

Entrepreneurship and innovation

The path to growth
in Latin America



Innovation and growth – the Latin American opportunity

By James S. Turley

In these uncertain economic times, it can be difficult to find the courage to test a new idea in the marketplace. Yet a look at just a few corporate biographies suggests that it is precisely at such times that great businesses most often emerge. With capital and courage in short supply, only a few ideas find their way onto the market in a tough time – but those few that do make it turn out to be harder than ideas cultivated under better conditions.

Indeed, in an economic era like the one that we're now living through, innovation is not just the best game, it's the only game. In many industries today, innovation isn't only about growth – it's about survival. One just has to look at the global stock indexes to see that it's difficult for companies to maintain their edge. Over the past five years, for instance, the KOSPI 200 (South Korea) has experienced a 49% turnover; the HADX (Germany), 50%; the FTSE 350 (UK), 50%; the Global

Forbes 2000, 51%; and the Bombay 200 (India), 91%.

The takeaway is unavoidable: in this fast-changing world, innovation is no longer just an option for the adventurous. From startups to the world's largest corporations, companies that want to thrive must adapt and keep adapting. In conversations Ernst & Young has had with innovative leaders across the globe, we heard the same thing: as counterintuitive as it may seem, now is the time to start a new business.

Recently, Ernst & Young released a white paper, *Entrepreneurship and innovation: the keys to global economic recovery*, which described how innovative thinking is allowing companies to take advantage of the current economic climate. Drawing on the latest academic research and real-world experience, the report showed how some companies have found that the worst

“From startups to the world’s largest corporations, companies that want to thrive must adapt and keep adapting.”

of times for a business can actually be the best of times to innovate, whether the goal is to develop new products and services, revamp organizational processes or adopt fresh approaches to partnerships.

The good news we gleaned from our research for that report is that although small organizations may have the edge when it comes to embracing innovation, the evidence suggests that organizations of every size and age are capable of meaningful and lasting change. We learned too, however, that at the moment, fortunes favor companies in the emerging markets; by 2015, the BRIC (Brazil, Russia, India and China) markets alone are expected to generate 25% of total global GDP. Indeed, we are fast approaching levels of economic development in many markets all over the world that the old tidy distinctions between emerging and developing markets may no longer make sense. “The term ‘emerging markets’ is

condescending – it is inconsistent with the scale, comprehensive capability and leadership that these nations are showing,” says Matthew Szulik, founding Chairman of Red Hat, the global software firm.

In the course of our research for this report, we found that the same idea holds true in Latin America. We also uncovered some special truths specific to this region. The most important is that the old stereotypes of Latin America as economically stagnant no longer apply. Today, North America, Europe and Asia hold no patent on innovation. All over Latin America, industries and companies have now demonstrated that they are at least as innovative and capable as their counterparts in the Northern Hemisphere. What’s more, another generation is preparing to prove the same point: the latest Global Entrepreneurship Monitor¹ found that compared with other developing countries, three Latin American markets,

Colombia, Peru and Chile, have some of the highest rates of high-growth expectation entrepreneurship in the world.

In this report we explore the strides Latin America has made and continues to make with respect to innovation. We share the insights of a number of successful Latin American business leaders about the future of the Latin American entrepreneur and business innovation, and what some leading entrepreneurial scholars have to say about the special qualities of Latin American entrepreneurs – and the challenges they face.

I hope you find this report as illuminating and insightful as I did and look forward to continuing our conversation on the role of entrepreneurship and innovation in the global economy. ▲

James S. Turley
Chairman and CEO
Ernst & Young

¹ Global Entrepreneurship Monitor, Babson College (Boston, Mass: 2010).

Executive summary

Perfect timing

Much of the world held its breath throughout 2008, waiting anxiously to see when the global credit crisis would settle down. Latin America was hurt too, of course, but not nearly with the same severity as other regions around the globe. After suffering so many financial quakes in its past, Latin America emerged relatively unscathed from the current crash, despite the collapse of so many commodity prices and the global credit freeze.

Part of this performance was a reflection of Latin America's newfound sophistication, gained from its experiences over the past 15 to 20 years. Mexico, for instance, didn't suffer nearly as much as it might have from the fall of oil prices because of its sophisticated hedging strategy. Brazil held up, in part because its government credit rating had reached institutional-level quality. Trade relationships had diversified as well, and now included most of the world, particularly China.

