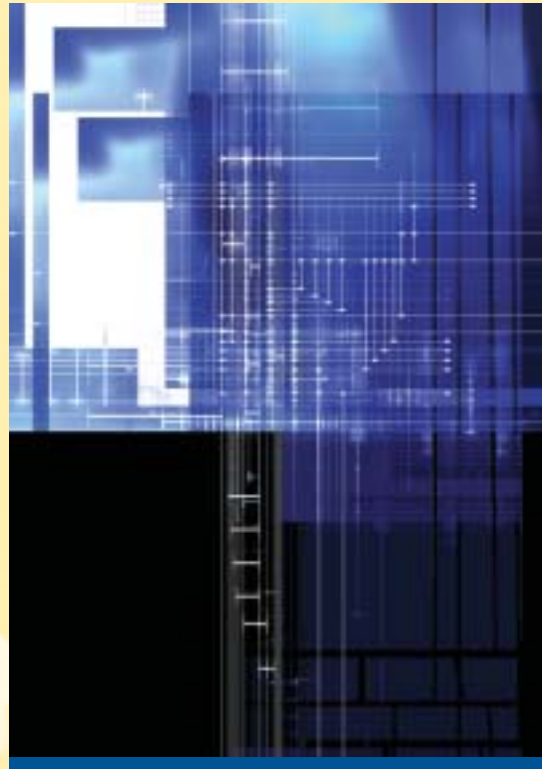


Entrepreneurship

East Asia Latin America



Entrepreneurship in Emerging Economies:

The Creation and Development of New Firms
in Latin America and East Asia

INTER-AMERICAN DEVELOPMENT BANK

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FOREWORD

Entrepreneurship is receiving greater attention from policymakers and experts in developed and developing countries. New dynamic enterprises contribute to economic development in several ways: as an important channel to convert innovative ideas into economic opportunities, as the basis for competitiveness through the revitalization of social and productive networks, as a source of new employment, and as a way to increase productivity.

The latest studies are gradually demystifying the enterprise creation process. This process covers the period from a potential entrepreneur's initial inspirational spark and motivation to begin a new venture up through its start-up and early development. However, the current literature still does not pinpoint which factors are most influential in encouraging or limiting the entry and progress of new dynamic enterprises within different local contexts. In answering this question, this study analyzes data drawn from surveys of more than 1,200 new entrepreneurs in Latin America and East Asia.

During the last five years, the Inter-American Development Bank has supported more than 15 programs designed to promote new enterprise creation. These cover a wide variety of services for individuals that are embarking on

an entrepreneurial career. As we look toward the future, and given the importance of enterprise creation to economic development, the Bank needs to increase its participation in these types of programs. The findings and policy implications of this study offer important guidance to direct those resources effectively.

We would like to thank the government of Japan, which made this study possible through its continuous support of the *Japanese Trust Fund for Consultancy Services* and the *Japan Program*. Researchers from nine countries participated in this large-scale study, which was supervised by three academic coordinators, under the guidance of the Inter-American Development Bank.

We hope that this report will serve as a reference for encouraging economic development based on the creation and promotion of new enterprises. We also hope that the findings of this study will lead to innovative programs to promote entrepreneurship.

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EXECUTIVE SUMMARY

This report presents the results of a comparative study of entrepreneurship in Latin America and East Asia. Entrepreneurship is defined as the capacity to create and develop new business ventures. The study focuses on the process of creation of new companies. That process is analyzed at three different stages: inception of the entrepreneurial venture, company start-up, and its early development. From the initial motivation to become an entrepreneur to the contacts needed to help solve problems as the business gets underway and grows, a number of factors affect the behavior of potential entrepreneurs. This study aims to identify the leading factors that stimulate or limit entrepreneurship at each stage of the entrepreneurial process in Latin America and East Asia. These leading factors have been analyzed, a number of conclusions have been drawn, and policy recommendations have been reached for promoting entrepreneurship in different socio-economic contexts.

FOCUS AND METHODOLOGY

In recent decades, the debate on entrepreneurship has shifted from a focus on who on entrepreneurs are—by studying aspects of their personality—to a focus on the entrepreneurial process as a more complex phenomenon involving the interaction of situational, social, cultural, and economic factors. Among the latter analyses, opinions differ about the relative importance of the role of the individual and the role of the environment. Some authors maintain that entrepreneurship must be considered a collective phenomenon. Such studies lead to the conclusion that broad, inter-disciplinary focuses must be used to address the entrepreneurial phenomenon. Against this backdrop, this study adopts a broad conceptual perspective and focuses on the business creation process. By doing so, it tries to recognize the principal elements that other schools of thought have contributed.

The methodology of this study, including its working hypotheses, the questionnaire for gathering the information, and the design of the samples, was prepared on the basis of an extensive review of literature on entrepreneurship and on interviews with more than 130 key informants in eight countries. More than 1,220 founders of new businesses were

then surveyed in nine countries (Argentina, Brazil, Costa Rica, Mexico, and Peru in Latin America and Japan, Korea, Singapore, and Taiwan in East Asia) to determine the influence of different factors at each stage of the business creation process. The study focused mainly on an analysis of “dynamic” companies, defined as those between three and ten years old that increased their work force to between 15 and 300 workers. This group was contrasted with a control group made up of companies that did not grow during the same time period, and continued to employ fewer than ten people. The companies interviewed belong to traditional sectors, basically manufacturing, and to intensely knowledge-based sectors, basically those related to information and communications technologies. Metropolitan areas and local areas with high concentrations of small and medium-sized enterprises (SMEs) were also studied, in order to understand the entrepreneurial process in different geographical contexts.

DIFFERENCES AND SIMILARITIES IN THE ENTREPRENEURIAL PROCESS IN LATIN AMERICA AND EAST ASIA

Significant differences were found between most new companies in East Asia and those in Latin America. Ventures in Asia start out with more partners, invest more money, grow more quickly in terms of sales volume, take better advantage of the opportunities created by the local business environment (basically through subcontracting), and compete with more innovate products and services. Most operate in predominantly knowledge-based sectors, and the percentage of exporters is much higher than in Latin America. The influence of entrepreneurial role models, especially through the mass media, is greater in East Asia. It takes 80 percent longer to identify a business opportunity in Latin America than in East Asia, although the desire to become an entrepreneur begins at a younger age. The contact networks of Latin American entrepreneurs tend to draw more on their immediate social circle (family, friends, and acquaintances), while those of East Asian entrepreneurs more commonly branch out into the business world. Latin American networks are also more limited to specific socio-economic sectors and local areas. Curiously, Asian entrepreneurs maintain the same network

of business contacts throughout the three stages of business creation, providing them with the support they need to solve problems in the early development stage.

There are also notable similarities in the entrepreneurial process in the two regions. New entrepreneurs are predominantly male university graduates or post-graduates, who start their companies between the ages of 30 and 35, join up with partners who have complementary specializations and skills, and use mostly personal savings to start up their businesses. They start by attending to the demands of other companies—other SMEs, as well as large companies. In both regions, entrepreneurs are motivated more by a need for self-realization and personal development than by material considerations, though the latter become more important as the business creation process advances.

Other important common factors include the key role of work experience as an “incubator” for entrepreneurial motivation and skills, as well as contact networks. These networks are critical for new entrepreneurs to identify business opportunities, to gain access to financial resources, supplies, and know-how, and to face the challenges and problems involved in management during the company's early years. The networks of dynamic entrepreneurs tend to include other SMEs and executives of large companies. By contrast, the educational system plays a very limited role in the acquisition of entrepreneurial motivation and skills. The entrepreneurs interviewed did not use the existing support and research institutions to solve problems when launching and managing their companies.

The data analyzed indicates that Latin American entrepreneurs face a less favorable business environment than those in East Asia, where societies are better-integrated, income levels are higher, and structures for production and innovation are better organized and more sophisticated. Latin American entrepreneurs also point to a lack of available financing as an impediment to the development and growth of new businesses. This leads them to look for ways to reduce their initial investment: for example, by buying second-hand machinery, obtaining credit from suppliers, or starting out on a small scale. Asian entrepreneurs, by contrast, have better access to more varied sources of external financing, especially at the launch and early development stages of their businesses.

DIFFERENCES WITHIN EACH REGION

In Latin America, there is significant outsourcing only in Brazil, the country with the largest and most-organized industrial structure, and to a lesser extent in Costa Rica, where recent investments by large companies seem to have benefited a segment of the enterprises studied. Mexican and Brazilian entrepreneurs complained the most about financial restrictions, which forced them to start their businesses with inferior equipment and technology. Institutional support was most widespread in Mexico, and notably lacking in Argentina and Brazil. Entrepreneurs in Mexico, Brazil, and Peru frequently mentioned regulatory impediments (taxes, red tape, and costs of registration).

In East Asia, many dynamic Korean entrepreneurs start out in other SMEs, while the Japanese tend to come from large companies. Entrepreneurs in both countries, compared to those in Taiwan and Singapore, encounter a more negative reaction from their family and social circle. They also give less importance to the role of the educational system in the acquisition of entrepreneurial vocation and skills. The entrepreneurial process is extremely fast in Singapore (less than a year to get a business underway) and very slow in Japan (almost three years). Japanese entrepreneurs have greater access to bank loans, while those in Singapore and Taiwan depend more on commercial credit. Taiwanese entrepreneurs make better use of their contact networks to solve problems in the first years of business, while these networks are less important in Singapore and Japan.

POLICY RECOMMENDATIONS

This study points to the main areas where policies are needed to promote entrepreneurship in Latin America. At the same time, the specific features of the entrepreneurial process in each country are revealed, enabling more precise consideration of the policies and programs necessary in each national context. A methodology similar to the one used in this study could also be applied to regions within each country in order to develop policies and programs aimed at regional concerns. These are the main general recommendations of the study:

1. Policies for boosting entrepreneurial capacity should set out to broaden the base of entrepreneurs who have access to the means to start up a new business. Strategies of this kind should set out to include

potential entrepreneurs from all social classes, women, and indigenous people. This would also contribute to increasing the potential social mobility of the population.

2. A coordinated set of programs is needed to deal with the different factors that affect each stage of the entrepreneurial process.
3. Initiatives to promote entrepreneurship must involve a long-term political, economic, and social commitment. The process of identifying business opportunities and starting up a business takes several years.
4. Policies for encouraging entrepreneurship must consider the importance of work experience and the entrepreneur's contact network as key factors for entrepreneurial success.

On the basis of these guidelines, regional policy-makers could consider the following specific recommendations:

1. To help motivate young people in Latin America to start new businesses, entrepreneurial role models should be disseminated and innovations should be introduced into the educational system.
2. The development of entrepreneurial networks and the creation of teams of entrepreneurs should be promoted. Entrepreneurial networks can be encouraged in different ways, including special forums or clubs where new entrepreneurs can get to know

one another and share experiences with more experienced business people, and with consultants, investors, and policy-makers in their sector. Training programs can be implemented to promote teamwork. These could require entrepreneurs to work in teams or participate in competitions where groups of entrepreneurs compete for awards for their collective business plans.

3. The inception period of new companies should be shortened by encouraging innovation, entrepreneurial connections, and new business opportunities, and by providing relevant information and support for the business venture.
4. Creating suitable financial infrastructure, eliminating bureaucratic red tape and costs, and reorienting existing SME support programs to cover the needs of new entrepreneurs could reduce the most significant impediments to the creation and development of new businesses in Latin America.
5. A strategy for boosting entrepreneurship must include many different organizations with different faculties and areas of specialization, all working together in a highly efficient and coordinated way. This means government bodies at various levels (national, local, and regional), universities and other institutions such as technical training institutes, private foundations, chambers of commerce, and other social entities.

CHAPTER 1: The Goals and Focus of this Study

CHAPTER SUMMARY

New enterprises are vital to job creation, innovation, and economic growth, a variety of recent studies have shown. These findings have led to the implementation of different types of initiatives and policies designed to encourage entrepreneurship, including the introduction of educational and training programs, the promotion of consulting support for entrepreneurs, and the facilitation of access to financing.

This study presents an analysis of the process by which dynamic enterprises in Latin America and East Asia are created and develop. Research is focused on key factors that influence how founders of new enterprises behave, and the behavior of dynamic enterprises during the following stages of this process:

- ▶ Inception of the venture,
- ▶ Start-up, and
- ▶ Early development of the firm.

This chapter opens with a discussion of the impact of entrepreneurship on economic growth. It continues with examples and evidence of how governments are emphasizing policies to promote enterprise creation. It follows with a brief overview of some approaches to entrepreneurship. It then summarizes the study's objectives and describes the conceptual and methodological approaches used. It concludes with a summary of the basic content of each chapter and the structure of the report as a whole.

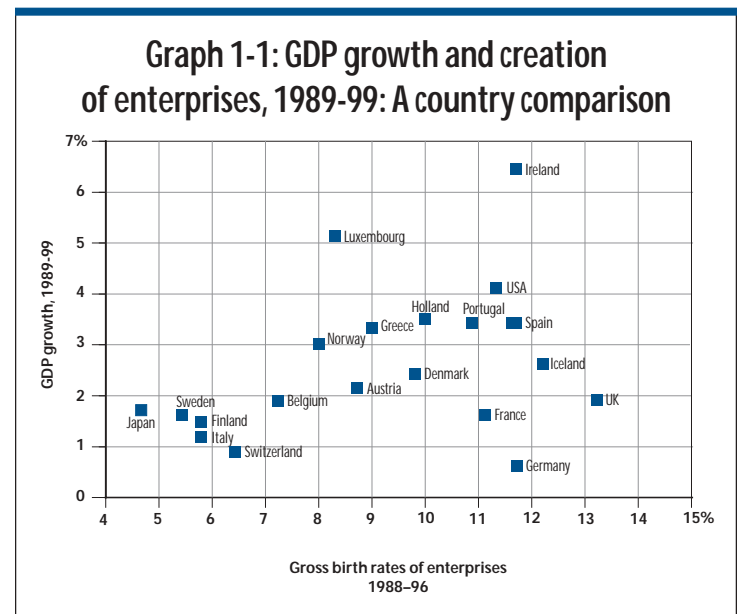
1. ENTREPRENEURSHIP AND ECONOMIC GROWTH

Over the past two decades, interest in entrepreneurship, and particularly in the emergence of new entrepreneurs and enterprises, has grown among governments and academics alike.¹ This interest is based on evidence demonstrating the contribution of entrepreneurship to economic growth, increased productivity, and rejuvenated social and productive networks. Entrepreneurship has been shown

to help revitalize regional identity, make the innovation process more dynamic, and create new job opportunities (Reynolds et al. 1999, 2000; OECD 1999, 2001; Audretsch and Thurik 2001).

The central importance of entrepreneurship to economic growth is underscored by a recent study of OECD countries (OECD 2001), which reveals a positive relationship between business start-up rates in OECD countries between 1988 and 1996, and economic growth between 1989 and 1999 (see graph 1-1). For example, Ireland, the Netherlands, and the United States all experienced high start-up rates and high growth rates. Countries with a low level of firm entry, such as Finland and Italy, also had lower growth rates. This pattern is similar to behavior observed in another international study that identifies the proportion of adults involved in venture activities (Reynolds 2000).

The particular ability of entrepreneurship to promote economic growth is emphasized by Audretsch and Thurik (2001), who also present further empirical evidence regarding the relationship between the level of



Source: OECD 2001

¹ Entrepreneurship is a broad concept that also includes innovative processes within existing firms (*corporate entrepreneurship*). However, from this point on, this study uses the term "entrepreneurship" in a restricted sense to refer to the start-up process and the creation of entrepreneurs.

entrepreneurial activity and economic growth rates. These authors point out that entrepreneurship generates economic growth because it is a vehicle for innovation and change, and thus promotes the knowledge-sharing process. At the same time, the entry of firms into new sectors of the economy and exit from industries in decline is a process that spurs improvements in productivity and facilitates modernization of company structures. This in turn leads to an increase in production. According to Binks and Vale (1991), the impact of entrepreneurship on economic growth is related to the entry of different types of firms into the economy: those that bring innovation to the marketplace and broaden the scope of business; those that channel resources toward exploiting these innovative ideas; and those that perform the same activities with greater efficiency. A combination of these different types of firms will extend the border of possibilities for an economy and fuel permanent expansion.

The role of new enterprises in the creation of job opportunities, particularly for young people, is emphasized by the 2001 OECD study. Another subject of growing interest is the impact of entrepreneurship on regional and local communities. In geographic areas where there is a higher start-up rate and greater entrepreneurial dynamism, economic resources are used more efficiently. The quality of life and economic growth also tend to be higher in these areas than in those with low start-up rates.

2. ENTREPRENEURSHIP AND PUBLIC POLICIES

In recognition of the many economic and social benefits associated with the birth of new enterprises, and as an outgrowth of the greater understanding of entrepreneurship as a process, many governments, particularly those in developing countries, have implemented a wide variety of instruments and policies to support entrepreneurship. At the same time, debates in academia have fuelled changes in policy and approaches. There has been an evolution from programs to promote entrepreneurship that focused exclusively on partial aspects (such as training) toward a more holistic approach. As a result, the most recent initiatives

usually include a combination of actions designed to operate on a wider scale, and address such factors as culture, educational systems, support networks for entrepreneurs, and financing for new and small enterprises. Diverse programs are also being implemented internationally. These new programs have been designed to promote the entrepreneurial process, and are proof of governments' growing interest in promoting entrepreneurship.

The United States is a pioneer in this field. *The Small Business Investment Companies* (SBICs) were created in 1958 as private non-profit institutions with capital loaned by the federal government. The SBICs are regulated and certified by the *Small Business Administration*, and provide venture capital, long-term loans, and expert assistance. There are currently 384 SBICs. INTEL, Federal Express, Apple Computer, and Sun Microsystems are some of this program's former clients, and all benefited when first starting out (Cowling 1998). The *Small Business Development Centers* (SBDCs) also use university networks to provide support to potential entrepreneurs before they launch their ventures. The *Small Business Innovation Research* program (SBIR) particularly targets innovative entrepreneurs.² The SBIR and the majority of public programs in the United States emphasize financing for enterprises in the initial development stages, a period during which private financing is usually scarce.³

In Europe, for many years various governments have recognized the need to promote entrepreneurship. This is the case in Spain with *Barcelona Activa*, Barcelona's local development agency, created in 1987. *Barcelona Activa's* programs to encourage entrepreneurship have broadened and diversified over the years. These programs currently include business incubators, promotion of an enterprise culture, academic programs, entrepreneurial formation, coaching of entrepreneurs through the start-up process, and facilitating access to information and venture capital. Spain also has other programs—such as IMPIVA (*Instituto de la Pequeña y Mediana Industria Valenciana*)—that promote diverse initiatives such as business incubators and provide technical assistance in management and financing for new entrepreneurs.

² This program has three phases. During the first phase, feasibility of research proposals and merit is determined. The second phase includes additional private financing for the commercial application of technology. Financing amounts to US\$100,000 during the first phase and US\$750,000 during the second phase.

³ SBIR program evaluations demonstrate that firms that received support had higher growth rates than those that did not receive support. Evaluations also show that programs have led many professionals, particularly engineers and scientists, to pursue an entrepreneurial career. (Audretsh and Thurik 2001).

In the early 1990s in Scotland, *Scottish Enterprise* implemented measures and undertook activities designed to raise the start-up rate, and to promote new growth-oriented firms. The program focused on the business seeds in sectors with the highest potential for growth. To have an impact on a broad range of factors, *Scottish Enterprise* utilized a wide variety of instruments. Some of the areas targeted included: promoting cultural change through the communications media, introducing educational programs, supporting universities devoted to research in entrepreneurship, facilitating access to financing through venture capital and credits with subsidized interest, creating institutions that support entrepreneurship and bring entrepreneurs together, and extending support through consulting services and entrepreneurial forums.⁴

In Italy, an experiment, *Imprenditorialità Giovanile* (IG) S.p.A, began in the southern part of the country and spread throughout the nation (OECD 2001). IG created thousands of firms led by young entrepreneurs in the southern region, principally in the manufacturing sector, and generated a significant number of new jobs. IG also helped improve the business climate in the region by substantially reducing dependency on public employment. IG's experience demonstrates the importance of macroeconomic policies that help create new jobs, and support entrepreneurial initiative and local development in areas with relatively lower socio-economic development. Some of the main instruments used by IG include non-reimbursable capital funds for firms founded by youth, subsidized credits and long-term loans, and support for young entrepreneurs through tutorials and training programs.

More recently, in Germany, the *EXIST* initiative has implemented a program with funding from the European Union to foster entrepreneurship. This program is based on bidding for resources to support entrepreneurial development. Regions compete with one another based on their presentation of strategies for business development.

To summarize, in recent years governments all over the world have increased their efforts to foster entrepreneurship as they have recognized how this phenomenon

spurs economic growth. As this study will demonstrate, in Latin America, these types of policy advances are still in an embryonic phase.

3. DIFFERENT APPROACHES FOR UNDERSTANDING ENTREPRENEURSHIP

The phenomenon of entrepreneurship has been written about extensively. This section summarizes some of the most relevant approaches and their evolution over time.

Any study of entrepreneurship implies the need to introduce profound changes in conventional economic approaches. Conventional economic wisdom focuses either on the analysis of economic aggregates or on microeconomics grounded in a theory of the firm that views the organization as a "black box" controlled by an "automatic pilot." This theory is based on the idea of perfect rationality and nearly mechanical decision-making processes based on "price signals." It does not sufficiently take into account the role of the entrepreneur and entrepreneurship. Despite pioneering work by Joseph Schumpeter that recognized the role of entrepreneurship as the motor of innovation and economic development, economists have traditionally tended to center their analysis on the economic function of the entrepreneur, rather than on trying to understand and explain the process by which new firms emerge.

Against this backdrop, a body of knowledge began to develop under the name of *entrepreneurship* that includes different types of approaches and research. These approaches have different ways of defining the object of study. A pioneering current in this work has concentrated on studying who an entrepreneur is or on the personality traits of entrepreneurs (*trait approach*). McClelland (1961) characterized entrepreneurs fundamentally by their need to achieve, a characterization that inspired a flurry of studies in this same vein. Other characteristics of entrepreneurs include their desire for independence, perseverance, conviction, and self-confidence. Gilder (1984) describes entrepreneurs as people who are capable of learning, who pursue their goals despite failures and frustrations, and finally, who achieve success by breaking with old patterns of behavior and

⁴ While the results of a complete evaluation of this program are still not available, partial evidence indicates that goals have probably already been met as regards increasing the net start-up rate, improving societal views toward entrepreneurial activity, and developing support infrastructure for new ventures.

creating their own order. This definition is clearly influenced by Schumpeter and his vision of the entrepreneur's innovative role. Baumol (1997) also includes within the analysis of entrepreneurial traits the most common sort of entrepreneur, the imitative entrepreneur: one who capitalizes on a business opportunity identified by another person.⁵

Thinking regarding entrepreneurship has not remained static, and has evolved from the personality trait focus to other approaches that examine the enterprise creation process. This process is viewed as a much more complex phenomenon, one in which social, cultural, and economic factors interact (Gartner 1988, Shapero 1984, Buame 1992). Gartner, for example, believes that the focus should be on the venturing process rather than on personality traits. Shapero conceptualizes the "entrepreneurial event" and explains it based on the existence of "displacement factors"—or those that cause a person to break with his or her previous life path and lean toward an entrepreneurial career—his or her propensity to act, the credibility of the options, and resource availability.⁶

Gibb and Ritchie (1982) classify a firm's creation process into the following stages: identification of an idea, validation, access to and organization of resources, negotiation, birth, and survival. According to these authors, the successful development of a venture depends on four key factors: the idea itself, availability and obtaining of resources, the abilities of the entrepreneur and his/her associates, and their level of motivation and commitment. Within these new approaches that center on the process itself, it is possible to differentiate perspectives according to the emphasis placed on roles: the individual's role as compared to the role of the socio-economic context and the entrepreneur's networks (Johannisson 1988, 1998).

In recent decades, several works have explored additional economic factors that help explain the phenomenon of

firm creation. According to Rees and Shah (1986), individuals exercise a rational option balancing work in relation to dependence and self-employment. This model predicts that individuals will choose the sector in which they will work by balancing factors such as entry barriers for certain jobs (average and variance) and the nature of the work in each sector. Rees and Shah, as well as subsequent authors (Evans and Jovanovic 1989), have identified variables that explain why certain individuals embark on a new venture, and the distinct factors considered during the decision-making process.⁷ According to the entrepreneurial option model, there are individuals within consolidated firms who have ideas for new products/business, and although they value their own ideas highly, their organizations do not value these new ideas. Given uncertainty and asymmetrical information, these individuals may choose to assume the risk and begin their own firm. They do this because they believe that the market will respond favorably, and because they value their own idea more highly than the firm that employs them (Audretsch 1998).⁸

Within the field of economics, studies in industrial dynamics assign a key role to entry barriers. These studies also look at the level of expected benefits resulting from new actors breaking into markets and their activity, at least over the long term (Geroski 1991, Burachik 1999). Finally, the transaction costs approach explains the difficulties that new firms confront when launching themselves into the market and developing during the initial phases (Nooteboom 1993). According to this view, new and small firms pay much higher transaction costs proportionally as compared to larger and established firms. Regulations and market imperfections translate into higher costs when seeking and accessing information, negotiating and signing contracts, and in terms of administrative costs (for example registration, buying and selling transactions, and contracting labor).

⁵ The list of authors who have contributed to the definition of an entrepreneur is quite extensive and their work has methodological as well as conceptual implications. Brockhaus (1980) associates entrepreneurial activity with business property and risk-taking. Jennings (1993), however, sees the entrepreneur as one who founds an enterprise. This definition is increasingly used, in part due to its pragmatism and the ease with which it can be made operational.

⁶ Shapero discusses positive displacement factors (such as identification of an opportunity, desire for realization) and negative factors (for example, escaping unemployment, frustration with one's current job, and immigration).

⁷ Variables linked to human capital such as education and work experience contribute to an increase in expected income through imitative or innovative activities. Personal assets and demographic factors (such as age and marital status) have an impact on the attitude of individuals as they confront a risk.

⁸ Markets where innovation follows a "venture type" model place a higher value on the entrepreneurial option (Audretsch 1995). These cases are characterized by the existence of "low appropriateness" of conditions of benefits associated with innovations, low entry barriers, and reduced accumulation of knowledge in existing firms (Burachik 1999).

The studies previously mentioned lead to the conclusion that understanding entrepreneurship requires the adoption of broad and interdisciplinary approaches. In keeping with this reality, this study has been carried out within a broad conceptual framework. We have centered on the process of firm creation, while attempting to recognize the main issues that each different approach explores.

4. THE RESEARCH GAP AND POLICIES IN LATIN AMERICA

Virtually all literature on entrepreneurship and on different policies to promote the creation of enterprises comes from Europe and the United States. Research on entrepreneurship in Latin America, on the other hand, is in the embryonic phase. Interest in further research is growing in the academic world (Varela 1991; Motta and Roitter 1999; Kantis, Angelelli, and Gatto 2000; Rearte and Liseras 2001; de Souza 2001; Reynolds 2000). However, there remains a profound lack of statistical data regarding the creation process and life cycle of firms in the region. The number of firms that enter and exit the market annually is unknown. The key factors that influence the birth and early development process of firms that differ dynamically have not been evaluated in the region.

The weakness and even absence of public strategies for entrepreneurial development in the majority of the countries of Latin America is due, at least in part, to this lack of knowledge.

There is some evidence, however, of the initiation of a new phase of entrepreneurial promotion in the region. One example is the *Brazilian Venture Program (Programa Brasil Empreendedor)*. The federal government has committed a significant amount of funding to the promotion of entrepreneurship, fundamentally to facilitate access to financing and to support training of entrepreneurs.⁹

The Inter-American Development Bank (IDB) currently supports more than 15 programs oriented toward promoting new enterprise creation. These initiatives provide a wide variety of services to individuals who want to begin an entrepreneurial career, such as access to venture capital, logistical and operational support, technical assistance and training, streamlining of the bureaucracy and registry systems, and support for networking.

The initiatives supported by the IDB have a limited scope in terms of geographic area, number of operations, and/or the amounts involved. One possible justification is the fact that this is a relatively new policy area. None of the programs previously mentioned is more than five years old. In any case, given the importance of firm creation to economic and social development in countries and regions, future participation in these types of programs will probably increase.

5. THIS STUDY

SME development and modernization is a priority for Latin American and Caribbean countries. The Inter-American Development Bank is committed to the quest for new channels to strengthen the small and medium-sized enterprise sector, in recognition of this sector's contribution to economic growth through employment and income generation. Cooperation in this field will help increase productivity in this sector and in the Latin American economies. The goal of this research project is to identify areas of innovative action for the promotion of small and medium-sized enterprises in Latin America. In this context, promotion of entrepreneurship is a high priority.

This study focuses specifically on new dynamic ventures. Entrepreneurial ventures span a broad spectrum, ranging from those supporting a certain "life style" or simply meeting subsistence needs of the entrepreneur and his or her family to others targeted to high-capacity for aggregate value and growth. Various studies show that this last category is the one that contributes the most to employment creation and economic modernization. (Bridge, O'Neill, and Cromie 1998, Storey 1994). This is why this study has focused on this type of enterprise.

The study was conducted in Argentina, Brazil, Mexico, and Peru in Latin America, and Japan, Korea, Singapore, and Taiwan in East Asia. At the same time an ad hoc study was conducted in Costa Rica utilizing the same methodology, thus permitting a more extensive comparison of data. Information on the venturing process was obtained from very diverse socio-economic contexts, utilizing the same methodology. This made it possible to identify common factors in the creation and development of firms in both regions, as well as specificities in each region and country.

⁹ At the time it was approved, the budget amounted to nearly \$US4 billion.

The main findings of this study are presented in this publication. Based on these findings, we have outlined key areas for the design of initiatives to promote entrepreneurship in Latin America.

5.1 The approach utilized

To examine the entrepreneurial process, this study identified three key stages: inception, start-up, and early development of the firm.

Researchers identified key questions to explore for each stage, as well as a series of hypotheses regarding the principal factors influencing each stage. These factors were defined during a preparatory phase of the study, and identified by revising the existing specialized literature and interviewing founders of firms and expert sources (see box 1-1 and methodology annex).¹⁰

The factors that influence the critical events during each stage within this framework are discussed below.¹¹

• INCEPTION

This phase corresponds to the period during which the entrepreneur feels that first spark of motivation to strike out alone. She/he identifies a business opportunity that could become a business concept and begins to lay the groundwork for the entrepreneurial venture. Key factors of this stage include the role of the educational system, the structure and dynamics of the productive sector, social capital (networks that entrepreneurs depend on), and the personal characteristics and behavior of the entrepreneur.

Inspirational entrepreneurs as role models were examined, as well as how society views entrepreneurial activity, and the entrepreneur's individual drive for independence. All these variables are associated with culture and were considered along with other motivational factors (economic as well as non-economic). At the same time, researchers looked at the main environments where entrepreneurs acquire the drive and competencies needed to undertake and develop a venture (formal educational system at all

levels, professional and technical training institutes, work environments, and the family).

When analyzing the profile of business opportunities that new firms can exploit, researchers looked at the possible influence of productive structures and diverse entrepreneurial strategies in both regions. Researchers also looked at the influence of all kinds of networks on identifying and selecting business opportunities: the closest social networks (parents, friends, acquaintances, colleagues, teachers), as well as commercial (suppliers and clients) and institutional networks. This study brought to light new questions linked to the role of these networks, their size, and internal makeup.

During the birth process of any firm, the business and financial planning is a very important preparatory activity. Questions were studied such as availability of information, formulation of business plans and utilization of professional tools, and in relation to these factors, the influence on the entrepreneur of personal factors such as educational level and previous work experience.

• START-UP

This stage includes the final decision-making process to found the firm and activities required to find and organize different types of resources needed to launch, such as information, technology, funding, human capital, and materials.

The final decision on whether to launch a firm implies assuming the risks associated with entrepreneurial activity. This can depend on a wide variety of economic and non-economic factors. But it also includes the possibility of accessing different types of resources (monetary, human, raw materials, logistical) and the ability to mobilize them.

This study explored the relative influence of the following factors on the decision-making process: general economic conditions, structural characteristics of markets and market dynamics (size, number of potential competitors, expected growth), availability of financing, and regulatory

¹⁰ This made it possible to build on the results of studies of other socio-economic contexts and to enrich previous findings with questions posed in this study. Researchers interviewed approximately 50 entrepreneurs, as well as 80 key sources.

¹¹ The venturing process does not necessarily follow a linear sequence; rather, it is a process with progress and regressions throughout. This document has tried to simplify the process to make it easier for the reader to comprehend. For more detail on the methodology utilized to carry out this study, see the methodological annex.

BOX 1-1: KEY EVENTS AND QUESTIONS EXPLORED DURING THE STUDY

STAGE 1: INCEPTION

Acquiring the motivation and competence needed to become an entrepreneur

- ▶ What are the motivating factors that first lead a person to think about becoming an entrepreneur?
- ▶ How does the entrepreneur's immediate social context influence the motivational process?
- ▶ Where does an individual find the motivation and competencies needed to become an entrepreneur?

Identification of the business opportunity

- ▶ What are the principal sources of business opportunities?
- ▶ How do entrepreneurs find and identify these opportunities?

Business planning

- ▶ During the preparatory phase before launch, what information and planning tools do entrepreneurs use?

STAGE 2: START-UP

The final decision to begin entrepreneurial activity

- ▶ How do entrepreneurs make the final decision to start a business?

Access and mobilization of the resources needed to begin

- ▶ How do entrepreneurs access and mobilize the financial and non-financial resources needed to launch a business?

STAGE 3: EARLY DEVELOPMENT

Introduction to market of goods and services

- ▶ What factors influence market entry?

Management of the enterprise in the early years

- ▶ What are the main problems that entrepreneurs confront during this phase?
- ▶ How do they finance their operation and growth?
- ▶ How do they confront problems?

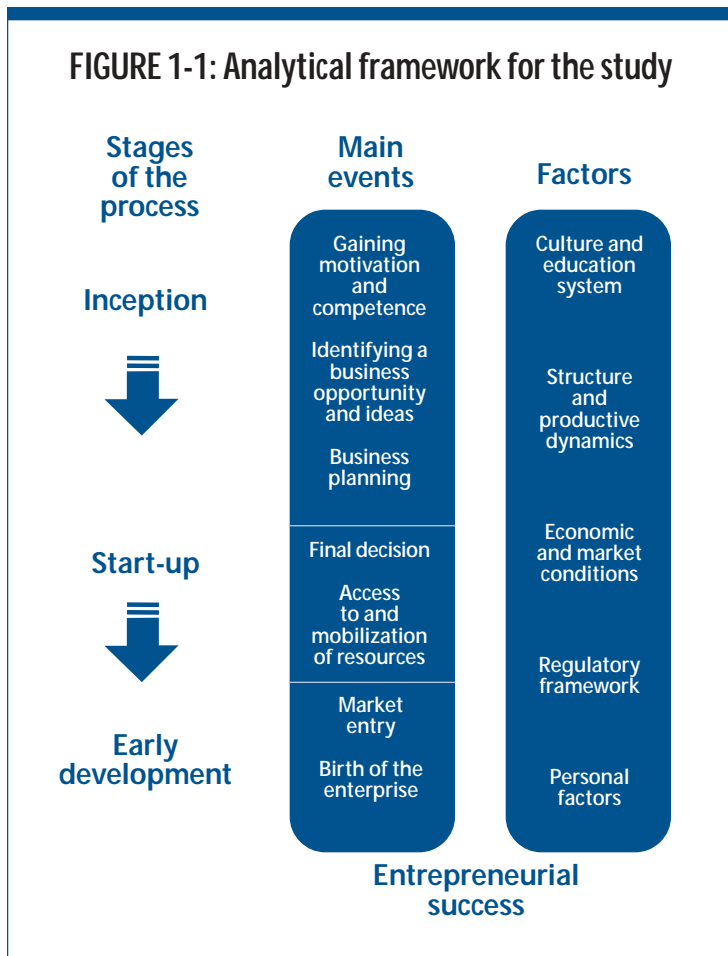
barriers, together with the non-monetary factors linked to cultural and personal aspects. The study also examined the nature of entrepreneurs' final evaluation process. The knowledge obtained deepened our understanding of the entrepreneurial rationality that underlies these types of ventures. As regards activities directed toward accessing and organizing resources that the entrepreneur uses to start a firm, the study looked into the level of utilization of different financing sources and their impact on the emerging firm. Researchers also examined the role of the entrepreneur's networks for accessing information, technology, and other resources. The study also considered the contribution of the educational system and the entrepreneur's previous work experience before embarking on a new venture.

• EARLY DEVELOPMENT

This phase includes the first three years of the firm's life, traditionally viewed as key to survival. In this stage, the entrepreneur confronts key challenges posed by the market, notably establishing legitimacy, overcoming barriers to survival, and demonstrating business management capabilities.

Researchers examined the main problems experienced during this period and analyzed the influence of the conditions for market functioning for products/services and factors such as capital and professional services. This was studied through gathering information on entrepreneur's access and utilization. Special attention was paid to how entrepreneurs confront these problems. This allowed

FIGURE 1-1: Analytical framework for the study



researchers to identify the role of social, commercial, and institutional networks in guaranteeing the survival of new firms in each country.

5.2 Selection of firms surveyed

The study was based on information on at least 130 founders of young firms in each country.¹² Firms were selected randomly using entrepreneurial directories and other available information sources. In Latin America, where often there are no registries of firms that list the date of founding, an important effort had to be undertaken to create specialized directories for new firms. In order to do this, information was gathered from such sources as municipalities, chambers of commerce,

support institutions, universities, foundations, and previous studies.

A young enterprise was defined as any firm between three and ten years old. This age threshold allowed researchers to include ventures that have survived the critical period of early development. The ceiling of ten years served two purposes: to study ventures whose dynamism had been relatively well established, and to minimize the possibility that the founder might not always remember factors that are important to the researcher.

The study paid special attention to new Internet ventures. In order to include this type of venture—a recent phenomenon—the minimum age threshold established was one year. However, the number of these ventures was low in all countries studied (less than 10 percent of total new ventures).

A dynamic enterprise was defined as any that reached a size of over 15 employees, but that had no more than 300 at the time of the study. The control group—the less dynamic firms—included new firms with a maximum of 10 employees.¹³ In each country, the dynamic firms made up approximately 70 percent of the firms. It should be emphasized that the study did not include the broad segment of informal micro-entrepreneurs, which represent a significant percentage of Latin American firms.

Literature on the venturing process emphasizes the contextual nature of the process. It looks at distinctive characteristics of the new firm according to sector type and location (metropolitan as opposed to local). This is why the study included enterprises from two types of sectors (conventional manufacturing and knowledge-based activities) and location (metropolitan environments and local areas with a strong SME presence). The conventional sector includes manufacturing firms (for example, foodstuffs, furniture, clothing, metalwork). Knowledge-based activities, linked to new information and communications technologies, include software firms, Internet-related services, and other branches of

¹² Both in Singapore and in the ad hoc study done in Costa Rica, the number of firms surveyed was less (50 and 48, respectively). This was due to the difficulty of finding enterprises that fell within the size criteria established. These countries were analyzed with special care, given the lesser number of firms surveyed.

¹³ Once the information was collected, the validity of the dynamism criteria adopted was ratified (based on the number of employees hired). Both groups of firms began with a similar size. While dynamic firms grew significantly in terms of both employment and sales, the control group remained the same or declined in terms of sales.

applied electronics.¹⁴ The study defined local areas as locales outside of major metropolitan areas where there is a concentration of small and medium enterprises. Such a concentration facilitates informal interaction among entrepreneurs. Examples include smaller and mid-sized cities, as well as industry clusters and industrial parks.

5.3 Some limitations on methodology

The study applied rigorous methodological criteria both to the procedures used to gather information and the quantitative techniques utilized for the analysis. However, a few words of caution are in order regarding the study's limitations. These were all taken into consideration when the data were interpreted.

- ▶ Although the categories established for firm selection were the same, the sources interviewed to help choose firms varied in each country. In East Asia, firms were selected primarily by utilizing national business directories, although in Taiwan participants in business seminars were also consulted. In Latin American countries, however, where directories and information on new firms were not available, information had to be obtained from a variety of sources, a factor affecting the precision of statistical representation. An attempt was made to offset bias by consulting a wide variety of sources.
- ▶ The distinctive characteristics of dynamic ventures were identified by comparing them with less dynamic ventures. Cases of enterprises that never got off the ground were not included. This makes it possible to understand why only some out of all firms launched are able to significantly expand. The reasons why certain entrepreneurial ventures never started still need to be explored. The study does not tell us, for example, to what extent a lack of financing led some entrepreneurs to abandon ventures before launch.
- ▶ Researchers looked at the characteristics of the firm's first clients to identify the sources of opportunity that led to the formation of the new business. This approach was based on the assumption that the opportunities initially perceived by the entrepreneur and the

opportunities that became concrete business ventures were the same.

5.4 Content of the study

This study closely examines several key factors that influenced the emergence and development process of new dynamic ventures in Latin America and East Asia and carefully considers their implications for policy. These factors are summarized in figure 1-1.

The view that entrepreneurship depends on socioeconomic context was a special focus of this study. Of particular interest in this regard was a study on cultural values in 40 countries (Hofstede 1980), which provides elements related to the different contexts in East Asia and Latin America. The Hofstede study was based on surveys of 116,000 workers with different profiles who worked for affiliates of the same multinational.¹⁵ It describes Latin American countries as less open to risk-taking than Asian countries, with the exception of Japan, which in this instance is similar to the Latin American countries. The Hofstede study also identified some commonalities between the two regions. In both Asian and Latin American countries, there is a greater acceptance of hierarchies. Individualism is valued less than in Anglo-Saxon countries. When analyzing factors that motivate entrepreneurs, these features should be taken into consideration, along with such other characteristics as the tendency to work and participate in teams.

The reader must also keep in mind that this is a study of countries with very different levels of social fragmentation and production, as well as different profiles of sectoral specialization. It is very possible that the higher level of social disintegration in Latin America negatively affects the capacity of potential entrepreneurs in different socioeconomic strata to take advantage of business opportunities. Because of this situation, entrepreneurship is probably not as important to social mobility, a factor detected in this research. At the same time, the different sectoral profiles and levels of productive fragmentation explain the emergence of enterprises that take advantage of different types of opportunities.

¹⁴ The inclusion of knowledge-based firms in this study was limited to a maximum of 65 percent and a minimum of 35 percent of the total sample in each country. This facilitated the comparison of results between both regions. Without these limits, given available information, the Asian panel would have been predominated by knowledge-based firms, while the opposite would have been true for Latin America. Even with these limits, the Latin American panel still did not reach the minimum 35 percent threshold established and hit only 32 percent, while the Asian panel hit over 50 percent.

¹⁵ This study lasted six years, and although relevant cultural changes have been observed since, it is still an indispensable reference point when dealing with these questions and continues to be used by researchers of entrepreneurship (McGrath, Mc Millan, and Scheimberg 1992).

BOX 1-2: AREAS INCLUDED WITHIN THE STUDY

METROPOLITAN AREAS:

(Japan) Tokyo, Kanagawa, Saitama, Chiba, Osaka, Hyogo, Kyoto, Aichi
 (Korea) Seoul, Incheon, Pusan, Taegu, Kwangju, Taejon
 Singapore city-state
 (Taiwan) Taipei, Kaoshung
 (Argentina) Buenos Aires
 (Brazil) São Paulo, Campinas
 (Costa Rica) San Jose de Costa Rica, Alajuela, Cartago, Heredia
 (Mexico) Mexico City, Guadalajara
 (Peru) Lima

LOCAL AREAS:

(Japan) Kanazawa, Suwa
 (Korea) Ansan, Shihung, Anyang Bucheon
 (Taiwan) TaiChung-Xian, TaiPei-Xian, XienZhu City
 (Argentina) Rafaela, Mar del Plata
 (Brazil) Americana
 (Mexico) Jalisco, Leon, Guanajuato, Puebla, Taxco, Guerrero
 (Peru) Trujillo

Other distinguishing aspects have to do with the different development levels of the respective financial systems and of policies oriented toward facilitating access to financing for small enterprises.¹⁶ These aspects should be considered when analyzing the sources through which entrepreneurs fund their needs, and these sources are much more limited in Latin America.

Chapter 2 presents a detailed analysis of the principal differences this study found when comparing the emergence and development process of new dynamic ventures in Latin America and East Asia. Among the differences that merit special attention are contrasting characteristics regarding the profile of enterprises during the stage, and access to financing and the growth rate. In general terms, it is possible to predict that East Asia offers a more favourable business environment than Latin America.

