment was fostered.</li> <li>– Fujimori Auto-Coup (1992)</li> <li>– New Constitution (1993)</li> <li>– The Capture of Abimael Guzmán, leader of Sendero Luminoso (1992)</li> </ul>	– It was a government that, in the beginning, returned economic and social stability to the country, but unfortunately many acts of corruption and human rights violations were committed. The auto-coup was an unconstitutional fact, that allowed the implementation of a new constitution. It also allowed Fujimori to have a reduced level of opposition in the new parliament, which allowed him to make the necessary economic and social reforms, but on the other hand, many crimes. The Capture of Abimael Guzmán returned the trust to the population about security in the country.
<b>1995</b>	– Reelection of Alberto Fujimori	– Alberto Fujimori was reelected in the first round with 64% of the votes.	– The economic stabilization of Peru was consolidated and security was strengthened due to the defeat of “Sendero Luminoso”.	– With a much more socially and economically stable country, Fujimori made a mediocre government that allowed the country's economic growth, but committing serious acts of corruption.
<b>2000</b>	– The fall of Fujimori	– Bribes were paid to politicians and businessmen to favor the government. Fujimori resigns from the presidency by fax, runs away from justice and takes refuge in Japan.	– Political and economic instability in Peru.	– Fujimori wanted to be re-elected for the second time illegally. There were also acts of corruption made in his government, which generated popular protests and forced the president to resign. This issue meant the considerable reduction of political, economic and social problems started in Velasco government.
<b>2000</b>	– Provisional Government of Valentín Paniagua	– Congress refused to accept Fujimori's resignation and dismisses him. Valentín Paniagua is appointed as Provisional President.	– 2001 General elections were scheduled.	– Democratic transition that established the basis for the future stabilization of the country.
<b>2001</b>	– Election of Alejandro Toledo	– Alejandro Toledo, candidate of “Peru Posible Party”, who had led the opposition to the reelection of Fujimori, won first place in the presidential elections with 36% of the votes.	<ul style="list-style-type: none"> <li>– Price stability.</li> <li>– Cumulative export growth at 44.7%.</li> <li>– Cumulative growth of private investment by 25.2%.</li> <li>– Average annual inflation was 1.8%.</li> <li>– Average annual growth of 4.5%.</li> <li>– Free Trade Agreement with the USA.</li> </ul>	– The stability and economic growth allowed to modernize the country in many aspects. On the other hand, Fujimori's economic model was generally followed, which gave private companies a lot of freedom.

<b>2006</b>	– Second Election of Alan García	– Alan García defeated Ollanta Humala in the elections. Peru gave a second chance to the president who had bankrupt the country in the 80s, due to the fear of a possible election of Ollanta Humala and his links with the socialism of Venezuela and Cuba.	– GDP grew on average 7.2%. In the 5 years of government. – Inflation remained controlled, with an average annual percentage variation of 2.9%. – About 2,260,045 jobs were created. – Poverty was reduced from 49.2% to 27.8%.	– Unlike his first government, Garcia's second government was very good economically. Policies favorable to the world context of mineral prices were taken, which allowed to have very high values of annual growth.
<b>2011</b>	– Election of Ollanta Humala	– Ollanta Humala, leader of the Nationalist Party; initially proposed a left-wing government that was going to end the neoliberalism. However, his government followed the same trend as previous governments.	– The GDP rose 4.4% per year on average. – Poverty was reduced from 28% to 22%. – The average inflation of 3.3% was slightly above the established limit. – By September 2012 there are 167 social conflicts in Peru, of which 75% are related to mining.	– Peru continued to grow on average more than the region. With this government, more than a decade of economic growth was consolidated, that allowed improving welfare conditions. However, many social problems were pending to solve. In this government began to live a period of economic stagnation, because the country grew less than in the previous 2 governments (Toledo and Garcia).
<b>2016</b>	– Election of Pedro Pablo Kuczynski	– The candidate of “Peruanos por el Cambio Party” defeated Keiko Fujimori (Alberto Fujimori’s daughter).	– Government characterized by constant fights between the government and the opposition. – Many ex-presidents and politician were under investigation because of corruption. – In 2017 in Puno region was found one of the biggest lithium deposits of the world.	– The economic stability of almost 2 decades allowed to have a more organized country. However, political problems between opposing parties, affected the country's stability from many aspects.
<b>2018</b>	– Resignation of Pedro Pablo Kuczynski	– On March 21, 2018, Pedro Pablo Kuczynski made his resignation to the Presidency of the Republic official in the midst of investigations about vote buying and corruption.	– Political and economic instability in Peru deepened. – Private investments were considerably reduced due to the climate of uncertainty in the government.	– This fact consolidated the political instability in the country in recent years.
<b>2018</b>	– Martín Vizcarra assumes as president.	– On March 23, the vice president, Martín Vizcarra swore as president of the Republic. His government tried to solve the tense relationship between the Executive and the Legislative.	– Government involved in disputes between the Executive and Legislative, as well as corruption problems. – Peru closes 2018 with an economic slowdown: 3.99% per year. – By 2018, social conflicts have been increasing, being 183: 115 are socio-environmental and 73 are mining conflicts.	– Political instability and corruption problems are the main feature of this government. Where it seems that the economic and social management of the country has been left aside by the political issues.

Sources: Instituto de Estudios Peruanos, El Comercio Perú, Instituto Peruano de Economía, Comisión de la Verdad y reconciliación, Semana Económica.

## Current Economic Context

As it is read in the Peru's Context, the country has gone through many socio-economic problems throughout its recent history. As a summary, it could be said that from the beginning of the 70s until the end of the 90s (approximately 30 years), Peru suffered continuous social and economic crises, which produced a negative impact on the country's development. This fact probably changed the development model that was initially raised; giving way to corrective measures that have been solving daily problems, postponing long-term plans development. Since the new millennium, Peru has had years of stability and economic growth, which has allowed to considerably improve the quality of life in the country. Peru is currently one of the best performing economies in Latin America (World Bank, 2018). The road is still very long and the lost time has to be recovered.

**Figure 1.4 - Peru's GDP per Capita: 1950 – 2017 (Nuevos Soles)**



Source: Sociedad Nacional de Industrias:

In recent history, during the last 5 years, Peru's economic situation has suffered a slowdown, mainly due to the following causes (Informe Económico AFP Habitat, 2019):  
Fall of the international price of metals and reduction of investment in capital goods in

2014, slowdown of the construction sector in 2015, stagnation of large infrastructure projects, 2017 El Niño, and reduction of public and private investment, due to the political situation in 2018. According to the report of Red Econolatin, macroeconomically Peru is relatively stable in 2018, growing by 3.99%, which was higher than the growth of 2017 (2.5%). Private investment also grew. The sector that grew the most was fishing with 39.7%.

According to the same report of Red Econolatin, economic growth for 2019 is predicted similarly to 2018 (4%). As it is seen, there has been a significant slowdown in recent years, which is not expected to change. Some significant factors that could boost the economy are investment in mining (about 8.7 million dollars), or the increase in domestic consumption due to improvements in labor formalization. On the other hand, public investment and the promotion of sectors such as fisheries and agriculture could be reduced. In the same way, economic tensions between the USA and China are likely to continue to affect the economy, as Peru is a country that depends mainly on exports. Improvements in political stability could positively impact the confidence of entrepreneurs, however, it is thought that it won't be enough to generate a considerable impact on 2019's growth.

It's pertinent to mention the persistent social conflicts present throughout the country, which significantly impact the economic and social situation. These conflicts stop and jeopardize public and private activities, making industrial and commercial projects dilated or truncated in the worst case. According to The Public Defender (Reporte de Conflictos Sociales Defensoría del Pueblo, 2019), by April 2019, 184 social conflicts persist, of which 134 are active and another 48 are in a dormant state. Among active social conflicts, mining conflicts represent 66.3%, generating economic stagnation for billions of dollars a year and a high cost of resolution. It's recommended that the state resolve these conflicts through dialogue and consensus, as soon as possible, since the country's welfare depends largely on it.

From a private approach, the main characteristic of this sector is the growing informality in Peruvian entrepreneurs. This is an extremely serious problem, since Peru is one of the

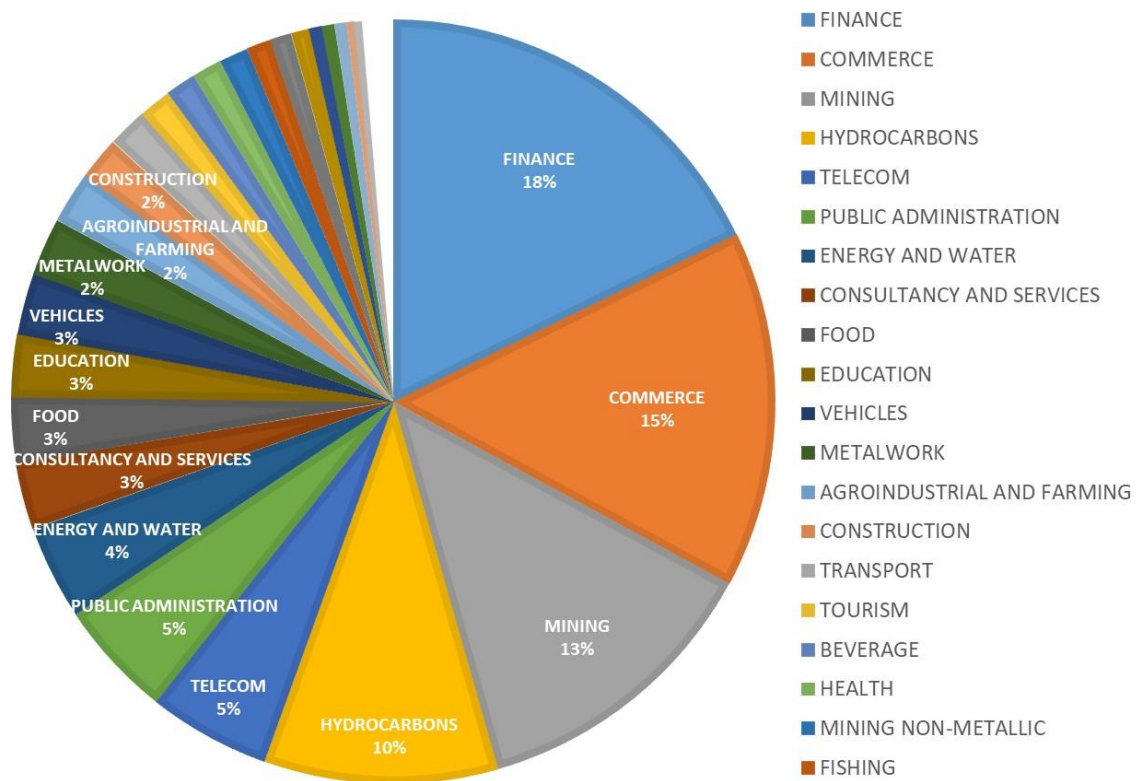
countries with the biggest informality in the world, which directly affects the country's development. According to Peruvian economist Norman Loayza, in the study "The causes and consequences of informality in Peru" (Central Reserve Bank of Peru, 2007); "informality is identified with working outside the legal and regulatory frameworks, informality is best described as a latent, unobserved variable" (Loayza, N., 2007, 2); and is generated when the costs of entering the legality are greater than the benefits. It's a characteristic issue of developing countries, caused by the low level of laws and order, low levels of education, poor productive structure (commercialization of natural resources) and demographic trends (high young and rural population).

Thus, under an unstable political environment, stained with problems of corruption, economic slowdown, social conflicts and informality; companies must try to succeed and, at the same time, contribute to the country's development. In that sense, The National Confederation of Private Business Institutions, (CONFIEP, by its Spanish acronym), in its 2019 statement, presents the private companies' commitments for country's development. As main goals, the statement indicates the transformative role of having a new business culture focused on the common good, to provide better opportunities for all Peruvians; and achieve a sustainable Peru's development (CONFIEP, 2019). In the same way, the statement establishes its commitment to generate equal opportunities, promoting education and signing agreements with universities, in order to have more qualified professionals. On the other hand, to promote innovation is a priority in order to face what they call "the fourth industrial revolution". Likewise, other objective is to institutionalize public-private dialogue, since both, the state and private companies, must have common objectives that leads the well-being of the population. Finally, companies need to regain people's trust through the fight against corruption, since according to studies, 71% of Peruvians consider entrepreneurs highly prone to commit corruption (CONFIEP, 2019). It's the duty of companies to work for an ethical system, committed to Peru's development.

## 1.4 Industries and Firms in Peru

Having previously defined the historical and current economic context on which companies will operate, it's going to be presented which are the most important sectors in Peru's economy. According to Peru the top 10,000 companies" (2019), the main companies in 2018, according to their income levels, are the sectors of Finance, Commerce, Mining, Hydrocarbons and Telecommunications.