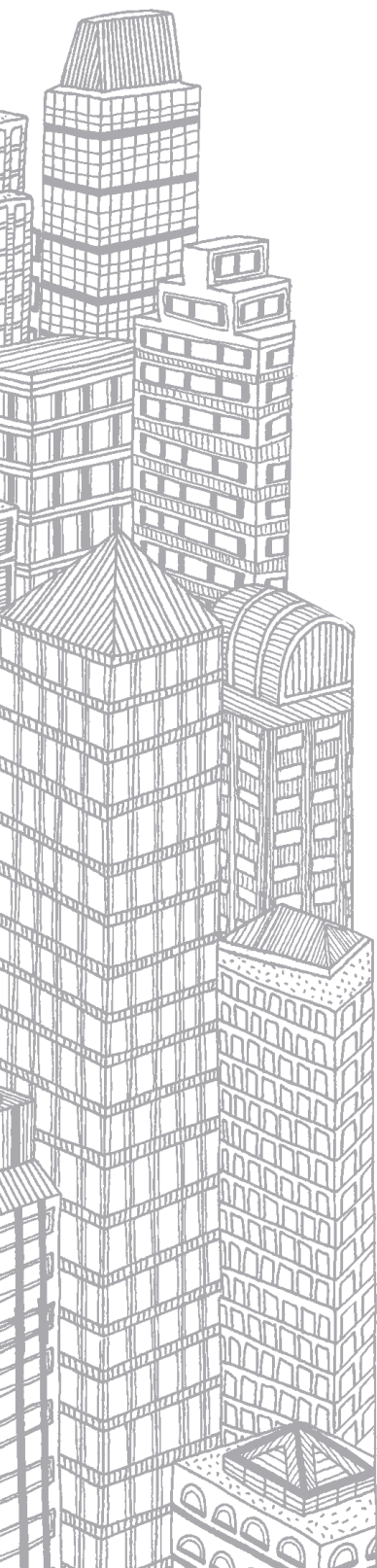
Latin America's performance during the economic crisis, with just a few exceptions, marked a coming of age for the region, nearly as much as it did for Asia. For much of the 20th century, Latin America was consigned to an economic backwater. Those days are over. Increasingly, this market of 567 million is getting the respectful

attention it deserves – and one in particular, Brazil, is increasingly seen as a power in its own right.

In some respects, it's the best time ever to launch or grow a business in Latin America. Trade relationships have multiplied, economic institutions have grown much more solid and the South American economy is still small relative to its potential. Yet Latin American entrepreneurs continue to face numerous challenges. Fragile property rights, excessive regulation and high taxes are among the factors slowing down entrepreneurial development. Lack of support for women entrepreneurs has led and will continue to lead to some significant wasted opportunities. Furthermore, compared to fast-growing East Asian companies, fast-growing Latin American companies seem to face a number of significant obstacles, including weaker business networks, smaller launch teams, limited availability of subcontracting services and limited availability of financing.

To create more high-growth entrepreneurs, reforms are needed in many markets that tackle not only regulation and taxation, but also re-invention of financial support systems for entrepreneurs that don't create long-term dependency. ▲





The need for growth

After the credit crisis of 2008, governments all over the world infused massive amounts of cash into the global economy to restore faith in the fundamental soundness of the economic system. The trillions of dollars in bailouts and direct stimuli worked, and many economists believe this action saved the world from a major depression. Now, however, economists are looking at growth rates and see a gap between current trajectories of growth and the higher growth rates needed to continue lifting people out of poverty and raising global living standards.

Where will that growth come from? Most likely it will not come from the biggest multinationals. For the most part, the companies at the top have a hard time even staying at the top. The common perception is that the largest companies are unchanging monoliths, but that is not the case. Half the companies listed on the Fortune 500 change every five years. In the fast-growing emerging markets, those ratios are closer to 80% or 90%. Change is the only constant. In 1984, for example, Microsoft earned less than US\$100m in revenue – roughly the current annual revenue of Globant, a young Argentine software outsourcing company, according to a recent *Economic Times* (India) estimate. In 2000, Google was just two years old.

Even today's winners are candid about the volatility. "I keep telling my colleagues that it's not the big beasts that eat the small players – it is the nimble ones that eat the slow," says Narayana Murthy, who founded Infosys in Bangalore, India, with just US\$250 in capital in 1984 and grew it to a US\$4b company.²

In fact, it's almost always the small, fast-growing companies that have an outsized impact on the global economy, and actually contribute the bulk of the world's economic growth. In the US, for example, it's commonly estimated that 75% of new jobs are created by small businesses.