Chapters 3 and 4 offer a more detailed analysis of the study's findings for each of the regions covered. We

describe the influence of factor markets, the structure and dynamics of industry, legal and regulatory frameworks, social capital, and the personal aspects of each of the important events and stages of the entrepreneurial process. Special attention is paid to differences between countries analyzed in each of the two regions. The reader should be aware that in addition to the contrast outlined in chapter 2 between Latin America and East Asia, the study also identified distinctive differences between the countries in the same region. These differences are explained in chapters 3 and 4.

The most important conclusions of the study are presented in chapter 5. This chapter also includes a series of implications for policy-makers for Latin America, keeping in mind each stage of the venturing process. Finally, the study includes a methodological annex, which presents the hypotheses explored and procedures followed to collect and analyze data, as well as the questionnaire utilized during fieldwork.

¹⁶ For example, financial depth is lower in Latin America than in East Asia. Total deposits represent 46.24 percent of the GDP in Brazil, 40.77 percent in Peru, 39.38 percent in Argentina, and 27.97 percent in Mexico, compared with 248.57 percent in Taiwan, 173.08 percent in Singapore, 151.16 percent in Japan, and 102.88 percent in Korea.

CHAPTER 2: Comparative Analysis of the Entrepreneurial Process in East Asia and Latin America

CHAPTER SUMMARY

In both regions, the motivation to pursue an entrepreneurial career includes non-economic factors such as a desire for personal development, as well as monetary motivations. Entrepreneurs typically acquire experience for their venture through their prior work. Teams of entrepreneurs rather than individuals typically found the dynamic enterprises, and these teams are made up of individuals with complementary knowledge, skills, and talents. Team members have relevant work experience and access to support networks, key factors needed to successfully launch an entrepreneurial venture. The availability of financing is also a critical aspect during the various stages of business development. Along with the above factors, verified in both regions, there are also strong contrasts that confirm the importance of context in determining the entrepreneurial phenomenon. In East Asia, for example:

- The entrepreneurial teams are larger.
- Other entrepreneurs are extremely important as role models to motivate entrepreneurs.
- Networks for capturing business opportunities are more stable and primarily based on business rather than personal contacts.
- Outsourcing of activities by large firms and knowledge-based activities are a much more frequent source of new business opportunities.
- Access to financing is easier to obtain than in Latin American countries, where entrepreneurs must implement different strategies to avoid using credit.
- Other entrepreneurs offer more support for problem solving during the early development stage, as there are more solid networks in place to support this phase.

This chapter highlights the main differences between new ventures and entrepreneurs in each region.¹⁷ It describes

the distinguishing factors of the entrepreneurial process in both regions. It also presents the main conclusions of the comparative analysis.

1. PANEL CHARACTERISTICS:

The entrepreneurs and dynamic enterprises in East Asia and Latin America

1.1 The entrepreneurs

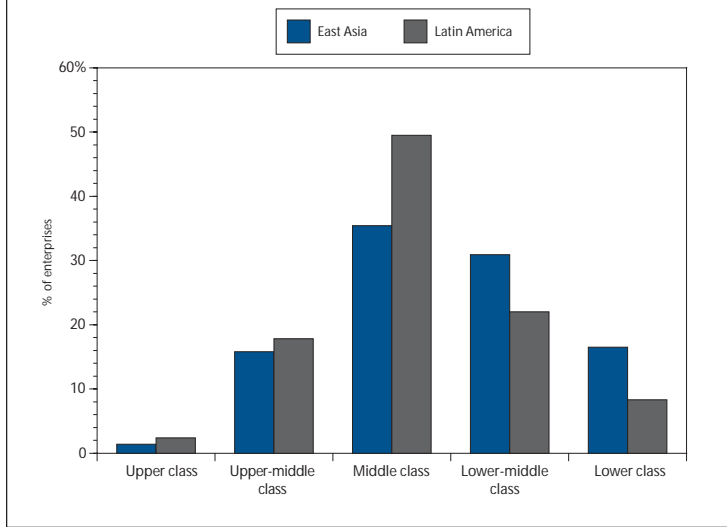
• SOME BASIC CHARACTERISTICS

In both regions, the entrepreneurs studied tended to be men of an average age of 40-45. There were very few women, particularly among the founders of the dynamic enterprises (4.4 percent and 9.9 percent in East Asia and Latin America, respectively). The data seem to indicate the existence of higher entry-level barriers for women, in addition to the existing structural differences between both regions (in terms of culture and economic sectors, among other differences). Previous studies have already indicated that fewer women participate in entrepreneurial activities (Reynolds 2000), and have recommended the promotion of female entrepreneurship. However, more research is needed to fully comprehend the nature of entry barriers, in order to remove them and facilitate gender equality of opportunity (Weeks and Seiler 2001).

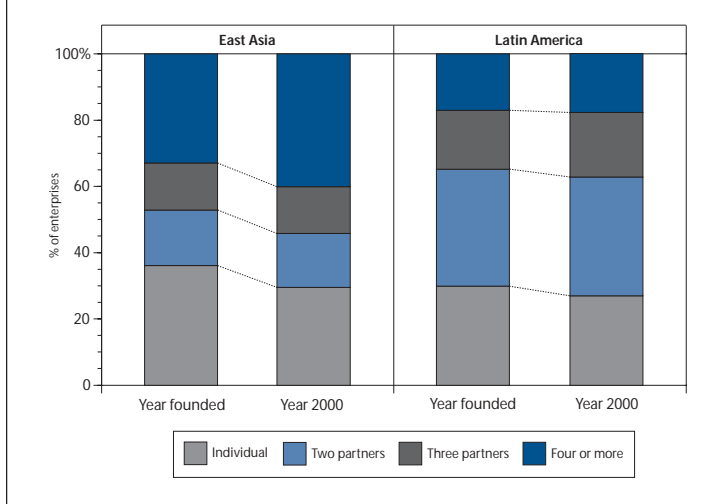
In both regions, most entrepreneurs have a high level of education. Most frequently, the entrepreneur has taken college courses in business administration or engineering—the latter being the most frequent case in East Asia. Although the majority come from middle-class families, a significant number of dynamic entrepreneurs in East Asia come from poorer sectors. This is not the case in Latin America. In East Asia, entrepreneurs frequently have parents who are not entrepreneurs and/or have never been self-employed. These results seem to indicate that the entrepreneurial phenomenon is more extensive in East Asia and has spread to many different social strata.

¹⁷ This chapter summarizes the main characteristics observed in each of the two regions. However, by way of contrast, the study also includes cases of countries that differ from their region in some respect. The analysis is based on the comparison of regional results that are presented in more detail in chapters 3 and 4. These chapters contain an analysis of the entrepreneurial process in Latin America and East Asia, respectively.

GRAPH 2-1: Social origin of dynamic entrepreneurs



GRAPH 2-2: Number of partners at start-up in East Asia and Latin America



This implies that entrepreneurship contributes more to social mobility in East Asia than in Latin America.

Although a more in-depth analysis of these results is beyond the scope of this study, it is possible to present the hypothesis that in East Asia, income distribution is more equitable and the lower level of social fragmentation creates more favorable conditions for entrepreneurial development. There is a much larger middle class in this region from which entrepreneurs tend to emerge.

Other sectors of the population also have more frequent access to an entrepreneurial career.

• **THE SEEDS OF MOTIVATION**

While Latin American entrepreneurs said that they developed the urge to become an entrepreneur at around 26 years of age, on average, entrepreneurs in East Asia reported that they were at least 33 when this drive surfaced. One possible interpretation of this difference is that the greater structural stability of Asian labor markets makes opportunity costs higher for those seeking to strike out independently, a factor that may slow down the motivational process. Becoming an entrepreneur entails the cost of resigning from a professional career. In Latin America, on the other hand, the less favorable circumstances for market insertion and personal development would have an inverse effect. The recent economic crises experienced in Asian countries, as well as the new opportunities that have emerged due to greater participation in the global economy, are promoting entrepreneurial initiative among highly qualified workers with relevant work experience. In another context, these workers would probably have preferred to keep their jobs in established firms.

• **ENTREPRENEURIAL TEAMS**

In all the countries studied, with the exception of Mexico, the majority of the new enterprises were founded by entrepreneurial teams with complementary functions, skills, and abilities. The dynamic enterprises stand out from the crowd because they have a larger number of team members. This phenomenon is more prevalent in Asia. Teams made up of at least four members represent double the total number in Latin America—a difference that becomes greater with each passing year of the enterprise. These results confirm the findings of international researchers who have previously pointed to the presence of entrepreneurial teams as a distinctive characteristic of enterprises with high growth rates (Storey 1994).

• **WORK EXPERIENCE**

Entrepreneurs tend to have worked previously as employees of other SMEs, particularly in SMEs engaged in activities similar to their new businesses (such as manufacture of the same products) or as suppliers/clients to the current business. SMEs seem to provide a fertile

organizational context for “incubation” of future entrepreneurs. SMEs provide future entrepreneurs with a more holistic and comprehensive vision of the entrepreneurial process. At the same time, the advantage of working in a similar or related sector provides the possibility of acquiring business savvy such as the “know how” and the “know who” needed to create a new enterprise.

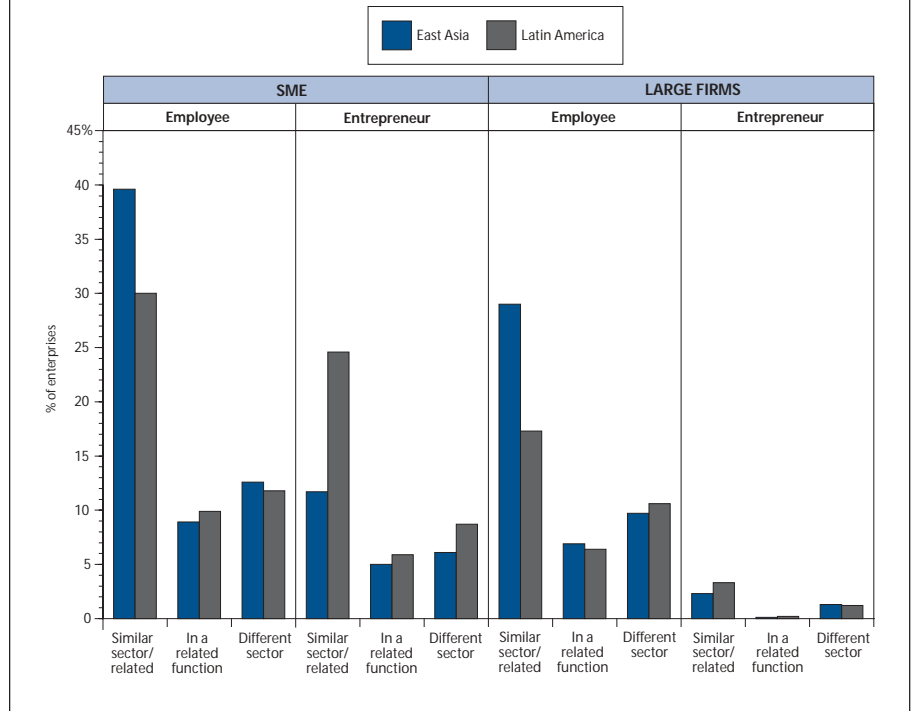
However, it is much more frequently the case in East Asia than in Latin America that entrepreneurs have had an opportunity to carry out entrepreneurial activity in a large firm or a sector similar to their new enterprise. Given the higher level of technological development and presence of high-technology firms in Asian countries, it is reasonable to think that these are highly qualified employees who can commercially exploit their new business ideas better than the corporations that had employed them.

In Latin America, on the other hand, the percentage of entrepreneurs who worked previously in another SME is greater than in East Asia. It is possible that this finding is due to the presence of one of the following factors. On one hand, the structural change and high mortality rate for firms registered in Latin American countries during the 1990s created a large base of former entrepreneurs with the potential to found new enterprises. However, on the other hand, this could also indicate the existence of minor barriers to the entry of “first-time entrepreneurs” in Asian countries. Either case would mean a more favorable environment for new enterprises.

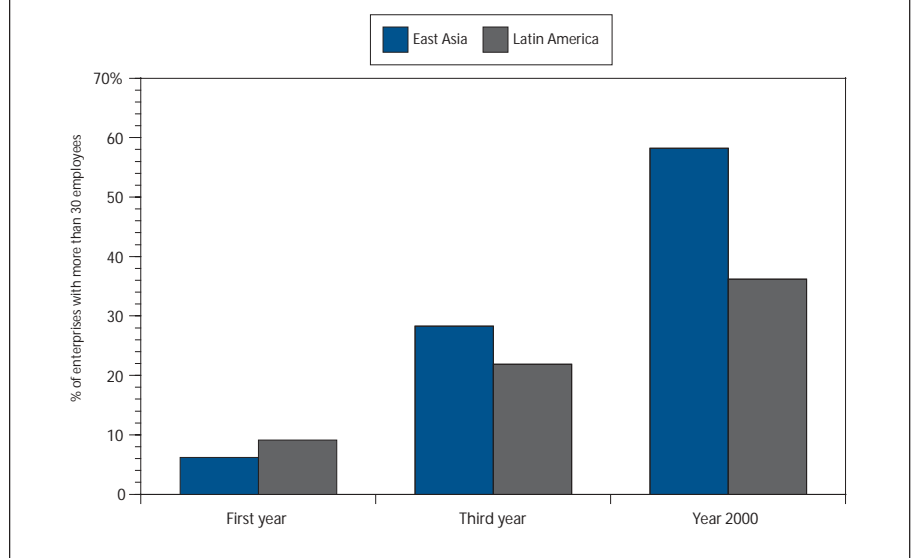
1.2 The enterprises

In both regions, the average age of the new enterprises is six years and the majority are located in metropolitan areas. Enterprises located in local areas (as defined in

GRAPH 2-3: Previous work experience of dynamic entrepreneurs



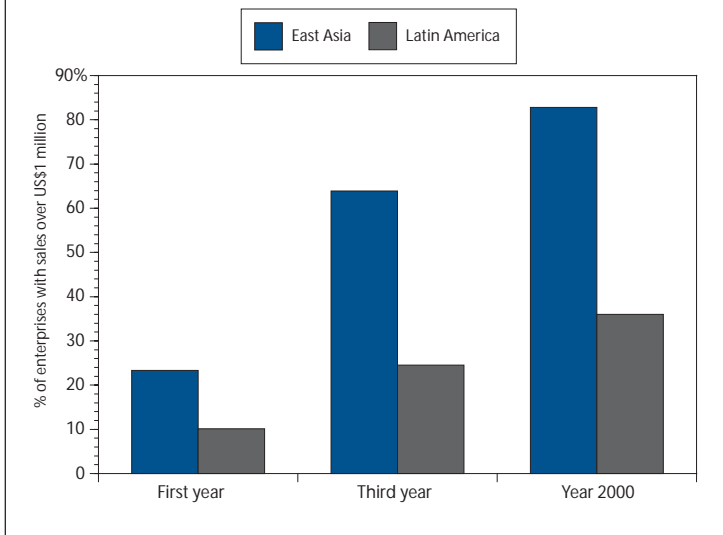
GRAPH 2-4: Evolution of employment of dynamic enterprises



chapter 1) figure significantly only in Mexico and Taiwan, comprising approximately half the firms surveyed.

When judged by the average number of employees during the first year, new dynamic enterprises begin small

GRAPH 2-5: Evolution of sales of dynamic enterprises since launch

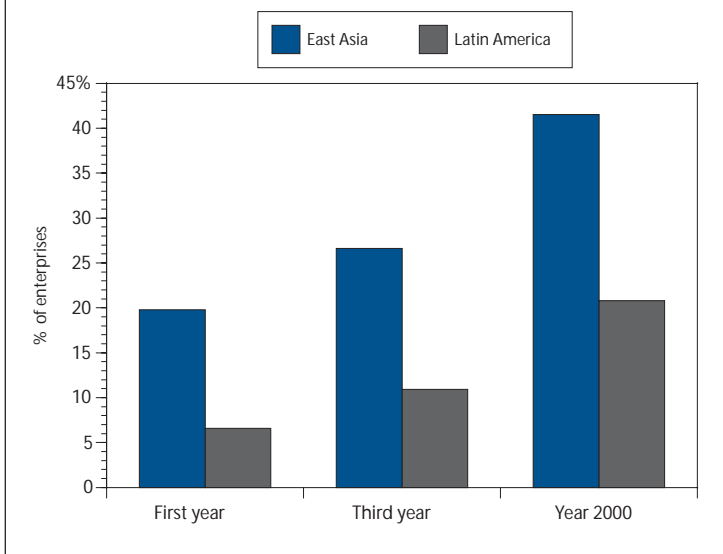


Asian enterprises evolved much more rapidly, employing an average of nearly 30 people by the third year (compared to 25 employees in Latin American firms).

These differences in the rhythm of growth are much greater when taking sales into account. East Asian enterprises sell more than double their Latin American counterparts during the first year and by the third year their sales are more than five times Latin American sales. As a result, Asian firms grow much larger. By their third year, nearly two-thirds have hit more than US\$500,000 in sales, while only 25 percent of Latin American firms have reached this level.

Asian firms also expanded sales more than employment. This behavior can be interpreted in several ways. In the first place, as discussed later, the profile of activities undertaken by new enterprises differs in each region. The percentage of firms dedicated to knowledge-based activities is greater in East Asia (more than half, compared to one-third in Latin America). These are sectors with a very high potential for growth in sales as well as productivity.

GRAPH 2-6: Percentage of dynamic firms that export



Another possible explanation for the greater growth registered in sales by new East Asian enterprises is that these firms are more likely to use subcontractors than their Latin American counterparts. Productive structures and strategies of the firms in both regions are clearly contrasted in this respect. While in East Asia, subcontracting is a highly generalized practice, in Latin America, levels of vertical integration have traditionally been very high. As a consequence, some employment needs were met indirectly rather than through increasing their own staff. The greater organizational flexibility that characterizes the enterprise world in East Asia has been well documented in literature on industrial organization, in contrast with the low propensity of industrial enterprises in Latin America to subcontract (Kuriyama 1990, Lee 1997, Katz 1986). It is clear that for a new firm in expansion, the possibility of sharing the risks that arise from growth through subcontracting is more conducive to development in general, and development that is flexible and accelerated in particular. Less capital is needed to underwrite growth, for example, and the risks of consolidating more rigid structures are also less.

in both regions (an average of 15 employees in Latin America, compared to 12 in East Asia) and they expand rapidly. At the same time, levels of initial investment are concentrated mainly in the lower strata studied in the survey (less than US\$500,000). In Latin American countries, where it was possible to identify lower investment levels, it was striking that investments of less than US\$100,000 predominated.

Finally, in both regions the majority of dynamic enterprises begin business with a clear orientation toward the inter-

nal market. However, with the exception of Japan, the percentage of enterprises that export during their first year is significantly greater in East Asia (20 percent, compared to 6.6 percent in Latin America). New enterprises in Taiwan and Singapore are particularly oriented toward exports. In the year 2000, nearly one-third of the Taiwanese firms and over half of the firms in Singapore exported over 15 percent of their total sales.

In Latin America, only 1 of every 10 enterprises reached this level of exports. The reader needs to keep in mind that in general, East Asian SMEs, older as well as younger, participated intensively in export activity. This is not the case for small Latin American enterprises. In the early 1990s, SME exports accounted for nearly 40 percent of the total in Korea and 60 percent in Taiwan (Baek 1993, Chen 1993). As a result, given that existing firms are the “schools” where new entrepreneurs are born, the level of exposure to international practices/competition (through export operations) is not neutral. As East Asian entrepreneurs become more competent in firms that are export-oriented, they tend to incorporate this activity more rapidly into their strategic agenda. It is very possible that they view their international orientation as a function of their work experience and networks established in former jobs.

To summarize, the research helped identify a new generation of dynamic enterprises in both regions. They are comprised of teams of young entrepreneurs with a high level of education and relevant previous work experience. In addition to the important contribution of one team or another in their respective regions, the dynamic enterprises of East Asia are fuelled by the energies of entrepreneurs from a broad social spectrum and contribute more to social mobility. At the same time, they expand more quickly in sales, reaching greater scales of operation and achieving a greater share of sales in export markets in a more determined fashion. The more significant presence of knowledge-based enterprises can explain this combination of distinguishing characteristics. The distinct interpretations offered in this study to explain inter-regional differences are based on very different structural characteristics in each country. These differences include the level of social

integration, the sectoral profile of productive structures, existing industrial organization, the level of subcontracting strategies and degree of international orientation, as well as the role of innovative systems in one country or another.

The following section presents the main results of the comparative research on the entrepreneurial process. Some of these findings provided the foundation for building a broader framework for interpreting inter-regional differences.

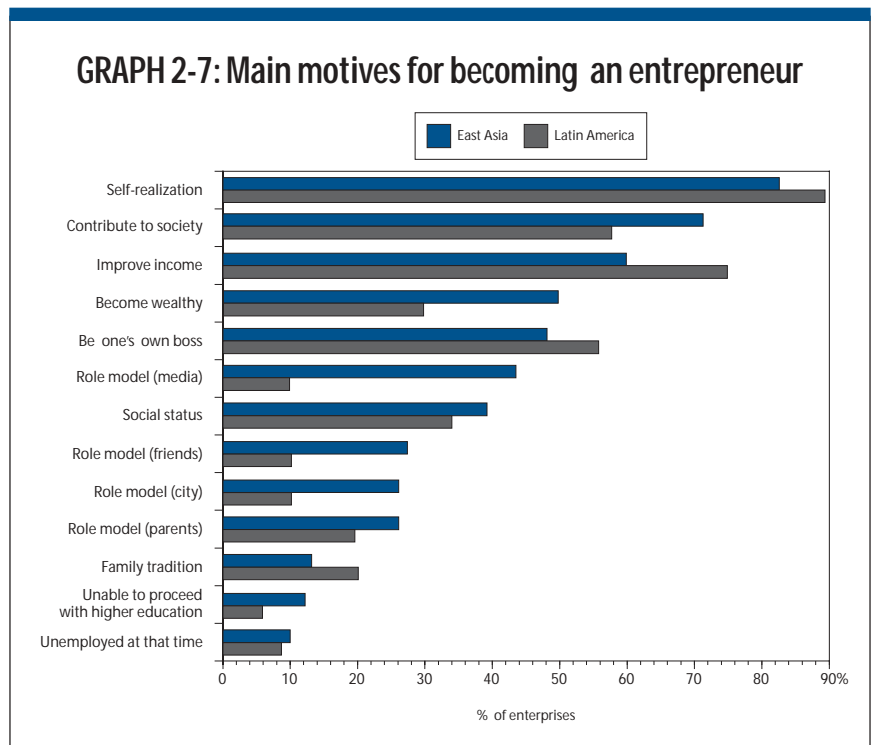
2. THE ENTREPRENEURIAL PROCESS

2.1 The inception stage

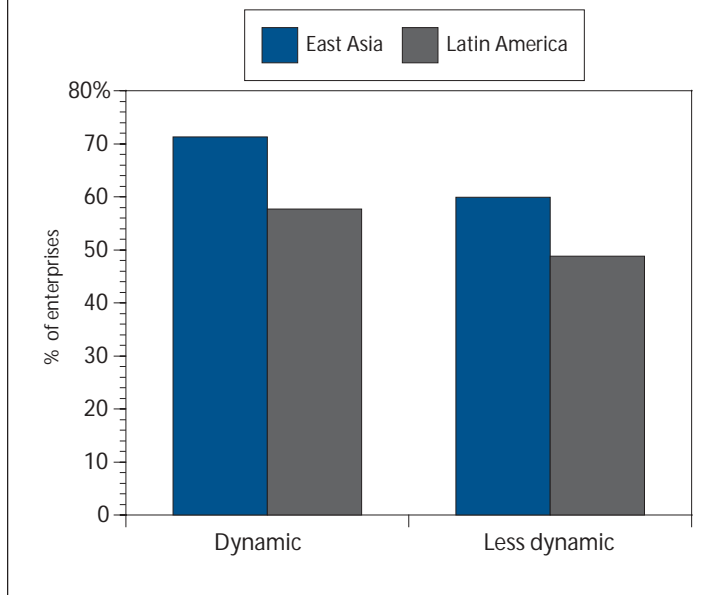
- **THE MOTIVATIONS TO BECOME AN ENTREPRENEUR**

The moment when an individual first steps down the path toward entrepreneurship is when he or she first acquires the drive and motivation to do so. This is a critical moment in the entrepreneurial process. For those who seek to promote entrepreneurship, it is extremely important to know which factors and environments lead to and influence this moment.

This study discovered that the new entrepreneurs are actors with more complex motivations than the “*homo economicus*” that is featured so prominently in traditional



GRAPH 2-8: Interest in contributing to the society as a motivating factor



economic literature. In both East Asia and Latin America, new entrepreneurs' principal motivation is the need for self-realization and personal development.

Non-economic motivations also play a central role. The dynamic entrepreneurs stand out from the rest by their greater interest in the public good, which is fuelled by their ability to create new jobs. Social commitment plays a much stronger role for entrepreneurs in East Asia (71.3 percent) than in Latin American (57.7 percent).

East Asian entrepreneurs also give more recognition to the motivating influences of other entrepreneurs whom they admired and want to imitate. In East Asian society, the greater presence of these role models is a positive socio-cultural factor in terms of promoting entrepreneurial vocations. The study reveals that in the countries of East Asia, the communications media play an important role in disseminating information about these exemplary entrepreneurial models. This is in sharp contrast to the low level of recognition that Latin American entrepreneurs gave to role models. However, the difference in importance of role models in these two regions is not due solely to the role of the media. The different levels of success reached in different countries, in terms of economic and social development, may have also helped to affect public perceptions

regarding the social role of entrepreneurial leaders, particularly the most well-known and publicized.

Differences were also observed in the desire to accumulate wealth. Although in both regions this motivation has been less important compared to other non-monetary factors and the desire to improve income, East Asian entrepreneurs more frequently cite personal wealth as an important motivator (49.8 percent) than Latin American entrepreneurs (only 29.8 percent). These data may indicate that East Asian entrepreneurs have more ambitious goals in terms of growth, a finding that can be explained by the capacity of new East Asian enterprises to expand easily. However, at the same time, it must be remembered that an entrepreneur's motivation does not grow in a vacuum and that context matters, along with the entrepreneur's dreams. It is difficult to believe that entrepreneurs' motivations are not somehow linked to their expectations in relation to expected economic growth. The different rates of expansion of these distinct economies during the formative periods of the entrepreneurs in the study should also be kept in mind. This point will be examined later, when looking at the factors that entrepreneurs evaluated during their final decision to launch an enterprise in both regions.

Finally, the desire to be their own boss—an expression of the quest for independence—was identified as a motivating factor in approximately half the cases in both regions. In Latin America, this desire was slightly higher because of the striking importance of this factor in Mexico (80.5 percent)—a result that may be traced to the cultural influence of the United States. These results contrast strongly with the marked emphasis placed on this factor in specialized literature, which views the quest for independence as a main motor of an entrepreneurial career. Future studies should look more closely at cultural variables and their influence on the entrepreneurship in different contexts.

An interesting point of departure on this theme is the Hofstede study (1980), mentioned in chapter 1. It provides evidence regarding the very high level of individualism that characterizes Anglo-Saxon societies—where the majority of studies have been carried out—and of the weakness of this cultural trait in Latin American and East Asian societies. It is interesting to note that traditionally, the strong sense of independence that characterizes entrepreneurs in other contexts is regarded as a barrier in

specialized literature to developing policies and support programs for small entrepreneurs because such entrepreneurs supposedly do not want third parties interfering in their activities. In the countries included in this study, the relatively minor importance attached to the desire for independence could provide a better platform for the implementation of actions to promote entrepreneurship.

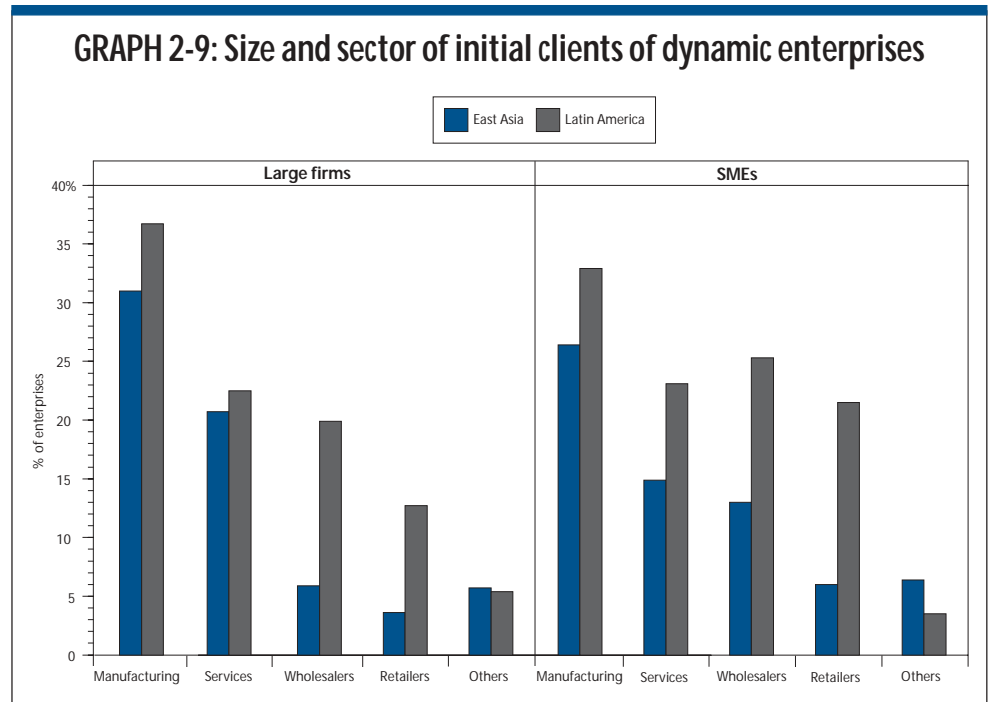
• THE ENVIRONMENT THAT PREPARES POTENTIAL ENTREPRENEURS

The acquisition of the motivation and competencies needed to become an entrepreneur is a social process. This is why it is important to know how different environments—the family, educational system, and professional institutions—help to feed the vocational calling and shape the attitudes of entrepreneurs, as well as their abilities and knowledge.

This study helped to confirm the key role that previous work experience plays. In both regions, enterprises are the main “schools” where new entrepreneurs are trained. The majority of the entrepreneurs studied recognized the contribution of their work experience in terms of acquiring motivation as well as competencies.

In both regions, the contribution of the educational system to development of entrepreneurial competencies is more limited. However, Latin American entrepreneurs recognized the importance of specific technical knowledge provided by the universities where they studied, and in lesser proportion, their contribution to the development of problem-solving abilities. East Asian entrepreneurs, on the other hand, tended to focus nearly exclusively on the role of former work experience in acquiring knowledge.

In Latin America, there is more of a “learning gap” between dynamic entrepreneurs and their less dynamic peers during the formative period. In East Asia, this “learning gap” does not occur to such an extent; the previous work experiences as “entrepreneurial schools” appear to be more homogenous.



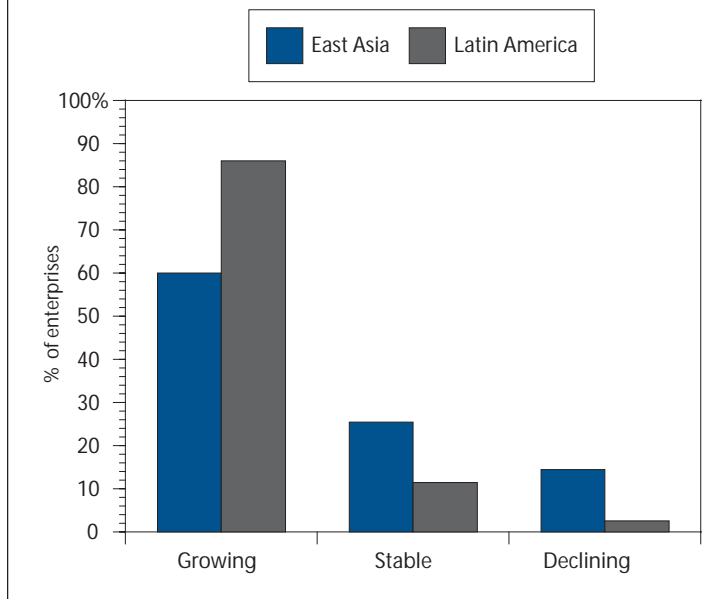
• SOURCES OF BUSINESS OPPORTUNITIES

In both regions, the majority of the new enterprises began by first meeting the demands of existing companies (80 percent). They primarily geared themselves toward launching business proposals based on the existing differentiation of goods in the market, in terms of quality, design, or service. Sales to individuals were more frequent only in the case of Mexico, and ventures there tended to be based more on price competition than on differentiation or innovation. Manufacturing firms and services predominated among initial clients, for both SMEs and large firms.

In new firms in East Asia, commercial structures are more concentrated on just one type of client, while in Latin America, the client base is more diversified. The proportion of Latin American ventures that sell to different types of firms is greater. It is possible that this difference is due to the greater economies of scale in markets and business in East Asia, which allow entrepreneurs to begin a business and expand without having to develop a diverse structure of clients and marketing channels. This leads to the conclusion that the levels of productive specialization of East Asian firms also may possibly be greater than is the case for Latin American firms.

Outsourcing is clearly the more important source of opportunities in East Asia. Over one-third of the dynamic

GRAPH 2-10: Demand situation that dynamic ventures confront at launch



enterprises were based on exploiting these types of business opportunities. By contrast, in Latin America, only 20 to 25 percent were based on outsourcing (with the exception of Brazil).

In considering the profile of business opportunities utilized by dynamic entrepreneurs in each region, one distinguishing feature is the greater orientation of East Asian enterprises toward knowledge-based activities (just over half, compared to approximately one-third, on average, in Latin America). Product innovation is definitively more important in the knowledge-based sector than in the conventional manufacturing sector. Countries such as Taiwan and Singapore place more emphasis on innovation than any of the countries in Latin America. The majority of these innovative efforts have been targeted toward taking advantage of opportunities in the domestic market: that is, assimilating/introducing an innovative foreign technology in the domestic market. Nonetheless, the percentage of East Asian entrepreneurs that described their businesses as “innovative” at an international level is far higher than the Latin American group. In Singapore, Taiwan, and Korea, for example, 16 percent of the cases were described as “innovative at an international level” while in Peru, Mexico, and Brazil, only 5 percent were placed in this category. In other words, innovation was more important to new business in the majority of the East Asian countries than in Latin America.

The capacity of East Asian entrepreneurs to create successful enterprises in stagnant or declining markets is yet another distinguishing characteristic of this group. The rate was more than double that of Latin American entrepreneurs. Four out of ten enterprises were created in these types of markets, which means that entrepreneurs brought innovation to relatively mature sectors.

Finally, when considering the relatively greater international orientation of new East Asian enterprises (see section 1.2), it is possible to conclude that there are important differences in the profile of business opportunities that entrepreneurs capitalize upon in each region.

As mentioned, contextual differences between the two regions influence the type of businesses created. Compared to Latin America, the East Asian countries stand out for their greater specialization in advanced technology sectors, their higher level of business links between companies of different sizes, and the internationalization of their SMEs. Their systems for innovation and export promotion are also far superior (Alcorta and Peres 1998; Lall 1999). As a result, their “entrepreneurial schools” are different and favor the emergence of different types of ventures. In other words, the role of structural conditions cannot be ignored. However, this should not lead to fatalistic conclusions. As shown in chapter 3, in Latin America a new generation of enterprises and entrepreneurs has emerged and has been able to develop successfully in highly challenging circumstances.

• NETWORKS AND IDENTIFICATION OF OPPORTUNITIES

The sections above explained how structural conditions in each society affect enterprises, their profile, and the opportunities available to them. However, entrepreneurs must take advantage of these opportunities. Thus it is important to know exactly how entrepreneurs find the information that they need in order to conceive new business ventures.

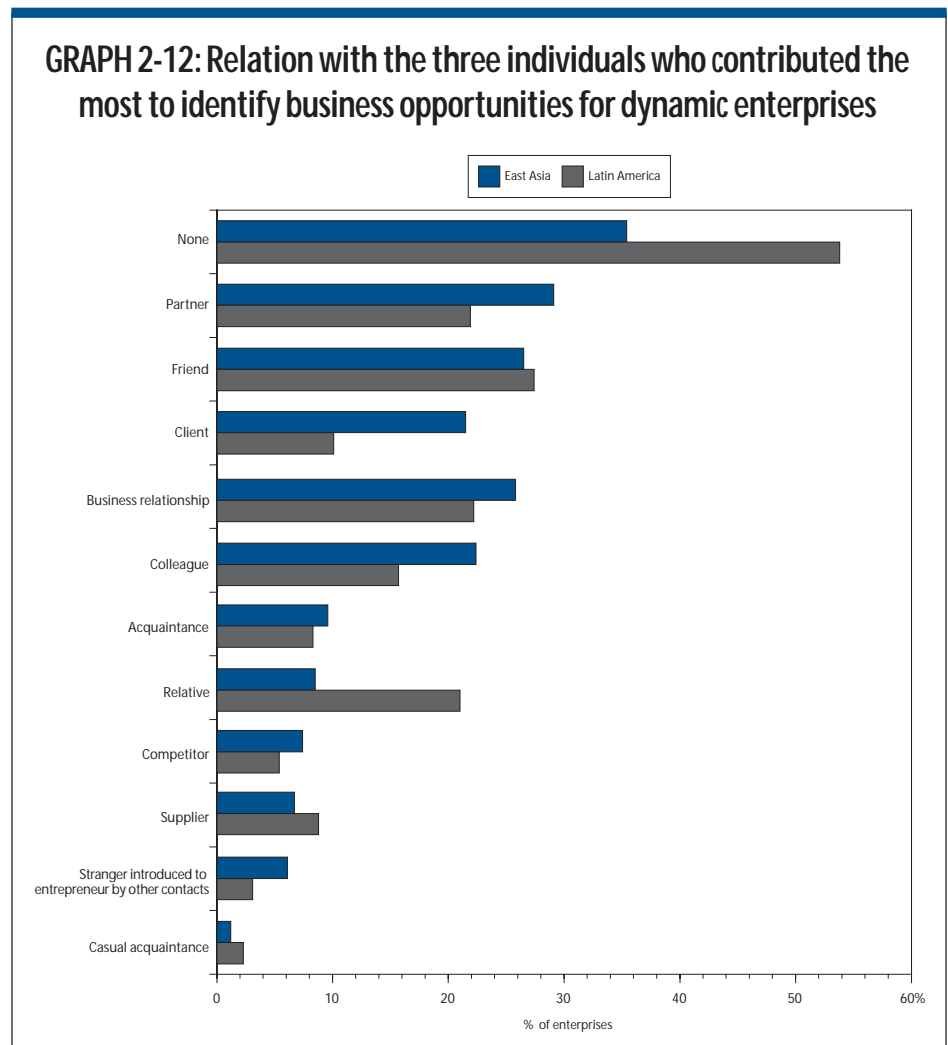
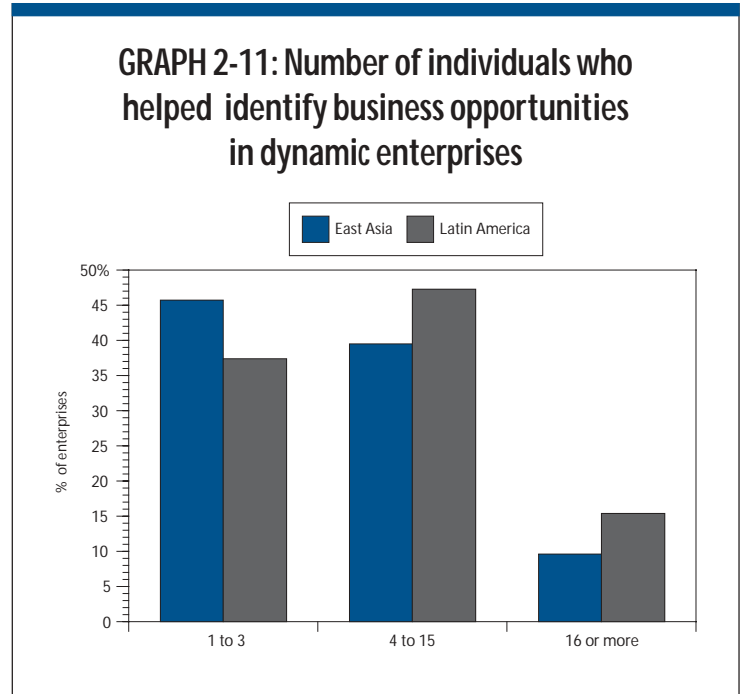
The study has found that the entrepreneurs’ networks and previous work experience both play a determining role. Over 70 percent of the entrepreneurs consulted in both regions recognized the importance of their networks and the information obtained in former work environments. The dynamic entrepreneurs in Latin America tend to have the larger networks, compared to the lesser dynamic entrepreneurs. This contrasts with the homogeneity

observed in both these groups in East Asia. At the same time, in order to capture business opportunities, Latin American entrepreneurs interacted with a greater number of individuals than their East Asian counterparts. This difference may be related to the level of those contacts and their ability to successfully help identify a business opportunity. In general, the contacts in Latin America were less useful as a source of information or inspiration to identify business opportunities.

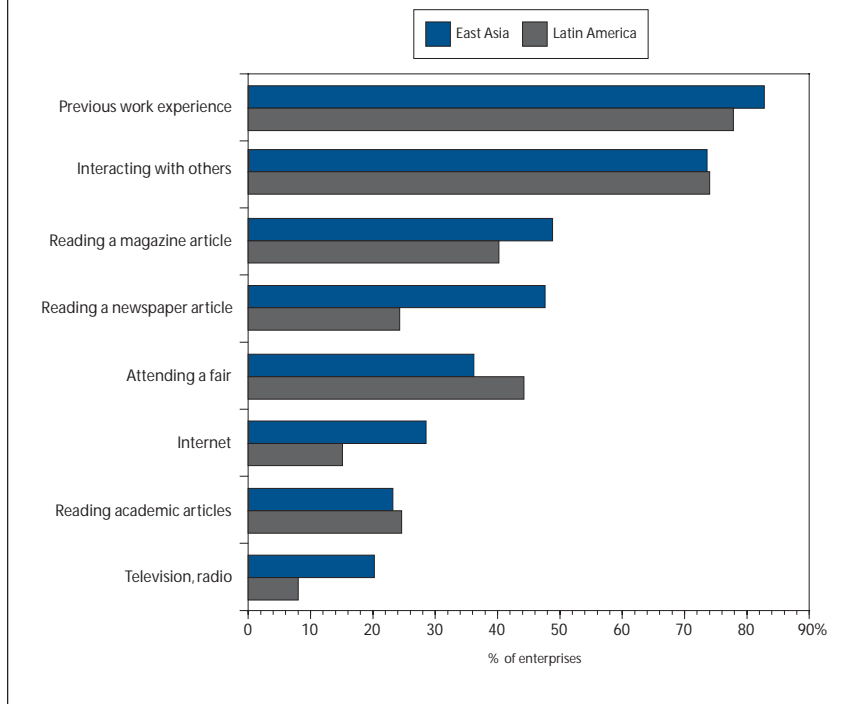
East Asian entrepreneurs, for example, more frequently have direct and specific contacts in the business world (colleagues, business contacts) than their Latin American counterparts, who rely more on social networks (relatives, friends, acquaintances). In both regions, the more dynamic group of entrepreneurs had direct business contacts.

In particular, these entrepreneurs have considerable interaction with other SME entrepreneurs and/or executives from large firms. These findings seem to indicate that it is not the number but the profile of the contacts that distinguishes the dynamic entrepreneurs from the less dynamic.

This finding is reinforced by the presence of more heterogeneous and stable networks among East Asian entrepreneurs. These entrepreneurs interact with individuals from different social classes in greater proportion than their Latin American counterparts. Moreover, their contacts are also found outside of the area the entrepreneur lives and in different area categories: that is, the entrepreneur in the "local area" has contacts in the "metropolitan areas" and vice versa. In addition, around two-thirds of these contacts still maintain some sort of relationship with the enterprise, most notably as client or partner. Less than half the Latin American entrepreneurs maintain these types of links. This trait also differentiates the dynamic East Asian entrepreneurs from their less dynamic peers.



GRAPH 2-13: Information sources utilized by dynamic enterprises to identify business opportunities



Networks are not the only way that entrepreneurs receive information about business opportunities. The study reveals that the media in East Asia particularly print media, play a much greater role than in Latin America. Twice as many dynamic entrepreneurs from East Asia found relevant information through the print media than in Latin America (one of every two entrepreneurs in the former, compared to one in four of the latter). Radio, television, and magazines play a more important role in East Asia. These findings confirm a conclusion mentioned earlier regarding the dissemination of role models. They also show how communications media participate in the entrepreneurial process at a different level in each region.