**Figure 1.5 -Main Economic Sectors of Peru (2018 Income)**



Source: Peru Top 10,000 Companies. Own elaboration



Additionally, the percentage distribution of the number of main companies located in each department and by each sector can be seen in the following table.

**Table 1.7 - Peru's Distribution of Companies**

Sector	Finance	Commerce	Mining	Hydrocarbons	Telecom	Public Administration	Energy and Water	Consultancy and Services
Region	Participation	Participation	Participation	Participation	Participation	Participation	Participation	Participation
Amazonas	0.22%	0.32%	0.15%	0.57%	0.41%	2.00%	2.23%	0.08%
Ancash	0.66%	1.39%	1.49%	3.05%	0.41%	5.87%	1.12%	0.27%
Apurímac	0.66%	0.37%	0.15%	0.76%	0.41%	1.37%	1.12%	0.19%
Arequipa	2.65%	3.49%	3.28%	3.05%	1.22%	5.49%	2.79%	2.24%
Ayacucho	0.44%	0.79%	0.00%	1.14%	0.82%	2.87%	0.56%	0.42%
Cajamarca	1.33%	1.13%	0.30%	4.00%	1.22%	4.49%	1.68%	0.73%
Cusco	1.33%	1.83%	1.04%	2.67%	1.22%	6.62%	3.35%	0.42%
Huancavelica	0.00%	0.10%	0.00%	0.00%	0.00%	2.25%	0.56%	0.00%
Huánuco	0.22%	0.94%	0.15%	1.33%	0.82%	1.87%	0.56%	0.19%
Ica	0.66%	1.49%	3.28%	2.10%	0.82%	2.75%	3.35%	0.39%
Junín	0.66%	1.87%	0.60%	3.81%	0.00%	4.12%	3.35%	0.62%
La Libertad	1.99%	3.26%	4.47%	6.29%	1.22%	5.24%	1.12%	0.93%
Lambayeque	0.88%	2.34%	0.00%	2.48%	1.22%	2.12%	1.68%	0.66%
<b>Lima</b>	<b>82.74%</b>	<b>68.51%</b>	<b>55.14%</b>	<b>51.62%</b>	<b>85.31%</b>	<b>34.21%</b>	<b>58.10%</b>	<b>90.15%</b>
Loreto	0.66%	2.08%	0.15%	3.24%	1.22%	1.75%	1.68%	0.39%
Madre de Dios	0.22%	0.71%	1.34%	3.43%	0.41%	0.62%	0.56%	0.04%
Moquegua	0.66%	0.21%	0.00%	0.38%	0.41%	1.12%	1.12%	0.15%
Pasco	0.44%	0.23%	0.00%	0.00%	0.00%	2.00%	0.56%	0.19%
Piura	1.55%	2.25%	0.45%	5.33%	0.41%	4.24%	4.47%	1.24%
Puno	0.44%	1.91%	27.87%	1.52%	1.22%	3.12%	3.91%	0.31%
San Martín	0.66%	1.66%	0.00%	1.33%	0.82%	2.00%	2.79%	0.08%
Tacna	0.44%	1.23%	0.15%	0.19%	0.00%	1.50%	1.68%	0.12%
Tumbes	0.22%	0.40%	0.00%	0.19%	0.41%	1.00%	0.56%	0.00%
Ucayali	0.22%	1.49%	0.00%	1.52%	0.00%	1.37%	1.12%	0.19%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Peru Top 10,000 Companies. Own elaboration

There are notable differences among the number of companies located in Lima and those that are settled down in other regions. It could be inferred that since Lima is the capital, the number of companies is going to be greater, even though, it was difficult to predict the difference was so large. There's no sector in which Lima doesn't have a difference of at least 5 times the second region with the largest number of companies.

### **1.5 Decision of Geographic Location of the Company**

In order to determine the business location, several theories have been postulated. Among the most important:

- Weber location model: According to Melchior, 1976. This model was developed in a period of many international migrations, focusing in the industrial production, leaving aside the location of trade, credit and capital. Weber, in his book: "Theory of the Location of Industries", 1909; define and classify the location factor as follow:

First classification:

- General factors: place factors.
- Special factors: industry factors.

Second classification:

- Regional factors.
- Agglomerative factors.

Third classification:

- Natural and technical factors.
- Social and cultural factors.

It is convenient to say that, for Weber, the pure theory must be independent of sociocultural and particular factors (Melchior, 1976).

On the other hand, Weber raises location models:

- The first model: production costs are regular and the price of products varies depending on transport.
  - Second model: based on labor costs and agglomeration economies.
- 
- Leon Moses location theory: Unlike Weber's theory, Leon Moses indicated that the maximum benefit depends not only on minimizing transport costs, but on other variables such as inputs and outputs, location per se, and the price (Suarez, 1973).
  - On the other hand, according to Bustos Gisbert, 1993, another important theory was proposed by T. Palander, whose location studies are intended to demonstrate that sales areas are limited and affect the company's profits. Both, sales and profits, are affected by location and competition decisions.
  - Additionally, Hoover, 1948; raised another theory that, like Weber, postulates that the minimization of transport costs is the main factor in location. But he added the following idea: costs can vary and impact the market size and the factory location.
  - According to economist Lösch, 1954; Market size is the main factor that defines the plant location.
  - On the other hand, according to Hormigo, 2006; There are certain authors who propose an integrated vision of location models such as:
    - Greenhunt, 1956: introduced economic variables in the taming of location decisions, which tried to fit the reality.

- W. Isard, 1956: general equilibrium model between the optimal outputs and the number of factors analyzed, depending on the company size.
  - D. Smith, 1971: the study of industrial location must be independent of the total industrial system.
- To simplify the described theories: when deciding where to settle down the company, there are certain variables to be evaluated, so that the owners or directors make decisions that favor the efficient company's operation, to obtain the maximum profitability or the minimum costs.

A very didactic explanation to decide the location of the headquarters, is developed by the authors Bertha Diaz, Benjamín Jarufe and María Teresa Noriega, professors of the University of Lima, in their book: “Disposición de Planta” (2007). It could be considered that the variables analyzed in the book have a Peruvian approach, and are better suited to the common of companies to be developed in this country.

The factors analyzed are the following:

1. Proximity to materials: It is assessed the level of accessibility to raw materials, reserves, as well as suppliers or auxiliary services.
2. Market proximity: It is analyzed the market dispersion and its potential demand.
3. Labor availability: The potential employees' qualification at all levels is evaluated.
4. Energy supply: The level of access and costs of energy in the area are analyzed.
5. Water supply: Sources, costs and characteristics of available water are evaluated.
6. Transportation services: Convenient access and exit routes are analyzed.
7. Land: Regarding the assessment of the streets' quality, neighboring companies and real estate prices.

8. Climate: Variables such as temperature, hours of sunshine per year, humidity, winds, and frequency of catastrophes are studied.
9. Waste disposal: solid waste treatment plants or wastewater are analyzed; as well as sewer systems.
10. Legal and fiscal regulations: Taxes, insurance and regional norms are analyzed, as well as the entities to whom they are accountable.
11. Living conditions: All variables concerning the standard of living are assessed: Food and housing supplies, living costs, educational establishments at all levels, shopping centers, health establishments, security, among others.

According to the same authors, these evaluations are carried out at macro-localization levels (country and region) and micro-location (district, street).

Finally, all those variables and factors must be solved by applying methods, which can be qualitative or quantitative. The method to be applied will depend on the product features, the time, costs, capacity of analysis and decision makers' preferences. It should be taken into account that the different methods seek approximations to the reality, but they don't replace it, since many factors are changing and whose control doesn't depend on the company.

Among the qualitative methods are: the analysis of the commercial / industrial background of the area, the analysis of the decision makers' personal preferences, and the assessment of the dominant factor, (a factor which is extremely dominant with respect to the others).

Among the semi-quantitative methods, we have "The Ranking of factors", which analyses the 11 previously described factors, assigning weights and confronting each of them. The areas that have the highest rating regarding main factors will be selected. Every company makes the decision to settle down in a place applying partially or totally the analyzes and methods described previously. The level of demand is given by each decision maker. The success of the decision will be supported by the economic results,

and specially, by the sustainability of the business over time. It is recommended to make an analysis whose scope goes beyond the economic approach.

## **1.6 Role of the Peruvian State in the Promotion of Private Investment**

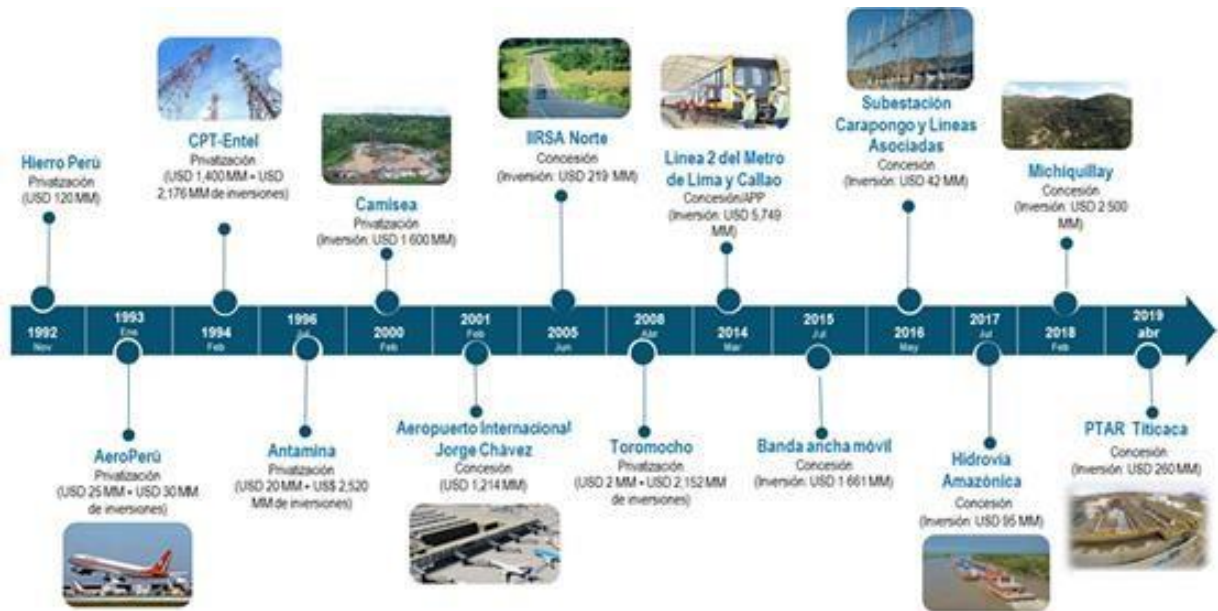
According to Peru's Ministry of Economy and Finance (2018), the current process of promoting private activity has its origins in the early 1990s during the government of Alberto Fujimori (economic stabilization and opening to international markets).

The bases of this model are found in the Framework for the Growth of Private Investment of 1991: Legislative Decree No. 757 and the Peruvian Constitution of 1993. They provide the private sector the power to invest and participate in the country's business activity.

According to the chapter "Constitución Económica" of the Peruvian Constitution of 1993. Provisions are established to guarantee the right to private property, the promotion of free private initiative, free competition and equal treatment, the subsidiary role of the state and the guarantee of equality between domestic and foreign investors.

That said, nowadays, at the end of 2018, the Legislative Decree N° 1362 was published to regulate the Promotion of Private Investment through Public Private Partnerships. Under these legal frameworks, the state encourages private investment by basically targeting megaprojects (highly complex) in key sectors of the Peruvian economy, such as energy, mines, transportation or construction.

**Figure 1.6 Emblematic Private Investment Projects in Peru**



Source: Ministerio de Economía y Finanzas Perú

On the other hand, according to the Study of The Decentralization Process in Peru, prepared by the Comptroller General of the Republic in January 2014; The Organic Law of Regional Governments (2002), promote the activities of private sector (national and foreign), towards the exploitation and trade of the resources of each region. Likewise, to boost the initiatives to decentralize the country's economy, in 2003, the Framework Law for the Promotion of Decentralized Investment was enacted, to empower the state in the decentralization of investment. Specifically facilitating private companies in investment of public projects, sale of assets, concessions, joint venture, management contract, outsourcing, among others (Estudio del Proceso de Descentralización en el Perú, 2014).