This isn't just true of the developed markets, but emerging markets as well, including Latin America. The future of global prosperity might seem like a tall order to place on the shoulders of, say, a few people starting up a firm in Bogotá. But it's happened before, throughout Latin America – and all over this increasingly flat planet. As anthropologist Margaret Mead once noted, "Never doubt that a small group of committed people can change the world. Indeed, it's the only thing that ever has."

² Ernst & Young interview, 2009.

Latin America entrepreneurs and the alchemy of growth

"I think one of the greatest effects of globalization, that carries with it the same degree of threat and opportunity, is the degree and the speed with which information is spread. So those that do not act with agility and efficiency run the risk of disappearing altogether. Today we have faster access to information, which offers companies more opportunities to innovate but also increases their exposure. Another impact of globalization is the opportunity that companies now have to form new partnerships across different continents, which was almost impossible to achieve in the past."

Waldemar Verdi

Chairman, Empresas Rodobens
2009 Ernst & Young
Entrepreneur Of The Year®, Brazil



"Innovation and the entrepreneurial spirit have always prompted large-scale solutions to crises, and without them we won't overcome the problem that currently affects most of the world. Not for nothing were a lot of companies created in significant recessions, because people tend to seek quick and intelligent solutions. So this is a time of challenges, but it could also be a time of great innovation. I believe that innovation is the best friend of efficiency. Innovation is not an exotic practice. It is the effective and sensitive use of imagination."

Nizan Guanaes

Chairman, ABC Communications Group
2008 Ernst & Young
Entrepreneur Of The Year®, Brazil



"Innovative companies that grow at a two-digit rate are the most powerful engine to overcome the crisis and to lead their countries toward development. An entrepreneur can be successful doing more of the same in an efficient way. An innovator, however, must do not only this, but also create new solutions. Globalization requires that innovations compete with the world, which makes innovation more demanding."

Fernando Fischmann

Founder, Chairman and CEO,
Crystal Lagoons Corporation
2009 Ernst & Young
Entrepreneur Of The Year®, Chile



"Innovation cannot be an exclusive thing for small business. Companies should grow by being flexible and mutable according to market conditions, because if this is not taken into consideration, it is harder to bend the big structures. At Servientrega, we have always worked to deliver the best service to people; before, we were a company that delivered packages, now we are a center of solutions. We learned what logistics means and we adapted it to the regions that we reach."

Jesús Guerrero Hernández

President, Servientrega
2009 Ernst & Young
Entrepreneur Of The Year®, Colombia



innovate grow

A thriving business

The good news for global growth – not to mention Latin American entrepreneurs – is that this appears to be one of the best times ever to start or grow a business in Latin America.

Most people in the region now live under elected, civilian governments, where the crony capitalism that was once the norm is becoming the exception. At the same time, the kind of statist, populist solutions that probably cost Latin America decades of economic growth in the 20th century are viewed today largely with suspicion, even in the countries where they still hold sway.

In many places, things that once held business back, such as monetary instability and shortages of even the most basic items, are becoming things of the past. “When I started my company, inflation was 70% a month,” recalls Nizan Guanaes, Chairman of ABC Communications Group, headquartered in São Paulo, Brazil, and now the 20th largest communications group in the world. “There were no coins. There were no vending machines because there were no coins. There were no mortgages. That is how far we have come, and we can go further.”³

Damage from the recent financial storms has also turned out to be minimal. Most markets in the region got through the downturn with relatively little damage to their financial sectors, having, like Asia, learned their lessons from earlier crises. Indeed, in Latin America and most of the South Asian economies, the recovery from the crisis is looking less like a time to be wary and more like a buying opportunity. “We saw this as an opportunity to gain competitive ground by acting aggressively, getting into new markets and investing in a contra-cyclical fashion,” says Sunny George Verghese, Group Managing Director and CEO of Olam International, a global agricultural supply chain company that has developed a strong presence in Latin America.⁴

No longer mired in economic stagnation, Latin America has strengthened its connections with the global economy. Trade and investment regimes have been liberalized, foreign direct investment (FDI) has increased and new export markets have come on stream. The region now attracts around 7% of global FDI and accounts for 6% of global exports.⁵ Latin America’s exports have grown too, from the traditional minerals and agricultural resources to more complex products and services, such as Globant’s open-source enterprise software, Embraer’s jets and ABC’s communications strategies.

Furthermore, among leading entrepreneurs, aspirations seem to have evolved in a way that seems likely to lead to more sustainable returns. Some entrepreneurs say that while the aim of most Latin American businesses was once simply to build a machine that would generate enough cash to live comfortably, many of today’s fast-growing companies seem to have much bigger goals in mind.