The number of East Asian entrepreneurs who found the business opportunities using the Internet is nearly double the number of Latin American entrepreneurs. Latin American entrepreneurs tend to gather information at professional fairs, which curiously enough is also a characteristic of the less dynamic entrepreneurs of East Asia.

In summary, entrepreneurial networks and work experience are two of the most relevant sources for finding information on business opportunities. This is true for both regions

and for both dynamic and less dynamic entrepreneurs. But the dynamic East Asian entrepreneurs differ from their Latin American counterparts in their networks of contacts specifically linked to the business world, their openness to contacts with people from all social classes and geographic locations, and the greater stability of their networks. They also benefit from greater access to relevant information via their communications media and the Internet. These findings seem to indicate the existence of more favorable conditions for accessing information on business opportunities in East Asia.

• **INFORMATION-SEEKING AND BUSINESS PLANNING**

Once entrepreneurs have identified business opportunities, they must transform them into a more polished business scheme that will meet the needs identified. This requires business and technical information and an evaluation of the viability of the venture, before a decision can be made as to whether or not to launch the new venture.

Two of every three entrepreneurs in both the dynamic and less dynamic group of enterprises recognized the importance of having information relevant to their business before the launch regarding such factors as the size and characteristics of the market, the number and profile of competitors, and appropriate technology. However, information regarding the size of the enterprise and the level of investment needed to be competitive is not often available. The study seems to indicate that the initially perceived size of a business depends more on availability of resources and perception of initial demand than an evaluation of minimally efficient production scales. Entrepreneurs tend to adjust their expectations and define their path for expansion once they have already entered the market and depending on the results obtained.

Entrepreneurs tend to make approximate estimates of sales and costs rather than elaborate business plans because of these factors. This practice is more frequently observed among the dynamic East Asian entrepreneurs, as compared to those in Latin America. The limited availability of information seems to indicate, however, that these business plans are not as complete as those prescribed in classic texts and manuals.

Finally, there are also differences in the type of evaluations done before the launch of a business. East Asian entrepreneurs tend to use professional tools for evaluation, such as calculating opportunities costs, while Latin Americans depend more on estimating expected personal income.

In this last case, however, the majority of Latin American entrepreneurs do not compare their estimated income with what they would obtain as salaried workers. This finding calls into question some of the neo-classical approaches regarding the decision to launch an enterprise.

2.2 Start-up stage

In this stage, entrepreneurs decide to begin the new entrepreneurial activity and organize the launch. Access to and mobilization of resources are key aspects of this process.

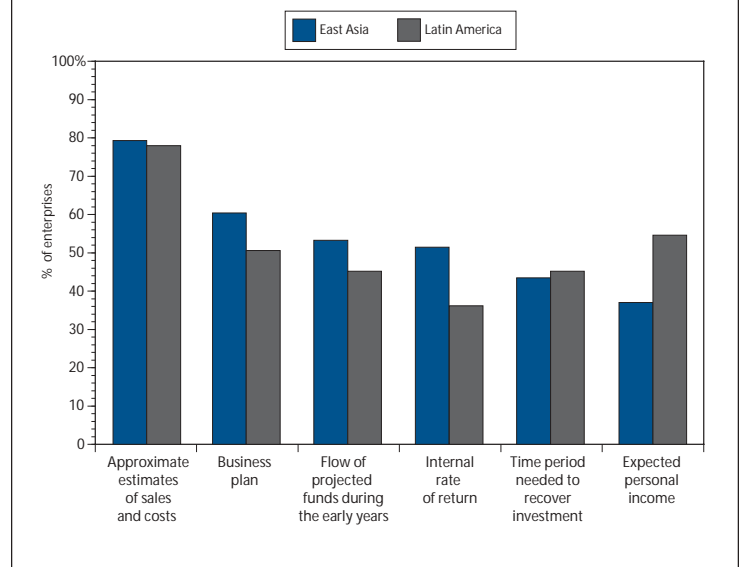
• THE FINAL DECISION TO START

When making a final decision to begin, entrepreneurs evaluate a series of economic and non-economic factors. East Asian entrepreneurs weigh economic variables more heavily than their Latin American counterparts, in particular the size of the market and expected growth, number and profile of competitors, availability of financing, and to a lesser degree, public support.

In accordance with these expectations, a high percentage of entrepreneurs expect to become wealthy through their new venture in East Asia. In Latin America, the opposite is true, and there is a "less ambitious interest" in improving personal income. The percentage of entrepreneurs expecting to accumulate personal wealth was especially high in Singapore and Korea (more than 50 percent) and especially low in Argentina and Brazil (less than 30 percent).

There are also important differences when considering financing. In East Asia, one-third of the entrepreneurs indicated that the availability of financing had a positive influence on their decision to launch a business and less than one-third viewed family financial resources as important. In Latin America, half the entrepreneurs emphasized the importance of family resources and less than one-fifth said that the availability of financing contributed positively to their decision. These results confirm the existence of a broader social base of individu-

GRAPH 2-14: Planing and financial analysis before start-up



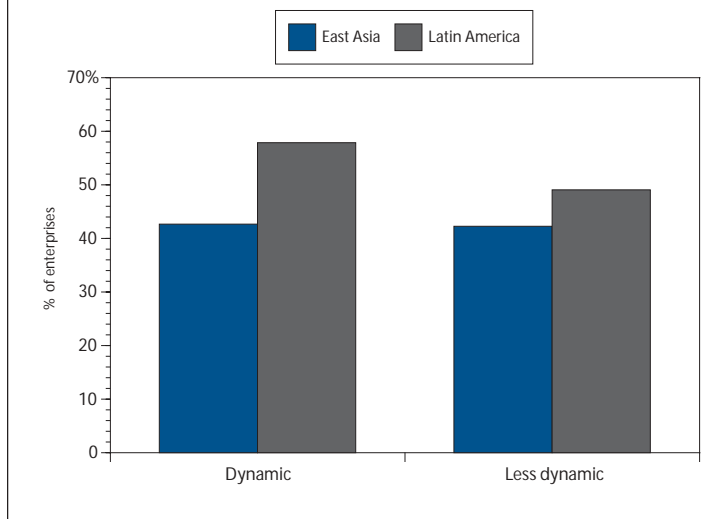
als in East Asia who strike out on an entrepreneurial path, a finding mentioned at the beginning of the chapter. The differences in terms of access to financing will be analyzed later.

• NETWORKS AND ACCESS TO AND USE OF NON-MONETARY RESOURCES

When evaluating access to resources, most analyses usually emphasize financing. This study has adopted a broader perspective and considers the utilization of other means. Notably, the most publicized entrepreneurial success stories usually emphasize the importance of using non-financial resources such as facilities or raw materials provided by relatives and/or acquaintances during the launch phase. With this in mind, this study examined the role of social, commercial, and institutional networks in providing access to business information, technology, and other non-financial resources.

Findings helped confirm the important role of these networks and reinforced findings mentioned above about the provision of information about business opportunities. Social networks closest to the entrepreneurs (friends, relatives, and acquaintances) as well as suppliers and clients were frequently utilized by entrepreneurs, particularly Latin Americans. Few entrepreneurs mentioned the importance of institutional networks (such as public institutions,

GRAPH 2-15: Enterprises that used more than three contacts to help identify business opportunities



chambers of commerce, or universities). In terms of access to information, for example, more than 80 percent benefited from support from social networks and more than 70 percent from business relations (suppliers, clients), while just over one-third depended on support from an institution.

Both in East Asia and Latin America, social networks tend to play a more relevant role in local areas than in metropolitan zones. In small cities and towns and localities, business and social contacts are more tightly interwoven. Links to suppliers and clients are more important in large cities.

In both regions, the more dynamic entrepreneurs, particularly those engaged in knowledge-based activities, are differentiated by their greater interaction with other business colleagues in order to have access to technology. Latin American dynamic entrepreneurs stand out for the extremely important role of local suppliers and because they have more numerous networks. The fact that Latin American entrepreneurs need a greater number of contacts is open to several interpretations. One argument isolates differences of “quality effectiveness” in the composition of networks in both regions. That is, the networks in Asia are more useful. It is also possible that the presence of larger entrepreneurial teams and greater access to external financing in East Asia diminishes the need for support from others.

In Latin America, the university environment seems to be fertile ground for building broader networks. At the same time, Latin American entrepreneurs in knowledge-based activities strongly emphasized the role of the university and professors in terms of support. Although this recognition was not widespread, it is still greater than that observed in the East Asia. It was particularly true in terms of facilitating access to information (24.6 percent in Latin America compared to 12.5 percent in East Asia), and to a lesser degree, to technology (20.3 percent compared to 12.1 percent). These results seem to indicate that the greater strength of innovative systems in East Asian countries rests on the role of enterprises and other institutions, with universities playing a lesser role.

• **FINANCING SOURCES USED FOR LAUNCH**

Entrepreneurs in both regions depended on personal savings as their major source of financing, particularly the dynamic entrepreneurs. These findings coincide with international studies and help to confirm that entrepreneurs tend to rely on their own resources in order to undertake an entrepreneurial activity, regardless of the differences in functioning of the financial system in different contexts (Mason 1998). Loans from family members and relatives also were an important source, particularly in East Asian countries (one-third of the cases compared to just over one-fifth in Latin America).

However, access to external financing is relatively easier to obtain in East Asia. The contrast between the regions is apparent when looking at different external funding sources as a whole. Major differences are apparent in the utilization of loans from private banks, of credits, guarantees, and subsidies from national public institutions, and the role of business angels. There are also some intra-regional differences, as discussed later. In Japan, for example, access to loans from the banking system (public and private) is greater, while in Taiwan, business angels and private banks play a more important role.

Dynamic Latin American entrepreneurs, on the other hand, rely more frequently on costly bank overdrafts, as well as other alternatives that diminish their need to rely on external financing sources. Other alternatives included: supplier credits, buying second-hand equipment, advances from clients, and to a lesser degree, postponing tax payments, utility bills, and salaries. It is

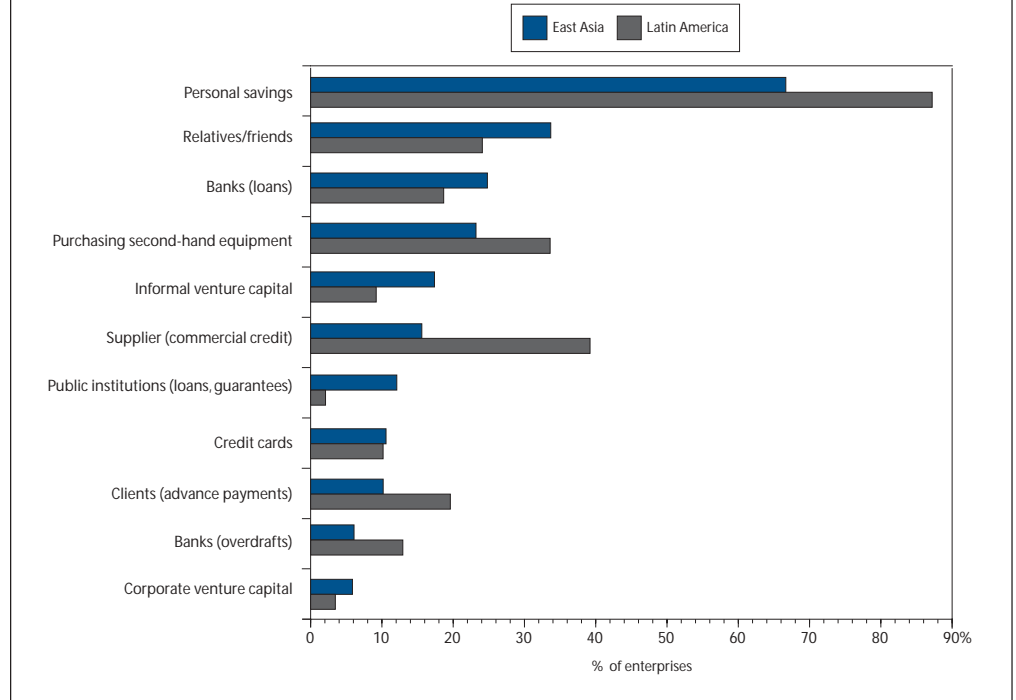
interesting to note that while in Latin America the dynamic entrepreneurs are the ones who use these options, in East Asia, the opposite is true. Since dynamic entrepreneurs in East Asian have greater access to external financing, they also have less need to fall back on alternative sources.

In East Asia, greater access to financing stems from the fact that SMEs in local areas have greater access to credit. More than one-third of entrepreneurs used credit from the banking sector in small cities and towns, while only one in five utilized venture capital from business angels. The situation is very different in Latin America. Just one in every five entrepreneurs used bank loans and less than one in ten had a business angel. In Latin America, where financial conditions are more restricted, differences between small cities and towns and large cities are also more evident.

In the case of knowledge-based ventures, there are also interesting differences when comparing both regions. In both regions, utilization of private bank credit is less than in the conventional sector, but it is particularly low in Latin America. It is well known that traditional financial institutions have difficulty evaluating risky ventures with a high level of intangible assets (Harrison and Mason 1996). In East Asia, however, the utilization of public national and local financing is similar to that in knowledge-based enterprises and in conventional activities (approximately one in five cases). Although public and local financing is not generally available, access is greater in East Asia than in Latin America, where this type of financing is practically non-existent.

Since conditions for external financing are less favorable in Latin America, as expected, more than double the number of Latin American entrepreneurs, as compared to their counterparts in East Asia, (two-thirds of those surveyed) said they had not used these sources because of an inadequate supply. However, at the same time, over half of

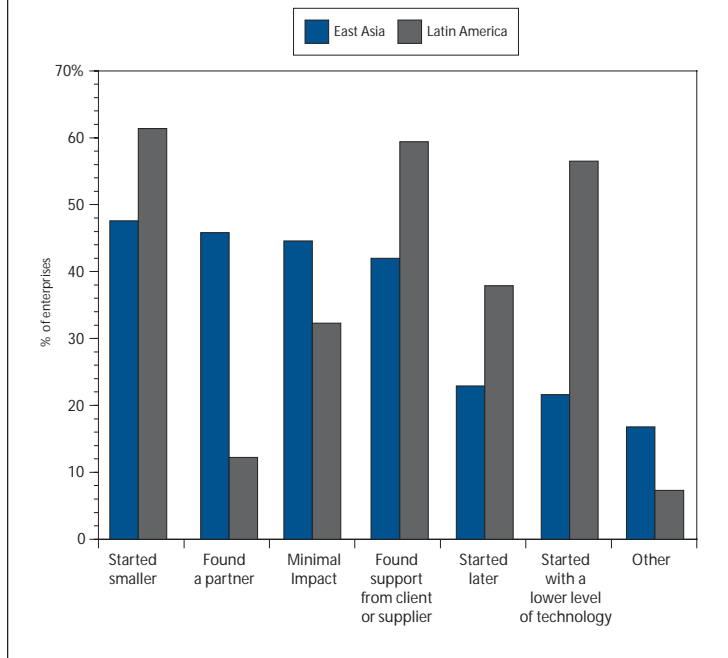
GRAPH 2-16: Financing sources used to launch dynamic enterprises



these Latin entrepreneurs also said that they preferred to avoid these financing sources for the following reasons: in order to maintain control of their business, to avoid risks associated with debt, and because of a lack of confidence in financial institutions. The gap in terms of existing financing in Latin America is not only deeper in terms of magnitude because of questions linked to supply, but there are greater barriers on the potential demand side, as well.

As a result of the lack of access to external financing, a little more than two-thirds of Latin American entrepreneurs were negatively affected by the conditions in which they began their entrepreneurial activities, compared to only half the East Asians. In other words, not only do fewer entrepreneurs have access to external financing in Latin America, but these same entrepreneurs also suffer greater negative consequences for lack of access compared to those who do have access. In effect, more than half the dynamic Latin American entrepreneurs with access problems had to launch their business at an operational scale and/or with a level of technology below that needed to compete, a situation that is rare among their East Asian counterparts. At the same time, the proportion of Latin American enterprises that began operations later than planned was also higher.

GRAPH 2-17: Consequences of insufficient financing on start-up for dynamic enterprises



A large number of East Asian entrepreneurs deal with a lack of financing by incorporating new partners into the enterprise (nearly half those surveyed), a tactic rarely used by their Latin American counterparts (just over 10 percent). This difference is reflected in the more open behavior of the first group, although it is also possible that it is easier to find potential partners in East Asian countries. The greater confidence and stability in East Asian societies could help to explain this greater tendency of partnering among Asian entrepreneurs. In Latin America, entrepreneurs tend to rely on credit from suppliers and clients.

The findings discussed in this section indicate that any strategy oriented toward facilitating access to financing in Latin American countries should take into account not only the transformations needed on the supply side, but also the patterns of behavior of those on the potential demand side. As observed, Latin American entrepreneurs less likely to access their formal financial system than their East Asian colleagues.

• **MATURATION PERIOD OF THE BUSINESS IDEA**

Previous sections of this study explained the first two stages of the entrepreneurial process: inception and start-up. Before considering the specific characteristics of the critical first three years of a firm's life, some general comments are in order about the maturation period of the business idea. This period begins with the first motivation to become an entrepreneur and ends with the birth of the new enterprise. This study detected strong contrasts in both regions about this maturation period.

The minimum time required from conception to birth is approximately 80 percent longer in Latin American countries than in East Asia. The difference was observed both in the conventional and knowledge-based sector.

To more precisely find where the regions/countries differ in the process of maturation of a business idea, this study divided the process into three sub-periods:

- ▶ from the moment of initial motivation until the business idea is identified,
- ▶ from the moment the idea is pinpointed until a decision is made to launch the enterprise, and
- ▶ from the moment the decision to launch is made until the venture becomes operational.¹⁸

This analysis confirmed that the major bottlenecks occur during the first sub-period—from the moment of motivation until the business idea is identified. The amount of time required in the two follow-up stages was similar in both regions—or even less in Latin America. Once an idea was identified, the evaluation and decision-making averaged 18 months, compared to 20 months in East Asia. The launch of an enterprise took approximately nine months in both cases. Several different factors may account for the longer period needed from the moment of motivation until the idea is identified. It is very possible that East Asia offers a more favorable context for business opportunities, given the existence of more integrated societies with higher per capita income levels in, as well as more connected productive structures and innovative systems. But these opportunities still need to be discovered. As noted, several features in the East Asian

¹⁸ In reality, these periods are really more elastic. Accordingly, the study tried to identify contrasting tendencies more than individual moments and precise timetables needed for each sub-period.

countries studied facilitate this process of discovery, notably the existence of more efficient personal networks and the greater role played communications media.

2.3 The early development stage

Literature on the creation of enterprises underscores the critical character of the first three years, during which the majority of new ventures end up closing their doors. During this period, entrepreneurs must demonstrate their talents and abilities to legitimize their business in the marketplace. They also must confront the challenges that management of a new enterprise entails.

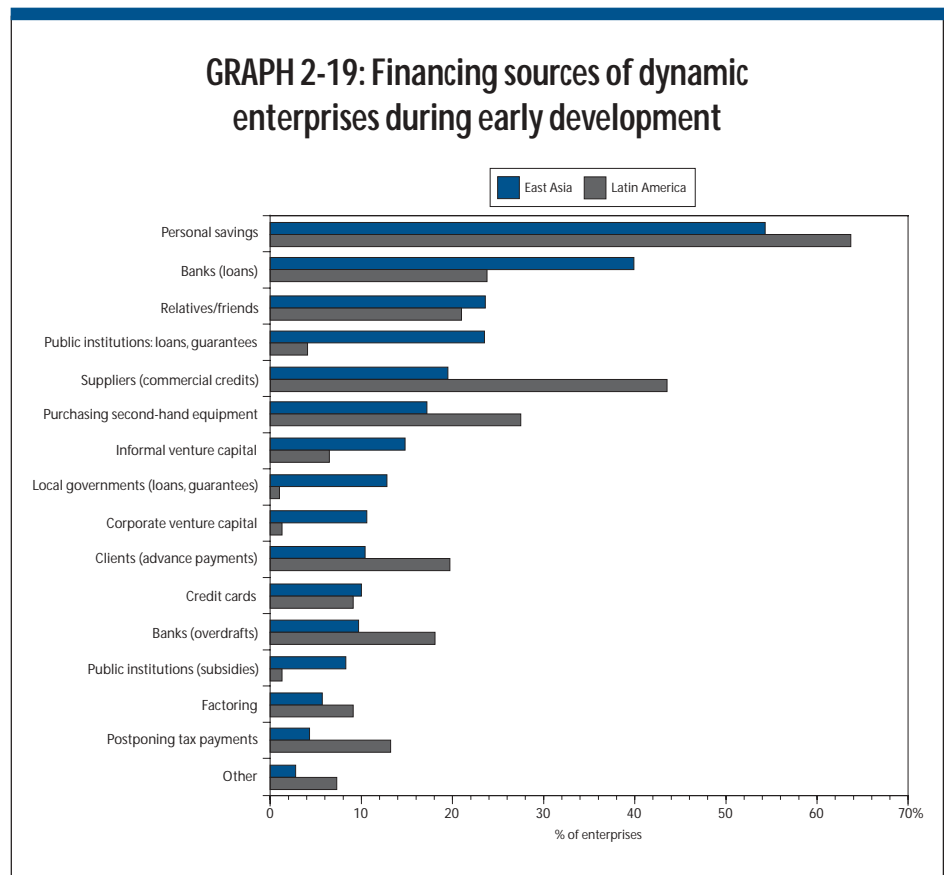
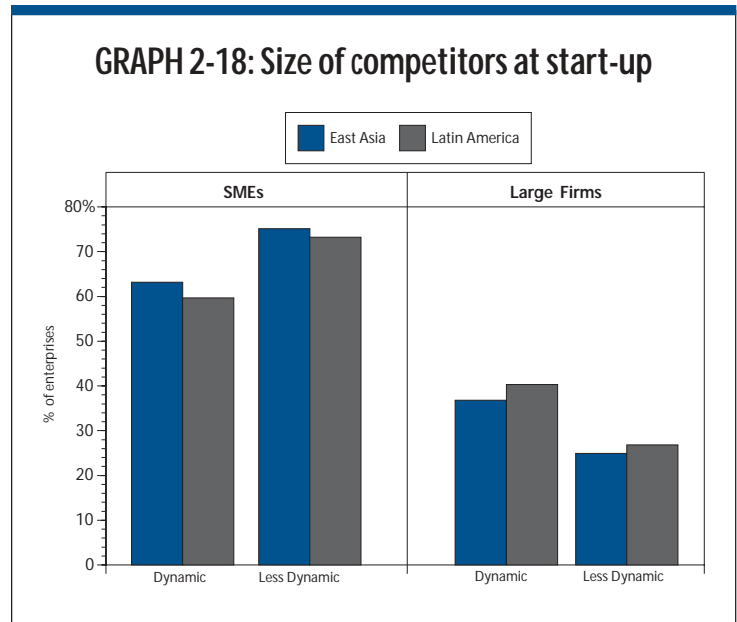
- **ENTERING THE MARKET**

In both regions, approximately half the entrepreneurs described the competition they encountered at the beginning as either strong or very strong. On the other hand, less than one-quarter indicated that the competition was weak or very weak. The majority of the initial competitors were other SMEs, but the dynamic new enterprise competed to a greater extent with large firms, compared to the less dynamic enterprises.

The main economic advantages of new enterprises in relation to their competitors were based on differentiation in terms of quality, services, and research and development, rather than price. A strategy of price competition was followed by less than one-quarter of the firms in both regions. East Asian entrepreneurs tended to rely on competitive advantages other than price competition more frequently than their Latin American counterparts.

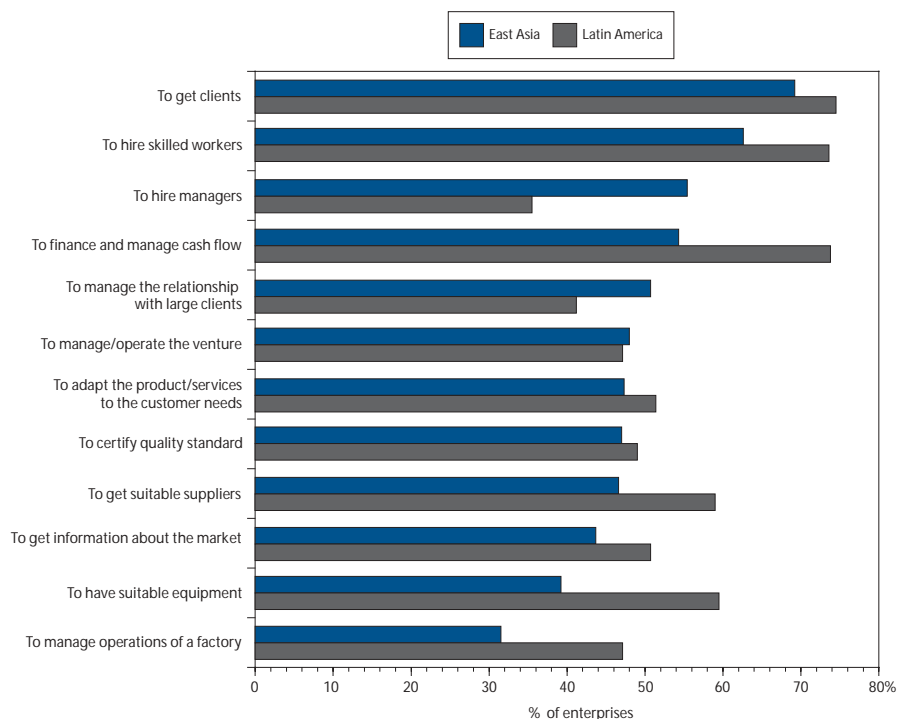
- **FINANCING DURING THE FIRST YEARS OF OPERATION**

Earlier, this study mentioned that the conditions for access to financing during the start-up phase were more favorable in East Asian countries. This characteristic is even more pronounced once the firm begins operations.



A greater number of Asian entrepreneurs use external financing during this stage—notably loans from commercial banks and national public institutions—rather than personal savings and financial support from friends and family. For example, nearly twice as great a percentage of

GRAPH 2-20: Main problems that dynamic enterprises face during early development

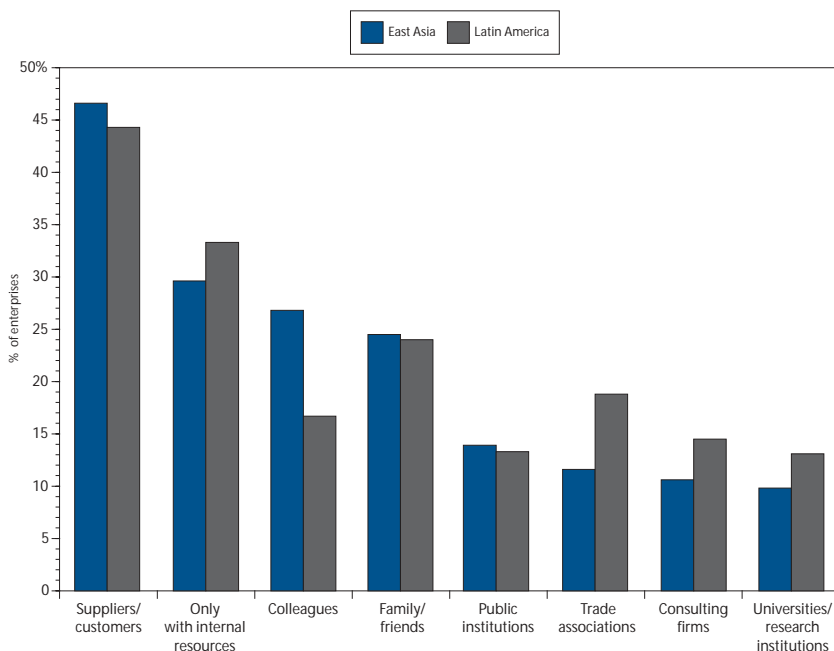


dynamic enterprises use bank loans during the first few years (40 percent) compared to the start-up phase. By contrast, in Latin America, the increase in the use bank loans was minimal (24 percent of dynamic enterprises, up from 19 percent). There was also an increase in the access to risk capital in East Asia, in contrast to Latin America, where this type of capital is more limited.

• PROBLEMS AND CHALLENGES DURING THE FIRST YEARS OF OPERATION

The main challenges are the same in both regions: finding clients, hiring qualified employees, and maintaining positive cash flow. These findings coincide with other international studies (Storey 1994). However, Latin American entrepreneurs reported more difficulties than East Asian entrepreneurs in nearly all potential problem areas examined by the questionnaire.

GRAPH 2-21: Types of support utilized by dynamic enterprises to resolve initial problems



The greatest differences were in terms of financing, as well as difficulties finding suppliers and appropriate equipment, managing production, and having access to market information. These answers seem to indicate the existence of less favorable conditions in factor markets (capital, labor, professional services, technology) in Latin American countries, as well as higher transaction costs (Noteboom 1993). On the other hand, East Asian entrepreneurs stressed the problem of contracting managers, a problem more typical of dynamic enterprises in both regions that is related to the need to structure an enterprise in conjunction with business expansion.

The majority of entrepreneurs in both regions confront these challenges by interacting with individuals in their networks, a finding that reinforces evidence above regarding the role of

entrepreneurial networks, particularly as regards links with suppliers and clients. In effect, the network's internal composition tends to evolve, with parents and friends making a relatively lesser contribution during this later stage than during the inception phase.

In this regard, the differences observed between East Asian and Latin American entrepreneurs are not very relevant. With the first group, interaction with other entrepreneurial colleagues is the only important factor. In both regions, the contribution of institutional support systems is very limited, with the exception of the role played by local business chambers in Mexico.

3. CONCLUSIONS

This comparative analysis of the entrepreneurial process in East Asia and Latin America has identified some aspects common to both regions, as well as some striking contrasts. Commonalities include the key role of work experience as an "incubation" environment for motivating entrepreneurs and providing them with entrepreneurial competencies and personal networks. These networks facilitate the identification of business opportunities, access to resources, and support to confront the challenges faced during inception and the first years of the enterprise. The educational system plays a much more limited role, although universities play an important role in providing technical knowledge.

However, researchers detected important differences. Although a new generation of entrepreneurs has succeeded in confronting the challenges of birth and growth in competitive environments in both regions, conditions observed in Latin American countries are less favorable than in East Asia. In East Asia, the contribution of enterprises to social mobility, economic growth, and the creation of new knowledge-based subsectors is significantly higher.

Other important contrasts identified have to do with factors that influence motivation and the adoption of the final decision to launch a new venture. Cultural and economic aspects seem to contribute to a more favorable framework in East Asian countries. There, entrepreneurs who act as inspirational role models play a greater role. Moreover, the communications media help to distribute their ideas and provide information that helps entrepreneurs identify opportunities upon which to base new

businesses. Economic factors (size, growth, and market profiles) and financial factors have a more positive influence on the decision to found a firm in East Asia. As a consequence, there is a greater expectation of accumulating wealth in East Asian ventures.

East Asia also has a wider base of entrepreneurs who have already founded their first enterprise and were able to do it more quickly, particularly because of their ability to rapidly identify business opportunities. This ability is facilitated by the existence of more integrated societies, with higher average income levels, and more developed and sophisticated productive structures and innovation systems. These factors influence the profile of business opportunities, while highly effective personal networks permit the more rapid exploitation of existing business opportunities. East Asian entrepreneurial networks are generally characterized by their greater commercial specificity, stability, and social and geographic diversity—characteristics that apply to the dynamic enterprises.

East Asian entrepreneurs create larger teams than Latin Americans, a very important factor in terms of success. Partial evidence indicates that in many cases, these are highly qualified professionals who were trained and formed teams while working for corporations, and then left to found their own enterprises. This has often occurred against the backdrop of economic restructuring in these countries. The emergence of businesses in sectors based on knowledge and also on outsourcing could be reinforced by this phenomenon. The Korean case is the most illustrative in this sense.

Access to external financing for launching a business and to support the early development stage is easier to obtain in East Asian countries, particularly at a local level. East Asia has a wide variety of different sources such as private bank credit, support from national and local public institutions, and a greater presence of venture capital. This is why the impact of financial contraction is greater in Latin American countries, where entrepreneurs are forced to scale down in general and in terms of technological level for start-up. They must also seek alternatives, such as credits from suppliers and clients or buy second-hand equipment. The existence of less favorable financial conditions in Latin American countries also presents itself in the form of more cash flow problems during the first years of a firm's life. East Asian entrepreneurs who have difficulty finding

external financing, on the other hand, have a greater tendency to join with other individuals to obtain resources.

Other fundamental challenges in this stage include broadening the client portfolio, finding personnel, suppliers and

adequate equipment, and contracting managers, all problems that were more frequently identified by Latin American entrepreneurs. In both regions, these challenges were met with the support of networks, with colleagues making the greatest contribution in East Asian countries.

CHAPTER 3: The Entrepreneurial Process in Latin America

CHAPTER SUMMARY

This chapter presents the results of the study of nearly 700 new companies in Argentina, Brazil, Mexico, Peru, and Costa Rica.¹⁹ The chapter opens with a description of the general context in which the firms operate and main features of the SME sector. An explanation of the key factors contributing to entrepreneurial activity follows, emphasizing the importance of entrepreneurial teams, previous work experience and networks.

1. AN OVERVIEW OF THE COUNTRIES INCLUDED IN THE STUDY

Before presenting the results of the study, the chapter proceeds with a brief summary of some of the general characteristics of countries included, as well as of the small and medium-sized enterprise sector (SMEs) in each country. The purpose is to give the reader an idea of the general context in which the new companies in this study emerged.

The enterprises surveyed for this study are located in Argentina, Brazil, Mexico, Peru, and Costa Rica.²⁰ These countries vary greatly in their physical size, in population and rate of population growth, in per capita income levels, and in the overall size of their economies and main types of production. Brazil is largest and the most populous country. Its economy is also largest, and its industrial base is the most developed and organized in the region. Costa Rica is the smallest country, while the Peruvian economy is the least industrialized of the group.

There is a wide gap between Argentina, which leads in per capita income (US\$7,500), and Peru (US\$2,100). In Brazil, Mexico, and Costa Rica, per capita income lies between these extremes. Income distribution is also very skewed. According to international statistics, most Latin American countries have very unequal income distribution (World Development Indicators 2001). Peru and Brazil are the most extreme examples in the group of countries included in the study. The 20 percent of the population with the highest income earns 32 to 34 times more than the 20 percent with the lowest income, respectively. In Mexico and Costa Rica, the same figure is 14 and 11.3 times, respectively; in Argentina, the wealthiest percentile earns seven times more. However, while Argentina has a large middle class, income distribution has been deteriorating at an accelerating rate.

In all the countries, males and females each equal about half the total population. Ethnic make-up varies significantly, with indigenous groups being most important in Peru and Mexico, where they account for 45 percent and 30 percent, respectively, of the total population. The black and mixed-race population is significant only in Brazil (one-third of the total). Argentina and Costa Rica have the proportionally largest white population. In Argentina, European immigrants who arrived there during the last century continue to have a strong influence.

Primary education is generally free and compulsory for ages 6 to 15. However, there are great differences in the percentage of the population with access to higher education. According to World Bank statistics, in 1997 the gross rate of post-secondary registration was highest in

Table 3-1: Country information

Variable/Country	Argentina	Brazil	Mexico	Peru	Costa Rica
Population (millions, 1999)	37	168	97	25	4
GNP (\$US billions, 1997)	276.1	730.4	428.9	53.7	12.8
GNP per capita (\$US, 1997)	7,550	4,350	4,440	2,130	3,570

Source: World Bank and Encarta

¹⁹ In the case of Costa Rica, the information is based on an ad hoc study carried out using the same methodology used in this project. For this reason, the tables on regional statistics do not contain this information.

²⁰ This section is based on country reports prepared by the project teams.

Argentina, at 42 percent. The rates were 33 percent in Costa Rica, 26 percent in Peru, and only 16 percent and 15 percent in Mexico and Brazil, respectively. Most of these students attend public universities, although private institutions have gained ground, especially among segments of the population with the highest income.²¹

Most of the population works in the commerce and service sectors, but the proportion of primary sector employment is different in each country. It is especially high in Peru and particularly low in Argentina, the most urbanized country in the region. Although employment in the agricultural and livestock sector has been decreasing significantly, this sector still represents a relatively generator of exports from these countries.

Between 20 and 30 percent of the population is employed in manufacturing, with the lowest levels in Peru. The main manufacturing sectors are food, textiles, and metallurgical industries in all the countries. Other impor-

tant industries include: automobile and auto parts production, oil refining, petrochemical production and cement manufacturing (Argentina); iron and steel, cement, clothing, automobiles, chemical production, the paper sector, and capital stock (Brazil); and machinery, electronic equipment, automobiles, and oil refining (Mexico). In Costa Rica, the industrial sector expanded in the second half of the 1990s, after the arrival of the company Intel, and a high-tech sector developed, along with chemical and plastic production.

Although comparable data for the region does not exist, a recent study by the United Nations Economic Commission for Latin America and the Caribbean affirms the importance of the SME sector during the 1990s (Peres and Stumpo 2000). According to this report, SMEs had to face the competitive challenges resulting from more open trade and economic deregulation with an essentially local market focus and significantly lower productivity than the large companies in almost all the

Table 3-2: Participation of microenterprises and SMEs in Latin American countries

Variable		Argentina (1993) ¹	Brazil (1994) ²	Mexico (1998) ³	Peru (1993-94) ⁴	Costa Rica (1995) ⁵
Micro	Number of firms (thousands)	814.4	1,247.8	3,036.8	226.4	36.3
	% of total	90.8%	76.2%	97.0%	95.8%	90.6%
	Number employed (thousands)	1,325.1	2,101.6	6,096.2	383.6	141.0
	% of total	38.3%	13.3%	51.3%	37.1%	29.5%
SMEs	Number of firms (thousands)	79.4	371.9	75.1	9.4	2.9
	% of total	8.9%	22.7%	2.4%	4.0%	7.3%
	Number employed (thousands)	1,384.8	5,562.9	2,141.4	316.1	117.1
	% of total	40.0%	35.3%	18.2%	30.6%	24.5%
Micro & SMEs	Number of firms (thousands)	893.7	1,619.8	3,111.9	235.9	39.2
	% of total	99.7%	98.9%	99.4%	99.8%	97.9%
	Number employed (thousands)	2,709.9	7,664.5	8,237.6	699.7	258.1
	% of total	78.3%	48.6%	69.5%	67.7%	54.0%

Source: (Argentina) Based on the census data from Censo Nacional Económico, INDEC 1995; (Brazil) IBGE-Censo Cadastro, 1994; (Mexico) INEGI, Censos Económicos 1999; (Peru) INEI, Censo Nacional Económico 1993-94; (Costa Rica) Lloréns and others (1999).

Notes: 1. (Argentina): Microenterprises (1-5 employees), SMEs (6-100 employees in commerce and services, 6-150 in manufacturing industry), large firms (100+ in commerce and services, 150+ in manufacturing industry); 2. (Brazil): Micro (1-4 employees), SMEs (5-100 employees), large (100+ employees); 3. (Mexico): Micro (1-10 employees), SMEs (11-199), large (200+); 4. (Peru): Micro (1-10 employees), SMEs (11-199 employees), large (200+); 5. (Costa Rica): Micro (1-19), SMEs (20-99), large (100+).

²¹ For example, there are approximately 42 private institutions in Argentina, 50 in Brazil, and 26 in Peru.

countries. This situation demonstrates a significant technological gap.²² However, and as the ECLAC study showed, small and medium-sized companies continue to be an important economic agent in terms of their contribution to employment and production.

Governments have adopted different types of policies to support SMEs, particularly in the last 15 years. Most of these attempted to strengthen mature companies that have had to face the prevailing competitive challenges, especially since the 1990s. Microenterprises have also been targeted for assistance programs. These initiatives tend to focus on training and consulting services for companies to raise the level of technology and help them globalize. Programs also facilitate access to credit through such means as subsidized interest rates, deposit guarantee schemes, and micro-financing.

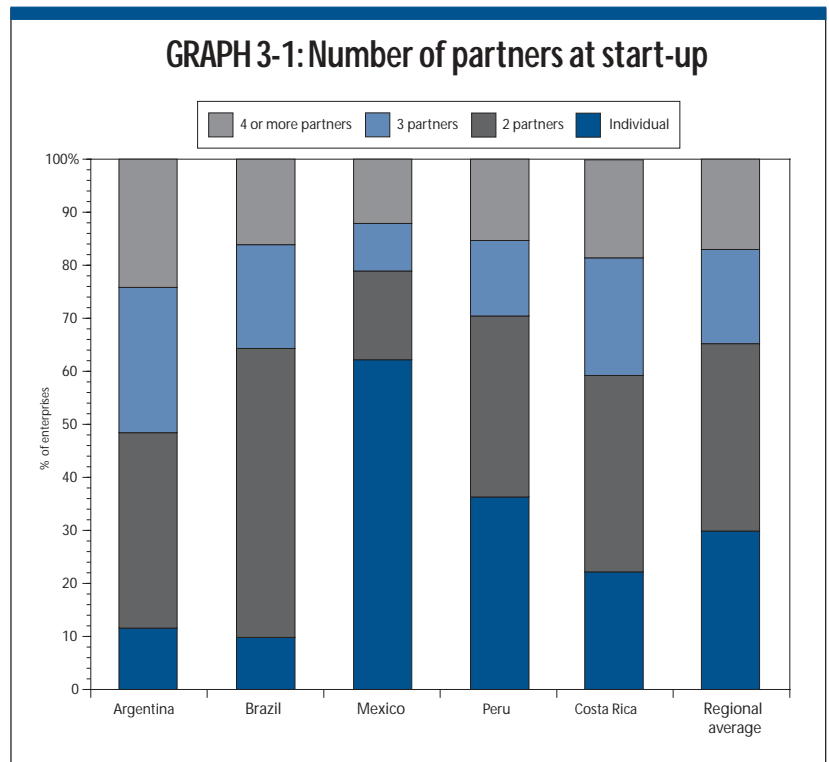
The ECLAC study concluded that these programs were insignificant, with the exceptions of those in Brazil and Mexico. However, the promotion of entrepreneurial development has moved onto the political agendas of some of the countries in recent years. Brazil is perhaps the country where this interest has been the most explicit, initially through the establishment of business incubators and much more recently through the Brazilian Entrepreneurial Program. Although no statistics are available on the birth and death rates of companies, it can be assumed that the net birth rate of companies in the region is low.

2. CHARACTERISTICS OF ENTREPRENEURS AND ENTERPRISES SURVEYED

This section presents the main characteristics of the entrepreneurs and companies studied, and describes the nature of the new enterprises and the people who started them.

2.1 The entrepreneurs

In all the countries, with the exception of Mexico, teams of entrepreneurs, particularly in Argentina and Brazil, founded most of the dynamic new enterprises. This is true for ap-



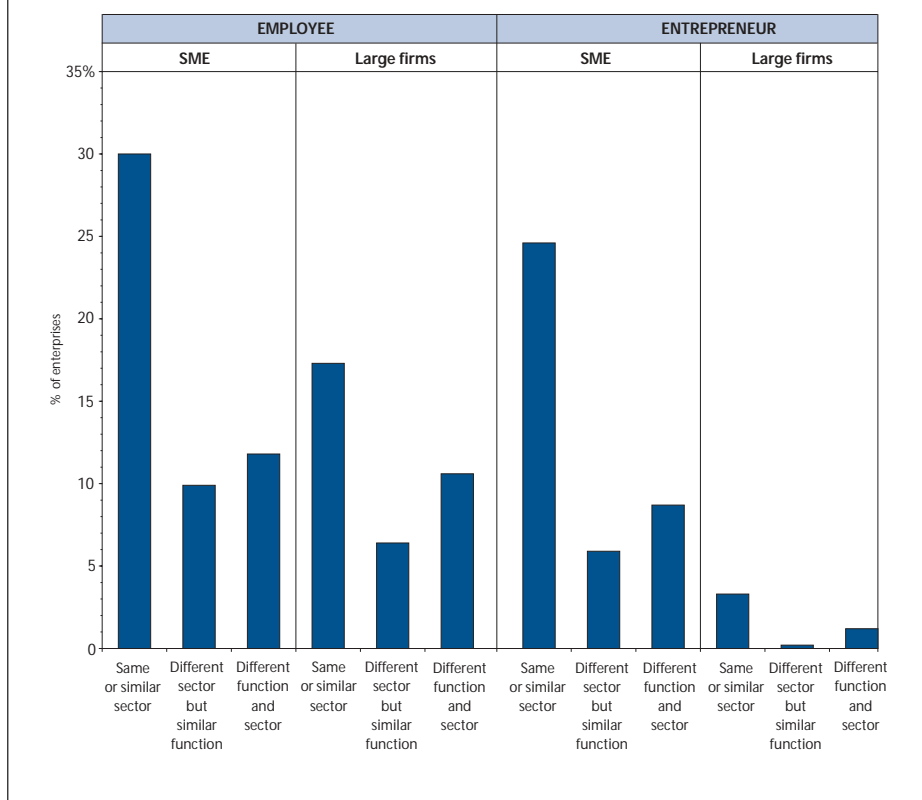
proximately 9 out of 10 companies in both countries, as compared to 8 out of 10 in Costa Rica, 6 of 10 in Peru, and only 4 of 10 in Mexico. In general, these are teams made up of individuals with complementary skills and functions.