## 1.7 Limitations for the Firm's Location

The restrictions for the location are directly related to the factors previously described in point number 3. The main limitations are:

- Geographic and Demographic Limitations: According to The Environmental Performance Study 2003 – 2013, of the Ministry of Environment (ESDA by its Spanish acronym), the variety of geographic relief in Peru makes the distribution of the population varied and difficult to access. In the same way it is indicated that the distribution of the territory is inverse to the disposition of the natural resources, since most of the population lives in the coast, which is a desert zone, with fewer natural resources compared to the rest of the country. On the other hand, Peru is one of the countries with the greatest number of ecosystems in the world (World Bank, 2019), This may be an advantage, but it can also be a problem, as these characteristics make Peru highly vulnerable to climate change and natural disasters. A potential problem for sustainable development projects.
- Limitations of Living Conditions: According to the 2017 Regional Social Progress Index, published by CENTRUM Católica Graduate Business School, and Social Progress Imperative, there is considerable difference between the living conditions of the different regions of Peru. Only four mainly coastal regions have indexes close to 65 points, which indicates a medium-high level of progress (Metropolitan Lima, Ica, Tacna and Moquegua), while most of Peru has medium-low and low levels of development, which they range from 50 points to 63. That denotes the great differences in aspects such as health, access to education, basic human needs, opportunities, nutrition, housing or personal security.
- Competitiveness Limitations: According to the World Innovation Index 2017, 2018, 2019 Peru is ranked 70, 71 and 69 of 126 countries, respectively. This index shows the result of indicators that analyze the capacity to innovate in the



infrastructure, political, business development and education sectors. As a result, Peru has serious deficiencies in innovation. In the same way, analyzing the Regional Competitiveness Index 2019, prepared by the Peruvian Institute of Economy, competitiveness indicators can be compared between Peru's regions. These indicators assess performance in economic, infrastructure, health, education, labor and institutional sectors. As can be expected, Lima is the region with the best overall score with an average of 7.7 points out of 10. Similarly, regions such as Arequipa, Tacna, Moquegua and Ica (mostly coastal) occupy the top positions. However, most regions have ratings below 5 points, showing significant gaps in regional development, as well as competitiveness deficiencies.

### **1.8 Business Plans and Prefeasibility Studies of Main Economic Sectors**

The following studies shows the technical and economic feasibility of implementing businesses. It has been chosen main economic sectors, as they have more significant impact in a country's economy.

- Trade / Agrobusiness Sector: Industrial Engineering Thesis of Pontificia Universidad Católica del Perú, Peru. Title: “Factibilidad de una empresa productora, procesadora y exportadora de espárrago verde”. Autor: Reyes Morales, Norman. This study seeks to take advantage of the USA Free Trade Agreement, and implement a plant that processes asparagus. The decision of location is based mainly due to the proximity to the port of Callao (Lima), which will facilitate the export of the products.
  
- Agrobusiness Sector: Specialization in Management Thesis of Investment Projects of Universidad Externado, Colombia. Title: “Estudio de factibilidad de una sucursal de la cafetería Arco Iris en el municipio de La Vega”. Authors: Ramos Córdoba,

Eliana, Romero Monroy, Juan David. This studio shows the way how empirical location decisions are made.

- Manufacturing Sector: Industrial Engineering Thesis of University of Lima, Peru. Title: “Estudio de prefactibilidad para la instalación de una planta de montaje de brazos hidráulicos aislados sobre camiones”. Autor: Rodríguez-Ugarte, José-Luis. In this thesis, it is decided to install the plant in Lima, having proximity to most suppliers and customers, so it would facilitate the start-up of the company.
- Manufacturing Sector: Thesis in Master in Management of Universidad de Palermo, Argentina. Title: “Estudio y Análisis de Factibilidad del Negocio de Barras de Cereal”. Author: Cerdá, Marcelo. This study presents the importance of a growing market for plant localization.
- Construction: Master’s Thesis in Management and Evaluation of Investment Projects of Universidad Externado, Colombia. Title: “Factibilidad financiera de un proyecto de construcción en C&M Urbanizadora S.A.S.”. Author: Acosta Dallos, Edna Lissette, Caicedo Escobar, Esmeralda Mirely. This study, analyses the financial risks of implementing a construction business. One of the risks studied is related to the location decision and how this decision impact in the overall financial risk.

### **1.9 Reframing Problem and Identifying the Gap for Analysis**

In this literature review, it was analyzed many information from studies, publications and books; regarding the historical, geopolitical, socioeconomic and business environment that companies face to decide the location for their headquarters in Peru. However, the literature isn’t rich enough to answer precisely the question of “why do most private firms in Peru decide to settle down in the capital Lima and not in other regions?”. Basically, the decisions made in the studies haven’t been implemented and confronted with the described environment.

Peru's economic stability has increased the number of entrepreneurs and business opening; hence, it's very important to understand how they decide the location in a real environment.

In order to understand this problem, it is suggested to answer these questions:

- Is the regional level of development decisive in the location decision?
- Which factors should be taken into account to consider locating the company in a different region?
- How Peru takes advantage of its economic stability to increase and diversify the level of companies in the regions?

## **CHAPTER II. THEORETICAL FRAMEWORK**

## **2.1 Research Methodology**

### **Methodological Approach**

Because of the research goal and the context in which it takes place, it is necessary to find more real answers that go beyond the rational reasons that motivate localization decisions. As stated, it is considered that the development of quantitative research would not provide new information relevant to the study, since, it is required to deepen the responses. Therefore, known quantitative methods would limit this purpose.

In order to make a contribution to the studies already carried out, and to have a more comprehensive view of the problem, quantitative information will be used only to contextualize the problem. On the other hand, in order to obtain more satisfactory answers, a qualitative research will be carried out, which will allow the participants to develop their answers in an extensive way. As said, the purpose of this research is to understand and not to measure.

### **Qualitative Analysis**

Qualitative analysis will explicitly clarify the answer to the research question. This method must specify the causes and deepening the real limitations that cause this problem.

In summary, in order to have the most complete result possible, and taking into account the limitations, the qualitative method will be applied. This analysis will give a strong validation, and “capture the complex and vivid processes of people and institutions studied” (Miles, Huberman, Saldana, 1994).

## **Method and Data Collection Description**

### **a. Existing Data**

#### **Data Selection Criteria**

The data has been taken mainly from national and international organizations that operate at the macro level (country). This kind of organizations has been selected, as they are official institutions, whose studies guarantee truthfulness and accuracy. Additionally, data has been sought in universities and postgraduate schools, as well as newspapers and economy magazines.

#### **Source of Material**

- Peruvian Institutions: Instituto de Estudios Peruanos, Instituto Peruano de Economía, Comisión de la Verdad y Reconciliación, Sociedad Nacional de Industrias, Banco Central de Reserva de Perú, Defensoría del Pueblo, CONFIEP. Ministerio de Economía y Finanzas, Ministerio del Ambiente, Centrum PUCP.
- International Institutions: World Bank, Social Progress Org, Red Econolatin, OCDE.
- Newspapers / Magazines: El comercio, Semana Económica, Perú Top 10,000.
- Books: publications of de La Universidad de Lima, Centrum PUCP, Universidad de Palermo, Universidad Externado, Colombia, Peruvian Constitution.

## **Method of Analysis Description**

### **Qualitative Method**

The interviews are made via skype or WhatsApp videocall. It will be also recorded, transcribed in Microsoft Word and registered in NVivo 12 system. Then, they are coded in topics, in order to be able to have a deeper understanding of the answers.

## **Justification of Methodological Choices**

As explained initially, making a qualitative analysis is considered the best choice. The interviews have been taken as analysis, because it is method that best fit the limitations of information and time. In addition, it is considered that this method provides enough information to generate strong conclusions in this thesis. Methods such as case analysis, focus groups or surveys have been discontinued, as they are very costly and could take a long time to complete.

The reasons why this type of research is done are the follow:

- It aims to prioritize the human behavior or social reality of people within a culture, where they make sense to their concepts of the environment in which they live.
- It is not necessary to prove a hypothesis, since the research can begin with the analysis of the facts, and then develop theories that support these facts. It also allows the validation of previously collected quantitative data.
- No need to generalize probabilistic results.
- It can provide more descriptive information to interpret the answers. It can also analyze complex and particular facts.
- A social approach can be used to allow the reconstruction of reality from that perspective.
- Clarify research questions during the interview, because it will avoid misunderstandings. It also will allow to deepen the answers.
- It builds a theoretical framework that reflects the reality of study.
- Small, heterogeneous samples can be used, as they are useful as there aren't many resources and time available for the research.

## **2.2 Qualitative Results**

### **Interview Framework**

For each interview, a general framework was created in which the same questions were basically made for each participant. The interview was designed in a semi-structured way,

which allowed to gather more detailed and reliable information, in case the participant wants to add more information that considers relevant for the research. The interview included a set of questions about perception of the centralization of companies in the city of Lima, and intended to obtain points of view based on experience from their field of work.

The data was collected applying a qualitative research through 12 interviews done between September and October 2019. To contact participants, it was sent an email or Whatsapp message, presenting the research and asking them about the possibility of an interview. Later, it was agreed a schedule of interviews, which were done via Whatsapp video call, because most of the participants live in Peru. Only a single interview was done in person, because the participant is currently working in France. Due to difficulties of the internet signal, some recordings have cuts; hence, just the most important parts of the interview were recorded. All interviews were done in Spanish, as all the participants are Peruvians. Each interview also lasted between 20 and 55 minutes.

Regarding the analysis of the information, each interview was analyzed separately using the software NVivo 12, in which the topics that the researcher considered relevant were grouped. It should be noted that the main limitation of the research is that the study is based on the perception, experience and points of views of each participant. However, the interest of the research is precisely to find additional answers to those already commonly studied, contributing to generate a comprehensive vision of the problem.

The interviews were done to 12 people: 7 women and 5 men, all of them Peruvians, with a good knowledge of the business environment in Peru.



**Table 2.1 - Details of Participants**

<b>Participant</b>	<b>Location</b>	<b>Field of Work</b>	<b>Hierarchy</b>	<b>Gender</b>	<b>Age</b>
1	Lima	Health industry	Founder	Female	32
2	Lima	Textile industry	Founder	Female	45
3	Paris	Research	Researcher	Female	30
4	Arequipa	Health industry	Founder	Female	31
5	Lima	Wood industry	CEO	Female	31
6	Sao Paulo - Lima	Agroindustry	Founder	Female	32
7	Lima	Automotive Service Industry	Co-founder	Male	32
8	Lima	Real Stare – Hotel Industry	Manager	Male	33
9	Cuzco	Tourism Industry	CEO	Male	41
10	Lima	Construction – Mining Industry	CEO	Male	30
11	Lima	Energy Industry	Company lawyer	Female	32
12	Lima	Marketing Consulting	CEO	Male	61

Source: Interviews

Elaboration: Own elaboration

## **Findings**

### **▪ Poor knowledge of Peru’s Cities**

During the interviews it was pointed out that one of the main reasons why business men don’t locate their company outside Lima is the lack of knowledge of markets in other cities, which they consider very risky.

- If I don’t know the market, I mean, if I don’t do correctly my market analysis, where I’m going to place and what I’m going to offer... well I’m going to invest for nothing, I’m not going to have profitability... Setting down in an area where you don’t know, it’s too risky. (Participant N°1)
  
- I could think of going to another province, yes; but knowing the other region first, you know what I mean... It’s more difficult to do a sectoral or geographic marketing because I don’t know the most commercial avenue, or the streets where I have to do my marketing, otherwise I would be lost. I mean, if I market in another region, I would have to know the “a, b, c, d” of the streets or districts. (Participant N°1)

In the same way, participants indicated that, been outside of Lima, would mean a much greater investment in advertising and marketing, which most of times, they are not willing to do. In many regions of Peru, digital advertising isn't much developed, and also internet penetration is lower. Therefore, they would have to opt for more traditional and expensive channels such as radio, television or face-to-face advertising.

- If you do a study and know in which regions, I could... but if you don't know about digital media and broadcasting, you're nothing. I'd have to invest in radio because that's how they work in provinces... besides, for TV and radio, you pay a lot of fees. People from Lima use more social networks and cell phones, I think they are more educated. (Participant N°1)
  
- If I go to province, I would have to hire a good advertising and marketing team, not only me, but a real team. Instead, in Lima I can do it myself, but in province I don't know... people listen to the radio in provinces, I would have to go to radio... is another kind of advertising. Here in Lima, I don't need to get into radios because advertising is done via social networks and in the provinces it's not that common. (Participant N°1)
  
- In provinces Digital Marketing isn't much developed; but for me, for example, It works, because It's less investment, I can reach more people and go focused to the type of customers I want: people who have a car, with enough income that allows them to pay for maintenance and take care of the vehicle. (Participant N°7)
  
- If I decide to settle down the business, for example in Huaraz; not only would I have to move the equipment to Huaraz, I would have to find a trained staff and to develop another completely different type of Marketing in points of sales, either flyers, activations, go to markets, fairs or go to bus terminals. Unlike Lima, I don't have to move to those places, I can do it from my computer, segment to what kind of

customers I want to reach, and manage my investment without having to do this kind of logistics at the point of sale as managed in provinces. (Participant N°7)

▪ **Appreciation of the Product or Service Offered**

In Lima there is a perception that people in other regions don't value products or services in the same way as in Lima. That is to say, sometimes they are indifferent to differentiate good quality products and bad quality products. This issue could discourage new ventures, because they argue that it would require a greater investment in positioning the brand in the new market. Also, to inform the new customers the benefits of the product, compared to other competitors. Even so, participants indicate that they are not guaranteed to gain the expected market, as it seems that this problem stems from a much larger and more complex cultural issue.