“We think that there’s a huge difference between only doing business and building a company,” says Oscar Alvarado, CEO of El Tejar (The Roof), a fast-growing Argentine agribusiness. The distinction comes down to one of values, in Alvarado’s view. “In a business, money is more important than people, than the environment, than a community.” A company, on the other hand, must look after all its stakeholders – because they want to be here not just today, but tomorrow as well.

Ironically, this kind of stakeholder-centered company planning has turned out to be even more profitable for El Tejar than the old-fashioned kind: year after year, El Tejar keeps going through the roof. Alvarado says El Tejar has generated an average 44% annual internal rate of return over the last 24 years, with only one down year in 1989. This is a tremendous accomplishment anywhere, but even more amazing considering that being headquartered in Argentina entailed surviving two major economic foreign exchange crises. ▲

³ Ernst & Young interview, 2009.

⁴ Ibid.

⁵ The Economist Intelligence Unit, 2010.

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Opportunities on a global scale

There certainly is no lack of opportunity for entrepreneurs in Latin America. Many economies are more open now than ever, and a number have strong export partnerships. Several countries also have free-trade agreements with the US and the European Union (EU), giving them more access to hundreds of millions of potential customers. And the growth of China, in particular, is opening huge new markets: in 2009, China replaced the US as Brazil's largest trading partner, a position that the US had held since the 1930s.

It's also, as these multifarious ties suggest, an increasingly multi-polar world. This too creates much more opportunity for Latin America. Until recently, globalization still amounted to the powerful countries telling the weaker countries that there was "only one truth, one way of doing things," says ABC's Guanaes. "Everything would come down from the top, based on the Washington consensus or whatever the thinking was at the International Monetary Fund on how developing economies needed to behave."

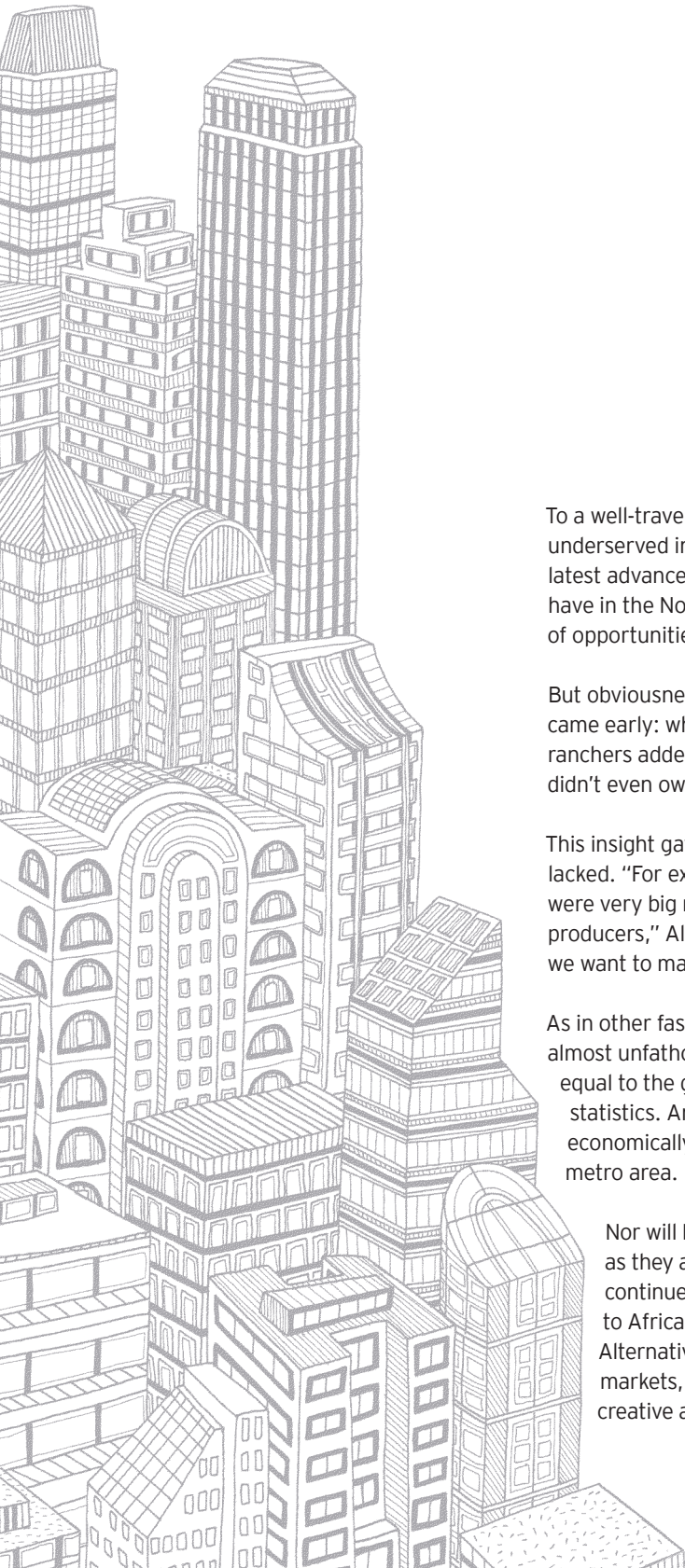
Then the balance of power changed. It was no longer tilted heavily in favor of developed markets. "Globalization is this: it means that there's not only one way to do things," says Guanaes. "No single country or region can own the whole truth or provide the single perspective."