The entrepreneur in this study is generally a middle-aged man with a high level of education. At the time of the study, he was an average of 42 years old, and had founded his enterprise between the ages of 35 and 37. There were very few women entrepreneurs. This was especially evident in the dynamic companies. Out of every ten entrepreneurs interviewed, only one was a woman.

Three out of four entrepreneurs had studied at a university and almost 60 percent had a professional degree. These figures are even higher in Peru, where the proportion of graduates is slightly above 70 percent. However, a high educational level appears to be a feature common to the entrepreneurs, in general. Mexico is the only country in the region in which the more successful are also more educated. In general, the more successful tend to be graduates in economics, a factor that indicates the importance of being able to correctly interpret the

²² The relative productivity of SMEs ranges from 75 percent less than large companies in Peru (the most extreme case) to 23 percent less than large companies in Brazil, the country with the smallest productivity gap. SME participation in total exports and the export rate is still below 10 percent.

GRAPH 3-2: Previous work experience of entrepreneurs by occupational category and firm size



ever-changing conditions of Latin American economies.

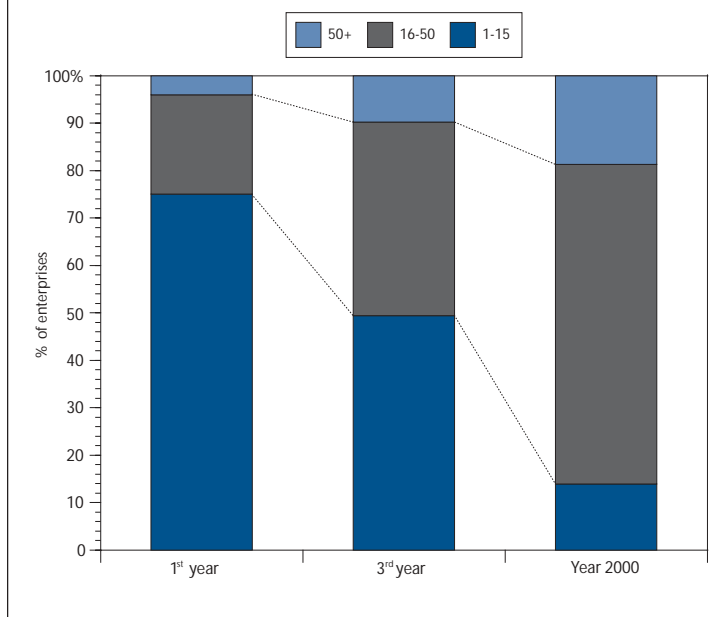
In 9 cases out of 10, entrepreneurs were brought up in middle-class homes, and in half the cases their fathers also worked independently during their childhood, as businessmen, professionals, or as self-employed owner/operators.

The majority of the entrepreneurs were formerly employed (that is, not former entrepreneurs). Their former employers are more often than not SMEs in a similar sector or current suppliers/clients of their new enterprise. In Brazil and Costa Rica, on the other hand, it is more common for entrepreneurs to have worked in large companies (about half the cases, compared to between one-fifth and one-third in the other countries).

It is also common for entrepreneurs to have founded another company previously (4 out of 10), especially in Brazil and Peru. This is a feature that distinguishes the dynamic entrepreneurs

from the rest. Mexico is the exception, with a notably small presence of “experienced” entrepreneurs: approximately 2 of every 10. However, this also means that the contribution made by the new enterprises surveyed in this study to broadening the entrepreneurial base is greater in Mexico.

GRAPH 3-3: Evolution of employment of dynamic enterprises



2.2 The enterprises

Two of every three cases reached the level of a dynamic enterprise, with at least 15 workers. The firms are an average of six years old, and nearly three-quarters of the total are located in metropolitan areas. Mexico is the exception: just over half the companies are located in areas with a strong SME presence. Many of these areas underwent significant economic expansion during the 1990s.

Most are involved in conventional manufacturing activities (foodstuffs, furniture, and clothing, metal work). The knowledge-based sector (software, Internet services or the new communications technologies) accounts for one-third of the cases. The latter are located

almost exclusively located in metropolitan areas. With some exceptions, the Latin American countries lag behind East Asian countries in the development of companies in the new economy sector.

The new companies start out small. However, the dynamic stand out from the rest because they very quickly achieve greater proportional growth—a characteristic that becomes more pronounced over time. In their first year, the dynamic firms employed 15 people on average, as compared to four for the less dynamic. This increased to 40, compared to 6 employees, in the year 2000.

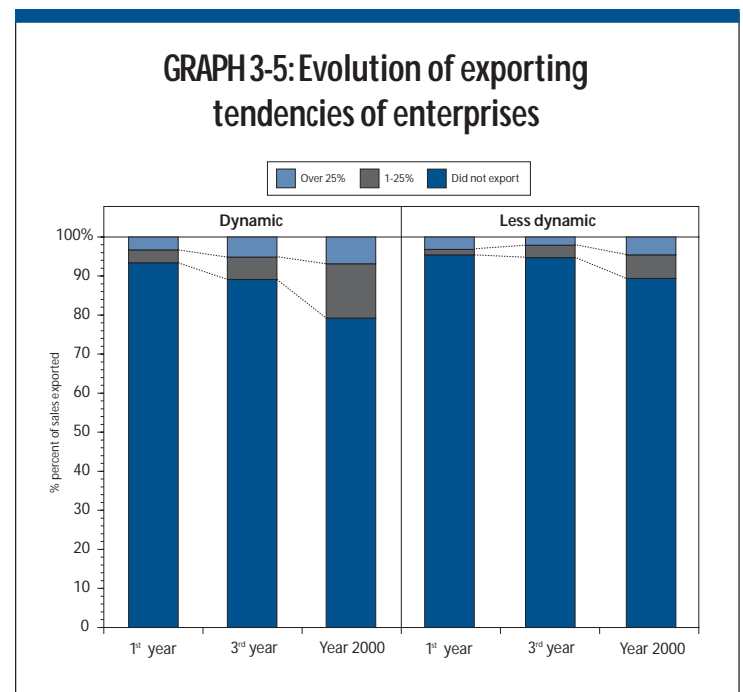
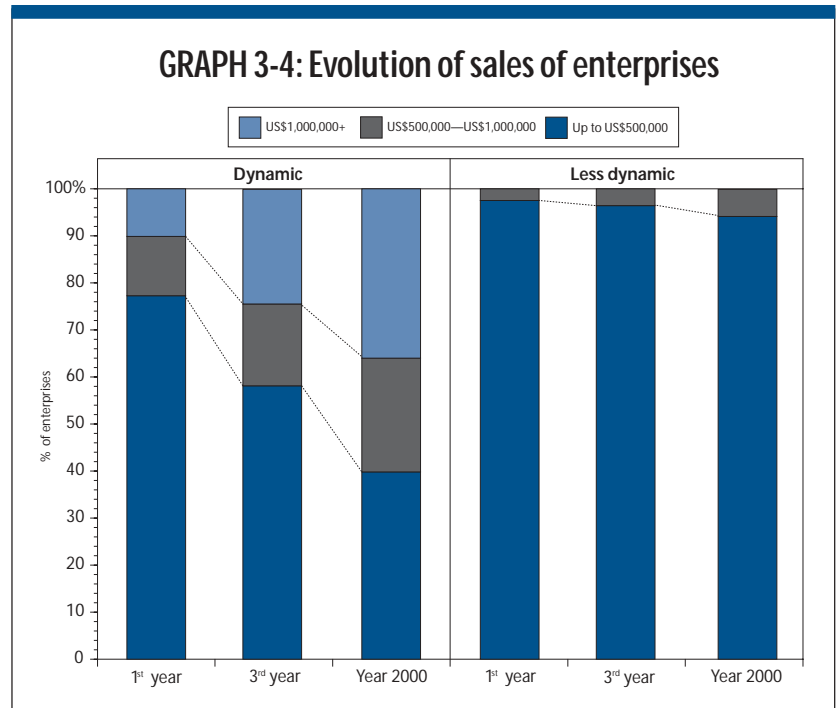
Sales also reflect the different initial size and dynamism of each group of companies, indicating that ventures probably had different attitudes toward growth from the very start. That is, less dynamic entrepreneurs probably had a less intention to grow than dynamic entrepreneurs did. In the first year, for example, dynamic companies were already hitting sales levels of US\$500,000—proof that they very quickly abandoned the world of microenterprises.

Sales were basically aimed at the domestic market. In spite of this, a somewhat greater drive toward exporting was noted among the dynamic companies. The Peruvian companies, and to a lesser extent the Argentinians, are notably more export-oriented. Their percentage of sales exported in 2000 was 11.6 percent and 7.4 percent respectively, compared with the regional average of 5.5 percent.

Finally, the investment made in the first year was less than US\$100,000 in 75 percent of the cases. Mexico and Argentina were the extremes, with the least and the most investment respectively (11 percent and 33 percent of those interviewed with investments greater than US\$100,000).

3. THE ENTREPRENEURIAL PROCESS

The main features of the entrepreneurs and enterprises studied were presented in the previous section. The following is an analysis of research findings on each stage of the entrepreneurial process.

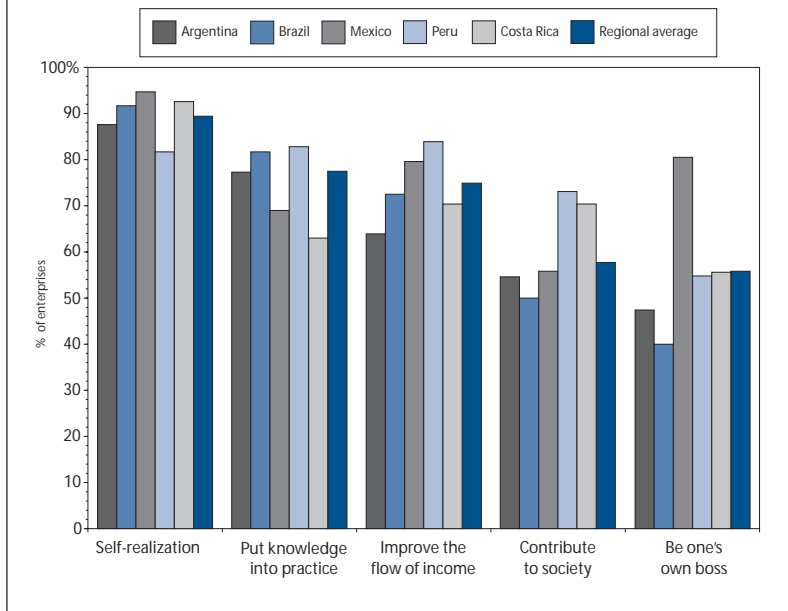


3.1 The inception stage

• THE MOTIVATIONS TO BECOME AN ENTREPRENEUR

Three main motivations led participants in this study to become entrepreneurs: the desire for personal satisfaction, the goal to increase personal income, and the drive to put knowledge into practice. In more than 70 percent of all

GRAPH 3-6: Main motives for becoming an entrepreneur



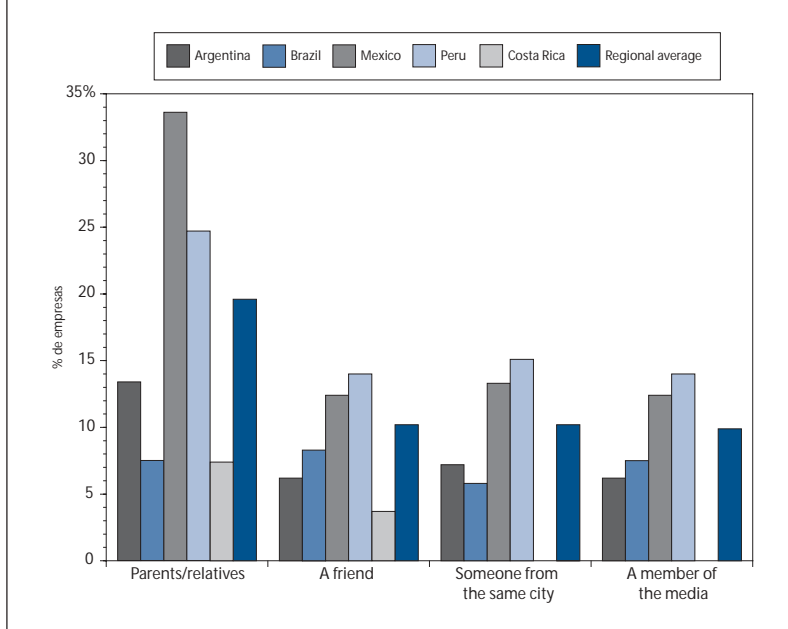
that large companies have ceased to be a fundamental source of professional development.

Over 50 percent of the entrepreneurs also stated that they have used their business career to channel their desire to contribute to society and to be independent. It is interesting to note the greater social interest emphasized by the dynamic entrepreneurs, as compared to the others (almost 60 percent, as opposed to less than half overall), especially in Argentina and Mexico. Getting rich, on the other hand, was mentioned by less than one-third of the entrepreneurs.

The desire to be independent is a motivation that varies greatly depending on the country. While 8 out of 10 Mexican entrepreneurs acknowledged this motivation, only about half did in most of the other countries. This response was especially low in Brazil (4 out of 10). One possible interpretation of this finding has to do with the greater influence of North American culture in Mexico. In any case, policy-makers should not overlook the different factors motivating entrepreneurs in different countries. A strong appreciation of a sense of independence is usually associated with greater entrepreneurial resistance to public intervention and specialized financial assistance programs (Johannisson 1988).

Other motivations related to the entrepreneur's cultural context also vary significantly from country to country. First of all, inspirational role models were generally not influential, except in Mexico — where half of those interviewed said they were inspired by an entrepreneur they admire — and to a lesser extent in Peru (4 out of 10). In Costa Rica, Brazil, and especially in Argentina, there is a notably weak presence of role models (about 2 out of 10). In general, those role models are individuals close to those interviewed, such as family, friends, and acquaintances. They are rarely entrepreneurs discovered through the mass media. It is not surprising, therefore, that role models are more common in localities where SMEs have a strong presence: environments where geographic proximity and social networks bring SME entrepreneurs into closer contact with inspiring potential entrepreneurs.²³ The situation is quite different in

GRAPH 3-7: Influence of role models on motivation to become an entrepreneur



cases, interviewees acknowledged the positive influence of these motivations. The creation of a company was the path they had chosen to achieve these goals. This choice may have been accompanied by a growing perception

²³ The greater presence of role models in local areas was confirmed in all the countries studied, although the differences among countries still remain when these areas are compared in each case.

large cities, where most people form their opinion of entrepreneurs on the basis of social contacts who are not close to them. In many cases, entrepreneurs are not held in high social esteem in cities.

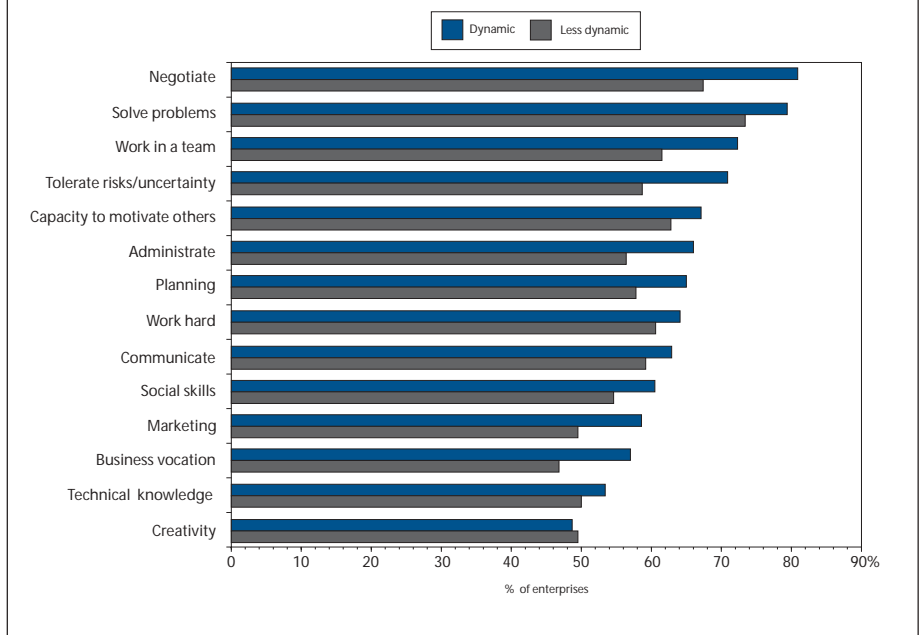
Finally, entrepreneurs in the different countries also had different views on the importance of societal perceptions regarding a business career. This is clear from the varying influence this factor has on the desire to be an entrepreneur. About half of those interviewed in Mexico and Peru embarked on a business career to gain social recognition, as compared to 25 percent in Brazil and only 20 percent in Argentina and Costa Rica. In other words, the cultural context of the entrepreneurs interviewed seems to indicate relatively more favorable conditions in Mexico and Peru than in the other countries.²⁴

The findings mentioned above indicate that an entrepreneurial development strategy must include a set of specific actions in the cultural field to help disseminate entrepreneurial models. The goal should also be to change public opinion regarding business careers, so that an entrepreneurial option is viewed more positively.

• THE ENVIRONMENT THAT PREPARES POTENTIAL ENTREPRENEURS

The work world is the main “entrepreneurial school.” Interviewees acquired the training and competencies they needed to become entrepreneurs fundamentally through their previous work experience, especially in SMEs. The dynamic entrepreneurs acknowledged the importance of work experience in establishing a entrepreneurial vocation much more than the others (57 percent as opposed to 47 percent), as well as acquiring risk-management (71 percent as opposed to 59 percent), negotiating (72 percent as opposed to 62 percent),

GRAPH 3-8: Entrepreneurial competencies acquired during work experience

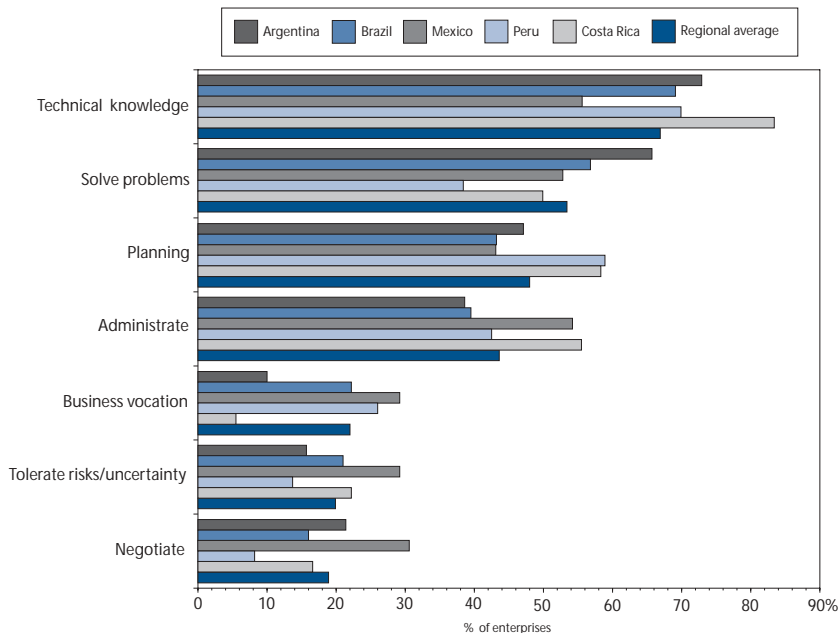


teamwork (81 percent as opposed to 67 percent), administration (66 percent as opposed to 56 percent) and marketing (59 percent as opposed to 49 percent). In other words, the more successful entrepreneurs were the ones who acquired greater competencies in previous jobs.

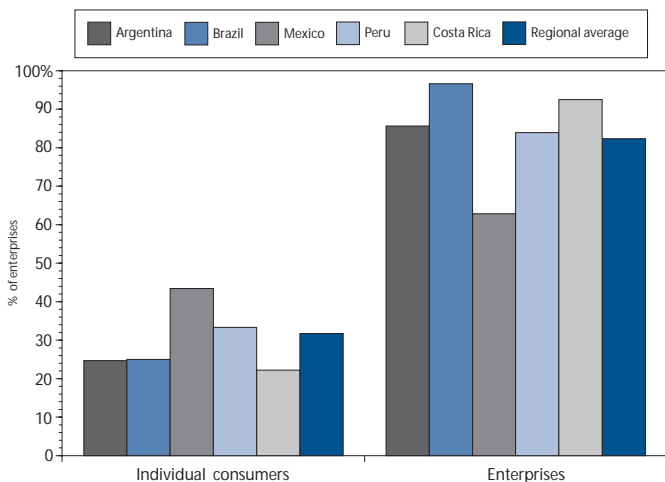
More than any other group, Brazilian entrepreneurs were the most emphatic as regards the importance of their previous work experience to training. This finding indicates that the Brazilian companies where the interviewees worked are particularly effective as “incubator organizations” for new entrepreneurs. The opposite is true in Peru, and to some extent Argentina. Although previous work experience was still the main source of entrepreneurial training in these countries, entrepreneurs placed much less emphasis on it than their Brazilian counterparts. In Peru, there was very little recognition of the role of previous work experience in the acquisition of entrepreneurial training, technical knowledge, marketing, creativity, or planning. This was also

²⁴ Cultural conditions include a very complex set of factors, the study of which goes beyond the scope of this report. They range from the entrepreneur’s immediate cultural environment (such as family and friends) to the most general cultural factors. Entrepreneurs interviewed mentioned the influence of all these conditions. In Peru, for example, as in other Latin American countries, key interviewees contacted prior to the project tended to question the contribution of cultural conditions to the formation of entrepreneurial vocation. It may well be that the answers of Peruvian entrepreneurs indicate the positive influence of role models and their desire to gain greater social recognition through a business career. These answers may essentially reflect the influence of their most immediate social environment, and cannot be generally attributed to Peruvian society as a whole.

GRAPH 3-9: Entrepreneurial competencies acquired at the university by dynamic entrepreneurs



GRAPH 3-10: Type of initial clients of dynamic enterprises



true of Argentina, in terms of risk management, creativity, and the willingness to work hard.

The role of the educational system in the formation of entrepreneurial competencies is much more limited, especially in secondary and technical institutions. Only 4

out of 100 entrepreneurs affirmed that secondary education plays a role in acquiring entrepreneurial training. Entrepreneurs placed more emphasis on university-level studies, basically because of the specific technical knowledge acquired there. Universities were viewed as contributing to problem-solving skills to a lesser extent. Of all the entrepreneurs who went to college, only 20 percent referred to its influence in their decision to start a business. In the Latin American context, Mexican universities appear to be those that most broadly promote entrepreneurial training. One-third of the entrepreneurs acknowledged their contribution. Argentinean universities appear to do this the least (10 percent). The opposite is true, however, in terms of acquiring technical knowledge. Argentinean universities received the highest recognition from their entrepreneurs, while Mexican universities were among the least recognized.

It is clear that the Latin American educational and professional system could play a much more important role in the training of entrepreneurs than it now does.

The family environment also contributes to the acquisition of certain types of attitudes, in particular a strong work ethic (1 out of 4). In the case of Costa Rica, this was also the most important environment for the formation of entrepreneurial vocation.

In summary, previous work experience is the main source of training for entrepreneurs, especially the dynamic ones. In most countries in the region, the educational system plays a more limited role, with universities making a significant contribution to the acquisition of specific technical knowledge. To a lesser degree, the family environment contributes to a strong work ethic. These results indicate the need to give educational systems a greater role in entrepreneurial training in collaboration with the main "entrepreneurial school": the world of business.

• **SOURCES OF BUSINESS OPPORTUNITIES**

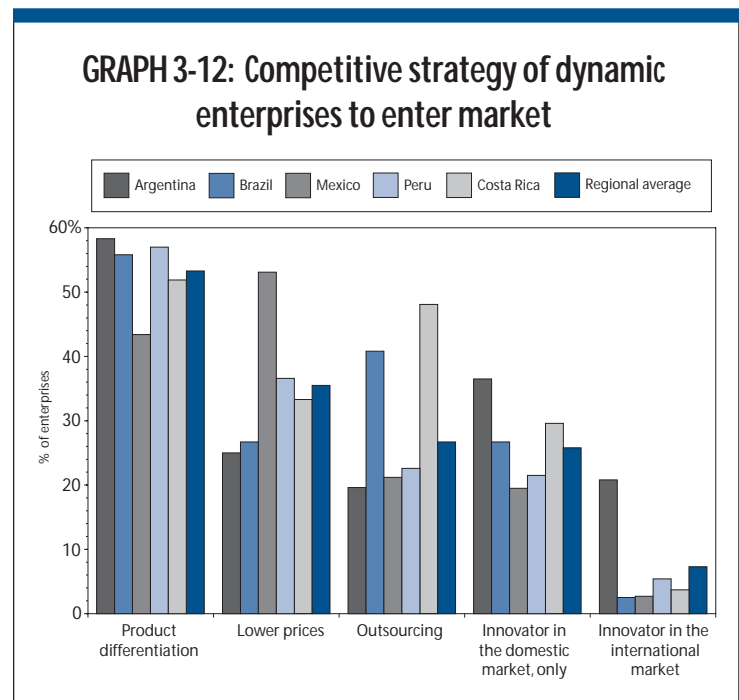
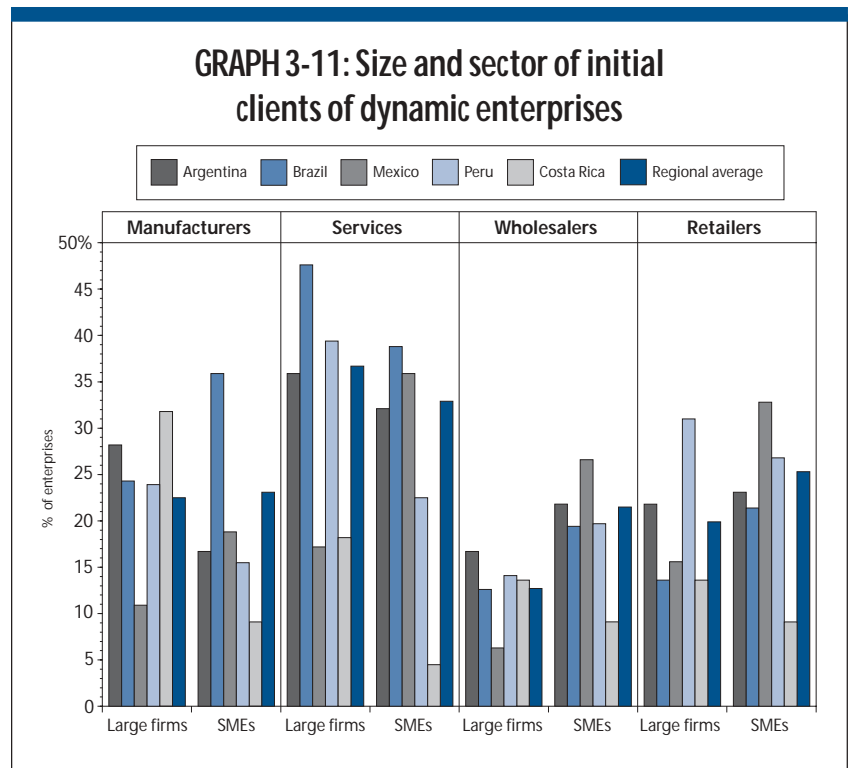
Most of the new companies began by selling to other companies. Individual consumers are a more significant source

of business in Mexico because of sales by conventional firms in smaller communities.

The main clients are usually other manufacturers and companies offering services, many of which are SMEs. In fact, two out of three companies included other small and medium-sized businesses among their main clients. The demands of large companies were more important in the knowledge-based sector. Seventy percent of the interviewees in this sector started out with large clients, especially in the service sector. Banks, insurance companies, and privatized public service companies are some examples of this type of client. It may be that the greater presence of large clients in the knowledge-based sector is due to their need for more sophisticated goods and services, both as a result of their size and of their more advanced technology. This preponderance of large clients was also confirmed in Peru and Costa Rica, countries characterized by a highly polarized entrepreneurial structure, ranging from corporations to micro-enterprises. At the other end of the spectrum, there is a notably greater presence of SME clients in Mexico.

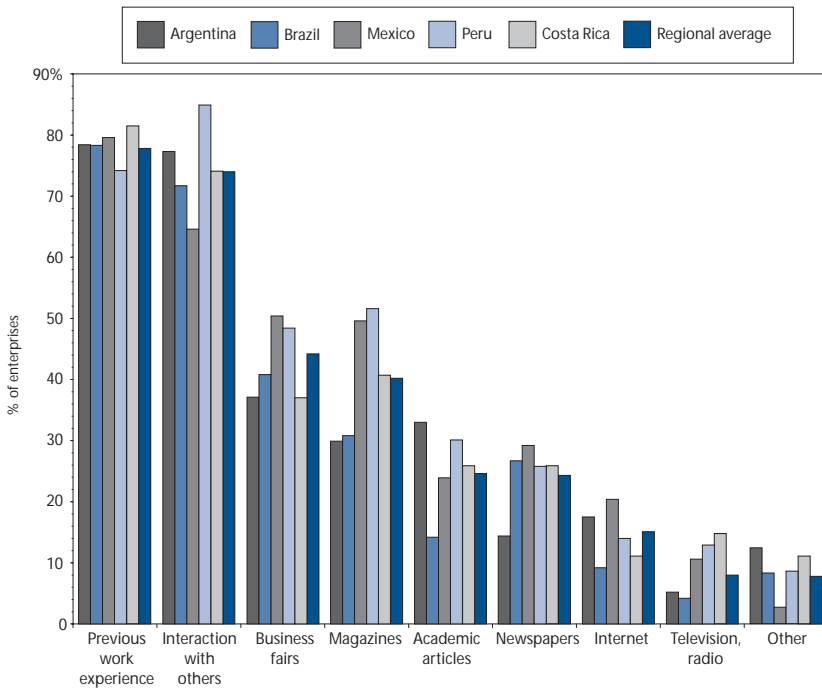
Most new companies started out offering goods that already existed and by competing on the basis of better quality and/or service to gain positions in expanding markets. In general, they had to compete both with other domestic and imported goods, although the dynamic entrepreneurs, especially those in the knowledge-based sector, felt the greatest competitive pressure from imported goods.

Product differentiation is the main distinctive feature of the new businesses in the region (a little more than half of those interviewed). Innovation is a less-exploited source of opportunity. Just over one-third of the firms viewed themselves as innovators, and most of these belong to the knowledge-based sector. In general, these companies are more focused on satisfying specific needs in the domestic market than on competitive innovation at the international level. Innovation is very infrequent among conventional manufacturers, among whom competition is predominantly price-oriented. Almost half of these entrepreneurs, as compared to less than one-fifth of those in the knowledge-based sector,



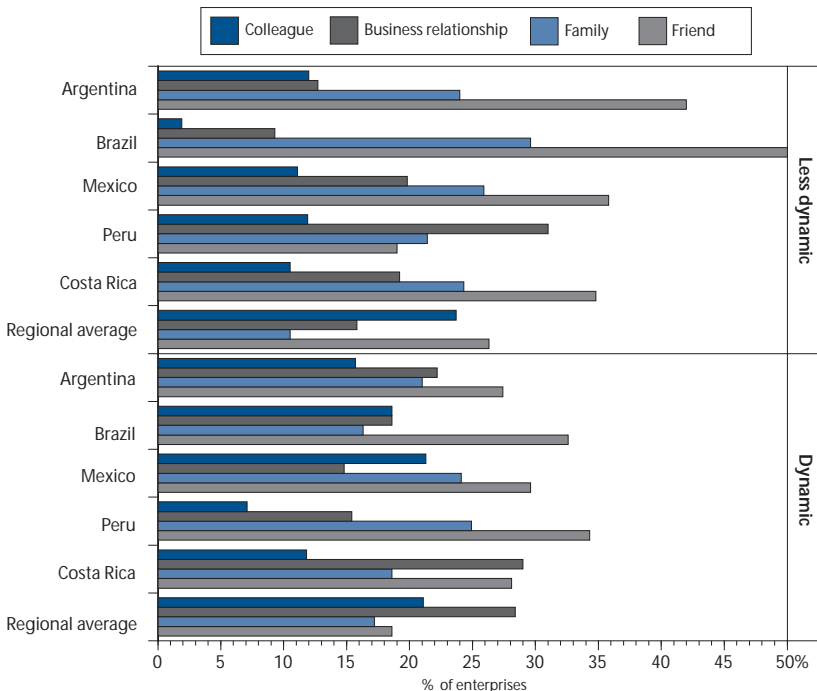
considered their competitive strategy to be price-based. This business profile is clearly predominant in Mexico and Costa Rica. In contrast to the other countries, in Argentina innovation was identified as an important source of opportunity, even among companies in the conventional sector (1 out of 3 cases).

GRAPH 3-13: Information sources utilized by dynamic entrepreneurs to identify business opportunities



Outsourcing is generally not a source of opportunity for creating new businesses, especially in small cities and towns where most of the clients are other SMEs. This conclusion is consistent with previous studies that indicate that a tendency not to outsource is characteristic of Latin American companies (Katz 1986). The reasons usually given to explain this conduct (lack of confidence, technological differences, high transaction costs) are even more applicable to new enterprises, which have yet to establish a track record in the market. The recent tendency of large companies to outsource activities has not given rise to new businesses, at least in the sectors studied. A more significant presence of companies founded on the basis of outsourcing has been observed only in Brazil and Costa Rica (between 4 and 5 out of 10 cases). Brazil, the most industrially developed country in the region, and the one with the largest economy, stands out because of the greater opportunities for new businesses focused on meeting the demands of large companies in general. In Costa Rica, new companies of this type have likely benefited from the expansion of the multi-national companies sector in the past decade. Argentina is at the other end of the spectrum, with limited outsourcing opportunities.

GRAPH 3-14: Main individuals who helped identify business opportunities



• **NETWORKS AND IDENTIFICATION OF OPPORTUNITIES**

The information channels used most often by entrepreneurs were interaction with contact networks and work experience gained with the companies where they worked before. These channels helped them identify opportunities on which to base their businesses. More than 70 percent of the entrepreneurs highlighted the importance of both these sources.

By interacting with other entrepreneurs, friends, and/or acquaintances, generally from the same socio-economic class, they are able

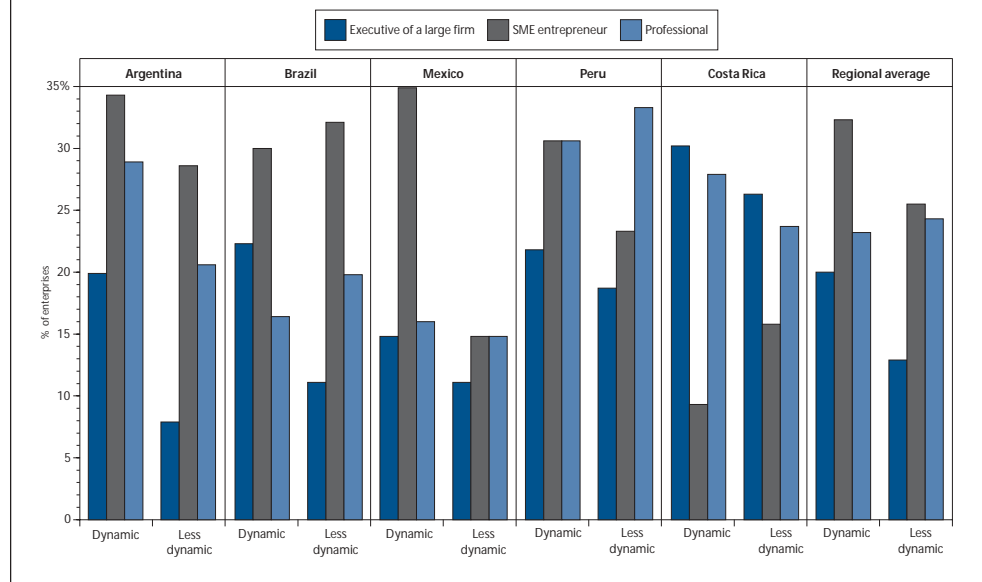
to identify opportunities that enable them to compete. Competition is based on supplying different goods or services than those already in the market, introducing innovations or even offering similar goods but at a lower price. Only in Argentina and Peru—countries with a larger core group of exporters—does this network also include people in other countries, although these cases represent only 10 percent of the total.

It is interesting to note that the dynamic entrepreneurs are more prevalent in the knowledge-based sector than conventional sectors. They also appear to identify opportunities more thoroughly. In both cases, they used more diverse sources of information. A significant number (almost half) stated that they had gained relevant information by visiting trade fairs and reading specialized magazines. The knowledge-based entrepreneurs also made greater use of information on the Internet and in specialized magazines than those in conventional sectors. Sources that provide free access to information tend to be more valuable to this kind of firm. Also, except in Costa Rica, the networks of contacts of the more successful companies included a greater number of colleagues and/or business connections.

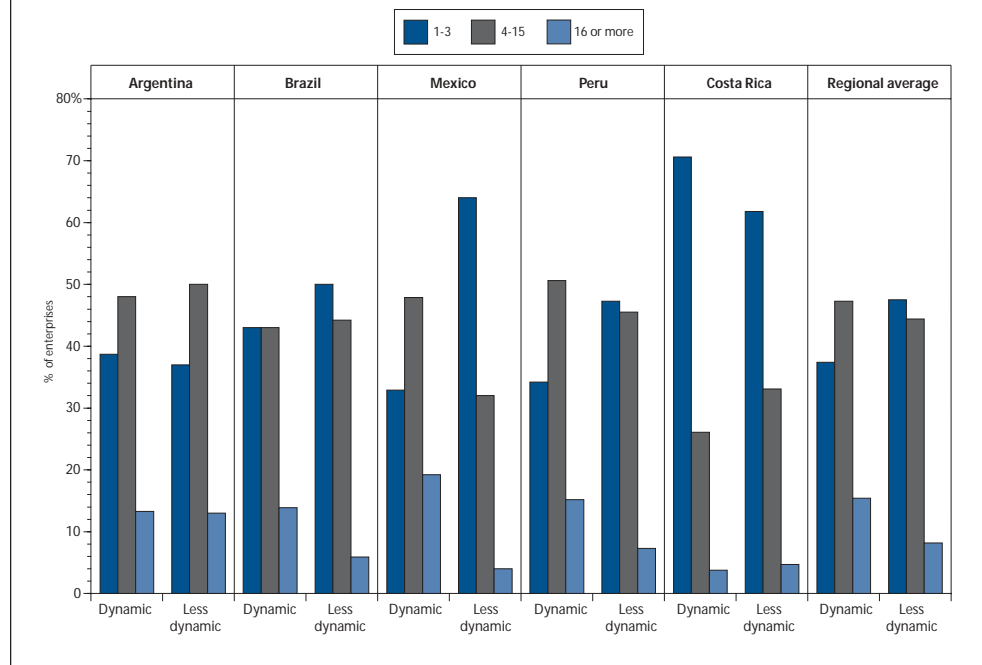
In general, this involves other SME entrepreneurs, executives of large companies and, in some countries, professionals. The latter case is more common among knowledge-based companies.

The founders of less dynamic companies, on the other hand, tend to interact with a more limited circle of con-

GRAPH 3-15: Occupations of the three key individuals who helped identify business opportunities



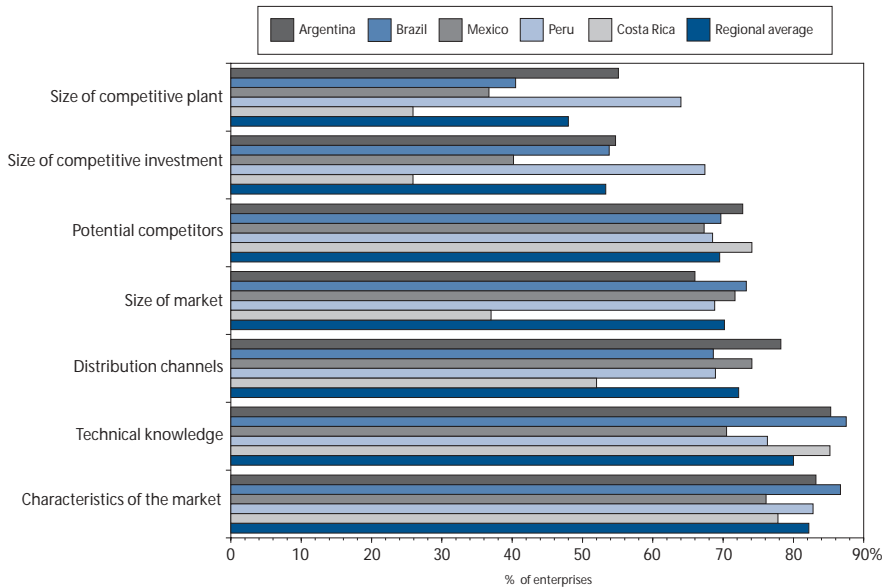
GRAPH 3-16: Number of individuals who helped identify business opportunities



tacts, generally in their immediate social circle (friends and family).

In summary, findings presented in this section confirm the crucial role of previous work experience and of the

GRAPH 3-17: Type of information gathered by dynamic entrepreneurs before launch



entrepreneur's personal networks in identifying opportunities for developing dynamic businesses.

• **INFORMATION-SEEKING AND BUSINESS PLANNING**

Most of the entrepreneurs, apart from their dynamism, tend to gather technological and business information relevant to their ventures (for example, the size and characteristics of the market, and the number of competitors). It is much less common for them to have information on the size of the facilities and of the investment necessary for a new business to be competitive, especially in Costa Rica. More than two-thirds had the first kind of information, as compared to approximately half who had the latter. This finding seems to indicate that the mere survival of a company depends on obtaining business and technical information while the size of the facilities and the desirable level of investment depend more on other factors, such as the financial resources available or produce acceptance in the market. This interpretation is consistent with the specialized literature that indicates that small entrepreneurs are characterized by their gradual, step-by-step behavior (Gibb and Scott 1985). Their actions appear to be based on market reaction rather than on existing information regarding the minimum size requirements for efficiency.

The preparation of business plans or the use of other professional tools—for example, cost calculations of opportunity costs or the period required for recovering investment—are not generalized practices among entrepreneurs. They are not a distinguishing feature of the dynamic entrepreneurs, either. Most of them tend to make approximate estimates of sales and costs, and to a lesser extent, of probable personal income. Only a minority, however, finally compare these figures with the profits they would obtain through other business activities or by working for a third party.

The use of “professional” planning tools is significantly more common among entrepreneurs with higher education, in particular among

graduates in economics, and to a lesser degree, among those with work experience in large companies or as entrepreneurs. However, even among these, about 40 percent do not prepare a formal business plan.

In other words, the process of gathering information and planning a business differs in some ways from the typical professional rational behavior prescribed in textbooks. The results of the study do not lead to the conclusion that those who make use of these practices are subsequently more successful than those who do not. At the same time, it has not been determined to what extent the dynamic entrepreneurs would have grown more extensively if they had used the professionally prescribed tools. While these tools are necessary, they do not guarantee access to external financing.

3.2 The start-up stage

What factors influence the final decision to create a new business? What are the main sources or resources used? These are the main questions dealt with in this section.

• **THE FINAL DECISION TO START**

When the final decision is made to start up a company, economic and non-economic considerations are equally important. The initial motivations that led the person to

become interested in an entrepreneurial career (a desire for personal satisfaction, facing challenges, contributing to society, improving income) continue to be of the greatest importance (more than 70 percent). These motivations are complemented by another set of variables that fuel expectations regarding the success of business (expected size and growth of the market, and to a lesser extent, of the country). The characteristics of competitors (number and size) had a clear influence on only one-third of the entrepreneurs. This makes sense considering that most of them did not fit in the category of the typical innovator starting out in a completely new market or with very little competition.