- Indeed, it's quite investment, I mean for the market penetration issue. You can do it, but you have to invest to convince people of your health service quality. (Participant N°1).
- Most people who go to the dentist or some kind of health service, “go to the one in front or at the corner” (to refer to any service, good or not) ...That's what it's all about, they just don't know. (Participant N°1)
- Sometimes even in the suburbs of Lima as in Megaplaza or in provinces, the quality of products such as clothing is of lower, but people still buy them. (Participant N°3)
- Sometimes you buy the car from Lima and drive it to province, change the oil in the mechanic “on the corner” (to make reference to anyone) and change the tire only when they burst. They haven't a vehicle care or maintenance education. Sometimes they don't appreciate what they have purchased. (Participant N°7)

On the contrary, it is perceived that those businessmen who decide to come to Lima due, among other things, to the fact that in the capital their product or service will be appreciated or they will find a market where they can differentiate their product. In the same way, many customers do the same to look for better products or services. It means, go to Lima to purchase.

- At least in the health sector, many people from other regions come to Lima, because there are better specialists. In fact, they (health services) are more up-to-date in Lima than in provinces... I have patients who come to Lima during a weekend. The best specialists are in Lima, because here are the best universities. (Participant N°1)
- I have clients who have come from Chiclayo or Trujillo, because they think there aren't good dentists in their city. (Participant N°1)

- **Peruvian Diversity**

As is known, the largest population in Peru is located in Lima, which could be considered as a summary of the population diversity that can be found in Peru. Consequently, regardless of the type of product commercialized, there is a high probability that a specific market for a product will be found within Lima. Similarly, if that market needs to be adjusted or switched, there is a high probability that the new target audience will also be inside Lima. This phenomenon explains the lower risk of deficient market decisions and its related cost savings. On the contrary, it is perceived that in smaller cities in Peru, citizens are more homogeneous (in education, ethnic origin, tastes and preferences). It's not being said that they are not diverse, but this diversity is much smaller than in Lima.

- In Lima is concentrated all types of clients, not only one specific. Then, there is a universe of customers that you can attack at the same time, let's say with different strategies you can attack at once. (Participant N°7).

- I think, in provinces we (businessmen) should be more useful for the area, what I don't think so. (Participant 2)
  
- I'm currently working with girls from Piura, from the high lands and nearby villages; and what they tell me is trendy there, is totally different from what I imagine... Those are things I wouldn't sell, things I don't identify with. (Participant N°2)
  
- Peru is very diverse, so I think that, if we understand the concept of “valuing diversity” and we focus on a specific market for each area, a business like mine could work (textile). Then, what happens is that we don't have the capacity to invest so much and have diversity of products. We have to focus on one niche and just distribute within it... Now, what we should do is value diversity and look at the needs of the area. (Participant N°2)
  
- ...Even within Peru you couldn't treat a consumer from Pucallpa like a consumer from Arequipa, because even within the country the culture is different... there is a sort of obviously cultural barrier. (Participant N°3)

In the same way, from the perspective of personal life, the cities' lifestyle and quality of life has an important value when deciding in which city to locate the business. The reason why is because in most cases, worker should move to a different city. Many of businessmen wouldn't be up to adapt to a city which doesn't make them feel comfortable, despite of how beneficial the business could be.

- Arequipa is a quieter city, in terms of safety and traffic congestion ... more comfortable for me, goes more with my lifestyle (Participant 4)

- Because of the fact that I was born in Lima and my environment is here, I have always wanted to build a company in Lima, not in other regions. I feel that the fact of being in Lima, I have more comforts for myself. (Participant N°5)
  
- (Talking about the issue of the Lima’s citizens moving to regions) ... It’s also a matter of adapting to the region, because if you don’t adapt, no matter how well your business goes, I don’t think you’re going to feel comfortable and therefore, you won’t put as much effort as you would in a place where you do feel comfortable. Then it would hurt the business itself too. (Participant N°7)
  
- (Talking about people who come from other regions to Lima) I think they come for an issue of need. It’s harder to have “everything” and then lose it; to have nothing and then have something. I think, the adaptation period of that change is easier. (Participant N°7)

On the other hand, some entrepreneurs think that the Peruvian state is managed from a very Lima approach. Often, not taking into account the cultural diversity of the country. This makes it difficult to implement public policies that are suitable to the reality of each region and make smaller cities have a developed environment for businesses implementation.

- That is another culture too, we cannot impose a type of politics that is not ours (Lima)... The state wants to implement policies without knowing the ideology, idiosyncrasies and traditions of the people. I firmly believe that the state ignores this. (Participant N°6).

- **Low Level of Demand**

A recurring topic, that is considered convenient to consider in this research, despite being a relatively obvious reason studied in the literature review, is the low demand in

small regions. Most participants believe that demand is lower in almost all industries, except in industries such as tourism, where it can be profitable.

- I wouldn't move the business to provinces, because there is no demand. (Participant N# 5).
- The risk of not locating my company well is sales, not having sales. (Participant N° 5)
- I would consider moving to province if there is more market. Por example, people from Cuzco entering more wood requirements. (Participant N# 5)
- What's happening is that I feel it's okay that businesses are centralized in Lima, because there's more economic access, to information, to everything. Because everything is born here, there is more population than in the provinces and there is more income, more expenditure. This means that businesses can increase their sales. (Participant N°5)
- I feel that, in my case, I don't believe my company can have a productivity level as a company that is based in Lima, or to reach the proposed goals. It's a market issue. (Participant No 5)
- The investment is not justified (Participant N°2)
- Because of the core business, I need a big demand and in Lima we have a huge flow of people. It is not worth the investment and risk of going to a place where people don't have a lot of income. Offering exactly the same goods and getting paid less isn't exactly my focus. I'm not willing to go to provinces. (Participant N°8)
- ...I imagine, one of the reasons is for example, the number of clients that you can have. Because being in provinces, the greater project that you can aspire is be linked to the municipality. It's very hard to sing a contract with a big company, because in provinces there aren't big companies. Then if you want to expand your portfolio and you offer a service, you should come to Lima... For example, if I set up a law firm (in provinces) what I'm going earn for providing my services wouldn't compare to what I'd probably receive for selling my services to a big firm in Lima. (Participant N°11)

On the other hand, it is argued that because there isn't enough demand in small regions, and in the case of specific projects, temporary offices are usually implemented or operations are outsourced. This strategy reduces the investment and the risk associated with it.

- We execute projects in provinces, but only for those projects is when we temporarily implement offices in provinces. For example, if we have to implement a transmission line in Cusco, in a remote town; we obviously set up a temporary office there and hire staff from that area, but we talk about personnel for certain minor functions. But engineers or project managers are hired from here (Lima), or brought from abroad. We are only there during the execution of the project, once finished, we close the offices. (Participant N°11).

- **Informality**

The perception of businessmen is that in provinces there is a higher level of informality, not from the point of view of "informal companies", but from the strict sense of this concept. They consider it risky to operate in an informal environment (cultural problem), if their vision is to be sustainable in the long term. Dealing with informal companies, having informal suppliers or informal competitors can harm the company's performance.

- What happens in Peru is that it's a very informal country. If you have a small business that is emerging, informality can damage you seriously... If you really realize the informality issue here, I imagine that in province it should be the same or even worse, because there are many people who are selling things or reselling things informally (Participant N°2)
- ...Of course, most companies are informal, because they will always be asked for high taxes. (Participant N°9)



- Large companies seek to work with large or formal companies, (they could work with you) if you are a medium or small company, but formal, have workers on the payroll, have offices where you can leave the invoices... (Participant 10)
  
- Many times, companies decide to move to Lima or hire services from Lima, because in regions companies are very informal, that often operate in houses. It's not a matter of investment or budget, but a cultural problem. That issue makes customers decide to look for companies that are located in Lima, for a matter of seriousness and formality. That also makes people locate their business in Lima, which is beneficial for the company's image. (Participant N°10).
  
- **Aspiration and Social Progress**

Since before the republic, Lima, the capital, is perceived as the best city to live in Peru. Historically this city was benefited from the offer of better public and private services, making the quality of life higher. At present, some other regions have been developing, leaving aside problems such as terrorism or extreme poverty, reducing the quality of life gap with the capital. However, the perception of people living in the regions has not changed, they still seeing Lima as the most beneficial city to live, whether or not they have made an assessment of the pros and cons of living in that city. Often, this perception is acquired, learned from the family or close environment, and could be perceived as a social ascent.

  - There's a whole mystique about Lima, because a lot of people went to Lima in pretty complicated circumstances, especially during the '80s, I mean, but everybody knows that there's the best education, there is the best of the best (in the country). That's the goal, it's like: "I aspire to arrive here", which is aspirational. I don't perceive that here in France, because people can move to quieter cities and still get a good job. For example, I lived in Toulouse, where there is this giant company

called Airbus, and there are many professionals working there and basically the city can live from that... (Participant N°3)

- I believe that people who move from provinces to Lima, come with a stronger goal, dreaming to get ahead and develop themselves; and possibly, carrying family's responsibilities... I believe that businessmen in Lima who want to try out in provinces, is because they want to explore. They want to see which opportunities can find. Instead, the people who come from province to Lima is because Lima is their opportunity, is their chance for development, "yes or yes". (Participant N°7)
- Everyone wants to send their children to the best universities and obviously, they are in Lima. (Participant N°3)
- There are businesses that, by their very nature, there's no sense that they are located in Lima. But everyone wants to be there. (Participant N°3)
- There are even many people from the high lands, who have grown up their company and still have the dream, the dream of their grandparents: someday move to Lima. It is an aspirational issue. For example, my grandparents on my mother's side, migrated from Cajamarca to Lima. (Participant N°6).
- ...that was the aspirational issue for them, many times we don't recognize that we want to evolve. What was perfect at that time and we think will be the same in a couple of years, it won't be anymore. There were many factors that made them migrate, but they're not anymore. I also imagine that it's the lack of education or a lagging thought that by inertia they say: "Lima", but without making a real evaluation if it's the most convenient for their life or company. For example, I've been in far-off places, forgotten. In Junín (high lands), for example, a child who studies in a public school, he will probably have the dream of knowing the sea (in Lima). (Participant N°6).

On the other hand, it is perceived by some people in the capital, that moving to provinces is not the most beneficial decision.

- It's a matter of perception, it's a matter of social inclusion, because people go to provinces for holidays, but I don't know many people who have been working or studying in Lima and accepted to work in Ayacucho (high lands) as they can move in other places (countries). You don't see that much, and the ones that move to provinces is because they have been "punished". It's a social issue. (Participant N°8)

- **State Presence**

The participants said that the state presence in provinces is lower in all respects: from less public investment, or the perception of less regulation, or less public services; to aide for making businesses.

- The state issue is important. There is always an abysmal gab between the state presence in Lima versus the state presence in province. For example, the policemen in Cusco are there to protect the tourists, not for common citizens. (Participant N°3)
- I think that the state should make it easier and locate large public companies in provinces (referring to health companies). Allocate more health budget, since people don't care about their health, especially prevention. (Participant N°1).

In the same way, participants suggest that there should be a comprehensive business policy, regarding benefits, taxes, etc. That policy would encourage private investment. Some regions already have certain benefits, but they pointed that is not a country-wide policy, which covers various industries and encouraged the decentralization of enterprises.

- What the state should do is give more facilities to regional entrepreneurs, as they do in the rain forest who are exempt from the Sales Taxes. These benefits should be also for other regions; so that companies could migrate. (Participant N°5)
- For example, someone could say: “I want to have my own company” ok, first you have to go to Lima to register the company correctly, or to do it in a different way, because sometimes in certain regions, you don’t get all the required information. For instance, Promperú should be in every region, forget! it doesn’t work as it should! If Promperú is already deficient in Lima, imagine in the rest of regions. For me, Promperú was closed in Junín (high lands). (Participant N°6)

The state is perceived as mediocre and inefficient in managing corporate policies. Some participants suggest that both, private and public investment, should go together to promote regional development. This will provide a more conducive environment for locating businesses in different cities.

- From my perspective, from what I have experienced, the state never walks alone, either from an idealistic way or in reality. The state doesn’t walk alone, the government and private institutions must always work together. The state won’t work alone because it definitely needs private investment, and private investment needs the policies, strength and support of the state. For example, large companies would need to present investment projects, where the state give support, infrastructure, or access to get to a determinate place. Something like mining companies, but we have to take advantage of revenues, like the mining canon. (Participant N°6)

The main state entities are in Lima, which means that the main state functions are centralized in the capital.