Today, Guanaes says, the biggest meat company and the second largest mining company in the world are Brazilian. "We have many big companies that are now considered players on a world stage," he says. "And that is globalization – when everyone can play. It is not a game that six play and the others watch."

For technology companies, the opportunities – and the challenges – are particularly striking. As Szulik, points out, there really isn't a choice but to be global. "In a technically driven business you have to be instantly global because the technology is made available through the internet in milliseconds and reaches an audience from Russia to China, from Brazil to Boston," he says. "And so as a result we are instantly global, whether we like it or not."⁶

There are other opportunities within Latin America as well, and the opportunities are wide: a market of over 567 million people, most of whom speak two closely related languages and share a great deal of common cultural history. In addition, Latin America has free-trade agreements through such regional trade unions as MERCOSUR and CAFTA (not to mention the 47 million Latinos who live in the United States, accessible through NAFTA – which is now the third largest Latin market in the Western Hemisphere, after Brazil and Mexico).

⁶ Ernst & Young interview, 2009.



To a well-traveled person from Latin America, most domestic markets may appear underserved in a variety of ways. In agriculture, for instance, Alvarado says most of the latest advances in agricultural management have not yet been adopted to the extent they have in the Northern Hemisphere. "There are a lot of things to be done, so there are a lot of opportunities," he says. "And most of them are obvious."

But obviousness is in the eye of the beholder. For Alvarado, one of El Tejar's central insights came early: what matters most in a company are the people, not the assets. So while most ranchers added onto their holdings, El Tejar until recently owned no land. Alvarado said he didn't even own his own house.

This insight gave El Tejar tremendous flexibility, which traditional farmers and ranchers lacked. "For example, today, we are very big soybean producers, but 15 years ago, we were very big meat producers, and maybe 10 years from now, we'll be big forest producers," Alvarado says. "What we do is not important. What is important and what we want to maintain is the way we do what we have to do."

As in other fast-growing emerging markets, the scale of the potential opportunity is almost unfathomable. The GDP of 200 million Brazilians, for instance, is still only roughly equal to the gross metropolitan product of New York City, according to US Government statistics. Argentina, with its 41 million people, rich agriculture and mineral deposits, is economically about the size of the 5.3 million people of the Washington, DC, metro area.

Nor will Latin American entrepreneurs be shy about taking advantage of opportunities as they arise. A number of surveys have found, for instance, that Latin Americans continue to be some of the most entrepreneurial people globally, second only to Africans. Lara Goldmark, a senior development consultant with Development Alternatives International who has studied entrepreneurship in a number of emerging markets, believes that Latin American entrepreneurs are particularly energetic, creative and determined. ▲

Latin America: “increasingly important”

The swift rise of Asian markets may tend to obscure the emergence of another key player on the global stage: Latin America. Finally coming into its own, the region offers a buoyant economic outlook as well as a favorable climate for entrepreneurs. Jorge Menegassi, Ernst & Young’s Managing Partner for South America, discussed Latin America’s prospects with noted economist and author C. Fred Bergsten, Director of the Peterson Institute for International Economics.



Jorge Menegassi

C. Fred Bergsten

Jorge Menegassi: What is the economic outlook for Latin America in the next five to 10 years? Global investors seem to be focused mainly on Asia.