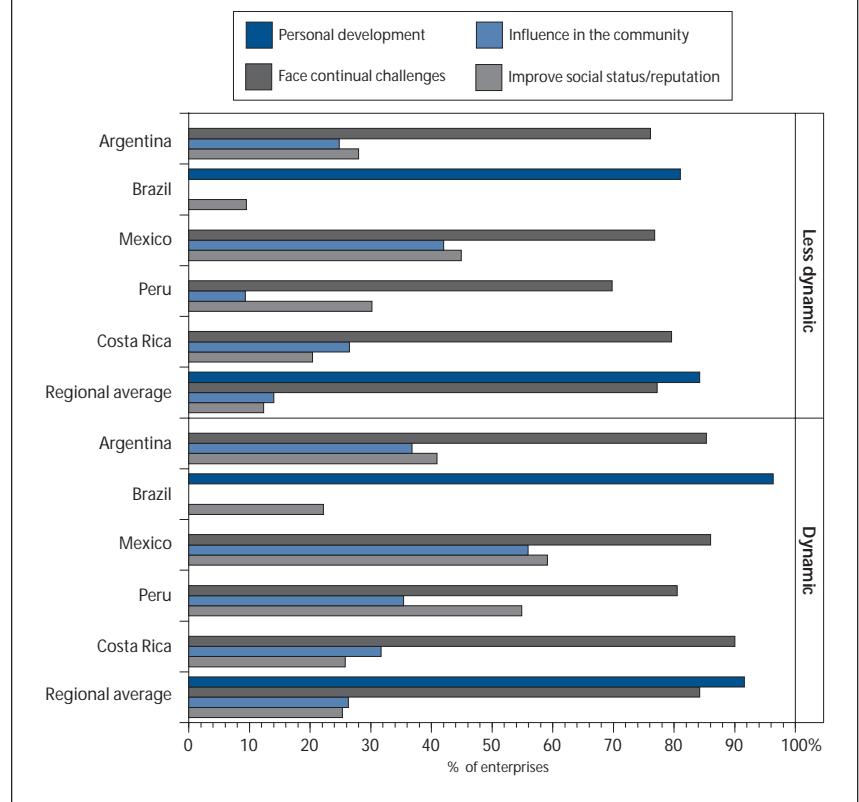
The availability of financing or of public assistance did not help the entrepreneurs make the final decision to take the plunge into the entrepreneurial adventure. On the other hand, financial limitations were among the main negative influences, along with taxes and the costs of formally getting the business off the ground. Between 4 and 5 out of 10 entrepreneurs on the regional panel highlighted financial limitations as obstacles. These difficulties were noted most frequently in Mexico, especially at the financial level (53 percent), and Brazil, in reference to taxes (62.5 percent).

However, the entrepreneurs studied decided to start their businesses despite these obstacles because their positive motivations were stronger than the obstacles they faced. The dynamic entrepreneurs stand out especially because of their need for both individual and social achievement. In this group, non-monetary factors—such as the desire to face continuous challenges, to find personal satisfaction, for higher social esteem, or to be influential in the community—are significantly more influential than among the less dynamic entrepreneurs.

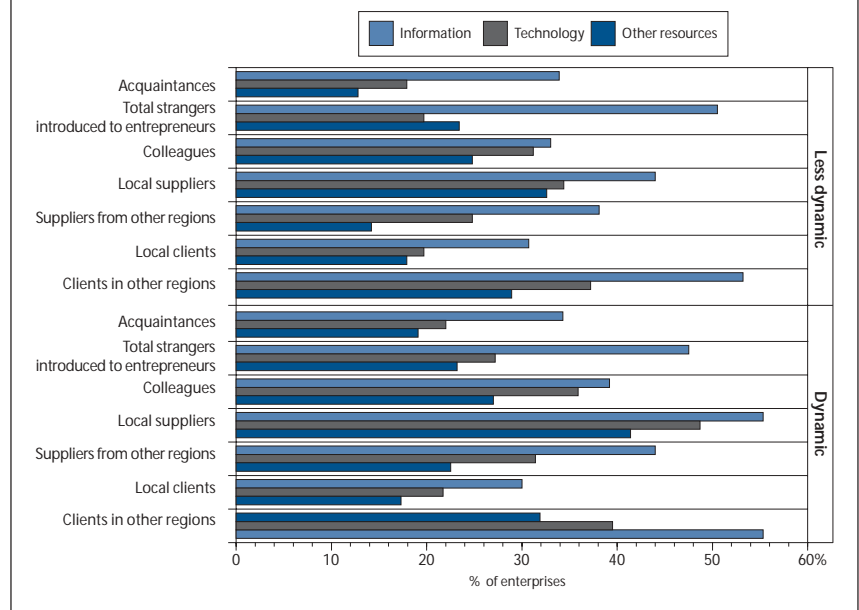
• **NETWORKS AND ACCESS TO AND USE OF NON-MONETARY RESOURCES**

Previous work experience and higher education were factors that facilitated access to and the use of the resources necessary for getting un-

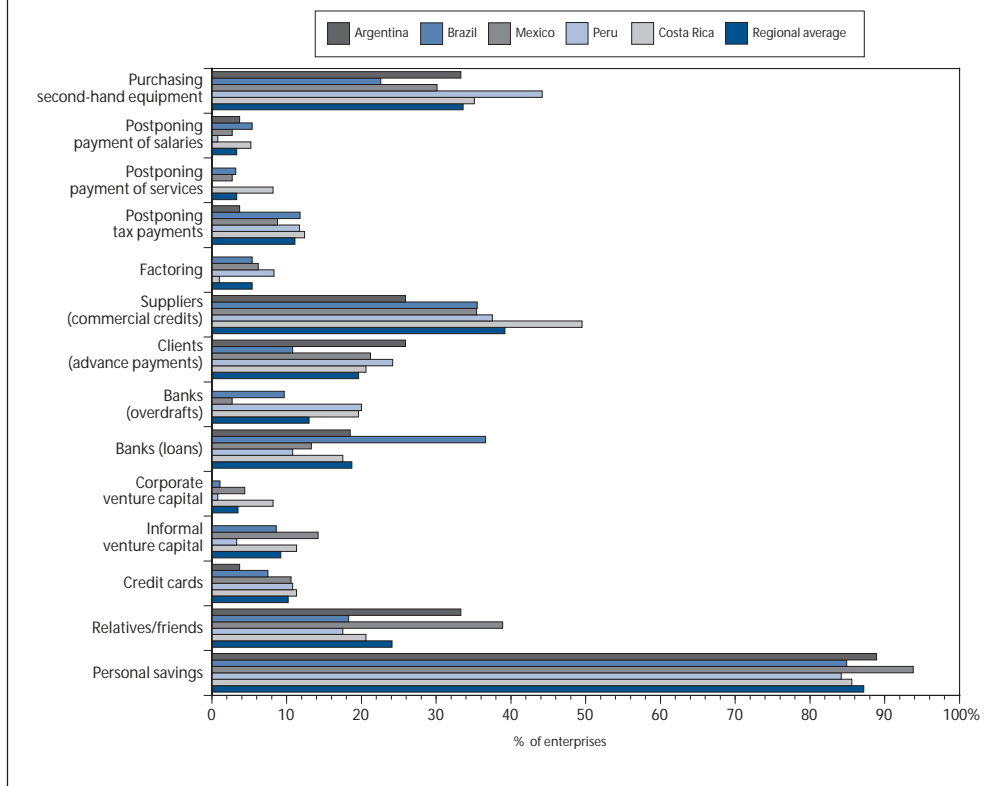
GRAPH 3-18: Main factors that influenced the decision to begin and that differentiate dynamic entrepreneurs from less-dynamic entrepreneurs



GRAPH 3-19: Role of networks in facilitating access to non-monetary resources



GRAPH 3-20: Financing sources used to launch of dynamic businesses



derway. As has been noted in previous sections of this chapter, both technical knowledge (“know-how”) and the contacts made in these environments (“know-who”) contribute to the different stages of the entrepreneurial process.

The networks used by the dynamic entrepreneurs to facilitate access to resources are more extensive than those used by the others, especially in Mexico and Peru. This tendency of entrepreneurs to make use of external contacts is not surprising, since, in the absence of his/her own organization, the entrepreneur’s only support is that provided by a network of contacts. This situation is accentuated by limitations on the use of external financing, a topic to be analyzed later.

These networks played a more important role in access to intangible resources (information and technology) than in access to other physical resources (raw materials, installations, equipment). Business connections (suppliers, clients), together with social connections (friends, family, acquaintances) were those most frequently mentioned by the interviewees. The Peruvian and Mexican entrepreneurs acknowledged the contribution of their immediate

social environment to a greater degree than those in other countries. These entrepreneurs were also different, although not significantly, in that they mentioned the role of institutions as providers of access to information. Institutional support was more common in regions of Mexico, where chambers of commerce are very active. In the other countries in the region, especially in Argentina and Brazil, institutions played a more limited role.

In general, both dynamic and less dynamic businesses, in metropolitan areas and small towns, and in conventional and knowledge-based activities, utilized networks to access resources. However, in some countries, the dynamic entrepreneurs and those with knowledge-based

businesses benefited more often from their networks than those in the conventional manufacturing sector. In Peru, Mexico, and Brazil, for example, the dynamic companies characteristically made greater use of their business contacts for gathering information, especially from regional suppliers. Also, in order to access technology, knowledge-based entrepreneurs in Brazil, Mexico, and Costa Rica relied more on suppliers in other regions than those in the conventional sector. Also, in Brazil and Mexico, greater use was made of information provided by institutions, especially universities. In Argentina and Costa Rica, on the other hand, very few entrepreneurs mentioned institutional support for business in the knowledge-based sector.

In other words, support networks play a fundamental role in terms of access to non-financial resources. In those countries where there are differences among different types of entrepreneurs, founders of dynamic and knowledge-based businesses make greater use of networks. They use these networks to gain access to information and to technology, to a lesser extent. This information indicates a need to include the promotion of networks in the strategic agenda for entrepreneurial development.

- **FINANCING SOURCES USED FOR LAUNCH**

On average, entrepreneurs used three types of financing to start their companies. The main sources are personal savings (9 out of 10 cases), credit from suppliers and/or clients (about half), and loans from family and friends (almost 3 out of 10). This last source was especially used in Mexico. Less than 1 out of 5 entrepreneurs used bank loans. Mexico and Brazil are the countries with the lowest rate of bank loan use. In Peru, one-third of the entrepreneurs interviewed used bank loans.

The importance of venture capital was marginal and mainly came from informal private investors (business angels). Access to corporate venture capital, on the other hand, was practically non-existent. In this context, Latin American entrepreneurs—especially the dynamic ones—developed strategies to reduce their need for financial credit. In addition to the role of their social networks (friends, family) and commercial networks (suppliers and clients), discussed above, they bought second-hand machinery (in one-third of the cases) and some even postponed making payments for taxes and services.

According to 6 out of 10 entrepreneurs, this very limited use of external financing is due to the fact that the supply of funds does not meet the demand. In Brazil, 8 out of 10 said they had come up against this kind of limitation, while in Peru, surprisingly, only 3 out of 10 said the same. In a significant number of cases, entrepreneurs stated that they had chosen not to take on debt to avoid dealing with external financing sources. They preferred to maintain control of their business, did not want to assume disproportionate risks, and/or lacked confidence in their financial institutions. In Mexico and Brazil, this was the opinion of most of the entrepreneurs, as compared to one-third in Argentina, Peru, and Costa Rica. To change this situation, the financial conduct and attitudes of those potentially making demands on the credit side must be considered, as well as the limitations on the supply side.

In localities with a large proportion of SMEs, it was assumed that greater financial support would be available than in metropolitan areas. This is because the risk evaluations are supposedly much easier in these local areas where the financial agents know the potential clients well (because of the geographical and social proximity) and therefore the transaction costs associated with loans are lower than in metropolitan areas.

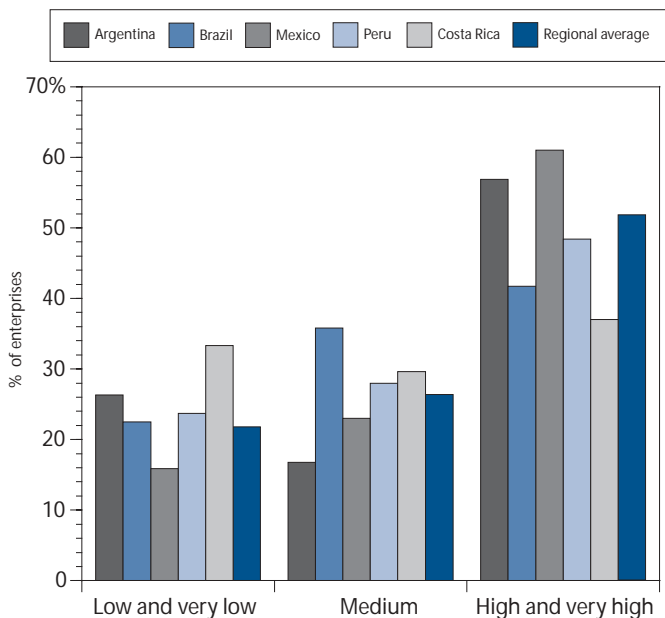
However, the study found that the financing profile of the dynamic new companies is similar, regardless of their location. Access to bank loans is only slightly greater and the presence of venture capital is practically non-existent.

In all sectors, there is a predominant use of personal savings for start-up financing. However, for the new companies in knowledge-based sectors, access to credit is more limited than in other sectors, especially in Argentina. Furthermore, within this group of companies, notably less use is made of other relevant sources such as suppliers and purchases of second-hand equipment. Although the role of venture capital is greater than in conventional activities, it remains an option that is very infrequently used. Its role was slightly more important only in Argentina and Mexico, although it was generally concentrated in sectors related to the Internet and has dropped off significantly in recent years. It must be kept in mind that the main investments made by this group are “brain-intensive”: that is, investment in intangibles, more than in purchases of machinery or raw materials. The equipment required is not as easily replaceable with used goods as is the case in the conventional sector, possibly due to the greater need for up-to-date technology.

The results presented show that external financing limits constitute a negative factor when setting up a business in the various localities and sectors. Nearly 7 out of 10 entrepreneurs who face financial limitations maintained that these affected the initial conditions of the business, especially the dynamic ones. These limitations forced them to begin on a scale and at a technological level lower than desired to be competitive. They also had to look for support from suppliers and clients or simply to start later than they wished. Deferral was the preferred option of 1 out of 3 entrepreneurs. The negative impact on the initial technological level was particularly high in Mexico and Brazil, two countries where financial limitations were more emphasized by the entrepreneurs.

These results lead to the conclusion that financing is a relevant area for developing and implementing policies to support the entrepreneurial process. The specific conditions of each sector must be considered, based on an understanding of the same, and also on the conduct and attitudes of those potentially requiring external financing in each country.

GRAPH 3-21: Intensity of competition that dynamic enterprises face during early development



• **MATURATION PERIOD OF THE BUSINESS IDEA**

The average age at which entrepreneurs begin to think about going into business is 25-26. A little more than half became aware of this interest even before the age of 25. However, the majority started their first business several years later, around the age of 30, on average. As has been seen in previous sections, to start a business, it is very useful and perhaps even necessary to acquire a certain amount of previous work experience and to develop a network of relevant contacts. However, beyond the existing differences from country to country, a long period of time passes from the initial intention to become an entrepreneur until the company actually begins operations. In scenarios of great economic uncertainty, as is the case in Latin America, the timing of the business creation process is very important. Excessive time required to launch a venture could affect the number of people who finally decide to begin a new business, in turn affecting the rate of creation of new companies.

This period of time is longer in Mexico, Peru, and Costa Rica than in Argentina and Brazil. In the first case, the

average gestation time before the birth of a company is between 4.5 and 6 years, while in the two Mercosur countries it is between 3 and 3.5 years. Although this is a factor that must be investigated more thoroughly in future studies, certain conclusions can already be reached. Essentially, the differences between countries almost exclusively involve the new companies in the conventional manufacturing sector, regardless of their location. By contrast, knowledge-based activities have similar gestation periods.

In the countries where businesses started later, this is due in large part to the amount of time that passes between that initial spark of motivation and the identification of the business idea. While in Brazil and Argentina the period is between one and two years, in Costa Rica, Peru, and Mexico it is longer: between 2.5 and 3 years. These differences may be due to existing opportunities and to the entrepreneurial strategies employed to take advantage of them. These differences must be studied in depth, although there is an evident need to design action plans to foster both the growth and recognition of business opportunities.

Variations were also observed in the time it took to make the final decision to start the business, ranging from one year in Argentina to more than two in Peru. Finally, start-up took from six months in Peru and Costa Rica to one year in Mexico. Notwithstanding these objective differences, about half the Latin American entrepreneurs considered that their start-up took longer than desirable. This complaint was most frequent in Mexico and Peru (60 percent), and much less common in Costa Rica (33 percent) and Argentina (25 percent).

The main reasons for postponing start-up were: the complexity of the paper work involved, and bureaucracy and regulations, especially in Brazil and Peru; the search for adequate facilities in Brazil and Mexico; and the lack of adequate personnel in Peru.²⁵ These results indicate that the difficulties in launching a company vary among the different countries.

3.3 The early development stage

During this stage, entrepreneurs must face the challenge of entering the market, overcome initial problems involved in order to survive, and define the basis for their expansion.

²⁵ It is interesting to note that in Argentina, the most common reason for delaying start-up was "other," meaning reasons other than paper work and regulations, availability of services, infrastructure and installations, or the lack of adequate personnel.

• **ENTERING THE MARKET**

Slightly more than half the Latin American entrepreneurs indicated that they had to face intense or very intense levels of competition when they entered the market, whereas only one-quarter to one-fifth of them, depending on the country, characterized the competitive pressure as low or very low.

According to those interviewed, the entrepreneurs of Mexico and Argentina—countries that quickly opened up their economies during the 1990s—were those who faced the greatest competition. In both cases, in fact, imported goods were more prevalent. Except in Peru and Costa Rica, most of the competing companies were other SMEs (6 out of 10). However, in all the countries the dynamic companies had to challenge large companies to a much greater extent than the others (40 percent as opposed to 27 percent) do.

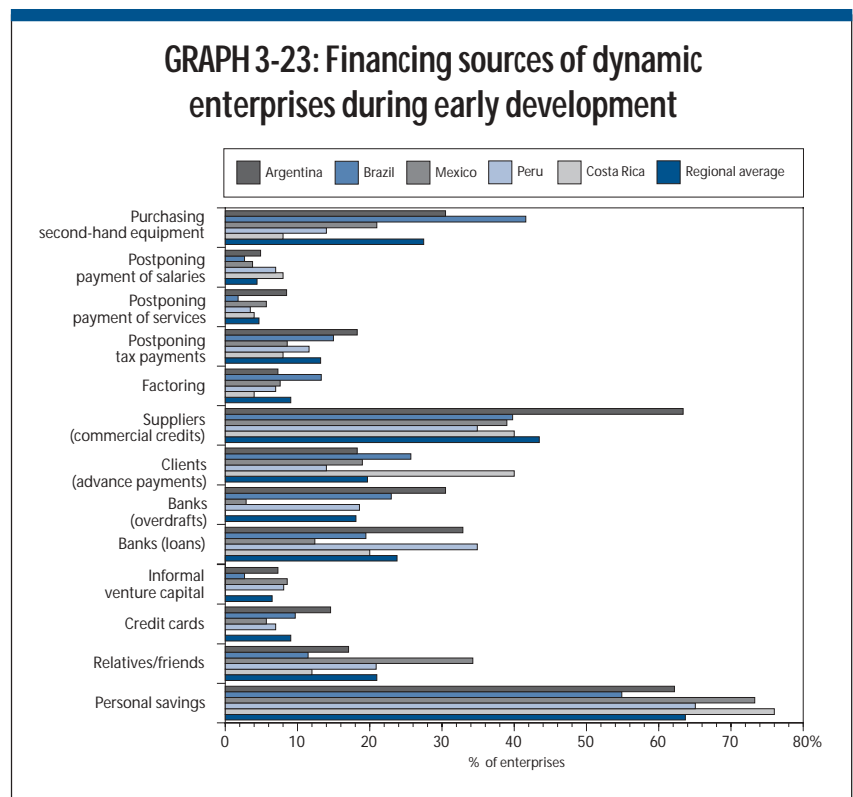
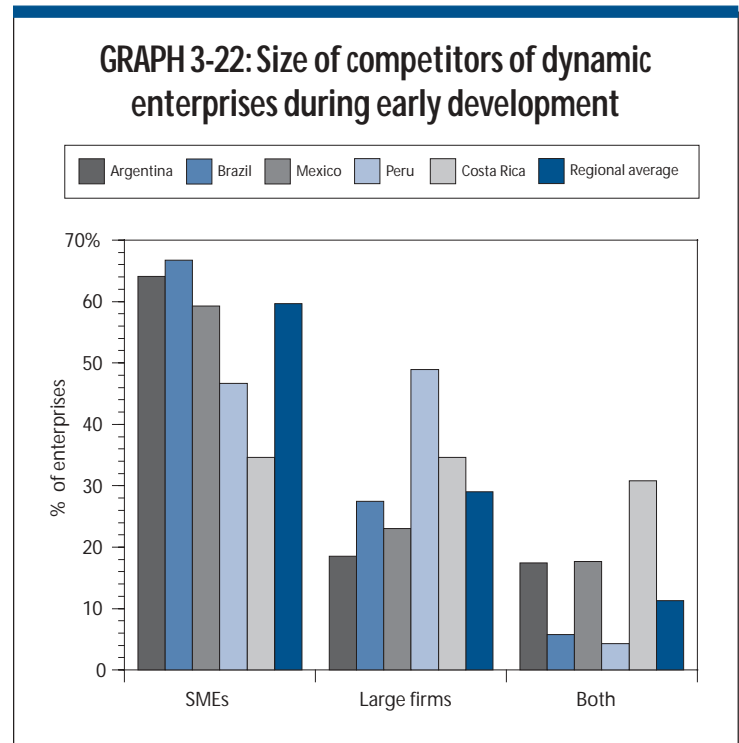
In other words, competition with imports and with large firms was greater for the dynamic enterprises, which had to face more difficult competitive challenges than other companies.

To do this, they used competitive strategies generally characterized by: prices at least similar to their competition (2 out of 3); differentiation through quality/services (2 out of 3); and greater research and development efforts (4 out of 10). Their greatest difficulties in beating the competition involved financing and marketing activities. The case of Mexico differs from the other countries because of the greater emphasis there on competition by price and less emphasis on competition by quality.

It is interesting to note that the competitive advantages noted by entrepreneurs do not differ significantly between the dynamic and less dynamic groups of enterprises. In order to determine the possible explanations for the different levels of dynamism achieved by one group or another, we need to analyze in more detail the entrepreneurs' strategies and their ability to implement and manage their business plan. This would entail a study beyond the scope of this one. The presence of teams of entrepreneurs with complementary abilities and functions was a positive influence on the dynamic companies during this stage.

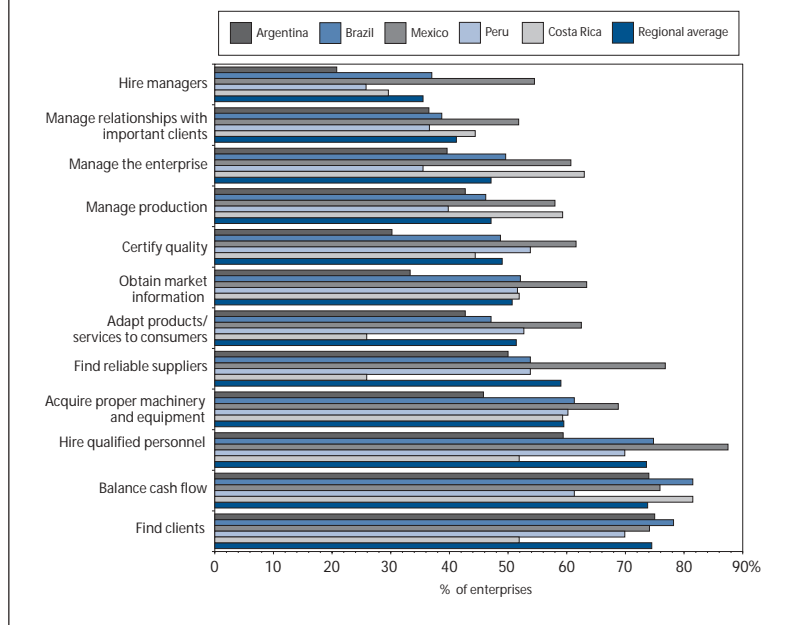
• **FINANCING DURING THE FIRST YEARS OF OPERATION**

During this stage, the entrepreneurs' personal savings and funds provided by family and friends were used less fre-



quently than during the start-up stage, although they continued to be the main source. Access to bank loans increased, but not significantly. Most of the entrepreneurs (3 out of 4) still did not use bank loans.

GRAPH 3-24: Main problems that dynamic enterprises face during early development



Therefore, the number of entrepreneurs who had to use other sources of financing increased in comparison to during the start-up stage. The importance of suppliers and clients increased, as well as that of factoring and the postponement of obligations (taxes, services, and salaries).

• **PROBLEMS AND CHALLENGES DURING THE FIRST YEARS OF OPERATION**

The interviewees had to identify their main problems and challenges from a list of 12 items. Most listed the following needs:

- Increasing their client base,
- Balancing their cash flow,
- Obtaining qualified workers,
- Purchasing adequate equipment,
- Obtaining adequate suppliers.

The first challenge of new companies is gaining legitimacy in the market, which initially tends to prefer companies with an established track record. Problems balancing financial flows are due to the need for working capital to finance operations and expansion, once the first business operations have been established. Sales levels reached in the first year

indicate the acceleration of this expansion. For this reason, it is important to help strengthen financial management in dynamic new companies, as well as facilitate access to external resources.

The difficulties in obtaining qualified workers and adequate equipment and suppliers may involve a number of diverse factors. One of these may be that their demands for qualified human resources compete with those of the larger companies, which often appear to be more attractive to workers. This argument is supported by the fact that this problem is not so intense in localities where there are a large number of SMEs. Their difficulties in obtaining adequate machinery and suppliers may be due to their limitations as "newcomers in the market," as well as due to their small scales of operation. According to the specialized literature, both factors tend to limit access to information and ability to negotiate. As a result, new and small businesses face higher transaction costs than larger established firms (Noteboom 1993).

Several of these problems were even more serious for local entrepreneurs, revealing one of the limitations in a significant number of Latin American communities. Entrepreneurs there lack an adequate level of organization and links with local suppliers, especially of machinery and equipment. This forces them to depend on agents from outside the local area. This is very different from the situation in more industrialized parts of the world.

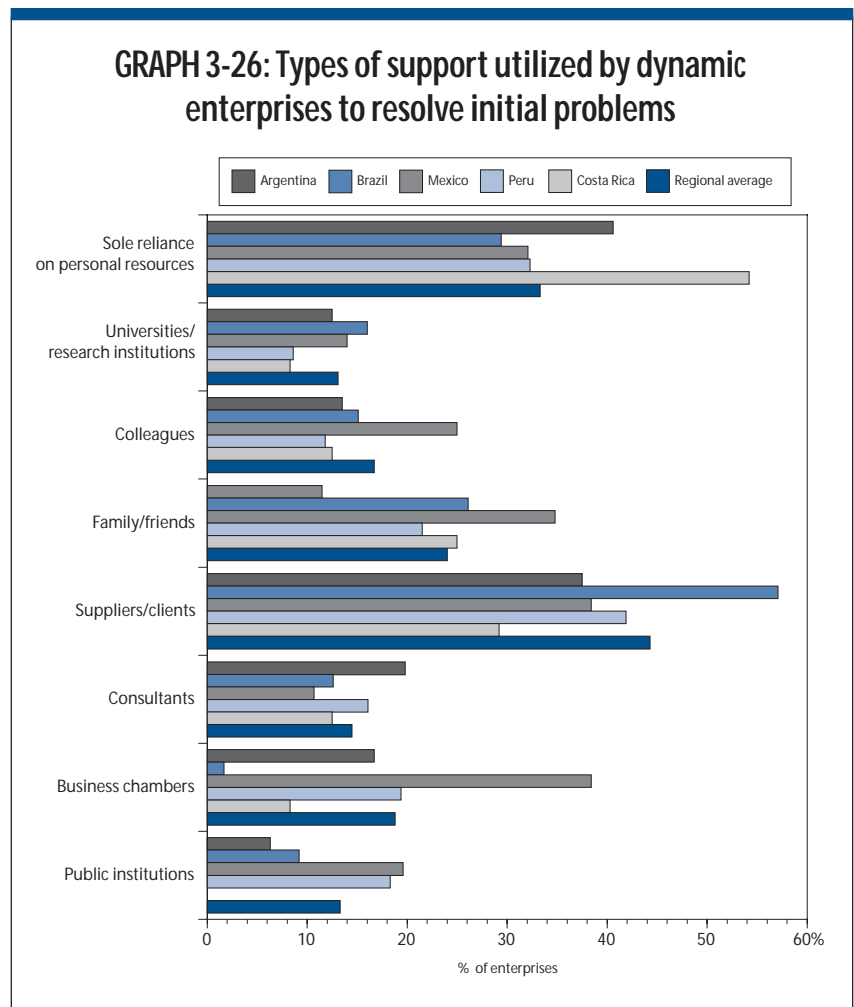
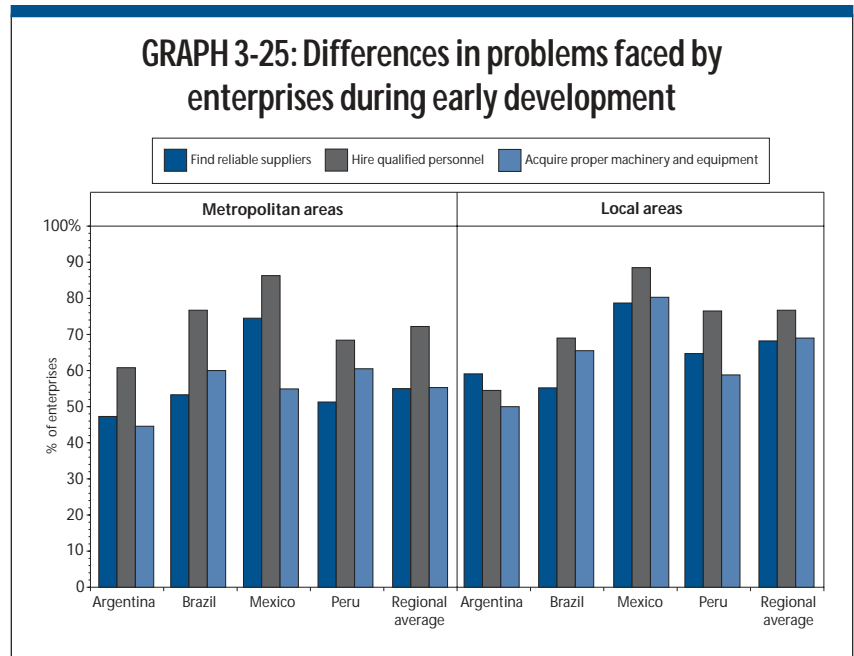
The importance of the different problems associated with the initial development stage differs from country to country. Mexican entrepreneurs, for example, reported the widest range of obstacles. Most of them stated that they had faced all twelve of the challenges mentioned on the survey list, as compared to eight in Peru, six in Brazil, and only five in Argentina and Costa Rica. As will be seen later, the differences in the degree of generalization of the problems seem to coincide with the degree of participation of entrepreneurial teams in the different countries. In fact, intra-regional variations are much less accentuated when companies in the knowledge-based sector are compared. Among these companies, even in Mexico, teams of entrepreneurs predominate over single-owner companies. The presence of teams provides greater ability to successfully face the challenges of the first years of operations.

Finally, finding the right managers is a particularly delicate problem for dynamic businesses. Although the majority of the entrepreneurs in all the countries did not mention it, it is a problem specific to, and characteristic of, the fastest-growing group, and is especially generalized in Mexico (55 percent).²⁶ The new companies that had to hire managers faced difficulties in defining their requirements, although the fundamental difficulty was competing on a level playing field with the big companies. Transaction costs were also higher for new companies in this case.

The way entrepreneurs confront and solve these problems is another of the relevant factors investigated in this study. Except in Costa Rica, where support networks proved to be less effective, most of the entrepreneurs indicated that they had interacted with other key players to overcome these difficulties. As in the previous stages of the entrepreneurial process, entrepreneurs with more dynamic businesses tended to make use of more numerous networks than the less dynamic ones. In general, they emphasized the contribution made by these networks in terms of acquiring business-related information, broadening the client and supplier base, and hiring workers.

However, the make-up of these networks tends to vary once the company has begun operations, at which point suppliers and clients begin to play a more important role than friends and family. The role of the latter is especially limited among the dynamic entrepreneurs in large cities. Slightly less than half of them emphasized the support of suppliers and clients, while barely 1 out of 5 identified the contribution made by their most immediate social circle. In local areas, however, friends and family play a more important role, although not usually as important as that of suppliers and clients.

The support of commercial networks was emphasized more by the Brazilian entrepreneurs than by those of other countries, especially in



²⁶ In other countries, the problem of finding managers was noted by between one-fifth and one-third of entrepreneurs.

local areas where this was clearly the opinion of the majority. This finding, along with the broader information obtained in the study, confirms that in Brazil there is a better-organized productive sector that favors the emergence and development of new companies, especially in the local areas studied.

Institutional support networks, in contrast, played an important role only in regional areas of Mexico where chambers of commerce are particularly active. Half the dynamic entrepreneurs located in these areas made reference to their contribution. The local institutional environment in Mexico is more favorable for the development of new businesses.

In summary, support networks, particularly commercial or business networks, play a vital role during the initial development stage. Once companies get started, their problems tend to be more specific and they begin to require greater interaction with other players in the business world. In local communities, smaller cities and towns, various aspects of community life become more intertwined, making social networks more important than in metropolitan areas.

4. GENERAL FINDINGS OF THE STUDY

This section presents the key factors that affect each stage of the entrepreneurial process, along with an analysis of the variables that most distinguish dynamic entrepreneurs from the others. The intention is to provide both a general overview of the results obtained and a more detailed look at the distinctive features of the more successful entrepreneurs.

4.1 Key factors contributing to the entrepreneurial process

In general terms, culture does not appear to play an active role. Although it does not impede the creation of entrepreneurs, neither does it encourage it. However, the influence of cultural factors in the acquisition of an entrepreneurial vocation and competencies differs among the countries studied. The cultural environment surrounding Mexican entrepreneurs and, to a lesser extent, Peruvians, is more favorable than in the other countries (greater positive influence of role models and a desire to become an entrepreneur to gain social standing). The educational sys-

tem does not promote the learning of the whole set of competencies, aptitudes, and activities necessary to become an entrepreneur.

The crucial role of previous work experience indicates that the entrepreneur's history counts, although it must be kept in mind that the idea that companies are "entrepreneurial schools" differed from country to country (stronger in Brazil and less so in Argentina and Peru). This would seem to confirm the existence of productive environments with differing capacity to promote the emergence of new entrepreneurs and businesses.

Productive structure and entrepreneurial strategies influence the opportunities available to new businesses. Most of the enterprises are based on offering a set of goods and services different than those already in the market in terms of quality and service. Innovation, meanwhile, is common only among knowledge-based companies, although no clear orientation toward exporting activity has been determined. The importance of outsourcing is relevant only in Brazil, the country with the best-organized industrial structure in the region, and in Costa Rica, where recent investments by large companies seem to have benefited a segment of the businesses studied.

For the companies within the productive structure, the educational system and systems of innovation can play two roles. They can either contribute to reproducing the profile of existing companies or they can be used to create a virtuous circle, which broadens and renovates the established entrepreneurial base.

Networks are also fundamental, both because of their extension and their composition. An adequate number of contacts facilitates the identification and use of business opportunities, access to resources such as information, technology, and the provision of facilities and the ability to face problems and challenges during the early development stage. The make-up of the networks changes over time: once the business is underway, those contacts most directly associated with the business world begin to take precedence. These business networks are particularly important for accessing technology and for entrepreneurs in the knowledge-based sector.

In Brazil, the role of this kind of network is especially important, particularly in smaller cities and towns. This very

likely has to do with the characteristics of the productive structure mentioned above. Institutional networks, on the contrary, play a much more limited role. The chambers of commerce in regional areas of Mexico are an exception, as they provide assistance to access information and solve problems during the early development stage. In Argentina and Costa Rica, these networks play a more minor role during the early years of a company's operations.

Financial conditions are a bottleneck in the entrepreneurial process, especially in Mexico and Brazil. Most of the entrepreneurs do not use bank loans. Venture capital is of marginal significance. These restrictions seem to affect start-up conditions, in terms of initial size and technological level, as well as other conditions, such as opportunities for financing expansion. The obstacles are relatively greater for firms in the knowledge-based sector.

Finally, regulatory obstacles such as taxes, red tape, and registration costs were other problems identified by the entrepreneurs, especially in Mexico, Brazil, and Peru. Excessive bureaucracy has a negative effect on the decision to start a business and the time required to get it started.

4.2 The distinguishing features of dynamic enterprises

The study led to the identification of the main features that distinguish the dynamic firms from the rest, during each of the stages of the entrepreneurial process. Statistical techniques were used to deal with the vast set of variables studied and to enable the construction of hierarchies of key factors associated with entrepreneurial success.²⁷

During the inception stage, the most distinctive features of the dynamic entrepreneurs are the following:

- Networks of contacts. The presence of executives of big companies among their contacts tended to facilitate access to strategic information at a key moment: that of identifying business ideas, a stage during which many entrepreneurs had difficulties.
- Role models that were a positive influence at the time of decision. It is interesting to note that, consistent with the general results of the study, these role models were influential in the final decision to

start a business. However, they were not key to the acquisition of motivation early in the entrepreneurial process. It may be that once entrepreneurs became motivated to try an entrepreneurial career, they looked for these entrepreneurial reference points, and these role models helped them make their decision through their example.

During the start-up stage—that is, when the venture becomes a reality—key factors include:

- The presence of teams of entrepreneurs with specialized skills and functions. This is the most significant factor distinguishing the dynamic enterprises. In Mexico, where this profile is less common, the distinctive feature is the greater contribution made by the networks shared among colleagues. This finding is very interesting, as it seems to indicate that where there are no entrepreneurial teams, entrepreneurs must develop their external networks more in order to be dynamic.
- The more generalized use of personal savings for start-up financing. This is the second most important distinctive feature of these entrepreneurial teams.
- The more frequent presence of people who started their companies around the age of 30 or after. This age bracket is related to the entrepreneurs' need to locate business opportunities and also to find the right partners to join the team, to save money and develop their personal networks.
- Among the specific factors involved at this stage, the most distinctive feature of the dynamic enterprises is the existence of more numerous networks that enable them to access non-monetary resources such as information. This is setting aside those variables that are common to all stages (for example, the presence of teams or questions of age), and apart from the use of personal savings. These results indicate that the most distinctive features of dynamic businesses during the start-up stage are the presence of entrepreneurial teams with complementary skills and functions, the intensive use of personal savings, and the support of more extensive networks to access other resources.

²⁷ An explanation of these techniques can be found in the methodological annex.

During the early development stage, the following factors are key:

- The presence of entrepreneurial teams. This is also the most distinctive feature of dynamic companies in their first years of operation. This profile is less common in Mexico, the country in which dynamic entrepreneurs stand out from the rest principally because of their greater willingness to take risks. A possible explanation of this is that teams provide greater joint capacity to deal with risk.
- Finally, the dynamic enterprises are also distinctive because of the problems and challenges they face, and more specifically, because of their difficulties in hiring managers and certifying quality. Structuring requirements associated with growth and participation in market segments where large firms have a stronger presence leads to greater quality management needs than those of less dynamic businesses. As has been noted in previous sections, small and new firms face higher transaction costs than those of large and consolidated companies.

These results provide a comprehensive perspective on the features that differentiate the dynamic enterprises from the others. In summary, we place special emphasis on the key importance of having qualified networks (contacts with executives of big companies) to facilitate the identification and conceptualization of business ideas and specific and immediate entrepreneurial role models to act as a positive influence when the final decision is made to start a business. Once the business is underway—and even during its first years of operations—the presence of entrepreneurial teams is fundamental. This relates to other key factors, such as the need to have and to use personal savings and more extensive networks to gain access to other resources. The existence of teams made up of somewhat older entrepreneurs contributes to the accumulation of entrepreneurial competencies, savings, and the contacts necessary to begin and to expand enterprises that face more demanding challenges and problems than other new businesses.

CHAPTER 4: The Entrepreneurial Process in East Asia

CHAPTER SUMMARY

The regional research—based on nearly 600 companies in Japan, Korea, Singapore, and Taiwan—indicates that most dynamic new ventures stand out because they are headed by entrepreneurial teams with specialized and complementary skills, and diverse networks of contacts. Prior job experience plays a key role in acquiring these skills and building these relationships. The business environment has been favorable for many of these new enterprises, which were able to take advantage of different business opportunities and access a series of public and/or private financing sources.

1. AN OVERVIEW OF THE COUNTRIES INCLUDED IN THE STUDY

This section describes some of the main characteristics of the countries of East Asia included in the research: Japan, Korea, Singapore, and Taiwan.²⁸ It is important to note that the countries range in size both geographically and economically. Japan is the largest of these countries, while Singapore is the smallest.

The countries of East Asia have a high per capita gross domestic product, although there are sharp differences among them, ranging from Japan, with more than US\$32,000 per capita annually (one of the highest on the planet), to Korea, with just over US\$8,500 per capita. In international terms, income distribution in these countries is much more equal. According to World Bank statistics, the wealthiest 20 percent of the population earn

less than six times the income of the lowest 20 percent of the population.

Another noteworthy aspect of East Asian economies is the leading role they play in international trade. All the countries export manufactured goods in excess of US\$100 billion and the percentage of high technology products is higher than the average for industrialized countries.²⁹ Singapore and Korea, in particular, have made significant advances on the road toward this type of specialization over the last 15 years. The weight of high technology products in external sales of manufactured goods has doubled during this time.

With the exception of Singapore, whose economy is heavily based on the dynamism of transnational enterprises, all the countries invest intensively in research & development (more than 1 percent of the GDP) and in education. A recent study by the Economic Commission for Latin America and the Caribbean (CEPAL 2000), which compares recently industrialized East Asian countries with Latin American countries in the area of secondary, technical, and university education, notes the advances made by East Asian countries, particularly at the university level. Human resources play a key role in the competitive performance of East Asian countries.

In Singapore, a strategy to attract multinationals resulted in a significant influx of direct foreign investments that was accompanied by significant advances in technological development.

Toward the end of the 1990s, East Asian economies experienced a severe crisis, which resulted in an abrupt

Table 4-1: Country information

	Japan	Korea	Singapore	Taiwan
Population (millions, 1999)	127.0	47.0	4.0	22.4
GDP (\$US billions, 1999)	4,054.5	397.9	95.4	310.0
GNP per capita (\$US, 1999)	32,000	8,500	25,000	13,900

Source: World Bank

²⁸ This section is based primarily on the reports prepared by the country teams within the framework of this project.

²⁹ The average is 22.4 percent, compared to 13 percent in Latin American countries. In Singapore, at the other end of the spectrum, the participation level is as high as 60 percent.

change in the high growth rates sustained for several decades.³⁰ Unemployment rates, structurally very low (under 4 percent), have risen in recent years.³¹ The Japanese job market is known for its very stable labor relations and lifelong employment practices. In this context, people tend to prefer to develop their professional careers by working for large companies. In Korea, where the situation is similar, the crisis has sparked individual interest in leaving large corporations and starting one's own businesses. In 2000, Korea was one of the countries with the highest percentages of adults undertaking their own business initiatives (Reynolds 2000).

At the end of the decade, East Asia experienced a strong economic recovery, with the exception of Japan, a country in economic trouble since the 1980s. Knowledge-based economic advances have accompanied this revival, which has been observed in most East Asian countries. Information and communication technologies (ICTs) have fostered a boost in productivity and economic growth. Singapore leads the region in this process. Taiwan, the international center of computer production, has been the incubator for numerous ICTs. Korea has experienced significant growth in these areas. In 1990, the companies in this sector accounted for a mere 4.5 percent of annual economic growth; by 1999, the figure had jumped to 32.8 percent, and in 2000, it was 50 percent (KIET 2000).

SMEs account for a very important part of the productive activity in most East Asian countries. In Singapore, they account for 25 percent of the aggregate value while in Japan, Korea, and Taiwan, the figure is more than 40 percent when microenterprises are included. However, even in Singapore, SMEs play a key role in job creation.

When looking at enterprise creation, one observes a contrast between Japan, with negative net figures, and Korea, Singapore, and Taiwan. In the case of the latter, the net creation rate is similar to levels seen in the United States (between 2 and 2.5 percent) albeit with significantly lower gross creation rates than the leading Western nations. In Taiwan and Singapore, the gross start-up and mortality rates are higher than in Korea. In Japan, the start-up rate has declined steadily over the past 20 years, in contrast to Korea, which has experienced continuous growth over the last decade. In Korea, the number of new enterprises tended to increase, particularly toward the end of the 1990s. The total number of enterprises created in the year 2000 was 40 percent higher than in 1999.