- The headquarters of the institutions are in Lima and they have small branches in provinces. Now nothing has changed, unless you move the main institution to provinces, nothing won't change; because companies will also need to move to those provinces or have “someone” there. (Participant N°11)
  
- When you are located in provinces, you are more limited, because large companies don't have offices there. In the case of construction companies, they establish camps or temporary offices only when they have signed a project. But only in that cases. Large companies aren't located in Lima, because they also work with the state and the state offices are in Lima. (Participant N°10)
  
- **Established Value Chains**

Participants indicated that it is easier for them to settle down in Lima, as value chains are already developed. The investment in resources to set working processes is less and the possibilities of commercial interaction with the stake holders is greater.

  - (In provinces) You find the resources that are bought from Lima at a higher price, because there is no industry, there aren't many factories, there aren't suppliers. Hence, obviously that makes transportation more expensive. On the other hand, if there were industries in those areas, it would be different. As there aren't factories in the area, it is simpler to purchase in Lima and sell in provinces. (Participant N°2)
  
  - What the developed countries do with the developing countries is the same that Lima does with the provinces. Lima has established itself as the main industrial hub of the country, which “imports” (from provinces) raw materials with little added value, processes them and then, sells a high added value product, which is distributed throughout the country. (Participant N°12)

- For example, if we are talking about companies in energy, hydrocarbon or mining sectors, they will obviously have their main offices in Lima, the capital, because of the proximity to the state institutions, with which they usually work. Also because of banks, suppliers, etc. regardless of whether you can have branch offices in provinces. Or more than everything, also because of the trained personnel required for the specialized functions. In Lima we coordinate all the legal, administrative, tax or human resources issues. Everything is centralized here in Lima. (Participant N°11)
- **High Level of Uncertainty and Instability**
- It is perceived that, unlike other regions, Lima has greater predictability and stability, which is beneficial for company's investments and future plans.
- The probability that something could happen is greater (in reference to strikes, social problems, natural disasters, etc.) Specially if you make a large investment, either installing a Tottus (Supermarket) or either installing a mall, any kind of business that you need to purchase lands in provinces... otherwise you'll need to rebuild or fix infrastructure, invest in advertising, and all that investment you're not willing to make if you're not sure, because it's a big sunk cost. Obviously, you have to be sure. (Participant N°3)
  - If there is a problem and someone block the road, companies may be out of stock. Obviously, they are going to raise the price of products, because know you, they face those risks. (Participant N°3)
  - In provinces the uncertainty is higher, of course... For instance, they close the road that takes you to Trujillo, "you are dead!!", "the price of lemon goes to heaven" and all the goods transported by that way. (Participant N°3)

- **Corruption**

The participants perception is that there are as many acts of corruption in regions as in Lima, but the difference is that in regions there are fewer controls to get out of this problem. The potential for corruption can incentivize black markets and discourage good business practices. This issue can make formal businessmen avoid such environments.

- Peru must change the image that “everyone is corrupt” and that many mayors in provinces are revoked for these kind of issues ...just if there was the idea that the we don’t have to cheat the system. (Participant N°3)
- The government has some money to allocate to institutional and governmental issues. Obviously, we know that there is a lot of corruption, therefore, we know that there are several governmental entities that still; hence, they don’t invest the revenues for the wellness of forgotten regions. In fact, they are all forgotten. (Participant N°6)
- ...It hasn’t been done for reasons that we already know now... If those projects haven’t been allocated so far, now we know the reason (referring to inconclusive road infrastructure projects because of corruption). (Participant N°6).
- Regional governments, for instance, have a large budget, but they are still “working” here in Lima, that is... Unfortunately, what happens is the construction companies are all corrupt, all the institutions are managed corruptly. For example, regional governors or mayors are asked (for businessmen) to come to Lima, and here all the “negotiation” is done, that is to say, everything is handled from here. The regional governments are in their regions, but all the project preparation and negotiations are done in Lima. I tell you this because corruption is a sensitive issue, but unfortunately it is so. No construction company, absolutely none will award a

project without a “prior agreement”. It doesn’t make sense to have offices in regions, if the main operations are made first in Lima. (Participant N°10).

- **Access to Information**

- **Customer Issues Accessing Product Information**

- From the customer’s perspective, often in smaller cities the communication of new products is less or slower than in the capital. That issue can discourage companies to be located in regions, because as mentioned, many of them are not willing to make a greater investment in advertising.

- ...Besides, I think also for more sophisticated products or people who want to do something more specific, companies need customers with different knowledge or education, because maybe in provinces there are a lack of information. For example, if you suddenly bring imported products to Huánuco, maybe they don’t know if that product is trendy in another part of the world. (Participant N°7)

- **Companies Issues Accessing Market Information**

- The main sources of information such as libraries, universities or research entities are located in the capital. In addition, some studies don’t include detailed information about provinces, which can make it difficult to collect information for business plans or related topics.

- Information on different topics is more limited for the provinces. If a company decides to do a research for location, it will be more difficult. (Participant N°3)

- **Mafias / Insecurity**

- The participants know about the problems of mafias and insecurity in the country, since it’s a problem that involves the whole Peruvian population. The perception of some



participants is that in some regions, there is less control and public security, for example the police, may work deficiently.

- For example, when we wanted to rent machinery in the north, they have warned us to be careful, because there are many mafias and delinquency in Piura and Chiclayo, for instance. In those regions, mafias charge “quotas” to businesses. I think Lima doesn’t have that level of mafias. What can happen in Lima is mafias let you work until you have some money, they investigate you and then, they rob you. In those regions, you hardly start the business and then, they rob you, from scratch. (Participant N°10).
- I believe that the problem of insecurity is widespread, but sometimes regions are no man’s land. You can be killed and no one realize. (Participant N°12)

#### ▪ **Poor Road Infrastructure**

The lack of road infrastructure connecting the regions of Peru, as well as within each region, is well known for Peruvians. Transport problems are quite common and it’s an issue that has already been studied from many approaches, such as the impact on the citizen and companies. However, it is considered relevant to show participants opinions on this issue, describing it as an important factor in making localization decisions.

- Our transport system in Peru I think is our main disadvantage, actually it’s a great disadvantage for all. Transport in Peru, public and private is totally deficient. Peru is chaotic on that issue. For instance, in Peru we don’t have railroads that are used massively, in comparison with Europe, their railway system for export works extremely well. (Participant N°6)
- (Taking into account the proximity to the port for exports) ...road freight is very expensive, road freight is higher than sea freight, that’s why roads are not used for

that. For example, to export to Brazil, my exports by sea are delayed between 25 to 28 days, while on roads 11, but still the freight cost doesn't compensate. (Participant N°6)

- This is not the way to grow (referring to corruption as the cause of the delay in building road infrastructure). I mean, why aren't big companies in other regions? Because of transport issue. I find it extremely expensive, what is easier for me? I import raw materials. (Participant N°6)
- If there were proper road infrastructure where you could get to a place in less time, or not necessarily have to take a plane to get there, it would also improve the business landscape (referring to the business location diversification landscape). (Participant N° 11)

On the other hand, there is a perception that the state won't invest in road infrastructure, since the demand for the use of those roads won't compensate the investment.

- You should develop a road infrastructure where you make sure you're going to have the right demand, otherwise for what are you going to build? (Participant N°6)

- **Tax Policy**

One of the participants indicated that some taxes remain in the region where the company's tax administration is located. Some exceptions are mining companies where part of the taxes is redistributed as Canon. This issue could be a hidden reason why the state doesn't strongly encourage companies' decentralization.

- I know that taxes stay in the region where they were generated. Of course, the state interests that no one move, so that Lima keeps concentrating the highest tax revenues. (Participant N°6)

- **Racism/ Classism**

Racism was a topic that was unlikely to be discussed in the interview, as it's an issue that perhaps not many people speak about. There is a great deal of racism in Peru, mainly because of geographical origins within the country. Two of the participants indicated that racism may be a hidden cause of why Lima's citizens don't migrate to do business outside the capital, or why regional entrepreneurs also move to the capital to do business.

- It is correct to say that Peru is an ethnically and racially diverse country, but then to have a hidden hierarchy over the races it's a different issue. (Participant N°3)
- It is an attitude of Lima towards provinces. The fact of calling them “the interior of the country” makes the difference as if Lima is one thing and the rest of the country, another. Let us change the mentality of saying: “the people who come from province...” It's a matter of mentality towards the provinces and the other way around, people from provinces towards Lima's people. (Participant N°3)
- Remember that much of the migration to Lima was due to terrorism, so those who stayed in Lima were the so-called provincials or “people from the mountains”. Then there is a historical issue in Peru, especially in Lima, where people who come from provinces were categorized as inferior. On the other hand, provincials when hear the typical phrase "I am from Lima", they treat you as "Limeñito..." (contemptuously) (Participant N°6)

## **CHAPTER III. CONCLUSIONS**

### 3.1 Discussions

This discussion will begin because of the fundamental fact that motivates this research, which is well described by Hormigo in his thesis " La evolución de los factores de localización de actividades", 2006: "The theory tried to provide rational explanations. But none of them managed to offer a complete and satisfactory explanation, by adopting simplifying and reductionist schemes of the complexity of the problem. For this reason, the behavioral sciences introduced a change in the neoclassical trajectory, showing the importance of human decisions, not always depending to exclusively rationalist behaviors. According to Berry (1979), since many personal reasons are involved in the decision to locate an industrial plant, theories that assume a rationality or regularity in the choice of location cannot be proposed."

In fact, what we have been able to gather from this research is the fact that many reasons that motivate the location of companies are personal decisions; involving personal perceptions, prejudices and assessments on many important aspects of decision-making.

While all participants are professionals, none of them were able to fully demonstrate that they were using any scientific method to make location decisions. On the contrary, these decisions are based on their experience, which gives them greater certainty than the essentially theoretical issues.

Thus, intangible or subjective reasons take on greater importance. Among the findings, several common reasons for the participants have been mentioned, which are presented in the following categories.

**Cultural characteristics of the Peruvian population:** this category includes factors such as: Poor knowledge of Peru's cities, Peruvian diversity, Informality; and Aspirational and social progress issues. Peruvians have many cultural particularities that influence all kinds of decisions. Among the most compelling reasons is cultural diversity, as it makes people of another city look different, which could lead to an emotional dissociation with people

from different regions. This fact of “feeling different” is often a perception that is generated on the basis of ignorance, and can produce serious prejudices such as to affirm that “all people from provinces are informal” or “necessarily in the capital, people will live better” or the fact of living in Lima can mean a social ascent.

Likewise, the **characteristics of Peruvian demand and market** is a category that groups findings such as: Appreciation of the product offered, low mild demand in regions, Established value chains and Access to information. As described above, there is a cultural diversity, which generates judgments on individuals from different regions. Some of these preconceived ideas is to think that the regional consumer could appreciate less a quality product, which is debatable. On the other hand, there are objective facts which are easily verifiable, such as poor access to information by the consumer and by businesses. Moreover, cities with a smaller population and fewer resources than the capital, make the idea of investing in them is less attractive. In addition, these factors mean that the market conditions for many types of products are not favorable and less developed than the capital.

On the other hand, the **social and criminal problems** of the country generate a feeling of insecurity in the population. The findings show us that the High level of uncertainty, Corruption, and Mafias, are national problems, which can demotivate company localization decisions. The majority of businessmen and people with greater purchasing power are in Lima, with a larger population and better indicators of well-being. Having the feeling of insecurity, these people prefer to stay in the capital, a place they know better and where they can handle these problems better, instead of migrating and facing the same problems in a totally new environment for them.

Finally, one important reason is **the feeling of abandonment of the state towards the regions**. Indeed, in many of regions, there is abandonment in several aspects, whether social or economic. Formal entrepreneurs rely on state institutions to grow and develop their businesses. However, the participant's perception is that the state is totally centralized and it is not working in the regions, with institutions or with infrastructure; two essential factors for the proper functioning of the markets. The lack of economic and institutional

decentralization policies makes greater the risk of investing and locating companies in regions.

As a final conclusion, it can be observed that all the reasons shown are explained under one concept: **Inequality**. Either a perceived inequality or a concrete and materialized inequality. The fact of having inequalities means better conditions for some people and worse for others. It will generate in most of cases, that the private investment and company localization go to regions with better social and economic well-being. In Peru, although there are regions that have recently improved their development level, unfortunately the capital keeps a wide gap, which attracts all business location decisions to it.

In contrast to what was presented in the Literature Review, there are many "subjective" factors that significantly impact location decisions. Many of these reasons are not rational and are generated by the environment in which people have grown and developed their lives. The fact that they don't appear specifically in books, is because these factors are quite particular and differ in each place. It is very difficult to generalize, because in this case, they are specific to the Peruvian reality. On the other hand, as they are subjective, they are difficult to measure, and very susceptible to questions and debates. When performing a location analysis, it is necessary to have a balance between orthodox factors and subjective factors, as both are important and will generate a more accurate study.

### **3.2 Recommendations**

If based on the premise of inequality and companies don't invest in other regions because of the difference in development between Lima and the other regions. It can be observed that the decision causes are very related, and in many cases, they are dependent; where one couldn't be solved without setting aside the other. For instance, infrastructure problems versus lack of demand: it could be said that it wouldn't be possible to invest in infrastructure, since the level of demand in a city doesn't warrant better access routes. At the same time, however, it could be said that there is no demand, since access routes limit

the mobility of people towards the city. Another example is private investment versus public investment: deciding which of them motivates the economic development of a city.