C. Fred Bergsten: I think Latin America may start getting more attention – not because it will grow as fast as Asia, but because its growth prospects are still quite good: somewhere in the 4% to 6% range over the medium to long term. Brazil, which is half of South America’s economy, will be in the lead, but other countries will be in that growth range as well. Latin America will fall in the middle between the fast-growing East Asian and South Asian countries, which are seeing growth of 8% to 10%, and the lagging rich industrial countries – the US at 3% to 4% growth, and Europe and Japan at 2% or less.

As direct and portfolio investors look for “second-round” diversification, Latin America will loom larger on their radar screens. It did quite well throughout the economic crisis, showing pretty good resilience to external shocks, partly because the banking systems had improved dramatically over the last 10 years. I’d be quite bullish on Brazil in particular, but also on Latin America more broadly. The region will become increasingly important as a locus for international business and as a target for investors.

Jorge Menegassi: What are your thoughts on entrepreneurship in Latin America? In particular, what role will regional governments

play in stimulating entrepreneurship there?

C. Fred Bergsten: Governments have learned some important lessons. Most governments in the region were still dirigiste only 20 years ago, and in some cases more recently. But as result of several developing-country debt crises, especially the Mexican peso and Brazilian crises, they learned that although government must provide a policy framework for the economy, it must step back from direct intervention. Certainly the Venezuelan experiment reinforces that message.

Again, Brazil is the key: when Lula [Luiz Inacio Lula da Silva, President of Brazil] came into office, his people said, “We hate globalization but know we have to live with it. How do we do that?” Actually, his team came to my Institute, and we spent a whole day with them on that. Part of the lesson was about respecting the market and promoting entrepreneurship, private-sector leadership and so on. Lula shows that Latin American governments can retain popular support while pursuing responsible fiscal and monetary policies and getting good economic results.

Jorge Menegassi: What has been the impact of globalization on entrepreneurship as a whole?

C. Fred Bergsten: Unambiguously positive. We know that globalization in most countries is an enormous spur to faster productivity growth. The competitive pressures of globalization lead to more entrepreneurship and greater innovation, and this raises productivity. The Peterson Institute has quantified this growth in the United States: the US is a trillion dollars a year richer as a result of the globalization of the last 60 years. That’s 10% of GDP. I’d feel confident saying that most Latin American economies are 10% to 20% better off today as a result of the globalization of the last several decades.

Of course, there’s a downside as well.

Globalization accelerates the pace of economic change, forcing transitions on some people who are not equipped to take advantage of globalization. So in addition to enjoying globalization’s benefits – faster productivity growth, a more diverse product base, lower-cost imports and bigger export markets – countries have to deal with the economic and social costs and offer help to those who need it. That means providing safety nets to take care of transitional unemployment, and more fundamentally for the long run, providing education and training systems that allow people to benefit from globalization rather than feeling victimized by it.

Jorge Menegassi: Latin America’s banks were not hit as hard as those in North America and Europe. Will the banking sector continue to be the preferred source of funding for entrepreneurial and other businesses in Latin America?

C. Fred Bergsten: We’ll see some modest diversification of financing sources in Latin America, as we’ve seen in other emerging markets, but bank finance probably will remain the main channel for some time to come. It performed comparatively well in the financial crisis, compared with the rich developed countries, and was pretty much on a par with Asia. In that sense, the banking systems in Latin America came through with flying colors. This strengthened their positions and firmed up their status as the main source of financing.

There has been a lot of talk in Asia about developing indigenous bond markets and reducing reliance on bank finance. There has not been so much of that talk in Latin America, which I take to mean that they’re basically happy with the banks. I think that bank finance will continue to constitute the great bulk of the financial intermediation in Latin America. Partly this is because most of them have opened up to foreign banking a fair amount, which has added to stability. We’ve done a big study at my Institute which shows that financial globalization also yields big payoffs – even if you think it increases crisis risk, which is debatable. But even if you think that, financial globalization still delivers important benefits. This increases the likelihood that banks will remain major players in the economic prospects of Latin American countries.

Challenges to peak performance



While the basic economic conditions look good and the level of entrepreneurship is high (18% of Latin America was involved in some kind of entrepreneurial activity between 2000 and 2007), challenges still exist.⁷ One problem is that globalization has its flip side: just as Latin American companies have access to global markets, competitors have access to Latin American markets.

“While globalization opens more unrestricted access to markets, talented labor and more advanced technology and capital, it has also meant that all businesses will have to compete against the world’s best,” cautions Olam’s Verghese.