Subcontracting is an important business practice used by SMEs. In Japan, for example, the subcontracting rate is more than 50 percent. While it has declined, it continues to be very high in sectors such as electronic machinery and transportation. This profile of coordination between large and small firms is also characteristic of Korea. The government

Table 4-2: Participation of microenterprises and SMEs in East Asian countries

	Japan (1997) ¹	Korea (1996) ²	Singapore (1997) ³	Taiwan (1996) ⁴
Number of micro and SMEs (thousands)	5,100	2,600	101.8	1,100
% of total number of firms	99.4%	99.1%	98.7%	97.9%
Number employed (thousands)	24,700	8,400	200	7,200
% of total number employed	59.1%	69.5%	41.0%	81.7%
Value added	60.1%	73.1%	25.0%	78.6%

Sources: (Japan) Bureau of Statistics, Establishment Census; Ministry of Finance, Financial Statements Statistics of Corporations by Industry; (Korea) Small and Medium Industry Promotion Corporation, *Major Statistics of Small and Medium Industries*; Small and Medium Business Administration, *Statistics on Small and Medium Enterprises*; (Taiwan) MOEA, *White Paper on Small and Medium Business*; Directorate General Office of Accounting, Budgeting and Statistics, *Annals of Human Resources Survey Statistics*; (Singapore) *Yearbook of Statistics, Singapore 2001*.

Notes: 1. (Japan): Up to 300 employees and capital up to \$US2.4 million; 2. (Korea): Up to 300 employees; 3. (Singapore): Up to 200 employees, the employment data include only the manufacturing sector; 4. (Taiwan): Up to 200 employees and capital up to \$US1.7 million.

³⁰ Korea, for example, had been growing at an annual rate of 7.4 percent during the first half of the 1990s. It posted its first negative growth figure (-6.7 percent) in 1998. In Singapore, the growth rate of the GDP dropped from 8 percent in 1997 to 1.5 percent in 1998. The Japanese economy, burdened with the problem of returning to the growth rates of previous decades, also fell by 2 percent.

³¹ In Korea, the unemployment rate rose to 6.8 percent in 1998.

has made a special effort to enable SMEs to occupy a more prominent position in an economy that was originally dominated by large economic conglomerates.³² In Taiwan, subcontracting plays an important role for numerous SMEs that work with large domestic and international manufacturers.

SMEs also participate actively in exporting. In Taiwan, for example, they were responsible for almost 70 percent of exports in 1982. While this participation has declined, they continue to produce close to half of all exports. In Korea, SMEs were responsible for almost one-third of all exports in 1998. In Singapore and Japan, SMEs participate primarily through indirect exports. Their direct foreign sales are equivalent to 14 percent and 6 percent of the total, respectively. On the other hand, their labor productivity levels are lower than in large firms, by approximately 50 percent.³³ This gap is explained by a difference in factors allocated. It is more capital-intensive in the case of large firms that also made advances in the automation and rationalization of productive processes, contrasted with a lesser emphasis on research and development in small and medium enterprises.

The smallest companies usually have difficulties attracting investors and their financial structures have tended to weaken over the last decade. Consequently, the ratio of liabilities to equity base is high.³⁴ Banks prefer to work with large firms, particularly granting long-term credits, which is why SMEs often use short-term liabilities and private borrowing. In Japan, the financial system is strictly regulated, which tends to result in credit rationing and a

reduced capacity of small companies to access credit, compared to larger firms. In Taiwan, although bank loans to SMEs continued to grow from 1986 to 1998, the SME's share of total business loans declined steadily from 79.9 percent in 1991 to 65.6 percent in 1998.

A series of regulations and public initiatives has tended to relieve these and other restrictions faced by small and medium-sized businesses. Although pro-SME policies have existed in most of these countries for decades, new initiatives were introduced in the mid-1980s in countries like Singapore, where most of the attention had previously focused on attracting large transnationals. Generally speaking, the focus of these policies has evolved from one based on protecting SMEs to one geared toward strengthening competitiveness.

In recognition of the important role that SMEs play in its economy, the Taiwanese government passed an SME Development Law early in the 1990s, to provide a legal framework for SME policies. These policies are intended to enable SMEs to overcome obstacles to obtaining financing, to develop human resources, and to promote better management. Instruments include loan guarantee funds, training and consulting programs, business incubation, technological development, and the promotion of exports. A Loan Guarantee Fund was set up along with an SME Development Fund, which grants loans to SMEs that have problems obtaining financing. It also allocates capital to funds that invest in qualified SMEs, facilitates bank participation in SME businesses, and sponsors management improvement initiatives. Progress has also been made to streamline the registration process for new companies.

Table 4-3: Opening and closure rates of new enterprises in East Asia¹

	Japan	Korea ²	Singapore	Taiwan
Year	1996-99 (avg.)	2000	1998	1997
Openings	3.8%	2.7%	7.2%	7.3%
Closures	5.3%	0.2%	5.1%	4.8%

Sources: (Japan) Bureau of Statistics, *Establishment Census*; (Korea) National Statistical Office; SME Administration, *Report on the Census on Basic Characteristics of Establishments*; (Taiwan) MOEA, *Economic Statistics Indicators*; (Singapore) Yearbook of Statistics, Singapore-2001

Notes: 1. Rates measure the number of openings and closings with respect to total number of enterprises; 2. The creation rate in Korea takes only the seven largest cities into account.

³² Their participation in sales rose from 30 percent at the beginning of the 1980s to slightly more than 50 percent as a result of subcontracting with the manufacturing sector.

³³ In Korea, the relative productivity of SMEs continued to decline to 40 percent in 1996.

³⁴ In Korea, for example, the borrowing rate rose to 387 percent in 1996.

for loan guarantees, and government investment in funds and consulting services, among other measures, to support innovative companies. In 1995, an act was passed to “Promote the Creative Activities of SMEs,” to assist new SMEs that invest in research and development by subsidizing investment, providing special tax breaks, and insurance and loan facilities.

Until the mid-1980s in Korea, industrialization policies traditionally supported large companies. Then new policies were implemented to protect SMEs. By the late 1980s, this type of sectoral assistance gave way to a greater emphasis on initiatives designed to promote technological modernization and human resource development. New enterprise promotion is an area where the Korean government is now placing special emphasis. A “Special Measures Act for the Promotion of New Business” was passed in 1997, which created business laboratories and support systems to foster an environment and infrastructure favorable to new enterprise creation. This also facilitated the implementation of stock option type compensation mechanisms to pay employees in stock. At the same time, the growth of venture capital has also been promoted, and a framework was created for NASDAQ-type capital called “KOSDAQ.” This new framework should facilitate the launch and expansion of new ventures in the technology sector. Finally, Singapore implemented a series of initiatives to support SMES and new enterprises. In 1995 the “Promising Local Enterprise Program” was set up to provide financial assistance and support the acquisition of technology and other types of support to create enterprises.

2. CHARACTERISTICS OF ENTREPRENEURS AND ENTERPRISES SURVEYED

This section describes the main traits of entrepreneurs and enterprises studied. It describes the nature of the new firms and the people who created them.³⁵

2.1. The entrepreneurs

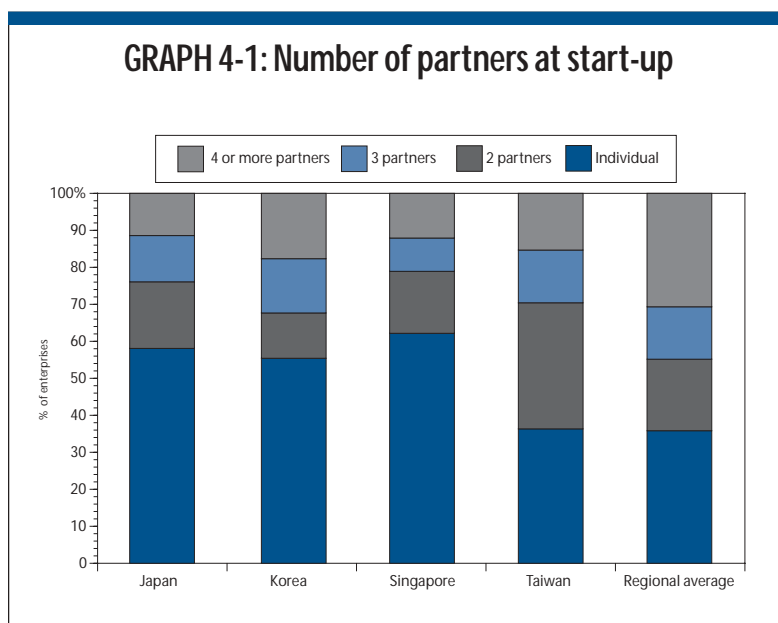
Most of the companies were founded by entrepreneurial teams with complementary skills and functions.

Two-thirds of the entrepreneurs had prior job experience as SME employees, frequently in sectors that were similar or identical to the one in which their new company operates. However, numerous entrepreneurs (almost half) had worked previously for large corporations.

Most of those surveyed (62.5 percent) were college graduates, especially engineering and business administration majors. Less than 10 percent were women.

On average, the entrepreneurs started to think about starting their own businesses around the age of 32 and founded their first company at the age of 34/35.³⁶ At the time of the survey, almost 9 out of 10 were older than 35 years of age, the average age being 45.

The typical founder of a new enterprise came from a middle to lower-middle class household (7 of 10) where the father was, in general, a salaried employee (29 percent), a businessman (20.5 percent), or self-employed (13 percent).



³⁵ In East Asian countries, the survey was based on personal interviews, except for Japan, where a mail-in survey was used. Of the 582 companies that responded, 272 were from Japan, 130 from Taiwan and Korea, and 50 were from Singapore. The information gathered from each country was aggregated in such a way as to achieve a similar representation of the different countries on the regional panel, replicating each country's comments to this end. If this procedure had not been followed, the results would have basically represented the responses provided by Japan.

³⁶ Some 80.5 percent became interested in an entrepreneurial career after the age of 26 and 88.6 percent founded their first company after the age of 26.

2.2. The enterprises

Nine out of ten companies were founded between 1990 and 1997 and the average age of the companies was six years. Just over half were in the knowledge-based sector and the rest in conventional manufacturing. Three out of four are located in metropolitan areas. For the majority of these companies, the initial investment during the first year did not exceed US\$500,000.

In 75 percent of the cases, the surveyed companies were dynamic enterprises whose performance contrasted with that of other smaller firms. Both types started out with no more than ten employees. However, while the dynamic enterprises employed between 15 and 300 workers at the time of the survey, the rest had remained stable or even decreased in size. The difference in size between one and the other type of company became evident during the first year in business and was accentuated over time.

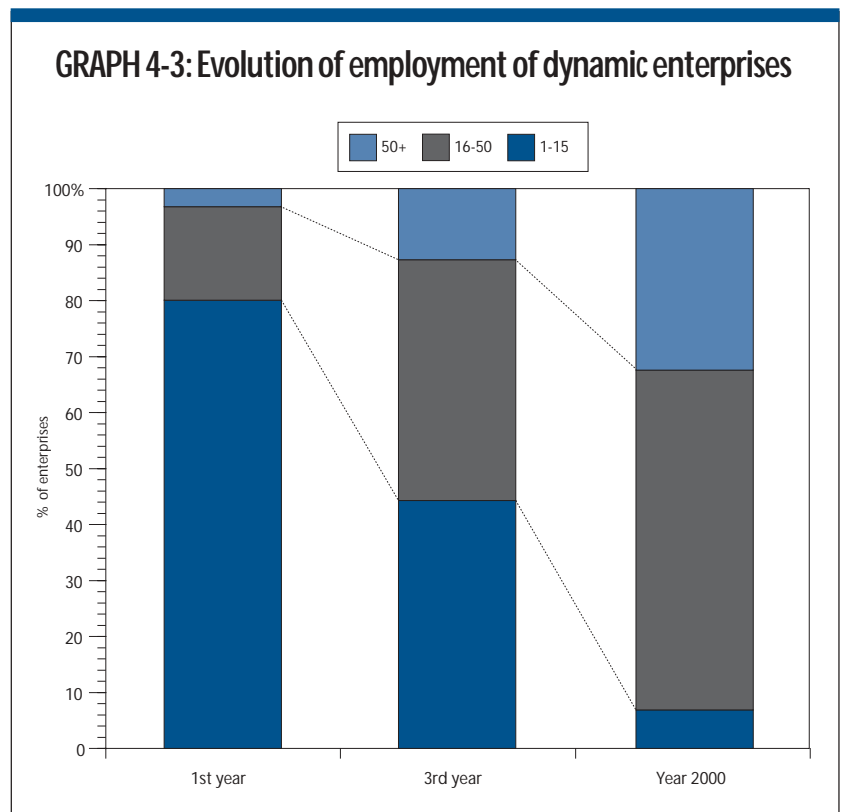
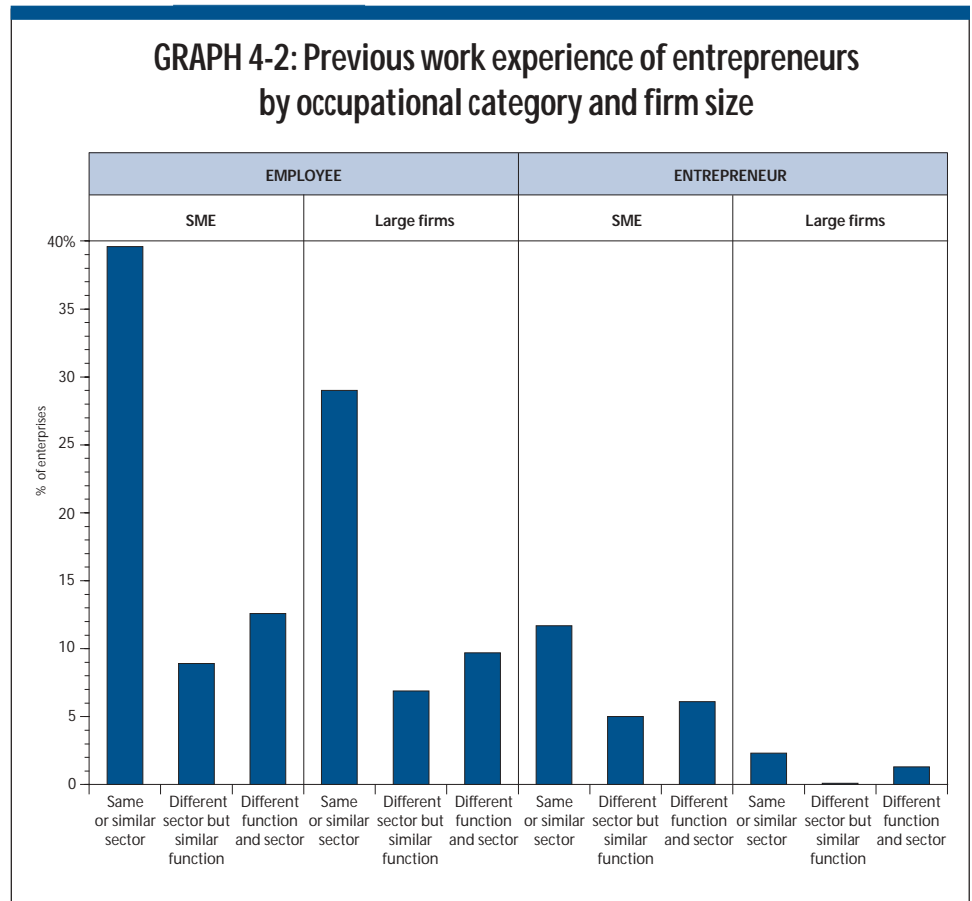
A similar situation was seen when comparing the sales between one group of companies and the other. In 7 out of 10 cases, the dynamic companies exceeded US\$2 million in sales annually.

Finally, while most of the companies began selling only in the domestic market, slightly more than one-third currently sells part of its production abroad and 13 percent sells more than half of all production on international markets.

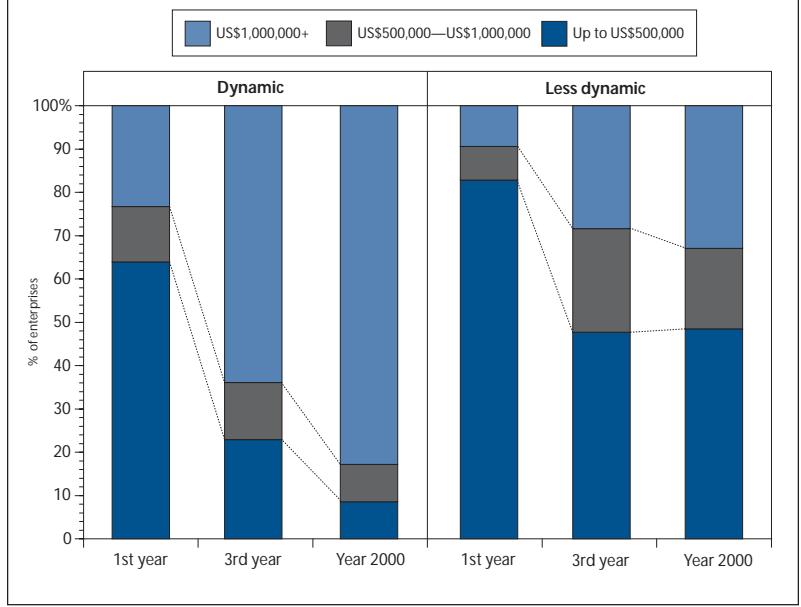
3. THE ENTREPRENEURIAL PROCESS

3.1 The inception stage

- THE MOTIVATIONS TO BECOME AN ENTREPRENEUR**
 The principal motivations are a combination of goals of both an individual and social nature. Entrepreneurs from all countries surveyed cited the need for



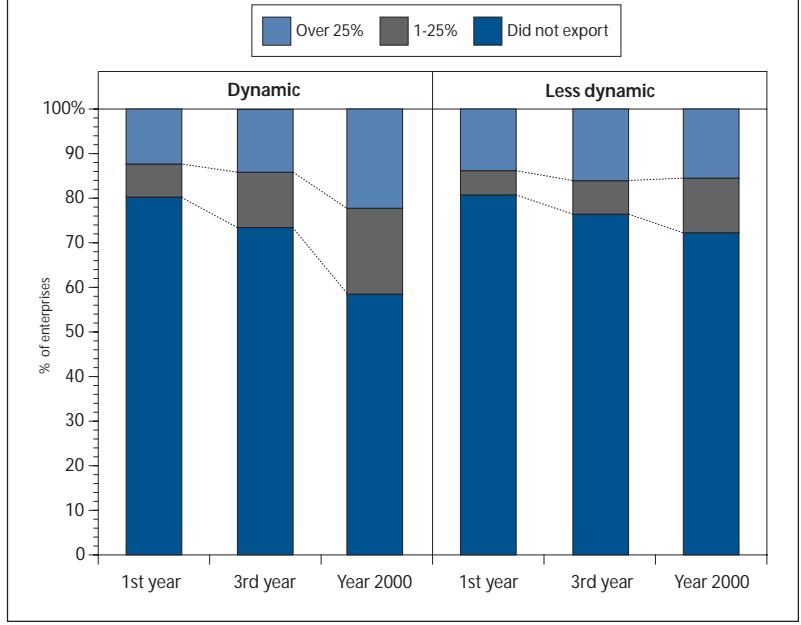
GRAPH 4-4: Evolution of sales of enterprises



there are differences between countries. In Taiwan and Singapore, economic interests were more prevalent than in Japan and Korea. The desire to be independent came in fifth, albeit with sharp variations between countries. Singapore and Taiwan are the two extremes in this case. Entrepreneurs from Singapore indicated an extremely strong desire to be independent (more than two-thirds). The opposite was true for entrepreneurs from Taiwan (slightly more than one-third).

Another relevant motivational factor is the existence and influence of inspirational business models (role models) who help fuel the desire to follow their example and become entrepreneurs. This factor was observed to be even stronger in small cities and towns, and local areas where there were many SMEs. The media plays a key role in disseminating success stories that create a favorable climate for entrepreneurial careers. Entrepreneurs surveyed in Korea and Singapore also noted the influence of family members, friends and/or acquaintances living in the same city who owned their own businesses. This corresponds with the study's finding that the number of entrepreneurs whose fathers were also businessmen or self-employed was higher in these countries than in Taiwan and Japan. The media plays a particularly important role in Taiwan, a country where most entrepreneurs recognize the media's positive influence.

GRAPH 4-5: Evolution of exporting tendencies of enterprises



personal development and the need to contribute to society by creating an enterprise as the two most important factors leading them down the entrepreneurial path.

Particularly among the dynamic entrepreneurs, this type of non-monetary motivation was more important than the desire to get rich or increase personal income. However,

In general, family members and members of the entrepreneurs' closest social circle supported the entrepreneur's initial expression of interest to start a business. On average, only 2 out of 10 entrepreneurs met with a negative attitude. Singapore and Taiwan were the countries with the more favorable climates. In both cases, the entrepreneurs undertook their business careers earlier than in Japan and Korea. The explanation for this seems to differ from one country to the next. In Singapore, a highly selective educational system would appear to account for many people starting their own businesses under the age of 25. Taiwan is culturally influenced by Chinese immigrants and by the philosophy that maintains that it is better to be "a mouse's head than a lion's tail."

In Korea and Japan, the cases of entrepreneurs who encountered negative reactions were more numerous,

although this was never the norm. In both countries, stronger resistance was observed locally. In Korea, a significant number encountered a negative attitude on the part of their parents (38.1 percent), their employers (38.1 percent) and their professors (31.8 percent) while 1 out of 4 encountered a similar situation in Japan.³⁷ According to additional information provided by those surveyed, through perseverance they were able to overcome such initial negative attitudes. However, if they had not made an extra effort, their ventures would have folded, and their societies would have lost new entrepreneurs and enterprises that later turned out to be very dynamic.

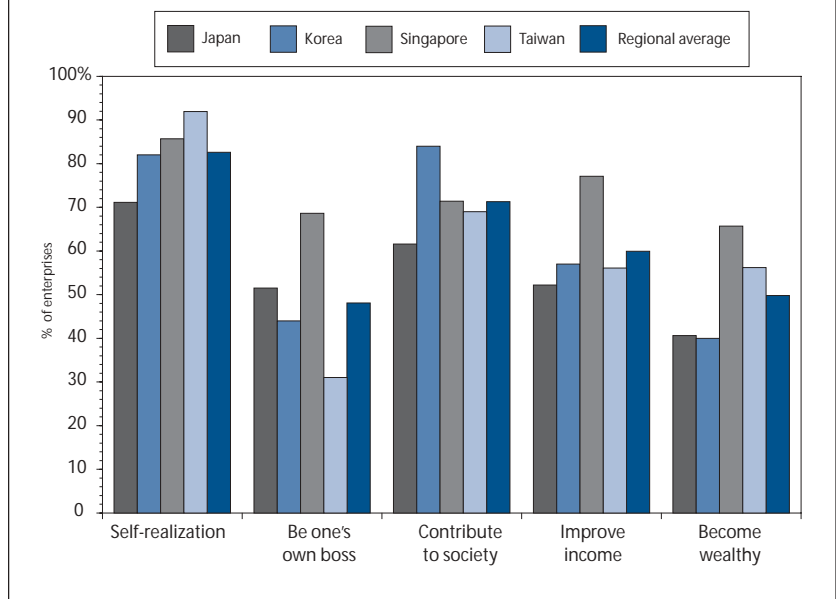
For most of those who faced resistance, their detractors emphasized the risks associated with an entrepreneurial career. These findings indicate that there are still cultural differences between the countries of East Asia and that the environment is considerably more favorable in Singapore and Taiwan than in Japan and Korea. The research is consistent with an international study on cultural values which characterizes Singapore as a country prone to accept uncertainty, while Japan is at the opposite end of the spectrum and Taiwan falls somewhere in the middle (Hofstede 1980). It also coincides with the results of a recent survey, which found negative social attitudes toward people starting their own businesses in Japan (Reynolds 2000).

• THE ENVIRONMENT THAT PREPARES POTENTIAL ENTREPRENEURS

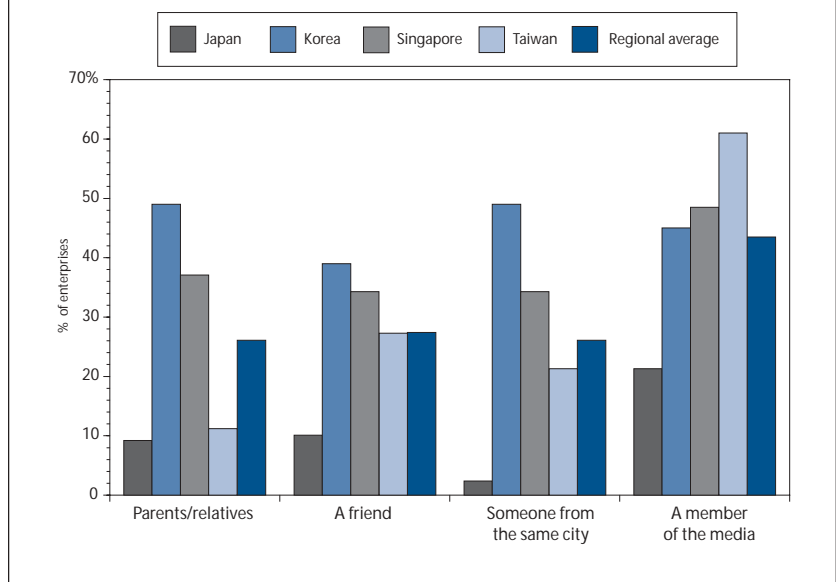
Prior job experience is the main source of the motivation and competencies needed to be an entrepreneur. In their work, entrepreneurs not only acquire the attitudes, knowledge, and skills related to marketing, negotiation, administration and problem-solving, but also conceive ideas about technology and the possibility of commercializing them.

However, it is the family that instills the hard work ethic, and it is in family settings where the development of personality traits and competencies more related to attitudinal

GRAPH 4-6: Main motives for becoming an entrepreneur



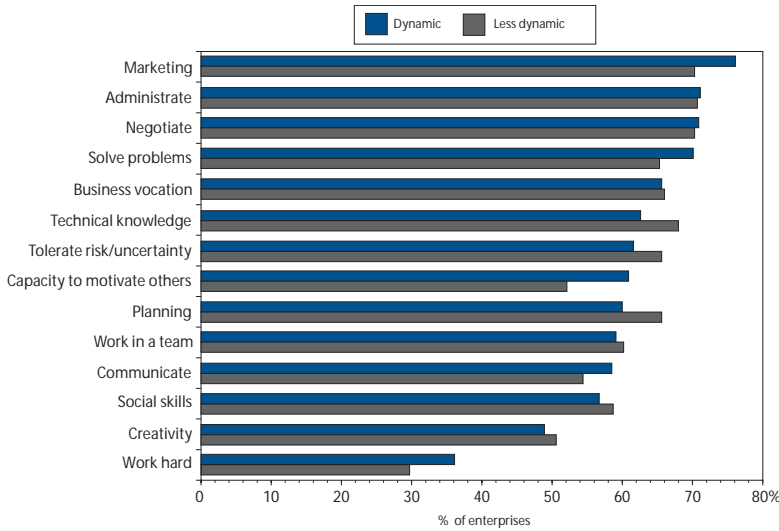
GRAPH 4-7: Influence of role models on motivation to become an entrepreneur



questions (tolerance of risk, social skills, creativity) tend to take place. In Taiwan and Singapore, family values also played an important role in acquiring an entrepreneurial vocation—a finding that reinforces previous conclusions about the positive influence of the cultural context in these countries.

³⁷ The resistance of former employers could also conceal a desire to keep highly qualified employees working for the company.

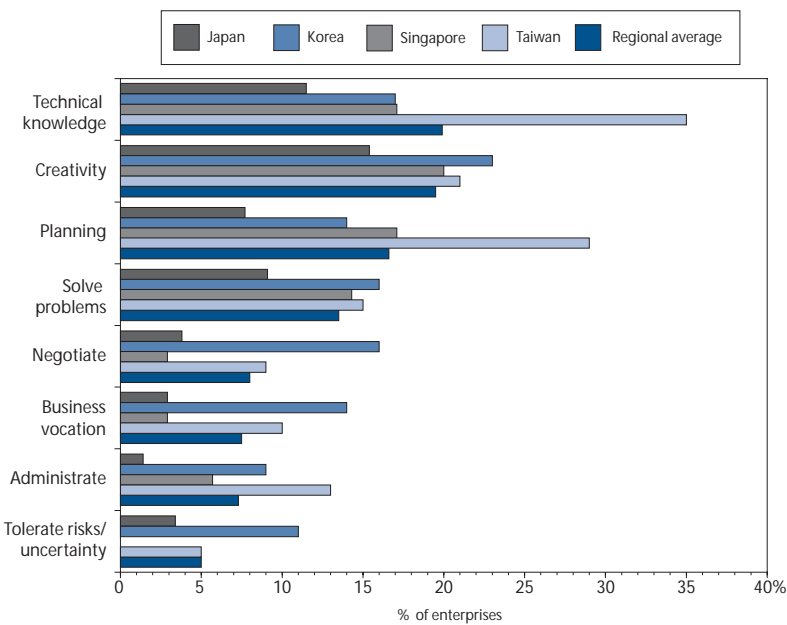
GRAPH 4-8: Entrepreneurial competencies acquired during work experience



businesses, particularly in sectors similar to or related to the new activity. Less dynamic entrepreneurs tend to have received training in other SMEs. In Japan, the type of company where the entrepreneurs previously worked had an influence on their learning and on subsequent business performance. In that country, the dynamic entrepreneurs acknowledged the contribution of prior job experience more than the less dynamic ones, who tended to place more emphasis on the family's role. Consequently, the conclusion that can be reached is that in Japan the type of context and firm in which the entrepreneurs were trained had an influence on the prior learning process and on the subsequent performance of their enterprises.

The dynamic entrepreneurs tended to demonstrate a broader scope and depth of learning compared to others. In many cases, the large firms where they trained facilitated the founding of their first enterprises, either because they were working among their initial clients or because they had more access to networks of contacts. Taiwanese entrepreneurs have had the highest number of previous job experiences, frequently in SMEs, and have started at an earlier age. This helps to explain why they are able to start their own businesses at a younger age than in other countries such as Japan and Korea.

GRAPH 4-9: Entrepreneurial competencies acquired at the university by dynamic entrepreneurs



On the other hand, relatively few entrepreneurs noted the role of the education system in acquiring entrepreneurial competencies and vocation, despite its enormous potential as a driving force for entrepreneurship. This situation is the result of the current *status quo* of the educational system, which has not emphasized the promotion of entrepreneurship. However, let there be no misunderstanding. Without acquiring the basic abilities through a formal education, the entrepreneurs probably would not have learned as much from their job experience. A typical trajectory starts with university study and is followed by working in a company where entrepreneurial competencies are acquired. This may also mean that the entrepreneurs place a higher value on their most recent

Some differences were observed from one country to another in the types of environments and organizations where entrepreneurs received their training. Employment in SMEs was the most frequently mentioned prior job experience in Korea. In Japan, on the contrary, many dynamic entrepreneurs have left large companies to start their own

education, the entrepreneurs probably would not have learned as much from their job experience. A typical trajectory starts with university study and is followed by working in a company where entrepreneurial competencies are acquired. This may also mean that the entrepreneurs place a higher value on their most recent

experiences, particularly in Japan and Korea, where entrepreneurs start their businesses at a later age.

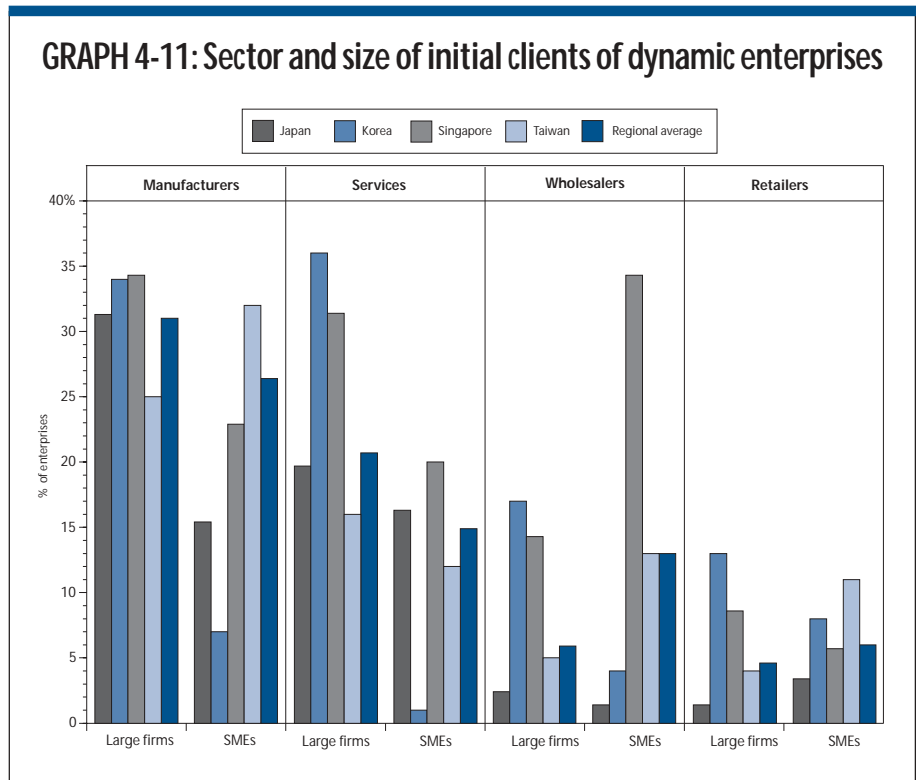
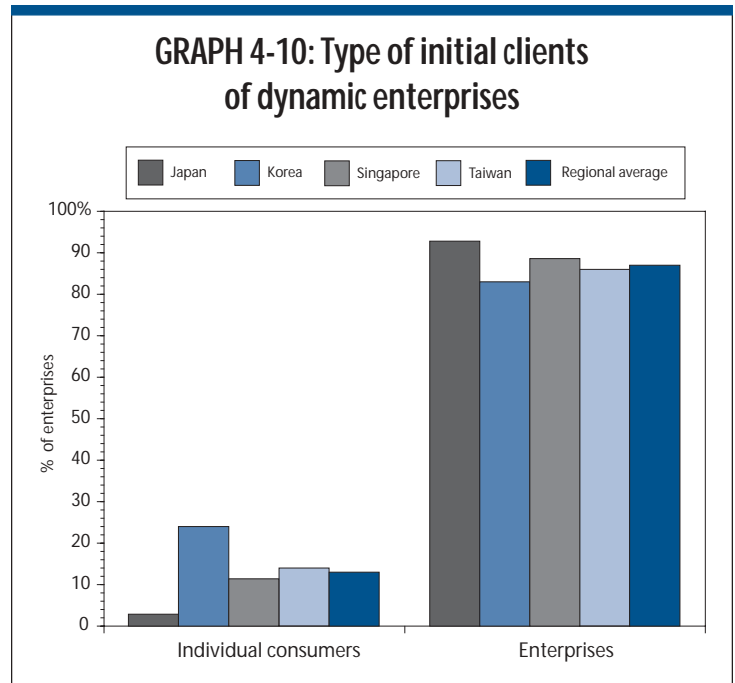
An interesting result is that entrepreneurs who had founded less dynamic enterprises noted the role of secondary education more often. This may be related to the fact that a greater number of the dynamic entrepreneurs attended a university. In other words, the educational level of the dynamic entrepreneurs is higher than that of the less dynamic ones, which reinforces the argument that although not promoting the learning of specific entrepreneurial competencies in a direct way, a higher level of education tends to provide individuals with a better platform for launching an entrepreneurial career. It is also possible that a university degree facilitates access to jobs and to companies in which the process of learning by experience is more useful to these individuals during their entrepreneurial stage.

• **SOURCES OF BUSINESS OPPORTUNITIES**

More than 80 percent of new enterprises started out selling to other companies. This indicates that the companies just starting out in the sectors included in this study do not have easy access to the channels that reach individual consumers directly. However, as will be seen below, it is also due to the importance of outsourcing as a source of opportunities for new businesses.

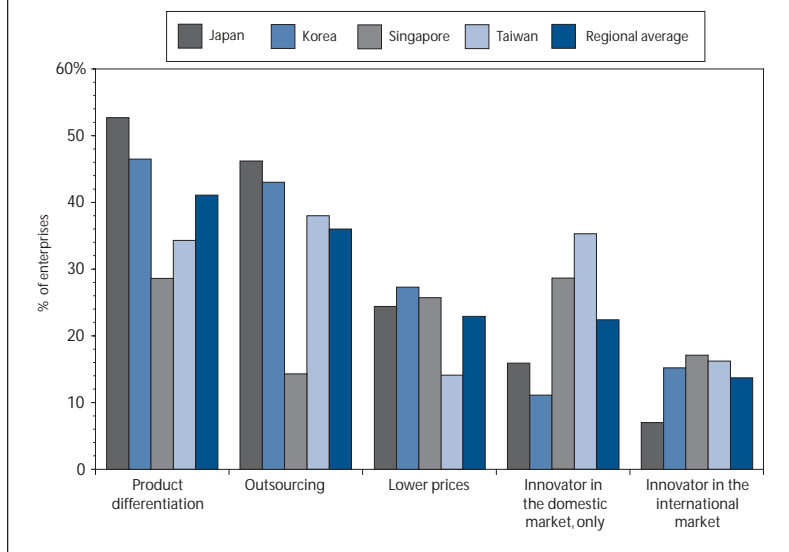
Among clients, manufacturing and service companies predominate over wholesale and retail firms. Generally speaking, the dynamic firms, particularly knowledge-based firms, obtain more orders from large accounts than their less dynamic counterparts. Given their higher levels of technology and relative organizational complexity, large companies place larger orders with new enterprises that sell software, Internet-related services, or other communication technologies than SME clients do.

Most new companies (8 out of 10) based their businesses on offering a product/service that already existed on the market. The most frequent case concerned companies that take advantage of the opportunity to compete on the



basis of the quality and/or type of services they offer. Nearly twice as many companies implemented such a strategy than one based on a price competition. This difference was even more noticeable in the knowledge-based sector. Just over one-third defined their business concept as innovative, although most of these were innovations for

GRAPH 4-12: Competitive strategy of dynamic enterprises to enter market



firm. This business opportunity was utilized most frequently by less dynamic new enterprises, especially in the conventional manufacturing sector, where just over one-half of the new firms started out as outsourcers. In other words, outsourcing is an important source of opportunities for new enterprises in East Asia and a way for many firms to develop successful expansion strategies.

Finally, it should be noted that most entrepreneurs identified business opportunities in expanding markets. This occurred in 6 out of 10 dynamic new enterprises, whose founders demonstrated a higher capacity than others to identify business opportunities where demand was growing.

• **NETWORKS AND IDENTIFICATION OF OPPORTUNITIES**

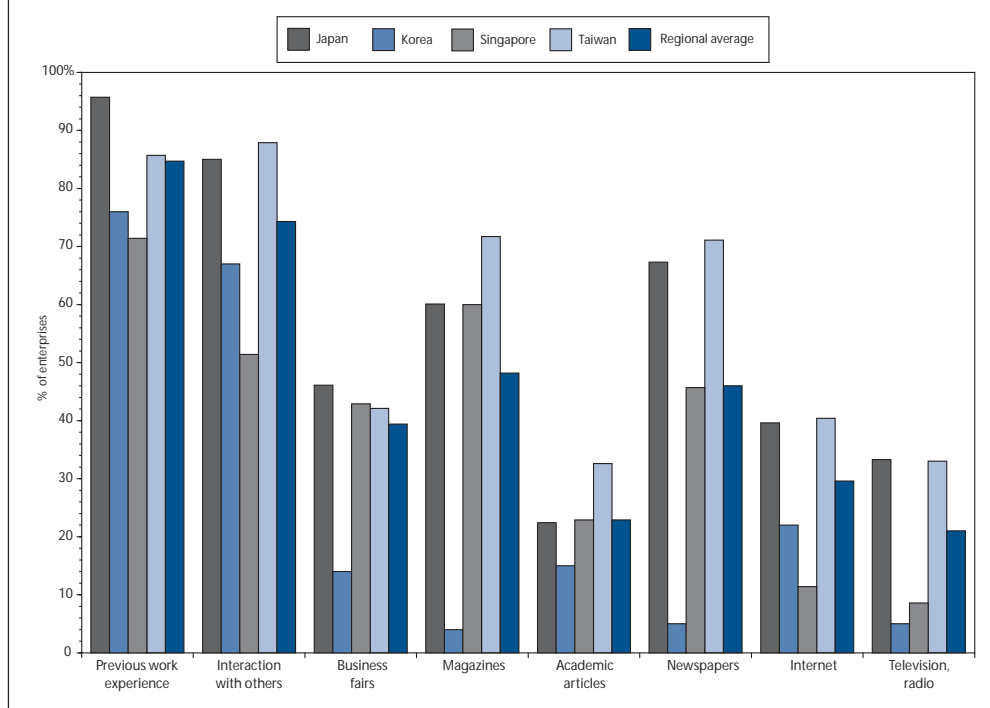
Personal networks and prior job experience were the most frequent sources for identifying new business opportunities (more than 70 percent). Networks play an even more important role in Taiwan.

The entrepreneur's friends, colleagues and acquaintances contributed significantly during this phase, along with commercial contacts (suppliers and clients). In Singapore, parents also played an important role.

In the dynamic enterprises, the contacts who helped identify the business opportunity were primarily business colleagues, suppliers, and clients, particularly executives with large corporations or SME executives.

Another trait that sets the dynamic entrepreneurs apart from the rest is that these contacts

GRAPH 4-13: Information sources utilized by dynamic enterprises to identify business opportunities



the domestic market. Only 15 percent were innovative on an international scale as well.

Approximately 4 out of every 10 new companies decided to take another path and act as an outsourcer for another

turned out to be more stable. In many cases, they became partners in the new company or clients. In short, the life of the dynamic companies is closely linked from the very start to the founders' ability to interact with other key players and to build strategic relationships.

• **INFORMATION-SEEKING AND BUSINESS PLANNING**

Aside from their dynamism, most entrepreneurs possessed market and technical information before starting their businesses. Only one-third of those surveyed gathered information on the scale of investment and operations required in order to be competitive, and used this information.

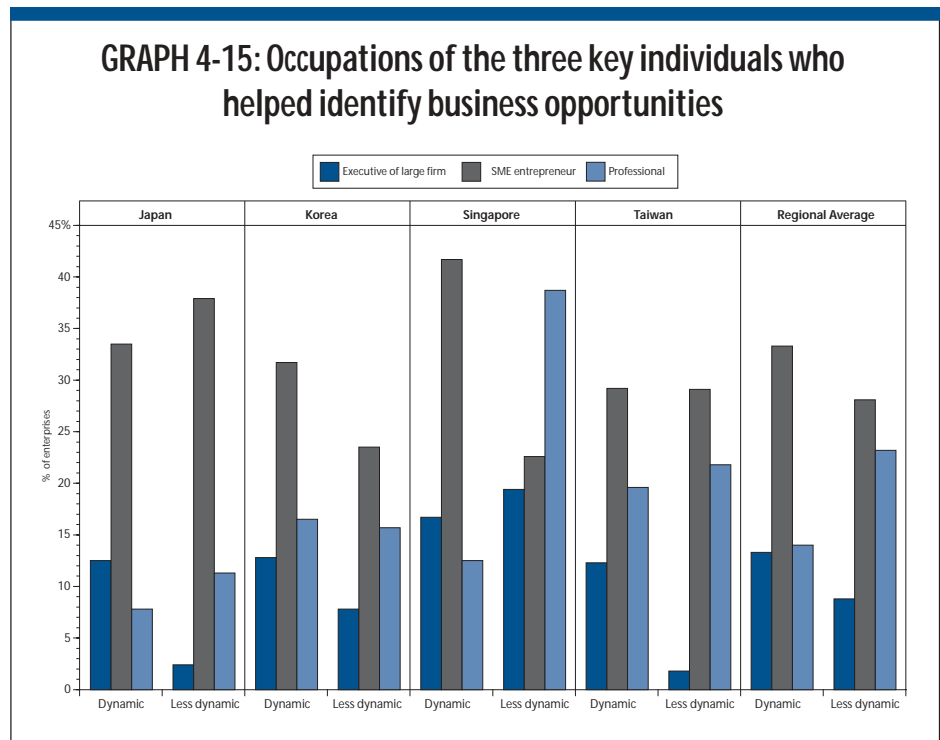
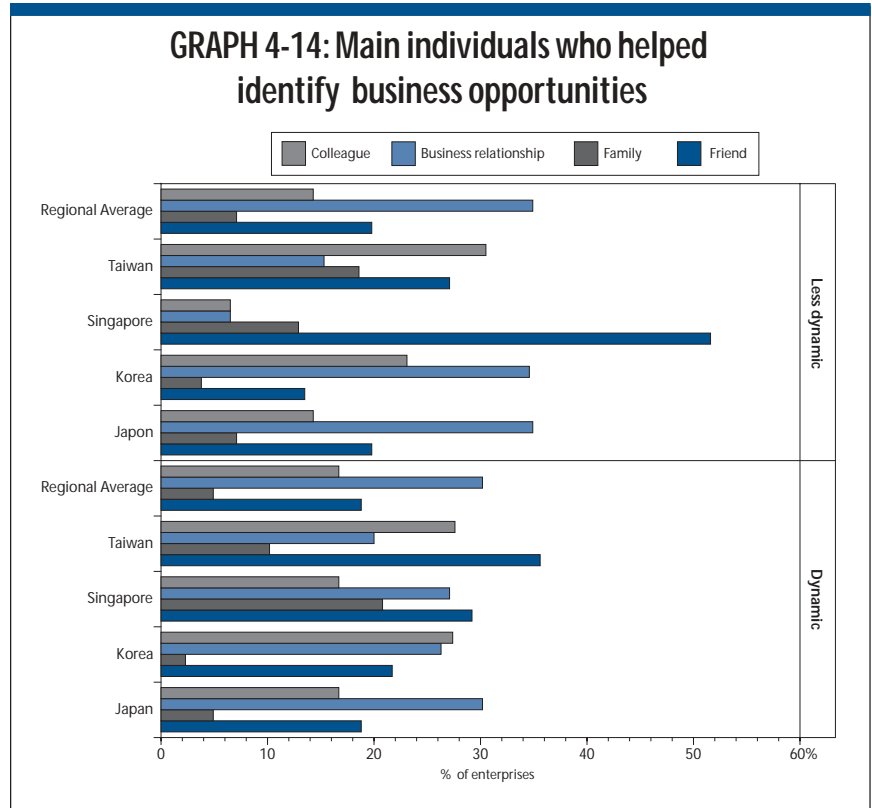
The dynamic entrepreneurs stood out for being more inclined to prepare business plans (6 out of 10) compared to the rest (4 out of 10). It should be remembered that, since the first group had a higher education level than the second, their more professional profile would be more likely to have an influence on this behavior. In fact, the preparation of business plans was more frequent among those with higher education, and was a generalized practice among those who founded dynamic enterprises and possessed post-graduate degrees. This was especially true of those with a master's degree or Ph.D. in engineering and other non-economic disciplines (nearly 8 out of 10).