In order to break this apparent disjunctive, it is proposed to make deep reforms, which are based on drastic decisions that decisively encourage investment in a city, covering all aspects already analyzed. It has been concluded that the state is the most propitious entity for achieving this goal, since it is the one who could assume the risks of implementing such improvements at the country level. It would be unlikely that private companies would decide to locate themselves in regions and promote economic dynamism without favorable conditions beforehand.

It seems that the state has so far dealt with this problem weakly, since regionalization of Peru is not considered to have had a significant impact on the development of the regions. Among the actions that the state must do are the following:

- **New Tax Policies at The Country Level:** in certain country regions, business enjoy tax benefits, such as the jungle regions of Peru. However, there is no comprehensive policy at the country level that proposes regional benefits, which are different from the capital, Lima. These tax benefits would include a reduction in the general sales tax or a reduction in the income tax. Companies cannot be expected to compete on equal terms from regions which, from any point of view, don't have the same conditions as the capital.
- **Investment in Road Infrastructure:** Despite significant economic efforts, there is a need to invest heavily in road infrastructure. A number of emblematic infrastructure projects should be generated, since Peru is considered to be a country with poor connections between cities. This issue affects trade between cities and the development of new products. There is a lack of competitive ports along the Peruvian coast, and rail transport is rarely used. On the other hand, the road system is insufficient. There are many cases when there are natural disasters on the central highway, the connection



between the coast, the mountains and the jungle is paralyzed, since the auxiliary access roads to the mountain or jungle from the coast are reduced.

- **Inclusive Education:** the Peruvian state is currently struggling for inclusive education. It is important for Peru to empower all social inclusion programs, as education occurs at all levels, not just in schools. This is extremely important, since it is the starting point for accepting us. This issue will bring down prejudice and cultural barriers among people in the country.
  
- **Education Reform:** It requires a comprehensive education of good quality for all. In the small cities of Peru, there are high levels of poverty and low levels of education. This lack of education means that rural communities are socially and territorially excluded from decision-making in regional annual plans. As a consequence of this, there is a concentration of services in urban areas (OECD, 2001)
  
- **State Decentralization:** the state requires drastic measures to decentralize state institutions. To date, there is a deficit of legal and fiscal autonomy that is making regions dependent to the central government. There is a need to create more decentralized offices beyond central government, with greater institutional support, more autonomy and greater budgetary power.
  
- **Privatization and Encouragement of Private Investment:** the state is required to encourage private investment in regions, by making private entities provide services that they would normally do, such as education or health (OECD, 2001). All these actions must be done under a cost scheme where the state, under subsidies or certain tax benefits motivates private companies, in order to make the prices of services accessible to the population.
  
- **Resolute Fight Against Informality:** It is considered that the best solution to face informality in companies is to make them grow and have enough capacity to pay taxes to become formal. It is believed that informality is not dealt by reducing taxes, but, as

mentioned above, it is a cultural issue, which must be faced with education. Entities such as “Corporación Financiera de Desarrollo” (COFIDE by its Spanish acronym) are required to expand their scope and structure their functions in order to make their business advisory services more efficient and effective.

- **Greater Distribution of Resources:** The government must make a much more efficient distribution of resources. These resources shouldn't be distributed according to population density, but to the needs of each region.
  
- **Fight Against Discrimination and Racism:** the state must invest much more resources in strengthening the fight against discrimination. This is a serious problem in Peruvian society it's a (hidden) cause of many decision-making. This issue is strongly linked to social inclusion, which must be managed comprehensively, not only in schools, but also with more severe laws that punish acts of racism.
  
- **Fight Against Corruption:** The government must strengthen the fight against corruption, which has made a great progress in recent years. This fight must continue. Throughout history, this problem has caused the freeze of large infrastructure and energy projects, also damaging their profits. Corruption is a problem that can happen in all business and society levels. The state must generate greater controls on acquisitions, procurement and legislative procedures, which today are susceptible to corruption. Also, include this problem firmly in the school curriculum and prevent children from this.

## ANNEX

### **Annex 1: Interviews in Spanish**

#### **Interview Structure: Type 1. Business Owners/Decision-Makers**

Como parte de la investigación de mi tesis de maestría para IÉSEG School of Management en París, me gustaría entrevistarle para conocer su punto de vista sobre el porqué las empresas en el Perú deciden localizarse mayormente en Lima Metropolitana y no en otras regiones o ciudades del Perú. Me gustaría conocer su opinión con el mayor detalle posible sobre los factores que motivan tales decisiones, así como la problemática que envuelve éstas. En lo posible, me gustaría discutir las razones más profundas de esta decisión.

Cabe resaltar que toda la información obtenida en esta entrevista que esté referida a su caso y utilizada en la investigación, permanecerá de manera confidencial como parte de las políticas de investigación que sigo.

1. Detalles del entrevistado:
  - Edad
  - Sexo
  - Nivel de educación
  - Nivel socioeconómico
  - Ciudad en qué nació
  - Ciudad onde vive
  - Nombre del centro laboral
2. Breve descripción de usted, incluyendo su “background” profesional.
3. ¿En qué industria/as opera su compañía?
4. ¿Cuáles son sus funciones y responsabilidades en la compañía?
5. ¿Dónde se ubica la sede principal de su compañía en el Perú?
6. ¿Su compañía tiene sede/s auxiliar/es? ¿Sí es así, en qué ciudad/es se encuentra/n?
7. Algunas investigaciones sobre el tema indican que las empresas deciden localizarse en Lima debido a factores como el nivel de desarrollo de Lima y la centralización. ¿Qué opina al respecto?
8. ¿Cuáles cree que sean los factores por los cuales una empresa cualquiera decide localizarse en Lima? Por favor profundicemos en los motivos.
9. ¿Cuáles cree fueron las razones que llevó a usted a tomar dicha decisión para su empresa?
10. ¿Cuáles cree que sean los riesgos de no escoger bien la ubicación de su empresa?
11. ¿Cuáles considera usted que sean los restos para ubicar su empresa en distintas ciudades del Perú?
12. ¿Usted cree que tener localizada su empresa en ciudades que no sean Lima sería/es beneficioso para su empresa?
13. ¿Cómo cree que el Perú pueda tomar ventaja de su estabilidad económica para diversificar el nivel de compañías en las regiones?

#### **Interview Structure: Type 2. Exerts**

Como parte de la investigación de mi tesis de maestría para IÉSEG School of Management en París, me gustaría entrevistarle para conocer su punto de vista sobre el porqué las empresas en el Perú deciden localizarse mayormente en Lima Metropolitana y no en otras regiones o ciudades del Perú.

Me gustaría conocer su opinión con el mayor detalle posible sobre los factores que motivan tales decisiones, así como la problemática que envuelve éstas. En lo posible, me gustaría discutir las razones más profundas de esta decisión, dejando de lado respuestas que puedan parecerle obvias.

Cabe resaltar que toda la información obtenida en esta entrevista que esté referida a su caso y utilizada en la investigación, permanecerá de manera confidencial como parte de las políticas de investigación que sigo.

1. Detalles del entrevistado:
  - Edad
  - Sexo
  - Nivel de educación
  - Nivel socioeconómico
  - Ciudad
  - Nombre de centro laboral
2. Breve descripción de usted, incluyendo su “background” profesional.
3. Algunas investigaciones sobre el tema indican que las empresas deciden localizarse en Lima debido a factores como el nivel de desarrollo de Lima y la centralización. ¿Qué opina al respecto?
4. ¿Cuáles cree que sean los factores por los cuales una empresa cualquiera decide localizarse en Lima? Por favor profundicemos en los motivos.
5. ¿Cuáles cree que sean los riesgos de no escoger bien la ubicación de una empresa?
6. ¿Cuáles considera usted que sean los restos para ubicar una empresa en distintas ciudades del Perú?
7. ¿Usted cree que tener localizada una empresa en ciudades que no sean Lima sería/es beneficioso para su empresa?

## **Annex 2: Findings – Quotes in Spanish**

### ▪ **Poor Knowledge of Peru’s Cities**

During the interviews it was pointed out that one of the main reasons why business men don’t locate their company outside Lima is the lack of knowledge of markets in other cities, which they consider very risky.

- “Si no conozco el mercado, o sea, si no hago bien mi análisis de mercado, en donde voy a colocar y qué es lo que voy a poner, ósea voy a invertir por las puras, no voy a tener rentabilidad... poner un local en una zona donde no conoces, es muy riesgoso.” (Participante N°1)
- “Yo podría pensar en irme a otra provincia sí, pero conociendo primero la otra provincia, me entiendes... Es más difícil hacer un marketing sectorial o geográfico porque no conozco la avenida más comercial, digamos las calles donde tengo que hacer mi marketing, eso sí

no, estaría perdida. O sea, si sectorizo en otra provincia, tendría que conocer así el “a, b, c, d” de las calles o distritos.” (Participante N°1)

In the same way, participants indicated that, been outside of Lima, would mean a much greater investment in advertising and marketing, which most of times, they are not willing to do. In many regions of Peru, digital advertising isn't much developed, and also internet penetration is lower. Therefore, they would have to opt for more traditional and expensive channels such as radio, television or face-to-face advertising.

- “...Si tú haces un estudio y sabes en qué provincias, yo podría... pero si no conocen de medios digitales y difusión, estás en nada. Tendría que invertir en radio porque así se mueven en provincias. ...A parte para TV y radio, pagas un montón” La gente de Lima ve más redes sociales, usan más el celular, me parece que están más instruidos.” (Participante N°1)
- “Si Me voy a provincia tendría que tener un buen equipo de publicidad y Marketing no solo yo, sino ya un equipo. En cambio, en Lima lo hago yo, pero en provincia no conozco, ... en provincia se mueve bastante radio, tendría que ir a radios...es otro tipo de publicidad. Acá en Lima, yo no necesito entrar a radios por que la publicidad se hace vía redes sociales y en las provincias no es tan común eso”. (Participante N°1)
- “En provincia no está desarrollado mucho el Marketing Digital, en cambio a mí, por ejemplo, me funciona el Marketing digital, porque es menos inversión, llega a más gente y va enfocado al tipo de clientes que quiero para mi local, que es un cliente que tiene un auto particular, que tiene ingresos que les permita dar mantenimiento a su auto y cuidar a su vehículo.” (Participante N°7)
- “Si yo decido poner el negocio, por ejemplo, en Huaraz; no solamente tendría que trasladar el equipo hasta Huaraz, tendría que encontrar el personal capacitado y a parte desarrollar otro tipo completamente diferente de Marketing en puntos de ventas, ya sería tipos “volanteos”, activaciones, ir a mercados, ferias o ir a terminales de buses. A diferencia de Lima, yo no me tengo que trasladar a esos sitios, sino yo lo puedo hacer desde mi computadora, segmentar a qué tipo de clientes quiero llegar, y manejar mi inversión sin tener que hacer esta logística en el punto de venta como se maneja en provincia.” (Participante N°7)

#### ▪ **Appreciation of the Product or Service Offered**

In Lima there is a perception that people in other regions don't value products or services in the same way as in Lima. That is to say, sometimes they are indifferent to differentiate good quality products and bad quality products. This issue could discourage new ventures, because they argue that it would require a greater investment in positioning the brand in the new market. Also, to inform the new customers the benefits of the product, compared to other competitors. Even so, participants indicate that they are not guaranteed to gain the expected market, as it seems that this problem stems from a much larger and more complex cultural issue.

- “...en verdad es bastante inversión, o sea por el tema de llegada, podría ser, hay que invertir en concientizar a la gente en la calidad del servicio de salud” (Participante N°1)

- “La mayoría de gente que va al dentista o algún tipo de servicio de salud, va al del frente o al de la esquina (por referirse a cualquiera) ...de eso se trata, no tienen conocimiento (Participante N°1)
- “Algunas veces incluso en los conos de Lima como en Megaplaza o en provincias, la calidad de productos como la ropa es de menor calidad, pero las personas igual las compran.” (Participante N°3)
- “Para provincias a veces se compra el carro desde Lima, se lo llevan a provincia, cambian el aceite en el mecánico de la esquina (por hacer referencia a cualquiera) y le cambian la llanta solo cuando se les revienta. No tiene una educación de cuidado del vehículo, de mantenimiento como tal. Algunas veces no valoran lo que han comprado” (Participante N°7)

On the contrary, it is perceived that those businessmen who decide to come to Lima due, among other things, to the fact that in the capital their product or service will be appreciated or they will find a market where they can differentiate their product. In the same way, many customers do the same to look for better products or services. It means, go to Lima to purchase.