But some scholars argue that the real enemy is closer to home. In a 2009 paper, Cristian Larroulet and Juan Pablo Couyoumdjian, two Chilean business scholars, theorize that a few factors are probably responsible. One is that 35% of Latin American entrepreneurs are motivated by necessity rather than opportunity, and entrepreneurs driven by necessity tend not to go far, on the whole.

For the most part, however, Larroulet and Couyoumdjian place the blame on governments. Fragile property rights in some places also discourage entrepreneurs. Excessive regulation and taxation

can hurt too, both in the way they can create filing and tax burdens, and the way in which large firms sometimes influence the government to lock potential competition out.⁸ “Many Latin American nations still present features of a mercantilist society,” they write. “Whatever the label, they are essentially the type of society that Adam Smith criticized more than two centuries ago.”⁹

ABC’s Guanaes believes that taxes are too high, at least in Brazil. Alvarado, however, disagrees that regulatory barriers, such as the length of time it takes to get approval to form a corporation or dissolve a corporation, constitute a serious obstacle to entry. In the scheme of things, he argues, it doesn’t matter if a company is able to register in a month or in 10 minutes, as in the US. However, researchers have speculated that in some places the system of winding and unwinding a business is onerous enough that it discourages people from starting one in the first place. It is also true that no Latin American nation is in the top 30 of The World Bank Group’s ranking of countries where it is easy to do business. The prevalence of informal accounting and labor practices makes hiring and (or) selling a company difficult.

⁷ “Entrepreneurship and growth: a Latin American Paradox?” Cristian Larroulet and Juan Pablo Couyoumdjian, *Independent Review* (summer 2009).

⁸ Ibid.

⁹ Ibid.



The limited number of highly skilled people in some countries is also a limiting factor, both because high-potential companies are most often founded by university graduates, and because many of today's high-growth businesses, such as software, require a large supply of well-trained brains. It's no accident, for instance, that Globant's facilities throughout Latin America are all located in cities and towns where the local university has a strong Computer Science department.

The way women entrepreneurs operate may also tend to restrict the number of high-growth entrepreneurs. Microfinance practitioners have noticed that fewer women entrepreneurs scale their businesses very far, even when their business is quite profitable, according to Lara Goldmark. Sometimes, she says, this may be because the owner is trying to run the business out of her home, and simply can't expand without taking on a much larger risk.

Well-timed advice can sometimes help high performers make the jump they need. One non-profit organization, Endeavor, is trying to teach women how to grow their businesses. A Mexican business, L'Atelier du Chocolat, produces and sells gourmet chocolate. The US\$2m company has 63 employees – 90% of them women. Although it was performing well, "as the company grew, I needed to rethink the focus and strategy of the business," says founder and owner Marisol

Alfaro. She credits Endeavor with helping her scale up the business and showing her "new strategies with capital, investment funds and other opportunities that have changed the life of my company and opened the door to international markets."¹⁰

Other times, a woman entrepreneur's lack of vertical growth is often not for lack of ambition or sophistication, but for lack of ambition in her own business. For instance, Goldmark says that in the Andean countries, a microfinance organization she worked with once identified a puzzle: women with working businesses kept taking out loans that they always repaid but which didn't get invested in their business. What were they doing with the money? Development Alternatives International analysts found that instead of growing their own business vertically, the women were growing laterally – making other important investments, such as sending their children to school or launching businesses for their children or husbands.

A 2002 comparison between fast-growing new firms in East Asia and in Latin America offers insights into some of the cultural challenges faced by Latin American entrepreneurs.¹¹ While there are

¹⁰ "Scaling up: Why women-owned businesses can recharge the world's economy," Ernst & Young (2009).

¹¹ "Emerging Economies: creation and development of new firms in Latin America and East Asia," Inter-American Development Bank, 2002.

many similarities – most entrepreneurs are university-educated men between 30 and 35 – there are also some important differences.

In Latin America, such companies typically start with two partners. More often, as in Asia, companies start with four partners, with each partner bringing a different skill to the table. The Asians also begin with wider networks. Where Latin American entrepreneurs' contacts begin more with their personal social circle, particularly family and friends, the Asians tend to know more people in the business world right from the beginning. Interestingly, however, as they advance, the Latin American circles change while the Asian circles stay closer to the same. Latin American entrepreneurs also have a harder time getting credit than the Asians, which leads the former group to find ways to stay lean, such as by buying second-hand furniture, using suppliers' credit lines or starting out on a small scale.¹² The Asian market itself has advantages, too, in that it is often easier to find partners who can outsource more elements of the business, while South American entrepreneurs tend to have to build organically.