Finally, slightly more than one-third of those surveyed had estimated the personal income they expected to earn from the business activity. Only 25 percent compared their estimates to what they could earn working for someone else.

3.2 The start-up stage

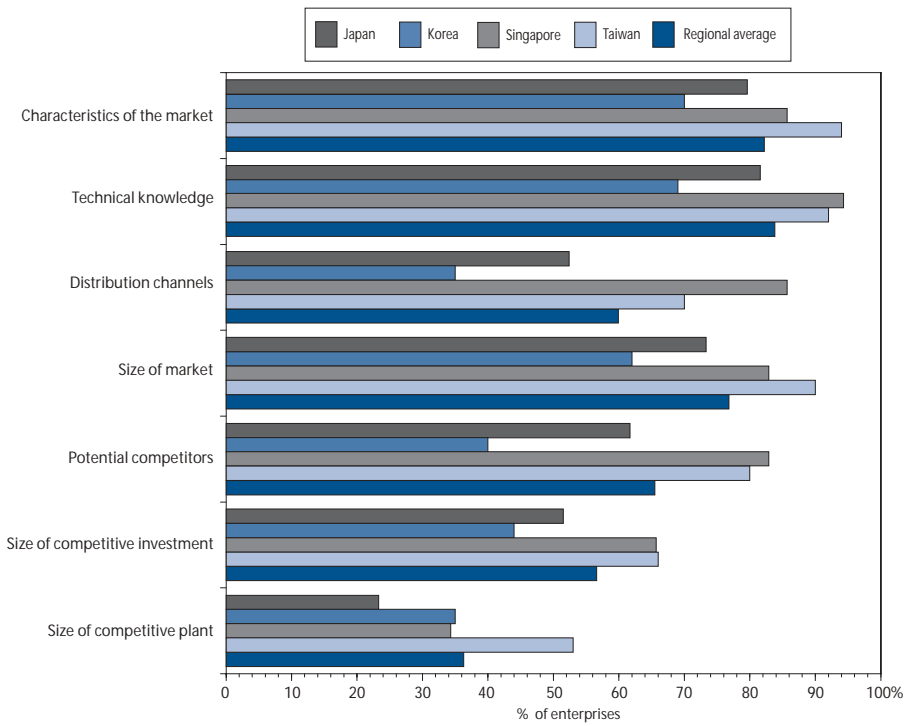
• **THE FINAL DECISION TO START**

When making the decision about whether or not to move forward with their ideas, the entrepreneurs evaluated a combination of economic and non-economic factors. The availability of financing was one of the leading factors in this case. In almost 8 out of 10 cases it was taken into account, either positively (4 cases) or negatively (3 cases). It is interesting to note which factors had a negative influence. One-third of the entrepreneurs indicated that the risk of failure was a



negative factor to be considered, while the costs associated with founding the company or the tax burden were only mentioned as negative factors only by one-fourth and one-fifth of those surveyed, respectively.

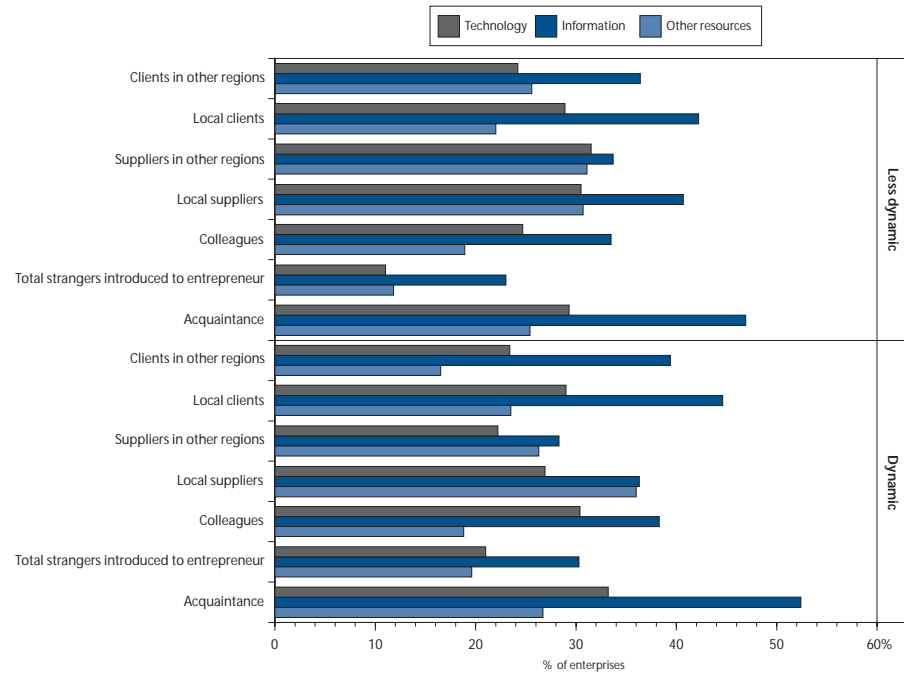
GRAPH 4-16: Type of information gathered by dynamic entrepreneurs before launch



• NETWORKS AND ACCESS TO AND USE OF NON-MONETARY RESOURCES

Access to the right information, technology, and other material resources (installation, materials) is vital to business implementation. Prior job experience and post-graduate training contributed to the ability to access these resources (at least 7 of 10 people surveyed). However, undergraduate education received a lower overall score (half of those who had gone to college said it was not all that useful in preparing them to become an entrepreneur). The contribution of a university education was more highly valued by entrepreneurs from Taiwan and Singapore, particularly in terms of access to technology. Given the predominance of knowledge-based enterprises, technical knowledge acquired at universities had a positive influence on accessing technology.

GRAPH 4-17: Role of networks in facilitating access to non-monetary resources



The entrepreneurs' networks play a key role. The dynamic entrepreneurs stand out for their greater use of support provided by colleagues, acquaintances, and indirect contacts in comparison to their less dynamic counterparts. As occurred with the identification of business ideas, when it came to accessing resources the Taiwanese entrepreneurs used their networks more extensively. One aspect that sets them apart is their interaction with indirect networks: individuals they are introduced to through members of their own networks.

Supplier and client networks contribute greatly to accessing information and technology. In Singapore, in particular, these networks are even more important than the entrepreneur's social nucleus. In Taiwan, clients play a critical role by supplying relevant information. And in Japan, suppliers and

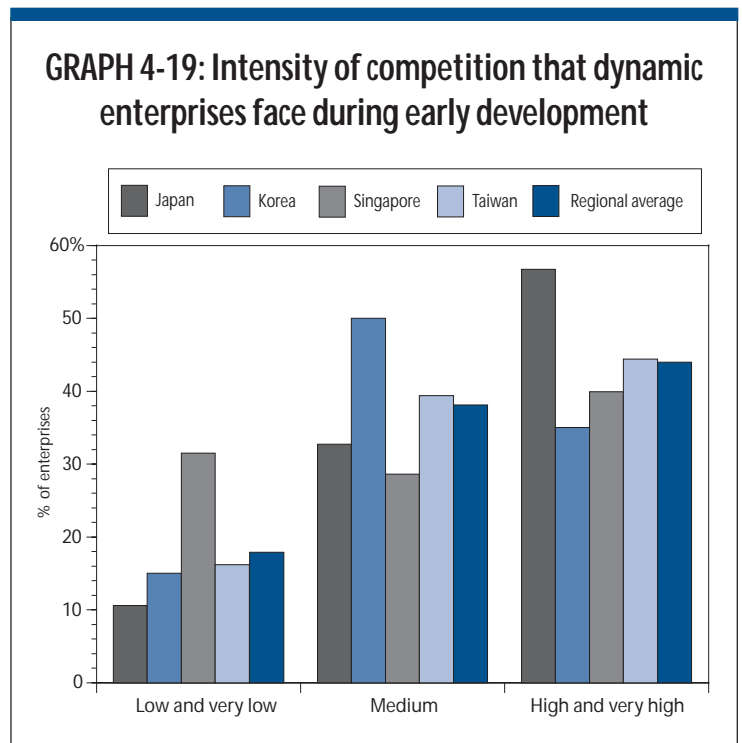
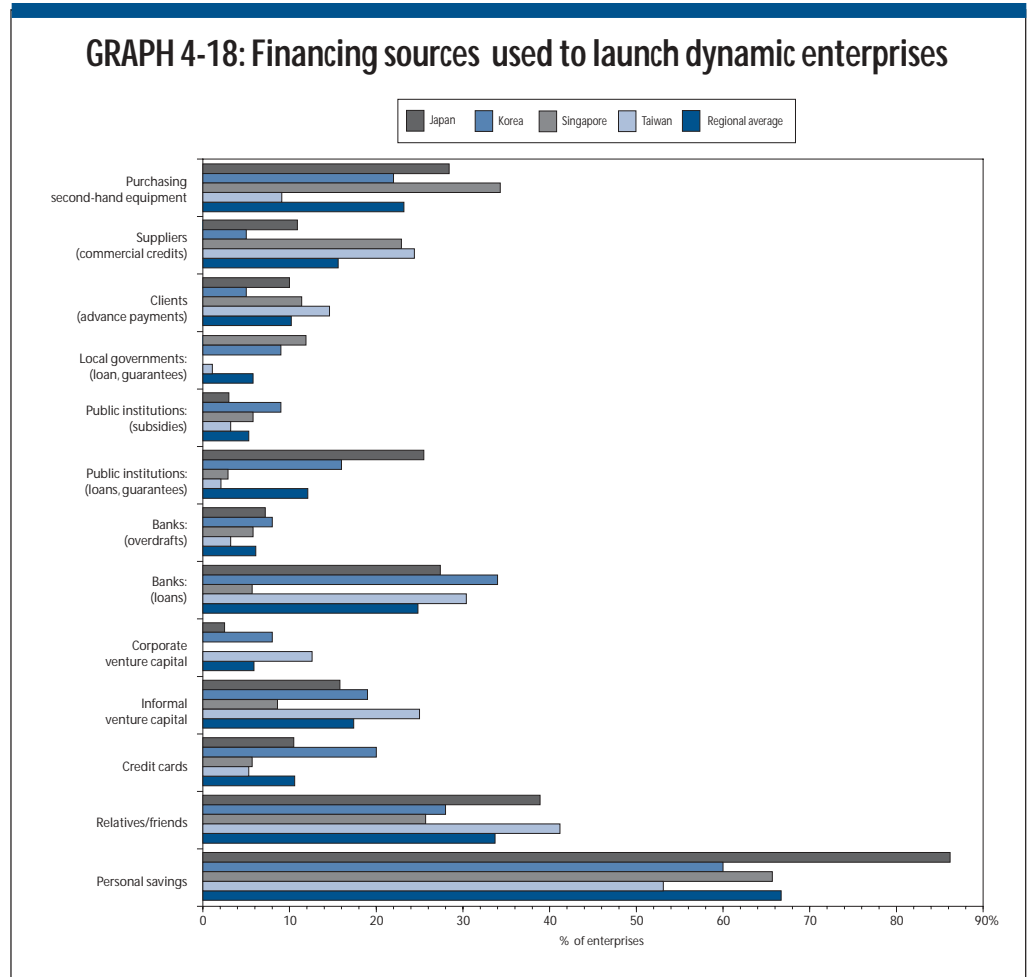
clients that are located in the same region help spur the creation of new firms.

The use of personal networks—and even institutional ones—to access resources is more frequent among entrepreneurs in local areas with many SMEs. This factor demonstrates the positive influence of the entrepreneur’s social environment on local business clusters in communities. Metropolitan entrepreneurs tend to rely more on their business relations. Finally, friends, acquaintances, and colleagues are a more significant source of support in the knowledge-based sector, especially when accessing information and technology. The role that these contacts play is even more important in this sector because of the speed at which information and technology travel and change.

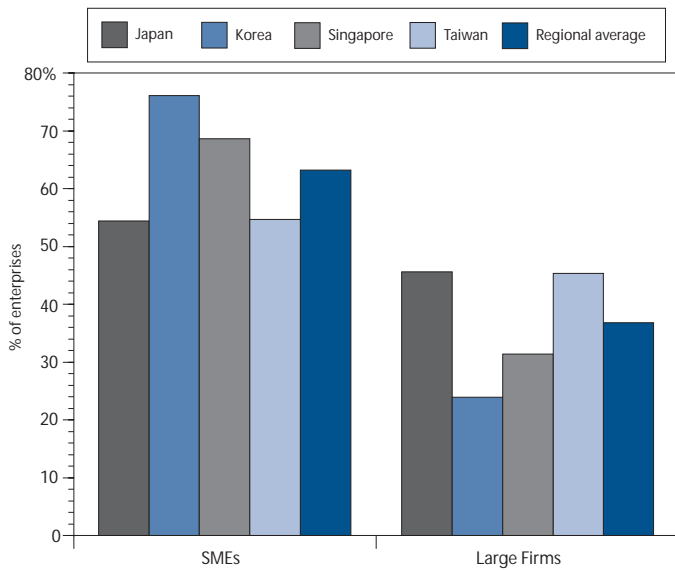
• **FINANCING SOURCES USED FOR LAUNCH**

Personal savings and, to a lesser extent, funds provided by parents and friends, are the financing sources most commonly used to start up a new business. New entrepreneurs are faced with the need to win the confidence of the financial system. This profile of financial sources is similar for companies in both the conventional manufacturing and knowledge-based sectors. Access to bank funding is even scarcer among the latter and neither venture capital nor business angels are used extensively to start new companies. Taiwanese entrepreneurs tend to compensate for these limitations by contributing “family capital,” which they are not obliged to repay. Client and supplier support is also used, particularly in Taiwan and Singapore.

However, when the different sources of financing for each are examined in more detail, one sees that the dynamic entrepreneurs are able to access bank loans, venture capital funds, and even loans and guarantees from public



GRAPH 4-20: Size of competitors of dynamic enterprises during early development

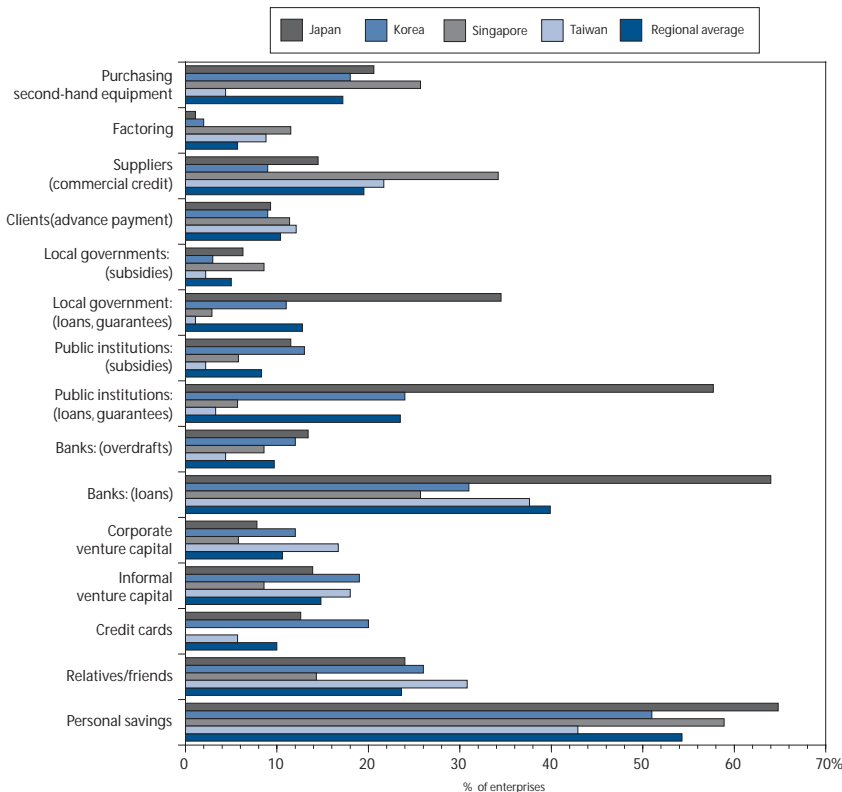


institutions in higher proportions than other entrepreneurs. This superior financial platform may help explain their subsequent performance as entrepreneurs.

• **MATURATION PERIOD OF THE BUSINESS IDEA**

Once they have identified and worked up the idea for their business, the dynamic entrepreneurs take less time to make the final decision to start up than the less dynamic ones (20 months as opposed to 23 months, respectively, on average). The most significant point to remember is that there are sharp differences between countries. On the one hand there is Singapore—the fastest country in terms of making the decision to move forward (9 months) and to actually start up the company (3 months). At the other end of the spectrum, in Japan, entrepreneurs took more than two years to make the decision and almost a year to start up. One possible interpretation of these differences is how different cultures view risk, with more aversion in some cultures than others. Hofstede’s (1980) international study of cultural values places Singapore and Japan at opposite ends of the spectrum in terms of their inclination to avoid risk.

GRAPH 4-21: Financing sources of dynamic enterprises during early development



3.3 The early development stage

• **ENTERING THE MARKET**

Most entrepreneurs defined the intensity of the competition they face when entering the market as high or—to a lesser extent—average.

While they are competing with firms of different sizes, the dynamic entrepreneurs were more likely than their less dynamic counterparts to feel competitive pressure from other large companies.

Their principal competitive advantages were found in the ability to set themselves apart based on quality and service, and in their research and development efforts and designs.

• **FINANCING DURING THE FIRST YEARS OF OPERATION**

The use of external sources to finance working capital and company expansion is more frequent during this phase of the start-up process, particularly loans from banks

and from national public institutions. The differences with respect to less dynamic firms are accentuated during these years, accompanying the performance levels of the different companies.

The dynamic entrepreneurs more frequently use loans, guarantees, and subsidies from local and national public institutions, as well as venture capital funds, during this stage of the process. For example, they use funding from public institutions almost twice as much as their less dynamic counterparts. The use of these different sources, particularly in the case of bank loans, is more generalized in Japan. In Taiwan and Singapore, trade credit is the most commonly used type of financing. In the first case, the use of long-term checks—a form of credit granted by vendors to buyers—is an important tool for entrepreneurs. Other sources of financing include guarantees provided by suppliers, clients, and government agencies.

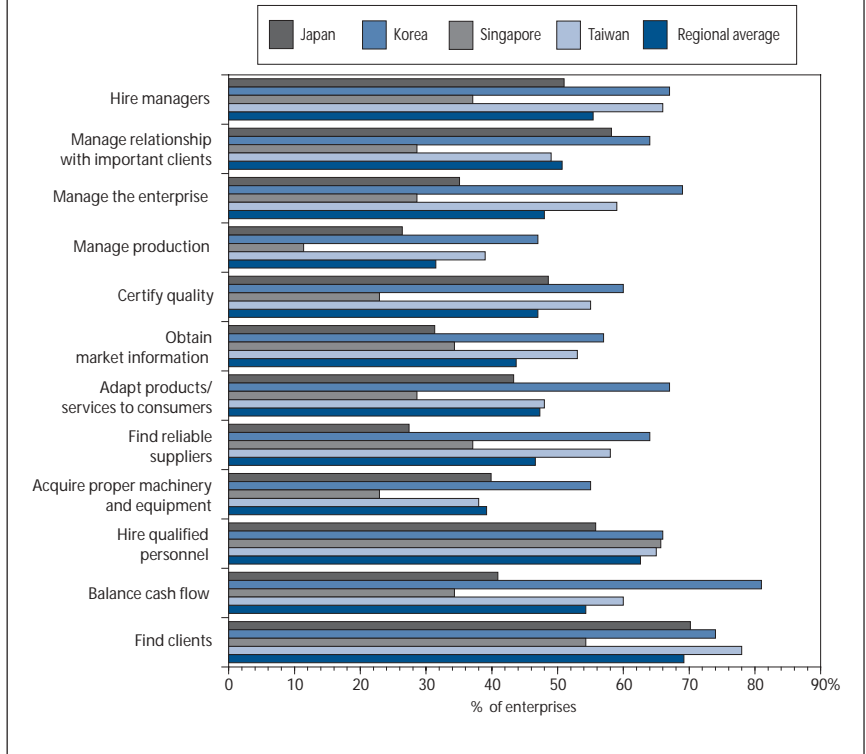
• PROBLEMS AND CHALLENGES DURING THE FIRST YEARS OF OPERATION

The most serious problems faced by new enterprises during their first years in business are related to marketing (attracting clients, managing relations with key accounts), human resources (hiring qualified employees and managers), and finance (financing and cash flow administration).

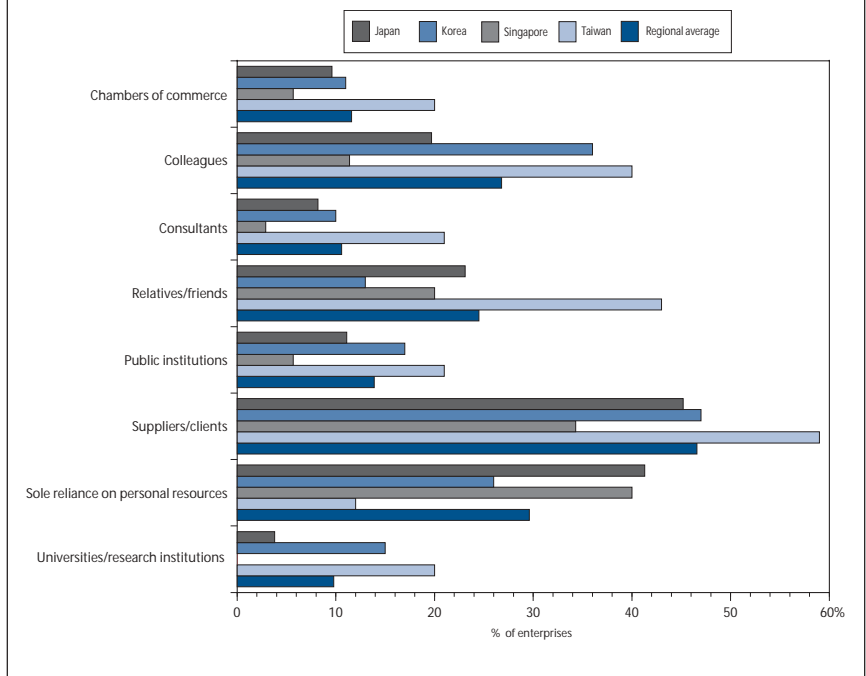
In 7 out of 10 cases, entrepreneurs stated that they relied on their networks for support with problem-solving. In other words, only a minority relied solely on internal company strategies. In Singapore and Japan, however, the contribution of networks during this phase was less generalized. More than 40 percent relied exclusively on their own resources. Taiwanese entrepreneurs, on the other hand, were more inclined to work with their networks. In 9 out of 10 cases, they relied on network support.

In general, suppliers and clients are the most important source of support, followed by

GRAPH 4-22: Main problems that dynamic enterprises face during early development



GRAPH 4-23: Types of support utilized by dynamic enterprises to resolve initial problems



colleagues, then family members and friends. Only a very small segment of new entrepreneurs rely on universities, public institutions, research institutes, chambers of commerce, and consulting firms. In Japan, for example, numerous public incubators have been set up in recent years but they have not been effective due to their poor locations, high rent, and the lack of stable professional services.

4. GENERAL FINDINGS OF THE STUDY

The key factors that affect each stage of the entrepreneurial process in the East Asian countries studied are summarized below.

4.1 Key factors contributing to the entrepreneurial process

Contact networks and prior job experience are the two most important factors in East Asian countries. Networks are the key sources for identifying business opportunities, procuring resources and solving problems. Friends, acquaintances, and colleagues contribute at different stages in the entrepreneurial process and the indirect contacts they provide are often used as well.

These networks are particularly important in the knowledge-based sector. Interactions with the owners of other SMEs and with the executives of large firms are vital to identifying business opportunities. The existence of entrepreneurial teams with complementary functions and skills is also important.

Commercial relations with clients and suppliers are important in East Asia, especially for initial problem-solving purposes. The main challenges faced by new enterprises include attracting new clients and managing relations with key accounts. Companies must also optimize their products and expand their commercial bases. Connections to clients and suppliers are also important for financing the start-up and subsequent expansion of East Asian firms.

Prior job experience is a relevant factor since it motivates potential entrepreneurs, helps identify the business

opportunity, and facilitates access to resources. Their previous work in company's enables them to acquire the necessary entrepreneurial competencies making work experience even more important than a formal education. East Asian entrepreneurs learn marketing, negotiating, administration, and problem-solving skills, the ability to work hard, communicate and network, as well as other invaluable competencies, in the companies where they work.

Other relevant factors include education and culture. The university provides a basic platform of knowledge that helps entrepreneurs solve problems and access technology—particularly those with engineering degrees—and to learn more effectively while working for a particular company. However, the educational system could play a much more effective role in this field, since it currently does little to promote the vocation and the specific competencies for launching an entrepreneurial career. Cultural factors have a great influence on the entrepreneurial process, as shown by the influence of role models and the role of other motivational factors of both an individual and social nature.

Financing is key to the viability and development of new businesses. Initial financing comes from personal savings and the support of the entrepreneurial social network. After tapping these sources, some entrepreneurs expand their financing sources to include bank loans, loans from public institutions, and venture capital, with varying degrees of emphasis on one or another from one country to the next.

4.2 The most distinctive features of dynamic enterprises

To identify the aspects that distinguish dynamic enterprises, a specific statistical packet was applied.³⁸ This made it possible to gauge the importance of some structural and contextual factors.

The principal factor that sets some enterprises apart from others is the year in which the company commenced its operations. One is much more likely to find dynamic enterprises among those founded in the early 1990s than those founded at a later date.³⁹ At first

³⁸ For further details, see the methodological annex.

³⁹ This does not mean that a categorical division can be drawn between those created at the beginning of the decade and those created in the middle of the decade or that the dynamism of a particular company is determined by the period of time in which it was founded. It simply indicates that there is a certain association, which is neither deterministic nor linear, between the company's age and its ability to grow. Age may also be interpreted as an expression of the learning process and the evolution of new enterprises, which favor their performance. Moreover, as they age and grow in scale, the transaction costs tend to decline, reinforcing a virtuous circuit.

glance, this would seem to be a logical result, indicating that those with the most appropriate strategies tend to be "rewarded" with the passage of time. However, this was not the case in Latin America, which means that the situation observed in East Asia does not necessarily apply to all contexts.

Secondly, the sector and the business profile/strategy "count". Dynamic enterprises are more likely to be found in the knowledge-based sector than in the conventional manufacturing sector. Firms that operate in more expansive sectors tend to perform much better. During their first years in business, these firms stand out for their research and development efforts.

In the conventional manufacturing sector, a firm had a greater chance of becoming a dynamic enterprise if it was an active exporter from the first year of operations (more than 20 percent of sales to foreign markets), or if it started out as a outsourcer. This type of business helps

these companies establish an initial commercial base and is an important source of business education. A final aspect that sets them apart from the rest is the increased level of difficulty they experience managing production. This is probably because they must oversee a highly expansive process.

In short, after taking the age factor into account, it is possible to construct two profiles of dynamic new enterprises based on certain distinguishing factors. The most frequent profile is that of a new firm in the knowledge-based sector, particularly one whose competitiveness depends on its research and development efforts. There is a second type of dynamic enterprise in the conventional manufacturing sector, which grows out of an export-oriented strategy and/or, to a lesser extent, exploits business opportunities linked to subcontracting and outsourcing. The expansion of these companies poses a key challenge in terms of production management during the first years of operation.

CHAPTER 5: Conclusions and Policy Implications

CHAPTER SUMMARY

This study has led to greater understanding of the entrepreneurial process in Latin America and East Asia. A number of factors have been identified that affect both regions, as well as several characteristics that are specific to different countries and reveal great contrasts. This chapter presents the study's conclusions, as well as implications for policy-makers who are preparing strategies and initiatives to promote the emergence and development of entrepreneurs and dynamic enterprises in Latin America. These ideas are intended to provide input and a general framework of reference for policy-makers as they design and implement specific programs.

1. CONCLUSIONS

The study helped to identify a new generation of dynamic enterprises in both regions. Most of these companies were established by entrepreneurial teams, as opposed to the figure of the "lone ranger" traditionally associated with the entrepreneurial phenomenon. These teams bring together key skills and resources to make their venturing successful.

The new East Asian enterprises contributed more to social mobility than the Latin American ones. In countries with more integrated social structures, there generally seem to be more opportunities to begin and develop an entrepreneurial career successfully. These enterprises also contribute more to economic growth, to broadening the entrepreneurial base, and to modernizing productive structures. Finally, the study found that the maturation period of the business idea is significantly longer in Latin America, starting from the initial spark of motivation to become an entrepreneur up until the moment the business is finally started up.

The next section summarizes the main conclusions regarding factors that influence each stage of the entrepreneurial process.

1.1 The inception stage

• THE MOTIVATIONS TO BECOME AN ENTREPRENEUR

In both regions, potential entrepreneurs have both economic and non-economic motivations for wanting

to start their own venture. The need for personal development and satisfaction, as well as a desire to contribute to society, are the main driving forces that create entrepreneurs. The most significant economic factor is the desire for increased income.

In this general framework, the study identified certain differences between Latin American and East Asian entrepreneurs. Among Latin American entrepreneurs, the influence of entrepreneurial models that spark a desire to go into business is significantly stronger. The mass media play a fundamental role in disseminating these models. By contrast, the desire to become rich is greater among East Asian entrepreneurs, perhaps explaining why they are more growth-oriented, and reflecting their higher expectations concerning the economic context in which they operate.

• THE ENVIRONMENT THAT PREPARES POTENTIAL ENTREPRENEURS

Entrepreneurs acquire their vocation and entrepreneurial competencies mainly through experience on the job, generally in small or medium-sized enterprises (SMEs), in sectors that are similar or are commercially related to the new business. The educational system plays a more limited role than companies do, generally providing technical knowledge, but not the broader set of competencies, aptitudes, and attitudes needed to be an entrepreneur.

• SOURCES OF BUSINESS OPPORTUNITIES

Most new firms begin by selling their products and services to other manufacturing and/or service companies. The dynamic companies, especially in knowledge-based sectors, are those that receive the most orders from big clients. However, SMEs are a significant source of demand for new businesses as a group.

One aspect that clearly differentiates companies from the two regions is their sectoral profile. While new knowledge-based companies predominate in East Asia, conventional manufacturing predominates in Latin American countries. This means that East Asian business ventures contribute more to modernization of their countries' economic structures. Outsourcing is a more relevant niche for dynamic new businesses in the East Asia than in Latin America. The existence of a better-articulated productive structure in East Asia seems to facilitate the emergence of

new businesses aimed at attending to the outsourcing demands of existing firms. This situation provides an especially dynamic source of business for ventures in the conventional manufacturing sector.

Finally, dynamic enterprises in both regions tend, more than other businesses, to take advantage of markets with increasing demands. However, East Asian entrepreneurs have been much more successful at using business opportunities in stagnant market segments compared to their Latin American counterparts, very possibly reflecting their ability to identify business opportunities.

- **NETWORKS AND IDENTIFICATION OF OPPORTUNITIES**

Networks of personal contacts and the previous working environment of the entrepreneurs provide their main sources of business opportunities.

The contact networks of the dynamic businesses are characterized by a greater presence of persons in the "business world" (business relations, small business people, executives of big companies). In Latin America, entrepreneurs have a larger number of contacts than in East Asia. Networks in East Asia tend to be more stable and diverse.

Another characteristic specific to the dynamic businesses is the greater variety of sources of information they use to identify business opportunities: visits to fairs, specialized magazines, and especially in East Asia, the mass media, which in addition to disseminating role models, also facilitates access to business information.

- **INFORMATION-SEEKING AND BUSINESS PLANNING**

In more dynamic and less dynamic firms alike, most entrepreneurs use market information to shape their business ideas. However, entrepreneurs are much less likely to find information on the scale of investment and operation needed to be competitive. The size of a business may depend more on the experience they acquire once they have entered the market, rather than on the results of market and engineering studies before start-up.

However, even with limited information, the preparation of business plans tends to be a much more common practice among dynamic East Asian entrepreneurs than among Latin Americans. In any case, in both regions it was apparent that entrepreneurs do not follow economic textbook logic when making the decision to become an

entrepreneur (they do not make a rational choice between an entrepreneurial career and salaried employment). In fact, only a minority estimated or compared the personal income they would obtain in one case or the other.

1.2 The start-up stage

- **THE FINAL DECISION TO START**

A number of economic and non-economic factors also come into play at this time. In fact, the founders of the dynamic enterprises are notably more influenced by non-monetary variables than is the case with other entrepreneurs. Economic matters such as the size and predicted growth of the market or the number and size of competitors were of greater concern in East Asia than in Latin America. Latin American entrepreneurs viewed the availability of financing as a negative factor or a matter of no concern, possibly because they accept a lack of access to credit as a fact of life. East Asian entrepreneurs had the opposite attitude.

- **NETWORKS AND ACCESS TO AND USE OF NON-MONETARY RESOURCES**

The study considered access to non-monetary resources such as information technology, raw materials, facilities, and financial resources. According to the entrepreneurs, prior work experience and university education, especially at the post-graduate level, provided them with access to technology and other non-monetary resources for starting a business.

In general, the founders of the dynamic companies used their networks of contacts to gain greater-than-average access to resources. In Latin America, furthermore, they interacted with a greater number of contacts in their networks, a phenomenon not confirmed among the East Asians. This need to make use of a greater number of contacts, demonstrated by the dynamic Latin American companies, was also observed in the way they identify business opportunities. The use of social networks (family, friends, acquaintances) is even more common at the local community level, where SMEs carry more weight, than in metropolitan areas. In knowledge-based sectors, the contribution made by colleagues to accessing information and technology is more important than in conventional manufacturing sectors.

- **FINANCING SOURCES USED FOR LAUNCH**

The main source of financing used by entrepreneurs to set up their businesses is personal savings. However, East Asian

entrepreneurs have a broader financing base than those in Latin America in terms of access to banks, informal private investors ("business angels") or public institutions. Latin American entrepreneurs depend more heavily on their suppliers and clients and on the purchase of second-hand equipment. The financial situation is even more complex for knowledge-based firms, which cannot use commercial credit or buy second-hand equipment to the same extent as companies in the conventional manufacturing sector. As is well-known, in Latin American countries it is more difficult to finance high-risk activities or those involving a great deal of research and development, given the lack of an established base of high-tech companies or sources of financing appropriate to this kind of business.

The consequences of financial restrictions are more severe in Latin American countries. The companies stated that they had to start out on a smaller scale or with an inferior level of technology. By contrast, a significant number of the East Asia entrepreneurs who faced financial limitations decided to look for partners. This improved their conditions for start-up as compared to their Latin American counterparts.

Finally, a large number of Latin American entrepreneurs indicated that they were opposed to using external financing to start business activities. Many of them indicated that they preferred to maintain control of the company, while expressing their lack of confidence in institutions and the lack of supply to meet their needs. Some even spoke positively about a lack of information. In other words, although financing problems can apparently be explained in terms of the supply of credit, the attitude of the demand side must also be taken into account, and this increases the complexity of the problem.

1.3 The early development stage

• ENTERING THE MARKET

In general, new companies face stiff competitive pressure when entering the market. Although most of their competitors are other SMEs, to be successful, new enterprises must also compete with big companies. They do this by emphasizing quality and services, rather than price competition. In terms of competitive advantages, East Asian entrepreneurs in particular relied on these non-monetary factors, in addition to more intense research and development activities.

• FINANCING DURING THE FIRST YEARS OF OPERATION

During this stage, dynamic entrepreneurs need to increase their sources of financing to compensate for their dependence on personal savings, family, and friends. East Asian entrepreneurs manage to do this to a much greater extent than their Latin American counterparts, since they have greater access to external sources. This significantly accentuates the situation noted in an incipient form during start-up. Loans from private banks and financial assistance from public institutions are used much more commonly by East Asian entrepreneurs than by Latin Americans. During this stage, corporate venture capital clearly plays a more important role in East Asia, while the role of informal private investors declines in both regions.

In lieu of loans from the financial sector, Latin American entrepreneurs must rely on greater use of credit from suppliers and clients. Another way in which they finance their venture is through public service contributions and postponing tax payments.

• PROBLEMS AND CHALLENGES DURING THE FIRST YEARS OF OPERATION

During their first three years, new companies face the challenge of sheer survival. Apart from earning legitimacy in the market, the dynamic entrepreneurs must prove their ability to manage expansion. Their main problems include the need to broaden their client base, overcome the difficulties they may encounter in contracting skilled labor, and balance fluctuations in cash flow. The latter problem is particularly frequent among Latin American enterprises, due to the financial conditions mentioned above. This may help explain why they have more difficulty acquiring adequate equipment and expanding their supplier base.

A challenge that is a feature of the dynamic enterprises is the location and hiring of managers, especially in the East Asia countries, where they must also learn to manage relations with large clients.

The list of problems and challenges shows that transaction costs are higher among new enterprises because of their lack of a track record or market recognition. The dynamic firms also face the added difficulties of trying to organize their structure very quickly. It is especially difficult to solve these problems with financial restrictions.

Most dynamic entrepreneurs meet these challenges with the help of their networks. Only a minority claimed to have done so exclusively through their own abilities and with their own resources. During this period, the role of initial suppliers and clients is crucial, while the importance of the social circle closest to the entrepreneur tends to decline. As a business grows, its problems become more specific than in previous stages. As a result, the importance of the various types of networks also changes. Most entrepreneurs in this study did not consider universities, chambers of commerce, consultants, and other institutions to play an important role in meeting these challenges.

2. POLICY IMPLICATIONS AND RECOMMENDATIONS

The study's conclusions help shed light on the main areas that policy-makers need to focus on to promote entrepreneurship in Latin America. At the same time, the specific characteristics of the entrepreneurial process in each country, as discussed in chapters 3 and 4 and in each country report, may help guide efforts to tailor policies and programs to the needs of each individual country. A methodology similar to the one used in this study can also be applied to regions within countries to come up with policies and programs to deal with regional problems.

Policy implications and recommendations resulting from the study (and presented below) were divided into two broad categories. The first includes implications and recommendations of a general nature: these deal with the goals, leading factors to consider, time frames, and strategic importance of policies to support entrepreneurship in Latin America. The second category involves more specific recommendations on how to promote the creation of businesses in Latin America.

2.1 General implications and recommendations

(a) The number of dynamic enterprises must be increased and the conditions for growth of their businesses must be improved.

The study clearly identified the existence of a new generation of entrepreneurs and dynamic enterprises in Latin America. In the context of tremendous structural change, these entrepreneurs have successfully founded and managed their companies. However, policy makers must consider key differences between Latin America and East Asia, before designing strategies and programs.

Latin American entrepreneurs come from a narrower social base than their East Asian counterparts. They belong to the middle and upper-middle classes and are well educated. This suggests that the contribution of entrepreneurship to social mobility is greater in the East Asian countries studied than in Latin America. Based on the study's findings, we believe that there must be more equitable access to entrepreneurial opportunities to increase the sources of economic wealth, as well as the number of dynamic entrepreneurs. This in turn will strengthen channels for social mobility.

Also, the number of entrepreneurs who start their first business is lower than in East Asia, which implies that the pool of new entrepreneurs is more limited to those who have started a business already. Therefore, particular emphasis must be placed on supporting those who wish to start their first business.

The study has revealed that dynamic Latin American enterprises do not grow as significantly as those of East Asia, particularly in terms of sales and international growth. This clearly means it is necessary to generate a business-friendly environment, and to implement support programs that favor the development of their potential for expansion.

(b) Work experience and networks are key factors to consider in policies to promote dynamic new enterprises.

The study indicates that work experience in similar or related sectors, especially in SMEs, is fundamental for acquiring the motivation and competencies to become an entrepreneur, as well as the relevant information, access to technology, and business contacts to make the new venture succeed. The entrepreneur's own networks also play a critical role throughout the entrepreneurial process: first, in the identification of business opportunities, then in gaining access to the technology needed to access resources, and also in the management of the company during its early years of operation. Therefore, policies to promote the creation of dynamic new enterprises must encourage young people to acquire relevant work experience and develop their own networks. This will help them build the platform needed to create and launch their company.

Policies must also focus on potential entrepreneurs who already have work experience and contacts, in order to

help them gain access to business opportunities, knowledge and resources beyond their reach.

(c) The promotion of dynamic new enterprises requires a comprehensive approach. It must address critical factors that affect the entrepreneurial process, and must be adjusted to an appropriate institutional context at the national and local level.

The cultivation of an entrepreneurial spirit and making the business environment more favorable to new enterprises are complex and multi-dimensional tasks. Isolated policy initiatives will surely be less effective than strategies based on a more comprehensive approach that considers the critical factors affecting the entrepreneurial process.

Agencies and institutions must work closely and coordinate their programs to implement a comprehensive strategy that supports entrepreneurship. It is particularly important that work be done at the local community level, so as to contribute to the economic development processes in the various states, provinces, and nations of Latin America. This study has identified key factors affecting the entrepreneurial process, and can be used as a guide to determine the needs and conditions of cities and regions where programs will be implemented.

(d) A strategy to promote dynamic entrepreneurship should be viewed as a social investment and requires a long-term perspective. However, this strategy may also include certain short-term

initiatives to accelerate its impact and generate demonstrational effects.

The promotion of entrepreneurship must be understood as a long-term strategy. The maturation period of business ideas from the beginning of the motivational process to the actual start-up of the business takes considerable time. However, broadening the base of dynamic entrepreneurs in a society is at least as important as having highways or bridges. Entrepreneurs must be socially valued as “strategic human resources.” This is why efforts to encourage the emergence of dynamic entrepreneurs must be considered a long-term social investment. Furthermore, some programs to promote entrepreneurship will bring notable results only over the long term. This is particularly true for programs to spark entrepreneurial motivation, one of the critical elements during the development stage of new enterprises. Other programs, however, may show more immediate results. These include those aimed at supporting entrepreneurs who have already designed their business plan or who have already begun operations.

2.2 Specific implications and recommendations

Some specific proposals and ideas to promote enterprise creation in Latin America follow. It must be made clear, however, that the design of specific programs is beyond the scope of this study. Those who design programs must take into account the specific context in which a program is to be implemented, and the lessons learned from initiatives already implemented. The following proposals focus on five issues: stimulating entrepreneurial motivation and

BOX 5-1: HOW TO PROMOTE ENTREPRENEURIAL VOCATION AND COMPETENCIES

In order to promote entrepreneurial motivation and competencies, some myths about the business world and entrepreneurs need to be debunked. Several countries have made significant advances in this direction by designing specific campaigns aimed at providing clear and positive examples of entrepreneurs who have contributed to the development of society. These examples show that entrepreneurial ventures are an attractive and feasible option. These campaigns must go beyond the business pages of newspapers and specialized publications. For example, entrepreneurs should be invited to join forces and form a committee that will design initiatives in this field.