- “Al menos en el sector salud, muchos habitantes de otras provincias vienen a Lima porque hay mejores especialistas, en verdad están más actualizados en Lima que en provincias” ...Tengo pacientes que vienen a atenderse un fin de semana, los mejores especialistas están en Lima, porque aquí están las mejores universidades” (Participante N°1)
- “Tengo clientes que han venido de Chiclayo o de Trujillo, porque ellos piensan que en su ciudad no hay buenos dentistas...” (Participante N°1)

#### ▪ **Diversidad de la Población**

As is known, the largest population in Peru is in Lima, which could be considered as a summary of the population diversity that can be found in Peru. Consequently, regardless of the type of product commercialized, there is a high probability that a specific market for a product will be found within Lima. Similarly, if that market needs to be adjusted or switched, there is a high probability that the new target audience will also be inside Lima. This phenomenon explains the lower risk of deficient market decisions and its related cost savings. On the contrary, it is perceived that in smaller cities in Peru, citizens are more homogeneous (in education, ethnic origin, tastes and preferences). It's not being said that they are not diverse, but this diversity is much smaller than in Lima.

- “En Lima está concentrado todo tipo de clientes, no solamente uno específico. Entonces, hay un universo de clientes que puedes atacar a la vez, digamos que con estrategias diferentes puedes atacar a la vez.” (Participante N°7).
- “Yo creo que, en provincia tendríamos (empresarios) que ser más útiles para la zona, lo que no siento. (Participante 2)

- “Estoy trabajando con chicas de Piura, de las serranías y pueblos cercanos y lo que me dicen que se mueve allá, es totalmente distinto a lo que yo me imagino...Son cosas que yo no vendería, cosas con las que yo no me identifico”. (Participante N°2)
- “El Perú es muy diverso, entonces yo creo que, si entendemos ese concepto de valorar la diversidad y enfocarnos un mercado específico para cada zona, una industria como la mía podría trabajar (textil). Entonces lo que pasa es que, por temas económicos, no tenemos la capacidad de invertir tanto y tener tanta variedad, poder enfocarnos solo en un nicho y solamente distribuir eso... Ahora, lo que tendríamos que hacer es valorar la diversidad y ver las necesidades de la zona.” (Participante N°2)
- “...Incluso dentro del Perú tú podrías decir un consumidor de Pucallpa, no lo podría tratar igual que a uno arequipeño, porque incluso dentro del país la cultura es distinta..... hay una suerte de barrera cultural, obvia.” (Participante N°3)

In the same way, from the perspective of personal life, the cities' lifestyle and quality of life has an important value when deciding in which city to locate the business. The reason why is because in most cases, worker should move to a different city. Many of businessmen wouldn't be up to adapt to a city which doesn't make them feel comfortable, despite of how beneficial the business could be.

- “Arequipa es una ciudad más tranquila, en cuanto a la seguridad y al tráfico ...más cómodo para mí, va más con mi estilo de vida.” (Participante 4)
- “...Por el hecho de que yo he nacido en Lima y mi entorno está acá, yo siempre he querido formar una empresa en Lima, no en provincia. Siento que el hecho de estar en Lima, siento que tengo más comodidades para mí.” (Participante N°5)
- (Hablando de la problemática de las personas de Lima para moverse a provincias). “...es un tema el adaptarte también a esta provincia, porque si no llegas a adaptarte tú, por más que tu negocio vaya muy bien, creo que no te vas a sentir cómodo y, por ende, no le meterás tanto punche como lo harías en un lugar donde sí te sientes cómodo. Entonces se perjudicaría el negocio mismo también. (Participante N°7)
- (Hablando de gente que viene a vivir desde el interior del país a Lima) Yo creo que ellos vienen por un tema más de necesidad. Es más difícil tener todo y luego no tenerlo; a no tener nada y luego tener algo. Creo que el periodo de adaptación de ese cambio es mucho más fácil. (Participante N°7)

On the other hand, some entrepreneurs think that the Peruvian state is managed from a very Lima approach. Often, not taking into account the cultural diversity of the country. This makes it difficult to implement public policies that are suitable to the reality of each region and make smaller cities have a developed environment for businesses implementation.

- “Es que es otra cultura también, no podemos imponer un tipo de política que no es la nuestra (Lima)... El estado quiere implementar políticas sin conocer la ideología, idiosincrasia y tradiciones de los pueblos. Creo firmemente que el estado desconoce esto. (Participante N°6)”.

## ▪ **Low Level of Demand**

A recurring topic, that is considered convenient to consider in this research, despite being a relatively obvious reason studied in the literature review, is the low demand in small regions. Most participants believe that demand is lower in almost all industries, except in industries such as tourism, where it can be profitable.

- “No me iría con el negocio a provincia, porque no hay demanda.” (Participante N°5).
- “El riesgo de no ubicar bien mi empresa son las ventas, no tener ventas.” (Participante N°5)
- “Consideraría moverme a provincia si es que hay más mercado. Por ejemplo, que la gente de Cuzco ingrese más requerimientos de madera.” (Participante N°5)
- “Lo que pasa es que yo siento que está bien que esté centralizado en Lima, porque hay más acceso económico, a la información, a todo. Porque de acá nace todo, hay más población que en provincia y hay más ingresos, más gastos. Esto quiere decir que los negocios pueden incrementar sus ventas.” (Participante N°5)
- “Yo siento que, en mi caso, no creo que tenga tanto rendimiento como que una empresa que esté basada en Lima, o que llegue a las metas que se propone. Es un tema de mercado.” (Participante N°5)
- “No se justifica la inversión” (Participante N°2)
- “...Por el giro del negocio yo necesito harta gente y en Lima tú tienes un flujo enorme de gente. No vale la pena la inversión y el riesgo ...irme a un lugar donde la gente no tiene muchos ingresos, a hacer exactamente lo mismo y cobrar menos no es exactamente mi foco. No la hago en provincias.” (Participante N°8)
- “...Yo me imagino que una de las cosas es, por ejemplo, las cuentas que tu puedas agarrar. Porque estando en provincias, a lo mucho un gran proyecto que puedas aspirar estará ligado al municipio. Muy difícilmente vas a agarrar un trabajo a una empresa grande, porque en provincias no están las empresas grandes, entonces si tú quieres expandir tu cartera y tu ofreces un servicio, te vendrías a Lima ... Por ejemplo, si yo pongo un despacho de abogados (en provincias) lo que voy a recibir por brindar mis servicios podrían ser bastantes, pero no se comparar si vendo mis servicios a una empresa grande ubicada en Lima.” (Participante N°11)

On the other hand, it is argued that because there isn't enough demand in small regions, and in the case of specific projects, temporary offices are usually implemented or operations are outsourced. This strategy reduces the investment and the risk associated with it.

- “Nosotros ejecutamos proyectos en provincia, pero solo para proyectos es donde implementamos temporalmente oficinas en provincias. Por ejemplo, si tenemos que implementar una línea de transmisión en Cusco, pero en un pueblo alejado; obviamente implementamos una oficina temporal allá y contratamos personal de esa área, pero hablamos de personal para ciertas funciones menores. Pero los ingenieros o los gerentes de



proyectos los contratamos desde acá (Lima), o los traemos del extranjero. Nosotros solo estamos allí durante la ejecución del proyecto, una vez terminados, cerramos las oficinas.” (Participante N°11).

#### ▪ **Informality**

The perception of businessmen is that in provinces there is a higher level of informality, not from the point of view of "informal companies", but from the strict sense of this concept. They consider it risky to operate in an informal environment (cultural problem), if their vision is to be sustainable in the long term. Dealing with informal companies, having informal suppliers or informal competitors can harm the company's performance.

- “Lo que pasa en el Perú, es que es un país muy informal. Si tú eres una empresa pequeña que estás surgiendo, puede perjudicarte seriamente...Si te das cuenta realmente el tema de la informalidad acá se da, y yo me imagino que en provincia debe ser igual y hasta más aún, o peor aún, porque hay mucha gente que está vendiendo cosas o revendiendo cosas de manera informal” (Participante N°2)
- “...Claro la mayoría de empresas son informales, porque siempre les van a solicitar impuestos altos.” (Participante N°9)
- “Las empresas grandes buscan trabajar con empresas o grandes o serias, si eres una mediana empresa o pequeña empresa, pero que sea seria, que tenga trabajadores en planilla, que tenga su oficina donde puedas dejar sus facturas...” (Participante N°10)
- “Muchas veces las empresas se deciden mudar a Lima o contratar servicios de Lima, porque en provincias las empresas son muy informales o poco serias que muchas veces operan en las casas, y no es un tema de inversión o de presupuesto, sino un tema cultural. Eso hace que los clientes decidan buscar empresas que se ubiquen en Lima, por un tema de seriedad y formalidad. Eso hace que la gente también vaya a hacer sus empresas a Lima, por un tema de imagen.” (Participante N°10).

#### ▪ **Aspiration and Social Progress**

Since before the republic, Lima, the capital, is perceived as the best city to live in Peru. Historically this city was benefited from the offer of better public and private services, making the quality of life higher. At present, some other regions have been developing, leaving aside problems such as terrorism or extreme poverty, reducing the quality of life gap with the capital. However, the perception of people living in the regions has not changed, they still seeing Lima as the most beneficial city to live, whether or not they have made an assessment of the pros and cons of living in that city. Often, this perception is acquired, learned from the family or close environment, and could be perceived as a social ascent.

- “Hay toda una mística respecto de Lima, porque mucha gente se fue a Lima en circunstancias bastante complicadas especialmente durante los ochentas, o sea pero, todo el mundo sabe que allí está la mejor educación, allí está lo mejor de lo mejor (en el país) y es el objetivo, es como que “aspiro a llegar aquí”, aspiracional; cosa que por ejemplo no

veo acá en Francia, porque la gente se muda a ciudades poco más tranquilas e igual poder conseguir un buen trabajo. Por ejemplo, yo vivía en Toulouse donde está esta empresa gigante que se llama Airbus, y hay mucha gente profesional trabajado allí y básicamente la ciudad vive de ese negocio...” (Participante N°3)

- “Yo creo que la gente que migra de provincia a Lima, viene con un objetivo más marcado, con un objetivo de querer salir adelante y desarrollarse y posiblemente con responsabilidades atrás de carga de familia... Yo creo que la gente que ya tiene negocios en Lima y quiere probar en provincia es porque quiere explorar, quiere ver qué oportunidad a parte de la capital existe. En cambio, la gente que viene de provincia a Lima es porque Lima es su oportunidad, es su salida al desarrollo a la mejora sí o sí.” (Participante N°7).
- “...Todos quieren mandar a sus hijos a la mejor universidad y obviamente, éstas se encuentran en Lima.” (Participante N°3)
- “Hay negocios que, por su propia naturaleza, no tiene sentido que se sitúen en Lima. Pero todos quieren estar allá” (Participante N°3)
- “Inclusive hay muchas personas de la sierra, que han crecido con su empresa que tienen el sueño aún, el sueño de los abuelos, de repente de algún día ir a Lima. Es un tema aspiracional, por ejemplo, mis abuelos por parte de madre migraron de Cajamarca a Lima”. (Participante N°6).
- “...Ese fue el tema aspiracional para ellos, muchas veces nosotros los seres humanos no reconocemos que somos seres evolutivos. Lo que fue perfecto en ese momento y que pensamos que será de acá a dos años, no lo va a ser más, ya que hay muchos factores que los hicieron mudar, pero que ya no lo son. Yo me imagino también que es la falta de educación, es un pensamiento rezagado que por inercia tú dices Lima, pero no haces una verdadera evaluación si es lo más conveniente para tu vida o empresa. Por ejemplo, yo he estado en lugares bien alejados, si quieres olvidados en Junín, por ejemplo, un niño que está en una escuela estatal, él va a tener el sueño de tener cosas tan simples como conocer la playa (en Lima).” (Participante N°6).

On the other hand, it is perceived by some people in the capital, that moving to provinces is not the most beneficial decision.

- “Es un tema de percepción, es un tema de inclusión social, porque la gente ve a provincia para vacaciones o para viajes, pero no conozco mucha gente que haya estado trabajando o estudiando en Lima y me hayan dicho me han invitado a Ayacucho a quedarme para trabajar y se van, como se mudan en otros lares y se ve en otros sitios, no se ve mucho eso y el que se va a provincia es porque está “castigado”, es un tema social.” (Participante N°8)

#### ▪ **State Presence**

The participants said that the state presence in provinces is lower in all respects: from less public investment, or the perception of less regulation, or less public services; to aide for making businesses.

- “El tema estatal es importante. La presencia del estado en Lima versus la presencia del estado en provincia hay una diferencia abismal, siempre. Por ejemplo, los policías en Cusco están allá para proteger a los turistas, no le importa demasiado a la gente común”. (Participante N°3)
- “Yo pienso que de repente el estado debe facilitar poner las empresas grandes en provincias (refiriéndose a empresas de salud). Asignar mayor presupuesto a salud, ya que la gente no se preocupa por su salud sobre todo en prevención.” (Participante N°1).