All these advantages came to light in their comparative growth rates, as shown in the study. In the first year, Asian enterprises sold more than double their Latin American counterparts. By the third year, sales were five times greater than a Latin American startup of the same year. By the third year, almost 66% of the Asian companies had grown to more than US\$500,000 in sales, a benchmark that only 25% of Latin American companies had hit.

Education can make a difference too, but not always the way one might expect. While 90% of high-potential entrepreneurs had a university education in both samples, in some circumstances more education was not necessarily a predictor of success. One prime example: in Chile, some extremely highly educated people actually did not succeed with their ventures, because "they basically thought they were too good for it," Goldmark says. What matters, it seems, is enough education to reach whatever a sort of local threshold might be. In some places in Latin America, that might just mean going to university. In others, it can mean a business degree and experience with a multinational, says Goldmark.

Finally, financing for next-stage development is more difficult to come by in Latin America than in Asia. Perhaps because their professional networks are not as extensive, and because there are usually only two partners going into business together, raising money is more difficult in the startup phase. External sources of capital, however, are beginning to become available in Latin America, and fast growers seem to be doing well at catching the attention of Northern Hemisphere investors. ▲

¹² "Emerging Economies: creation and development of new firms in Latin America and East Asia," Inter-American Development Bank, 2002.





The to-do list

So what can be done to encourage more high-growth Latin American entrepreneurs? Business authorities and developmental agencies offer various suggestions. A few key recommendations:

Provide less government money. “Sometimes there’s frankly too much money dumped into the economy to target certain things,” says Goldmark. She believes it’s easy for subsidies and microfinance programs to degenerate into rent-seeking opportunities, and that the subsidies in particular can create perverse dependencies that aren’t easy to overcome later, or may encourage development that doesn’t create the kind of companies that would be most beneficial to the society.

Consider simplified and more effective regulation. Many agree that less bureaucracy and more transparent regulation would streamline the process of starting up and expanding companies.

Publicize role models. In the 2002 study, many of the Asian entrepreneurs who were interviewed reported being influenced by a role model, which was not the case in Latin America. Media profiles of successful entrepreneurs may create awareness of the limitless potential of a successful business and serve as a catalyst to others.

Create deeper “ecosystems.” One advantage that the Asian companies had over the Latin American companies in the 2002 study was a greater ability to subcontract various parts of the business. This model is less developed in Latin America, but it could help speed up development. One possible model is ParqueSoft, in Colombia, a network of not-for-profit technology incubators 60% owned by early-stage entrepreneurs. The cooperative structure and proximity encourages the startups to work together and act as subcontractors for park services.

Encourage women entrepreneurs. Latin American women entrepreneurs have been underrated in the past. With more attention from groups such as Endeavor, the numbers of high-growth-rate companies could be boosted. ▲

Staying on the innovation path

Despite the kind of high tax rates and unfriendly legal regimes that all but killed the entrepreneurial spirit in other countries, Latin American entrepreneurs kept on dreaming all through the last century. In fact, startup statistics suggest that they were almost impossible to discourage.

Now, entrepreneurs are finally getting their chance. In country after country, the years of military juntas, political strife and repeated economic crises brought on by fiscal incompetence seem to mostly be over. In the last few decades, more market-friendly governments have begun to let their entrepreneurs do what they always wanted to do – start businesses. And unlike the years of guns and rhetoric, many are actually succeeding in doing what so many politicians talked about doing, but more often, failed to achieve: making their societies richer.

The progress is uneven, to be sure, but this time, it's no mirage. Brazil, the country people used to joke was a country of the future – and always will be – is now one of the fastest-growing economies in the world. Even Colombia, formerly considered unstable, is once again a darling of international investors.

In the Northern Hemisphere, while the financial crisis of 2008 called into question some fundamental concerns about the entire financial system, countries to the south experienced no such crisis of confidence. Indeed, Latin America on the whole seems to have experienced the crisis as more of a temporary setback, and even as an opportunity to expand.

The global market means comparative advantages don't last as long as they once did – and that goes for any company, from a startup to a Fortune 500 giant. As they say on television, this offer is good for a limited time only. "Before, you could have a good product and maintain the quality and this was all you needed," says Jesús Guerrero Hernández, President of Servientrega, a Colombian supply chain integrator. "Now you have to offer a good service, be more efficient in your production, etc. Because at any time a new company may bring your same product, cheaper, with better service and even enhanced, so – what should you do? Innovate." ▲



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