In the same way, participants suggest that there should be a comprehensive business policy, regarding benefits, taxes, etc. That policy would encourage private investment. Some regions already have certain benefits, but they pointed that is not a country-wide policy, which covers various industries and encouraged the decentralization of enterprises.

- “El estado lo que debería hacer es dar más facilidades a los empresarios de provincia, así como lo hacen en la selva que están exoneradas del IGV, pero eso deberían ser para otras provincias, para distintas partes, así las empresas podrían migrar.” (Participante N°5)
- “Por ejemplo, uno dice “Yo quiero tener mi empresa” ok te tienes que ir a Lima a sacar tu registro, o a hacerlo de una manera diferente, porque realmente en ciertos departamentos no te dan toda la información como se requiere, lógico. Por ejemplo, PromPerú que debería estar en cada región, ¡olvídate! no trabaja como debería ser! Si Promperú ya es deficiente en varios aspectos en Lima, imagínate en los otros departamentos. Para mi Promperú estuvo cerrado en Junín.” (Participante N°6)

The state is perceived as mediocre and inefficient in managing corporate policies. Some participants suggest that both, private and public investment, should go together to promote regional development. This will provide a more conducive environment for locating businesses in different cities.

- “Desde mi perspectiva, desde lo que yo he palpado, el estado nunca camina solo, o sea ni desde una forma idealista o en la realidad. El estado no camina solo, tienen que caminar siempre la entidad gubernamental y la entidad privada, los dos siempre de la mano. El estado no va a caminar solo porque necesita definitivamente de la inversión privada y la inversión privada necesitan de las políticas, fuerza y apoyo del ente público. Por ejemplo, empresas grandes necesitarían presentar proyectos de inversión donde el estado apoye, infraestructura, por ejemplo, carreteras para llegar a tal lugar, agua potable, en cierta parte como lo que se hace con las mineras, pero para todo y que se aproveche el dinero como el canon minero.” (Participante N°6)

The main state entities are in Lima, which means that the main state functions are centralized in the capital.

- “Las sedes centrales de las instituciones están en Lima y tienen pequeñas sucursales en provincias y no ha cambiado nada, salvo que tu mudes imaginemos una institución principal a provincias, capaz pueda haber un cambio, porque las empresas van a necesitar de ir a esas provincias o tener a “alguien” ahí.” (Participante N°11)

Translation

- “Al tu ubicarte en provincias, tú estás más limitado, porque las empresas grandes no tienen oficinas allá. En el caso de las constructoras cuando ya tienen asignada una obra hacen campamentos u oficinas provisionales, pero solo cuando tienen asignadas obras. Las empresas grandes no se ubican en Lima, porque también trabajan con el estado y las oficinas del estado están en Lima.” (Participante N°10)

#### ▪ **Established Value Chains**

Participants indicated that it is easier for them to settle down in Lima, as value chains are already developed. The investment in resources to set working processes is less and the possibilities of commercial interaction with the stake holders is greater.

- “(En provincias) Encuentras los recursos que se compran de Lima a mayor precio, porque (en provincia) no hay una industria, no hay una fábrica, no hay proveedores, entonces eso hace que obviamente pues el hecho de traslado y todo eso sea más caro. En cambio, si hubiera industrias allá en esas zonas, sería diferente. Al no haber fábricas en la zona, simplemente se compra en Lima y se vende allá. (Participante N°2).
- “Lo que los países industrializados o desarrollados hacen con los países subdesarrollados es lo mismo que lo que hace Lima con las provincias. Lima se ha establecido como el principal centro industrial del país, el cual importa materias primas con poco valor agregado, las procesa y posteriormente vende un producto con alto valor agregado, el cual es distribuido a lo largo del país”. (Participante N°12)
- “Por ejemplo, si hablamos de empresas del rubro o sector energético, hidrocarburos o minería, por ejemplo, obviamente van a tener por así decirlo centralizadas sus oficinas principales en Lima, la capital; por la cercanía a las instituciones estatales con las que hay que coordinar generalmente, con el tema de bancos, con el tema de proveedores, etc. independientemente de que tu puedas tener oficinas sucursales en provincias. O más que todo, entiendo yo, también por el personal capacitado que se requieren para que obren las funciones por ejemplo en Lima, donde vemos todos los temas legales, administrativos, tributarios o recursos humanos. Todo los centralizamos acá en Lima.” (Participante N°11)

#### ▪ **High Level of Uncertainty and Instability**

It is perceived that, unlike other regions, Lima has greater predictability and stability, which is beneficial for company’s investments and future plans.

- “La probabilidad de que algo te pase (en referencia a huelgas, problemas sociales, catástrofes naturales, etc.) haciendo una inversión grande ya sea instalar un “Tottus” (Supermercado) o ya sea instalar un mall, cualquiera de ese tipo de negocios que necesitas comprar tierras en provincia es mayor... o necesitas construir o arreglar en infraestructura, invertir en publicidad, toda esa inversión no la vas a hacer si no estás seguro, ya que es un costo hundido grande. Obviamente tienes que estar seguro. (Participante N°3)

- “...Si hay un problema y alguien corta la carretera, puede quedar desabastecido. Obviamente va a subir el precio de sus productos, porque puede quedar desabastecido, porque sabe que se enfrenta a esos riesgos”. (Participante N°3)
- “En provincia la incertidumbre es más alta, claro...Por ejemplo cierran la carretera que te lleva a Trujillo, te mueres, el precio del limón se va al cielo y todas las cosas que pasan por allí. (Participante N°3).

#### ▪ **Corruption**

The participants perception is that there are as many acts of corruption in regions as in Lima, but the difference is that in regions there are fewer controls to get out of this problem. The potential for corruption can incentivize black markets and discourage good business practices. This issue can make formal businessmen avoid such environments.

- ...El Perú debe cambiar esta imagen de que todos son corruptos y que muchos alcaldes en provincias son revocados por estos temas... si es que existiera la idea de que no hay que sacarle la vuelta al sistema y a la legalidad.” (Participante N°3)
- “El gobierno tiene cierto dinero para colocarlo en temas institucionales y gubernamentales, obviamente sabemos que existe mucha corrupción, por ende, sabemos que hay varios entes gubernamentales que cobran y se van con los suyos y no los invierten para bien de los otros departamentos que son olvidados, en realidad todos son olvidados.” (Participante N°6)
- ...No se ha hecho por temas que ya sabemos hasta ahorita... si hasta ahora no se han colocado esos proyectos, ahora ya sabemos a qué se debe (haciendo referencia a proyectos de infraestructura viales que están estancados o se demoran décadas en ser terminados por la corrupción). (Participante N°6)
- “Los gobiernos regionales por ejemplo tienen sus presupuestos grandes, pero aun así ellos están aquí en Lima, es decir...las constructoras lamentablemente todas son corruptas, todas las instituciones se manejan así por lo bajo. Por ejemplo, a los gobernadores regionales o los alcaldes los llaman y acá (En Lima) se hace toda la negociación, es decir todo se maneja desde acá. Los gobiernos regionales están en sus regiones, pero todo el armado de proyecto y las “negociaciones” se hacen en Lima, te digo porque es un tema delicado de corrupción, pero lamentablemente es así. Ninguna constructora o ninguna empresa absolutamente nada va a ganar una obra sin que se haya hecho un previo acuerdo. A las constructoras no tiene sentido tener sus oficinas fuera, ya que las principales operaciones las vas a tener que hacer primero en Lima.” (Participante N°10)

#### ▪ **Access to Information**

##### **Customer Issues Accessing Product Information:**

From the customer’s perspective, often in smaller cities the communication of new products is less or slower than in the capital. That issue can discourage companies to be located in regions, because as mentioned, many of them are not willing to make a greater investment in advertising.

- “...A parte, creo que también para productos más sofisticados o gente que quiere hacer algo más específico, necesitas que las personas tengan un conocimiento o una educación distinta, que de repente en provincia no llega tanto o no llega tanta información. Por

ejemplo, si traes productos de importación de repente en Huánuco no saben que ese producto está de moda en otra parte del mundo.” (Participante N°7)

#### **Companies Issues Accessing Market Information:**

The main sources of information such as libraries, universities or research entities are located in the capital. In addition, some studies don't include detailed information about provinces, which can make it difficult to collect information for business plans or related topics.

- “La información respecto a varios temas es más reducida para las provincias. Si una empresa decide hacer un estudio para localizarse, le va a ser más difícil.” (Participante N°3)

#### ▪ **Mafias / Insecurity**

The participants know about the problems of mafias and insecurity in the country, since it's a problem that involves the whole Peruvian population. The perception of some participants is that in some regions, there is less control and public security, for example the police, may work deficiently.

- “Por ejemplo, cuando hemos querido alquilar maquinaria en el norte, como que sí nos han advertido de que hay que tener cuidado en el Norte, porque hay muchas mafias y delincuencia en Piura y Chiclayo, en esas partes que cobran cupos...” Yo creo Lima no hay ese nivel de mafias, sino están en Provincia. Lo que puede pasar en Lima es que te dejan trabajar hasta que tengas plata, te investigan y luego te roban. En provincias a penas entras a trabajar y te estoy cobrando cupos, desde cero.” (Participante N°10).
- Yo creo que el problema de inseguridad es generalizado, pero algunas veces en provincias es tierra de nadie. Te pueden matar y nadie se entera. (Participante N°12)

#### ▪ **Poor Road Infrastructure**

The lack of road infrastructure connecting the regions of Peru, as well as within each region, is well known for Peruvians. Transport problems are quite common and it's an issue that has already been studied from many approaches, such as the impact on the citizen and companies. However, it is considered relevant to show participants opinions on this issue, describing it as an important factor in making localization decisions.

- Nuestro sistema de transporte en el Perú yo creo que es nuestra desventaja, es una gran desventaja para todos, el tema de transporte en el Perú, público y privado es totalmente deficiente. El Perú es caótico en ese tema. Por ejemplo, en el Perú no tenemos ferrovías que se usen masivamente, en comparación en Europa funciona extremadamente bien el sistema de ferrovías para exportación. (Participante N°6)
- (Tomando en cuenta la cercanía al puerto, para exportación) “...el flete de carretera es muy caro, el flete de carretera es más alto que el marítimo, por eso no se utilizan las carreteras. Por ejemplo, para exportar a Brasil, mis exportaciones por vía marítima se demoran entre 25 a 28 días, mientras en carreteras 11, pero de todas maneras el costo no compensa.” (Participante N°6).

- “...Así no se va a tener como crecer (Haciendo referencia a la corrupción como causante de la demora en construcción de infraestructura vial). O sea, ¿por qué empresas grandes no están en otros estados? por el tema del transporte, me sale sumamente caro, ¿qué es más fácil para mí?, importo la materia prima.” (Participante N°6)
- “Si hubiera infraestructura vial adecuada donde te permita llegar a un lugar en menos tiempo, o no necesariamente tener que tomar un avión para llegar, también en algo mejoraría el panorama (en referencia al panorama de diversificación de ubicación de empresas).” (Participante N°11)

On the other hand, there is a perception that the state won't invest in road infrastructure, since the demand for the use of those roads won't compensate the investment.

#### ▪ **Tax Policy**

One of the participants indicated that some taxes remain in the region where the company's tax administration is located. Some exceptions are mining companies where part of the taxes is redistributed as Canon. This issue could be a hidden reason why the state doesn't strongly encourage companies' decentralization.

- “... que yo sepa los impuestos se quedan en el lugar donde se generaron. Claro, al estado le conviene que nadie se mueva, para que Lima siga concentrando la mayor recaudación. (Participante N°6)

#### ▪ **Racism/ Classism**

Racism was a topic that was unlikely to be discussed in the interview, as it's an issue that perhaps not many people speak about. There is a great deal of racism in Peru, mainly because of geographical origins within the country. Two of the participants indicated that racism may be a hidden cause of why Lima's citizens don't migrate to do business outside the capital, or why regional entrepreneurs also move to the capital to do business.

- “Es correcto afirmar que el Perú es un país étnicamente y racialmente diverso, pero luego a que haya una escondida jerarquización sobre las razas es distinto” (Participante N°3)
- “...Es una actitud de Lima respecto a provincias. El hecho que le digamos el interior del país hace la diferencia como si fuera Lima una cosa y el resto del país como otra.” ...Cambiemos la mentalidad de decir: “la gente que viene de provincia...” Es una cuestión de mentalidad de los limeños hacia las provincias y de los provincianos hacia los limeños.” (Participante N°3).
- “Recordemos que gran parte de la migración hacia Lima fue a causa del terrorismo, entonces quienes se quedaban dentro de Lima eran los llamados provincianos o las personas de las sierras. Entonces Existe un tema histórico dentro del Perú, especialmente en Lima, en donde las personas que vienen de provincia eran categorizadas como inferiores. Por otra parte, los de la sierra al oír la típica frase “yo soy de Lima”, te tratan de “Limeñito” ... (Participante N°6)

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