Dynamic entrepreneurs—from families that are not rich—can be recruited to participate in producing materials that include their own stories. This could be done in collaboration with members of different levels of the educational system and other social institutions (for example social and sports clubs). Training institutions must try to develop initiatives aimed at linking entrepreneurial training programs with companies, in collaboration with sectors that represent entrepreneurs.

competencies, developing networks and teams of entrepreneurs, reducing the inception period for new enterprises, eliminating barriers to entrepreneurship, and establishing an appropriate institutional structure.

(a) Broaden the base of future dynamic entrepreneurs.

The dissemination of role models through mass media and introduction of innovations in the educational system may contribute to stimulating and motivating young people in Latin America to start up new businesses (see box 5-1).

i. Disseminate positive role models to support an entrepreneurial vocation.

By publicizing cases of entrepreneurs who have created and developed dynamic enterprises, generated quality employment, and contributed to modernizing the productive structure of the country, the mass media can help encourage an entrepreneurial spirit and broaden the base of potential dynamic entrepreneurs. The mass media can effectively communicate why these individuals decided to become entrepreneurs, and highlight the importance of less obvious non-monetary motivations (contribution to society, independence) to the public at large. In East Asia, the mass media disseminate successful experiences and examples of entrepreneurs. This is not the case in Latin American countries.

ii. Implement programs through the educational system and training institutions to promote the motivation and competencies to become an entrepreneur. Encourage stronger links between the academic and working worlds in educational programs.

The study's findings show that the educational system at the secondary, technical, and university levels does not encourage the motivation and competencies to become an entrepreneur among its students. Given that the crucial age for "incubating" and creating a company is from

25 to 35 years, secondary schools could promote the development of attitudes and values that encourage entrepreneurship. For the same reason, universities and other institutions that train adults could not only motivate students, but also promote the development of competencies such as the ability to deal with ambiguous situations and take risks, creativity, the ability to negotiate, team work, establishing networks, marketing, and problem-solving. Teaching methodologies must include direct contact with companies in order for this training to be practical.

(b) Develop two key assets: entrepreneurial networks and entrepreneurial teams.

Networks play a key role from the moment an entrepreneur begins to dream up his/her business through the time he or she must deal with the specific management problems that the new enterprises face. Most dynamic firms are made up of teams of entrepreneurs with complementary abilities and functions.

i. Promote the development of entrepreneurial networks.

Social and business interaction with other people is one of the entrepreneur's main resources. Program designers and policy makers in general must learn from experiences and emerging models that encourage entrepreneurial development. Special emphasis should be placed on promoting contact networks. Universities and/or other adult training institutions could stimulate exchanges and links with experienced entrepreneurs, creating a spirit of cooperation that will be useful to prepare business plans and launch enterprises.

ii. Create appropriate settings and incentives for building teams.

Teamwork can be promoted through training programs that require entrepreneurs to work in teams, or by hosting

BOX 5-2: HOW TO PROMOTE NETWORKING AND TEAM-BUILDING

There are different possible ways to promote the development of entrepreneurial networks and teams. One is to establish special forums or entrepreneurial clubs that bring together key players and provide entrepreneurs with places to meet and share experiences with professionals, venture capitalists, and policy makers. These meeting places can also be a way to find partners, build teams, make strategic contacts, gather relevant business information, fine-tune a business plan, think strategically, or access resources. Programs to train network coordinators also must be developed.

BOX 5-3: HOW TO INCREASE BUSINESS OPPORTUNITIES FOR NEW COMPANIES

To increase the sources of business opportunities and to facilitate access to information, different initiatives can be considered. Each must be evaluated in its context. Some experiences have shown that regional, sector-based forums can make an effective contribution. In these forums, different organizations (for example, hospitals, universities, municipalities) identify needs that are not adequately covered by the existing supply. Action aimed at building and more effectively channeling innovative knowledge must also be designed, so that this can be converted into real businesses. Some programs, for example, provide financing on a competitive basis to young managers, professionals, researchers, and scientists who present innovative ideas for business ventures. The goal of these programs is to allow them to devote themselves intensively to the development of new business ideas. Other experiences promote and assist new companies that have spun off from large companies in order to concentrate on their core business. This channel favors the creation of new outsourcers linked to a parent company. In many cases, former managers of the parent company break away and found these new firms.

competitions that award prizes to business plans prepared by entrepreneurial groups (see box 5-2). Multi-disciplinary educational programs can involve both business and engineering students and encourage the formation of teams with specialized and complementary abilities in business plan preparation.

(c) Make the inception period shorter in order to accelerate the business creation process.

The period needed to create a business is longer in Latin America than in East Asian countries, since it takes longer to identify business opportunities. This is probably because there are fewer connections among companies of different sizes and less development of knowledge-based or innovative businesses. An effective entrepreneurial development strategy should include action aimed at accelerating the inception period.

i. Increase business opportunities and disseminate them.

In order to accelerate the inception period for new businesses, efforts must be made to promote innovation and to strengthen connections among existing entrepreneurs and potential ones. It is also important to strengthen innovative systems since, in Latin America, the weakness of such systems limits business opportunities and the emergence of dynamic new companies. Although subcontracting and outsourcing depend on the structural characteristics of the industry of each country and on the strategies of the large companies, this is also a potential business opportunity for new firms and should be explored further.

ii. Facilitate the range of preparatory activities needed to launch the business.

Entrepreneurs must focus intensely and be very dedicated to develop a business idea and turn it into reality. They must hone their ideas and basic definitions, as well as get information on products and markets, and establish contacts with potential clients and suppliers. This process takes a long time. Future entrepreneurs need resources to develop their business schemes during this stage (see box 5-3).

(d) Reduce barriers to the creation and development of new companies (see box 5-4).

When Latin American entrepreneurs launch their businesses and begin their activities, they must overcome obstacles and challenges arising from an unfavorable environment. The entrepreneurs stated that in certain countries, the existence of bureaucratic costs and red tape, as well as a lack of financing, impede enterprise creation. Their initial small size, the lack of an established track record to generate confidence in their business ability among already established firms, and their later accelerated growth all are management challenges. New businesses also face high transaction costs in highly imperfect markets (financial, labor, technology, and professional services markets).

i. Build up a solid infrastructure of venture finance.

The majority of entrepreneurs mentioned difficulties in obtaining financing as a negative factor that left them at a

BOX 5-4: TOWARD A MORE FAVORABLE BUSINESS ENVIRONMENT FOR DYNAMIC NEW COMPANIES

To help turn business ideas into real companies, various initiatives have been tried in different countries. Different local contexts may require different measures. Among the measures to finance the start-up of a business are various options, including: tax incentives for venture capitalists who invest in new companies; networks of “business angels” who encourage links with potential entrepreneurs; capital markets reforms to facilitate the emergence of investors; and development of secondary markets in capital assets to reduce the problems of asymmetrical information and the risks / costs of business failure. Other possible options include establishing alternative financing sources for working capital that are appropriate to new companies, such as deposit guarantee schemes, tax deferrals during the first years of a company’s operations, and indirect financial support through assistance with credit from clients and suppliers. However, financing must be linked to a broader set of services for companies that helps to strengthen management. This can be done through advisory bodies and consulting services specializing in the specific problems of dynamic new companies.

disadvantage, and forced them to start out on a smaller scale or with an inferior level of technology. When financing is available in Latin America, it is tailored exclusively to meet the needs of mature companies. Initiatives must be implemented to reorient financing toward new companies.

ii. Reduce red tape and compliance costs involved in start-up.

In some Latin American countries, entrepreneurs had a negative opinion of the regulations and costs involved in beginning a new activity. The streamlining of formalities and regulations involved in enterprise creation would create a “friendlier” business environment by reducing the costs and time involved for new entrepreneurs in setting up their business.

iii. Help entrepreneurs resolve the initial problems of business start-up.

Many of the existing business services programs do not meet the needs of entrepreneurs during the initial development stage of their companies (for example, gaining new clients, identifying reliable suppliers and hiring skilled workers and qualified managers). In the absence of this kind of support, entrepreneurs look for answers through their network of contacts. In light of this situation, policy makers must take careful steps to design new training, technical assistance, and tutoring programs to specifically address the needs of new businesses. Organizational networks that have the capacity to support companies in their early stages of development should be put in charge of implementing these programs. Some countries do not

BOX 5-5: THE INSTITUTIONAL CHALLENGE IN THE DEVELOPMENT OF AN EFFICIENT STRATEGY TO PROMOTE ENTREPRENEURSHIP

Given the complex set of factors involved in a comprehensive strategy for entrepreneurial development, a critical need is for an adequate institutional structure that recognizes the diversity of the needs to be addressed during each stage of the process. Establishing an “institutional value chain” must be considered. This means that different institutions can carry out different functions—each in accordance with its specialty—but addressing the complex set of goals and the established strategic lines of action in a complementary way, as a group. The national or regional governments, for example, could create funds awarded on a competitive basis and request that different regions present strategies aimed at the development of entrepreneurship at the local level. Participants could be explicitly informed of the key role of the institutional structure and of the concept of the “institutional chain of value.” Consideration should also be given to the possibility of promoting professional training at a local level, in order to develop and present strategic entrepreneurial development projects.

appear to offer these types of services, and action should be taken to develop them.

iv. Modify the existing incentives for SMEs to meet the specific needs of new businesses.

A significant number of policies are designed with mature SMEs in mind. Examples of inadequate incentives—mentioned by entrepreneurs in the interviews—were programs that grant tax credits or rebates on taxes on corporate profits. The majority of new companies cannot make use of these benefits because they do not make a profit during their early years.

(e) Strengthen the institutional context to promote entrepreneurship.

This analysis of entrepreneurial development suggests the need to implement initiatives that involve the participation of a wide range of institutions, the make-up of which may vary depending on the specific conditions in each country (see box 5-5). Universities need to be involved and encouraged to play a key role to promote entrepreneurial development, as is the case

at the international level. In Latin America, where most students go to public universities, policy makers must ensure that these institutions are committed to a strategy of this kind. Otherwise, new entrepreneurs will be increasingly limited to the ranks of the upper-middle and upper classes: those with effective social networks, greater financial capacity, and training in private universities that tend to include the promotion of entrepreneurship in their curricula earlier.

The institutional structure to support entrepreneurship should follow similar criteria and be broadly based, rather than limited to universities. This means that it must involve other institutions such as those that provide training for adults, private foundations, chambers of commerce, and other civic organizations that enable the general population to become involved. Finally, in order for an entrepreneurial development strategy to be carried out, governments (at their various levels) must act as a catalyst. They are the agents who must plan the strategy and build the vision, by mobilizing key players and committing resources to promote the emergence and development of new entrepreneurs and dynamic enterprises.

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ARTICLES BY EXPERTS

FINANCE, SOCIAL CAPITAL, AND ENTREPRENEURSHIP: Some Relevant Findings from the Comparative Study on Entrepreneurship in East Asia and Latin America

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1. INTRODUCTION

Globalization and reforms have been changing the business environment worldwide, as well as the pattern of international trade and investment. These phenomena have caused changes particularly in two regions with emerging economies: East Asia and Latin America. More than 80 percent of total net foreign direct investment (FDI) flows to developing world in the 1990s was concentrated in these two regions. They are the most dynamic developing regions in the world today. Through this dynamic process, both East Asian and Latin American countries came to recognize the importance of entrepreneurship, knowledge, innovation, institutions, and social capital related to the business environment. They are increasingly more concerned about start-ups of enterprises, especially of high-tech firms.

East Asian countries were the first to become aware of the importance of these factors in terms of becoming competitive in the world market. This is because they were also the first to be exposed to global competition and best practices in the international market through their strong initiative to promote exports (Hosono and Saavedra 1998). At the same time, they became aware of the importance of education, institutions, and social capital in order to “catch-up” to industrialized countries, by absorbing best practices and advanced technology.

Today in Latin America, we observe a similar phenomenon: countries and sub-national growth poles with stronger social capital and entrepreneurship are becoming very dynamic. They are successfully increasing and diversifying their production and exports, and are attracting FDI. The increases in FDI net flows and export expansion have produced a self-reinforcing virtuous circle of competitiveness in these countries and sub-national growth poles. For example, the state of Parana in Brazil is turning into one of

the most important industrial centers of automobile and automobile parts production in the world. Another well-known example is the INTEL investment project in Costa Rica, a successful formation process of a high-technology cluster. Yet another example based on the formation of dynamic new enterprises is the Chilean case, where we see an impressive increase in non-traditional export products. We have many other examples of emerging dynamic enterprises in the region. Through these experiences, Latin American countries are learning that institutions, social capital, and entrepreneurship are all key growth factors.

However, the challenge remains regarding ways to strengthen social capital and entrepreneurship as well as institutions, all of which today appear to be essential in order to proactively respond to the opportunities presented by globalization and economic reforms. I am strongly convinced that a comparative analysis of experiences of the most dynamic developing regions of the world, namely East Asia and Latin America, will greatly contribute to an understanding of entrepreneurship and its relation to social capital and institutions. It will also allow us to formulate better strategies to strengthen these processes and institutions, for the sake of economic development.

The study presented in this book (hereinafter referred to as the Study) is probably one of the first serious attempts to compare the two regions as regards these issues, and it produced multiple implications for policy making. To help sort out the implications of findings, the differences between the two regions can be analyzed by distinguishing at least four types of factors, such as contextual, structural, institutional, and socio-cultural. If the factors related to institutions can explain inter-regional differences, say, in the growth rate of new firms, one region may be able to learn from experiences of the other. Eventually, they may be

encouraged to introduce such institutions to facilitate the entrepreneurial process, or vice versa.

In the following discussion, I will focus on two highly relevant and interesting aspects for policy makers: access to financing and institutional/socio-cultural factors. Some of the figures referred to hereafter do not appear in the chapters of this publication because they were taken directly from the data set compiled by the Study's coordination team.

2. DIFFERENCES IN ACCESS TO FINANCING

The findings of the Study as regards access to financing coincide with what many authors have emphasized as weak aspects of the Latin American environment for starting up enterprises, especially those based on technology. Let us first take a close look at the magnitude of the differences between the regions in this aspect.

The Study found that access to external sources for financing is clearly higher in East Asia than Latin America, both at the start-up stage and at the early development stage. At the start-up stage, the role of venture capital, especially of business angels, in East Asia is double of that of Latin America (6 percent compared to 3 percent for venture capital, 16 percent compared to 8 percent for angel investors). Bank loans are also more frequently used in the former than the latter (23 percent compared to 18 percent). Even loans from public institutions, a resource used less frequently compared to other financing sources, are used much more commonly in East Asia than Latin America (10 percent compared to 2 percent). In addition to this basic difference, the Study found that the more dynamic firms use these sources to a much greater extent. Furthermore, compared to their East Asian counterparts, more Latin American entrepreneurs mentioned the limited or total lack of access to external financing as a significant factor.

The Study also made it clear that sources of external financing in Latin America do not necessarily meet the needs of the region's entrepreneurs. When consulted about why they did not use external financing sources, two-thirds of the Latin American entrepreneurs stressed that those sources did not suit their needs because of such features as high interest rates or requirement of collateral. However, half of them preferred to avoid them because they wanted to maintain

control of their business, did not want to take on more debt, and/or they lacked faith in institutions, according to the Study. As regards East Asian entrepreneurs, on the other hand, less than 1 in 5 said they preferred to avoid the use of financial sources or they consider them inappropriate to their needs, according to the same Study.

At the early development stage, the strong differences regarding access to financing between the two regions are even more pronounced than at the start-up stage. The predominant role of personal savings decreases at this advanced stage, when the need for external finance increases because of the more expanded scale of business.

In fact, the number of firms that use bank loans and public institutions at the early development stage is almost two times greater than during the previous stage (start-up stage) in East Asia, while in Latin America only a small increase is observed. This impressive difference at the advanced stage reflects the much better access of East Asian entrepreneurs to the above-mentioned external financing as compared to their Latin American counterparts. The two most important sources of financing at this stage for dynamic enterprises in East Asia are loans from commercial banks and national public institutions. The percentage of dynamic firms of this region that use these loans (40 percent for bank loans and 24 percent for loans from public institutions) is substantially higher than the case of Latin American firms (24 percent and 4 percent, respectively).

As for corporate venture capital, its role increases for dynamic firms in East Asia at this advanced stage, while in Latin America it decreases (11 percent compared to 1 percent). On the other hand, although the role of business angels tends to decrease during the early development stage in both regions, it is still relatively more important for dynamic firms in East Asia than in Latin America (15 percent compared to 7 percent).

The findings of the Study are generally consistent with the results of the international comparison mentioned above. For example, the start-up index constructed by Andrew M. Warner (2000) reflects loan availability (with little collateral), venture capital financing availability and "the ease of activating new business." Latin American countries obviously rank significantly lower on this index compared to East Asian countries (the highest score is the United States with 2.02, and the lowest is Ecuador with -2.01). Brazil ranks

–0.59, Argentina –0.82, Mexico –1.23, and Peru –1.53, as compared to Singapore 1.31, Taiwan 1.04, Korea 0.19, and Japan –0.21. The Study also confirmed the well-known shallowness of financial depth in Latin America in comparison to East Asia. It is well worth mentioning some of the sample figures on financial depth of the countries involved in the study. The total assets of deposit money banks as a share of GDP is 46.24 percent in Brazil, 40.77 percent in Peru, 39.98 percent in Argentina, and 27.97 percent in Mexico. This compares with 248.57 percent in Taiwan, 173.08 percent in Singapore, 151.76 percent in Japan, and 102.88 percent in Korea. In terms of loan availability (for obtaining a loan with only a good business plan and no collateral), the score for Latin American countries is generally lower than in East Asian countries. Brazil ranks 3.4, Argentina 2.9, Mexico 2.4, and Peru 2.0, as compared to Taiwan 4.3, Singapore 4.2, Japan 3.4, and Korea 3.3. Furthermore, as regards the availability of venture capital (“entrepreneurs with innovative but risky projects can generally find venture capital”), the score of Latin American countries is considerably lower than that of East Asian countries. Argentina ranks 3.2, Brazil 3.1, Mexico 2.9, and Peru 2.4, as compared to Korea 5.0, Singapore 4.9, Taiwan 4.8, and Japan 4.0.

Nevertheless, the financial depth of Latin American countries has improved in the 1990s. A recent study of the Inter-American Development Bank (IDB 2001:62) confirmed the positive influence of financial reform on credit expansion for 18 Latin American countries from 1985 to 1999. The size of the financial sector of the region as measured by the ratio of private credit to GDP has increased from around 30 percent in the beginning of 1990s to around 40 percent toward the end of the decade. However, according to World Bank figures for 2002, the financial sector in Latin America and the Caribbean is still much smaller than in East Asia and the Pacific (37.6 percent, as compared to 116.2 percent in 2000).¹ Therefore, it can be said that, while financial reform has in fact had a significant impact on the development of Latin American financial sectors, several issues still need to be addressed.

An important contribution of the Study is that it made clear how the weakness in the financial system affects firms at the start-up and the early development stages. This

confirms what many scholars have argued: “Well functioning banks spur technological innovation by identifying and funding those entrepreneurs with the best chances of successfully developing new products and implementing innovative production processes” (World Bank 2002: 75).

An even more important and original contribution of the Study, however, is the fact that it clarified the way Latin American entrepreneurs respond to the problem of access to external financing. Frequently, they look for alternative finance sources, and if they cannot get enough funding to start up a business, they downsize it. In fact, in addition to personal savings and loans from relatives, a Latin American entrepreneur uses other sources of financing more frequently than his/her counterparts in East Asia: suppliers credits (39 percent compared to 16 percent), advances from clients (20 percent compared to 10 percent) as well as postponement of tax payment (11 percent compared to 3 percent) at the start-up phase. Although in both regions, personal savings is the predominant source of financing at start-up, it is more important in Latin America than in East Asia (87 percent compared to 67 percent). Furthermore, the Study made it clear that in Latin America, most of the dynamic entrepreneurs who face problems with access to financing at start-up begin on a smaller scale than that needed to be competitive (61 percent compared to 48 percent in East Asia). They also ask for support from clients/suppliers (59 percent compared to 42 percent in East Asia), start with a lower level of technology (57 percent compared to 22 percent in East Asia), and/or purchase second-hand equipment (34 percent compared to 23 percent in East Asia).

Although further research needs to be done to confirm this situation, this unfavorable scenario for Latin American entrepreneurs compared with their East Asia counterparts seems to at least partially explain why the time gap between initial motivation and start-up is significantly shorter in East Asia than in Latin America. The average time in the former region is about half that of the latter (2.6 years compared to 4.6 years). And this unfavorable situation could be closely related to the fact that East Asian dynamic new ventures start with higher initial sales and they grow faster than Latin American firms do. In addition to the differences explained above (that is, financial aspects), there are

¹ Here the size of the financial sector is represented by “domestic credit provided by banking sector as percentage of GDP” (World Bank 2002).

obviously several other reasons that could explain this significant difference between the two regions. For example, the difference in industrial structure could be one of the most important causes. These differences include the different types of goods and services that dynamic new ventures produce in East Asia and Latin America; the fact that subcontracting is more intensively and widely used in East Asia; and the larger share of the manufacturing industry in the economy in East Asia. In fact, the presence of knowledge-based new firms is higher in East Asia.

However, on the other hand we must recognize that further efforts are needed also in some countries within East Asia in order to improve the business environment for small and medium enterprises (SMEs) in general, and dynamic firms in particular. A recent study by the United Nations Conference on Trade and Development (UNCTAD 1998) mentions that there is evidence of a "missing middle," referring to the core group of dynamic SMEs that typically employ 20 to 300 employees, grow at average rates at least double the rate of economic growth, and are more likely to be internationally active. This means there is a shortage of the mid-sized, growth-oriented SMEs that make an important contribution to development. The same study concludes that while the leading economies in East Asia (Japan, Korea, Singapore, and Taiwan) were able to allow their SME sectors to evolve and develop over relatively long periods of time, other countries in the region tend to face a more urgent need to ensure that they have internationally competitive and viable SME sectors.²

As I emphasized at the beginning of this article, we should distinguish the type of factors that explain the inter-

regional differences in the entrepreneurial process. While a structural factor such as the difference in industrial structure could be an important explanatory factor, the same structure cannot be transferred from one region to the other. In contrast, if an aspect of the inter-regional differences is due to factors related to institutions, we could all learn from one another's experiences and the experiences of institutions that have successfully facilitated the entrepreneurial process. For example, an institutional factor such as availability of adequate bank loans in one region could be introduced in the other region.

3. DIFFERENCES IN THE INSTITUTIONAL AND SOCIO-CULTURAL FACTORS IN THE ENTREPRENEURIAL PROCESS

When we compare East Asia and Latin America, two regions with great contrasts in terms of socio-cultural background, we naturally expect that there should be many aspects of the differences in their entrepreneurial processes that could be attributed to differences in socio-cultural factors.³ Francis Fukuyama's "trust" is one of the popular concepts in this area (Fukuyama 1996). He argues that societies with high level of social capital (trust and the spirit of cooperation between individuals) favor the development of larger firms because the cost of coordinating and supervising employees within firms tends to be smaller than in other societies. Many authors examined the concept, including the above-mentioned IDB study (IDB 2001).⁴ Building on the notion of Francis Fukuyama, Ronald Inglehart has recently presented evidence suggesting that some cultures have a greater degree of "trust" than others (Edwards 2001) do. In general,

² According to the same study, among the countries studied in Asia, the phenomenon of the missing middle was most marked in Indonesia and the Philippines. The relatively small dynamic firms (with less than 100 employees) made up only about 8 percent of the output in Indonesia and 14 percent in the Philippines. This can be contrasted with small firms (those with less than 100 employees) contributing one-third of the output in Japan, and two-fifths in Taiwan. The study mentions, "The under-representation of this component of an entrepreneurial engine means that growth opportunities are being foregone." It also states, "This was probably less important to the leading countries as they developed, but for countries developing now in a more internationally competitive world, SMEs provide an important, renewing source of competitive advantage" (UNCTAD 1998: 17).

³ In this regard, we should be aware of the risk of making an inter-regional comparison without having sufficient insights on the intra-regional differences, because there are considerable differences found throughout the entrepreneurial process among the countries of each region. For example, as is stated in chapter 4 of the study, there are cultural differences even among the countries of East Asia and the socio-cultural context is distinctively more favorable in Singapore and Taiwan than in Japan and Korea. The reaction from the entrepreneur's family and closest circle when he/she announced the intention to become an entrepreneur was generally favorable in East Asia, but a much greater number of entrepreneurs in Korea and Japan faced negative reactions. This tendency was more pronounced in local areas in both countries. In Korea, for example, an important portion of the entrepreneurs encountered a negative attitude from their parents (38.1 percent), their employers (38.1 percent), and their professors (31.8 percent) while 1 out of 4 Japanese respondents were in the same situation. In relation to this, it is interesting that one recent study by the Japan Small and Medium Enterprise Corporation (JASMEC 2001) compared the factors that hinder business start-up in Japan, Korea, the United States, the United Kingdom, France, and Germany. The study found that negative family reactions in the two East Asian countries were two to almost four times as frequent as in the others.

⁴ This IDB study did not find the evidence to support the social capital hypothesis in explaining the difference in "the size of large firms among Latin American countries." This does not mean that the concept of social capital is unimportant, though. On the contrary, the results of the Study in this publication seem to suggest the explanatory power of social capital as described in the next paragraph, due largely to the different methodology employed and different focus.

"trust" indicators presented by Edwards (2001) for selected Latin American countries are low.

It is difficult to interpret how cultural factors—among others, "trust"—affect the entrepreneurial process, but the Study identified some important distinctive attitudes between East Asian entrepreneurs and Latin Americans. When faced with a lack of financing at start-up, the former appears to seek more partners than the latter (46 percent compared to 12 percent). Latin American entrepreneurs quite often started their businesses on a smaller scale than desirable. We must be careful to interpret this very clear difference between the two regions, but such differences in the response to the insufficiency of the start-up capital may be explained, at least partially, by the difference in type and/or level of "trust" found in each region, as the cited literature suggests.

On the other hand, the reliance of entrepreneurs on their families is much stronger in Latin America than in East Asia. This difference may be related to several factors, especially more constrained access to financing in Latin America, in addition to socio-cultural factors such as "trust." Indeed, this difference appears very frequently in the entrepreneurial process. For example, among the motivations to start a business, the motivating factor of "to follow family tradition of being in business" is much higher in Latin America than in East Asia (20 percent compared to 13 percent for dynamic enterprises and 17 percent compared to 11 percent for the control group).

As regards the place where an entrepreneur acquires his/her business competencies, family context plays a more important role in Latin America than in East Asia. For dynamic firms, the family's role is much more important in Latin America in acquiring the following competencies: problem-solving (29 percent in Latin America compared to 9 percent in East Asia), business motivation (36 percent compared to 13 percent), social skills (38 percent compared to 17 percent), taking on risks/uncertainty (29 percent compared to 21 percent), negotiating skills (16 percent compared to 6 percent), creativity (23 percent compared to 12 percent) and the ability to motivate others (22 percent compared to 10 percent).

At the moment of business start-up, among the economic factors that influence the decision to begin, the level of family income/assets is more important in Latin

America than in East Asia (50 percent compared to 31 percent for dynamic firms). As mentioned above, for Latin American dynamic firms the personal savings of founding partners are more important for the start-up stage than for their East Asian counterparts (87 percent compared to 67 percent).

This stronger presence of families in the entrepreneurial process in Latin America than in East Asia could be attributed to several factors. Such factors may include more restricted access to bank loans, a general lack of financing from public institutions, and different types and/or lower levels of "trust" in the society.

Given these differences in the socio-cultural aspects, we could presume that the possibility of starting a business in Latin America would be considerably limited for those potential entrepreneurs who do not have a strong family business tradition or high levels of income/asset within close family circles. We could safely state that the opportunity to start a business in Latin America is unequally distributed among potential entrepreneurs.

This is in clear contrast to the situation in East Asia. There, the presence of dynamic entrepreneurs from the lower-middle class and lower-class families is much higher than in Latin America. In fact, entrepreneurs from the lower-middle and lower class correspond to 47 percent in East Asia as compared to 30 percent in Latin America. In the latter, 70 percent came from upper-class families, the upper-middle class, or the middle class. Another distinctive feature in East Asia is the lesser presence of entrepreneurs with parents who were entrepreneurs or self-employed. That means that family tradition is less important in East Asia as a determining factor in terms of the decision to become an entrepreneur.

All these factors seem to suggest that entrepreneurship serves as a stronger channel of social mobility in East Asia than in Latin America. In other words, if potential entrepreneurs from the lower class families were given an equally supportive environment for starting their businesses, there would be more new enterprises in Latin America and at the same time greater social mobility could be promoted through them.

This analysis may relate to another area where there is a gap between the two regions: the dissemination of role

models. The Study has confirmed the stronger influence of role models in East Asia, in contrast to their weak presence in Latin America (with the exception of Mexico). More than half the East Asian entrepreneurs were inspired by role models, as compared to less than 10 percent in Latin America. In East Asia, the communications media effectively disseminate entrepreneurial role models among the population. About half the East Asian entrepreneurs were inspired by entrepreneurs in the media, compared to less than 10 percent of the entrepreneurs in Latin America. On the other hand, in Latin America, potential entrepreneurs tend to learn of role models through direct channels such as parents, friends, and the entrepreneurs they knew (they often live in the same town). These direct channels apparently do not disseminate role models to the public as widely as the media does.

As mentioned in chapter 2 of this Study, the stronger influence of role models could possibly be explained by the more intensive engagement of the East Asian media with the business world. But it could also be the result of the well-known success of East Asian icon businessmen as contributors to social and economic development in less fragmented societies and more articulated economies, in comparison to Latin America.

The distinctive features reviewed above such as the social origins of entrepreneurs and the impact of role models may be related to the lower level of social fragmentation/stratification and/or less unequal income distribution in East Asia. Although further analysis is needed to reach a more definitive conclusion, it seems obvious that these factors contribute to building a better platform for launching entrepreneurial careers.

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THE POWER OF NETWORKING IN THE ENTREPRENEURIAL PROCESS

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1. THE NETWORKED VENTURE IN A NETWORKED ECONOMY

With Castells (1996) we state that this is the age of networking, in society, in the business community (Nohria 1992), and in the venturing process (Johannisson 2000). The Internet has brought the technology to create the needed infrastructure to practice global networking, whether we have firms or persons in mind. Since the founder-manager epitomizes the small firm, this development has only enforced what always has been evident to practicing entrepreneurs: that relations matter. Entrepreneurs for instrumental, social, and expressive reasons nurture personal networks, not digital networks.

Research into small-firm networking is dominated by Anglo-Saxon scholars, even though personal networking seems to be even more important in other cultural contexts. In developed settings, formal institutions encourage the creation and development of new and young firms and provide them with needed services. When this is not the case, as in many developing countries, personal networking becomes especially important, ultimately constituting the needed institutions and building collective social capital. Individual entrepreneurs then have to allocate their networking capacity between their personal interests, those of the firm, that of the community, and ultimately that of the national and international context. Obviously this construing or structuring of a societal web will not always benefit individual firms. Networks not only provide resources to individual ventures, but also control entrepreneurial behavior. In some cultures, a major function of networks is to distribute the wealth that entrepreneurial endeavors create (Trulsson 1999).

Differences in need for and use of networking may also differ within national settings. In a metropolitan setting, agglomeration economies can be achieved without networking. The mere volume of demand for certain services is enough to encourage location of specialized firms. In contrast, in a peripheral location only committed networking between firms will provide the setting needed for

further entrepreneurial initiatives. This suggests that local firms collectively create the development conditions for each individual firm. Such a development model—that is, the creation of an organizing context for entrepreneurship—is also applied in developed national settings. In this study, entrepreneurial networking is found to be considerable, whether the firms are located in metropolitan or local areas. This finding underlines the generic importance of personal networking in the entrepreneurial career. The emerging personal networks tie into both economic and social spheres of human activity. The awareness of the interplay between business and society is also reflected in the motivation profile of the entrepreneurs in both regions. The concern for contributing to society is the second most important motivation in East Asia and third most important among dynamic entrepreneurs in Latin America.

The rest of this brief commentary is organized as follows. In the next section, I reflect upon the general findings with respect to entrepreneurial networking. In a third section, I provide some suggestions as to how individual-firm networking may be organized to provide a basis for locally generated economic growth. In the final section, I briefly reflect upon the contributions of this study to our understanding of entrepreneurship.

2. NETWORKING STRATEGIES IN LOCAL AND BUSINESS CONTEXTS

The findings suggest that personal networks, not relations to institutions, and work experience, not formal education, are the main sources of opportunities to subsequently exploit. This is hardly surprising. Institutions standardize, while an (entrepreneurial) opportunity should reflect something unique. However, the insignificance of bankers and institutions set up to support SMEs in the opportunity-creation process is almost embarrassing. Formal theories and associated education theorizes and generalizes, which reduces the interest in unique events and opportunities. Reflected practice, in contrast, discloses details that may be turned into profitable ventures. The findings also overwhelmingly state that, once the opportunities are

identified, work experience is the main origin of all business competencies. The only exception from this general lesson is that, in the East Asian context, willingness to work hard is associated with family norms.

What is more, networking and work experience are inter-related; in the process of doing business, ties emerge and mature into the trusting relationships that a viable venture process demands. The fact that in most economies, including those covered in this study, individuals start businesses while in their thirties is simply due to the fact that it seems to take about a decade of practice after the formal training period to build personal relationships relevant for the business career. Learning and socializing are two sides of the same coin in business.

Elsewhere I have suggested that ventures emerge out of personal networks (Johannisson 2000). The more networked a culture is—that is, the more a person is used to be dependent on others—the more natural it is to launch ventures involving several partners. The fact that East Asian entrepreneurs found and run ventures with at least four partners twice as often as their Latin American peers thus reflects quite different cultural settings. This way of using a cultural asset, the nurturing of personal networks, to overcome the liabilities of newness as an entrepreneur, is obviously used by East Asian entrepreneurs to achieve social mobility. Accordingly, the East Asian entrepreneurs have internalized the resources needed to generate opportunities; thus not as many outsiders are needed to be as in Latin America. On the other hand, often the family, although not formally involved in the business, provide opportunities in the latter context.

The findings confirm the general image of the local context as generally important for entrepreneurial processes. There is little difference, in both regions, between more and less dynamic entrepreneurs; for example, with respect to the location of those who help identify opportunities. The slightly higher importance for extra-local impulses for more dynamic firms in East Asia may be due to much more densely populated nations where contacts across regions are more easily made. Of course, varying involvement in international business is also relevant to consider. Together with work experience, such personal relations are also by far the most important source of new opportunities. In this context it is interesting to state that the Internet as a (potentially) interactive, yet passive

medium, is twice as relevant in East Asia than in Latin America for identifying opportunities. In both regions, however, it is slightly less important to more dynamic ventures. Altogether, these findings confirm that face-to-face personal interaction is crucial in the venturing process. It is nevertheless amazing how important academic papers are considered in this context, probably due to the comparatively large portions of entrepreneurs in both regions who have been trained at universities.

It is argued that entrepreneurs, especially in the formative periods of their venturing career, build networks where instrumental and existential/expressive concerns combine in individual ties (see, for example, Johannisson 1995; Aldrich 1999). When this study distinguishes between personal, business, and institutional networks, this does not rule out that not only business and institutional relations are made out of dyadic ties where there is also a social relationship between the entrepreneur and the representative of the customer/supplier and the institution. Keeping this in mind, an interesting finding is that local and extra-local industrial networks are equally important as providers of non-financial resources in both regions during the start-up stage. In addition, there is no difference between dynamic and less dynamic ventures in this respect. Relations to institutions are in both East Asia and Latin America comparatively infrequent. However here one finding stands out; universities are as important resource providers as trade associations, especially for less dynamic ventures in Latin America. This suggests that the universities take on a special role to make up for a restrictive institutional environment.

Obviously, financial bootstrapping—using social capital embedded in personal networks for substituting financial capital—is very important to get the venture off the ground in both regions, although especially in Latin America. In this respect, East Asian and Latin American entrepreneurship is not unique, but represents a general resourcing strategy among new and young firms (Winborg 2000). When financial capital can not be substituted, social connections, such as relatives and friends, are generally important as providers. It is important to state that this is a general strategy. That is, it is not just adopted defensively by less dynamic ventures, but is followed even in East Asia, where a significant portion of the ventures get financial support from public institutions throughout their period of development.

It is reasonable to assume that knowledge-based firms are more intense networkers than businesses in other sectors. This general assumption is confirmed using Swedish data. The data, however, also demonstrate that differences between knowledge-based and conventional firms in terms of networking behavior is reduced over time (Johannisson 1998). Relations of young entrepreneurs to institutions seem to be especially dependent upon her/his own education and the line of business of the firm. The Latin American data also show that institutional networks as providers of information and technology are much more important to knowledge-based firms than to other firms. There is no difference between personal and business networks in this respect.

3. NETWORKING AND SELF-ORGANIZED BUSINESS DEVELOPMENT

The general finding of the study confirms that in two large and important regions, Latin America and East Asia, networking reflects the generic role of new venturing: that of organizing resources in new patterns according to opportunity. Networking, not the least personal, is important in both regions, in all countries, in all industries, and in all locations. A general review of the network literature in the context of entrepreneurship and growth, usually reflecting empirical research in Anglo-Saxon settings, suggests that it is difficult to generally state a positive relationship between networking and performance criteria (Johannisson 2000). Considering this fundamental role of networking in the venturing process, it is not surprising that differences with respect to networking profiles between more and less successful ventures are not very significant. All ventures emerge out of the personal networks of their founders.

However, even if the general picture reports that networking is generic to entrepreneurship, the findings of the study suggest that both business strategies and policy measures are needed to enhance networking. The Latin American data, for example, demonstrate that dynamic entrepreneurs use broader networks to identify business opportunities. Although entrepreneurial networking often is associated with mutual personal trust, and thus beyond the rationality of networking as a managed activity, every entrepreneur must consider which external relations to nurture, because of constraints on time. There are a number of 'musts' in networking to keep both the

entrepreneurs and the firm going and these relations concern the social as well as the industrial and institutional spheres. Without a harmonious family life, the individual will lack motivation and become detached from the socio-cultural setting. Without committed partners in exchange networks, the business operations will fail. Thus, although the world of practice seems too complex and dynamic for strategic-network considerations as, for example, proposed by Burt (1992), every entrepreneur must learn to successively alter the network, by letting irrelevant or even dysfunctional relations fade away, and believe in synchronicity: that is, by taking advantage of spontaneous encounters and accepting them as potential points of departure of a new development trajectory for the firm. Networking, as a generic entrepreneurial feature, as much concerns the nurturing of dyadic relations as the continuous adjustment of the overall network. However it takes time to build stable relations, and stable relationships are as the data here suggest, important to the effective use of networks. Thus, networks will only change slowly. It is easier to imagine ventures originating in networks appearing and then vanishing.

Considering the status of several of the countries in this study as developing economies, the rest of this commentary will comment first, on the need for organizing beyond individual firms and, second, on the role of universities in creating favorable settings for venturing activities. It is obvious that the embeddedness of the business ventures in social networks as well as business networks is crucial to the success of the emerging venture. In non-metropolitan settings, the embeddedness is considerably more advanced— meaning that social ties are more elaborate — than in metropolitan areas. While firms in the latter context may benefit from agglomeration economies, firms in non-metropolitan areas have to contribute actively to the very same context that feeds them. For three reasons, this is not surprising. *First*, enacting a venture in an increasingly networked global economy where specialization is needed to achieve competitiveness means that increased exchange with other firms becomes necessary. Then an instinct of self-preservation will encourage firms to outsource what they can. By doing this in his/her proximity, the entrepreneur can continue to exercise the action control that s/he practices in his or her own firm. *Second*, the existential motivation of the entrepreneur, obviously at least as important as the economic, implies that the entrepreneur is generally concerned not only about

her/his own business, or the business community as an interest group, but about the community at large. *Third*, locally the entrepreneur has an overview (due to general social networking) that makes it meaningful to take action also outside the domain of one's own company.

Territorial strategies for economic development are for obvious reasons more relevant in sparsely populated and peripherally located areas. That is, such strategies are more applicable in Latin America than in East Asia. This means that the entrepreneurs are not only generally learning but also prepared to combine their own tacit knowledge with the formal and codified communicated by academic institutions. Here is a potential for the creation of advanced knowledge, increasing the competitiveness of both the individual firm and of the region as a production system, (see Maskell et al. 1998).

However, in Europe—and the study gives us little reason to believe that it is much different in Latin American and East Asia—the prevailing attitude still is that universities, as well as other institutions, have a knowledge surplus that simply can and should be transferred to underdeveloped new and young entrepreneurial firms. This is a view that in principle is wrong. More creativity is needed to establish a genuine dialogue between the small business community and the centers of competence within the public sector. Recent developments in Sweden include a broad range of different internships for undergraduate students in established firms and programs that organizes teams of university students to assist nascent or recently established entrepreneurs. It is important that other institutions then accept the role of brokers between universities and their access to global knowledge, on the one hand, and the small businesses and their tacit knowledge, on the other.

To conclude, supporting entrepreneurship during different stages of firm development should concern the regional setting rather than individual firms (see Johannisson 1993). Entrepreneurs should be invited to propose what additional business and community services are needed to enrich the local or regional setting. But how the individual firms decide to take advantage of the available support must be their own choice. Entrepreneurs do not enter the venturing process to get guided, but in order to fulfill their need for independence. The rich networking reported concerning entrepreneurs in both East Asia and Latin America proves this. When entrepreneurs establish

a personal relation, they are independent. But once the relation is established, they become dependent upon it and the other party. But this is a dependence the entrepreneur has created her or himself. Thus, the network metaphor encompasses images of entrepreneurship both as a highly individualistic ambition *and* an equally collectivist effort. This explains why entrepreneurship, epitomized by willful and passionate individuals, can contribute to economic and social progress in any societal context.

4. LESSONS AND CHALLENGES FOR THE RESEARCH COMMUNITY

This study is one of the most thorough examinations of entrepreneurship outside North America and Europe. In many respects, the findings confirm, and thus enforce, what previously has been stated to be important in the venturing process. These findings include the general importance of personal networks for example, in the resourcing of the emerging firm, the importance of non-financial motives for beginning an entrepreneurial career, and the relevance of the local context. Lessons, and thus also challenges, for researchers all over the world include:

- The entrepreneurial career as a road to upward social mobility. There is an obvious difference between East Asia and Latin America in this respect, notably in the links to ethnic entrepreneurship and female entrepreneurship as strategies for neutralising marginalisation.
- Strategies for building and using personal networks. The findings suggest that less dynamic entrepreneurs in the East Asian sample are less able to take advantage of the knowledge and resources controlled by strangers who are introduced by established members of the existing network. What is the role of such indirect network resources?
- The interplay between large and small firms must be further researched. While in East Asia, dynamic firms use corporations with similar products as a source of opportunities, in Latin America they do not. This finding may reflect the different attitudes among corporations toward outsourcing and supporting new entrepreneurs. Active, strategic cooperation between large and small firms is crucial for both business and regional development.
- The role of the universities as sources of knowledge for entrepreneurs as well as employed specialists is

as a network society, where exchange increasingly concerns knowledge. Universities then should not only be considered as passive providers of formal knowledge but get actively involved in firm and local/regional efforts aimed at business development. Such joint ventures should be encouraged and evaluated, both from the point of view of the business community and from the perspective of the university. The academic institutions, as much as any firm, need entrepreneurs.

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COMMENTS ON THE RESULTS OF THE A COMPARATIVE STUDY ON ENTREPRENEURSHIP BETWEEN EAST ASIA AND LATIN AMERICA

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I would like to make three general comments. First of all, both the study and the results are very interesting and I would like to congratulate the promoters, researchers, and sponsors for this initiative. Secondly, it is interesting to note that many of the results are quite similar to those of other studies conducted in other regions, such as Europe. However, the research offers some very interesting information on specific aspects of the regions examined. Thirdly, I fully endorse all the implications and policy recommendations.

I will limit my comments to what I consider to be some of the most significant results, with a view toward establishing policies that foster the creation of enterprises and entrepreneurship.

1. WHO CREATES ENTERPRISES

According to the study, the founders of new companies most frequently had prior job experience in SMEs in sectors that were similar or related to the sector of the created firm. The study goes on to point out that in Asian countries, particularly Singapore and Taiwan, prior job experience in large companies is more common than in Latin America. It is also interesting to note that many dynamic new companies, particularly in East Asia, have their origins in outsourcing.

In my opinion, these results can be interpreted in two different ways, both positive and negative. As far as the negative interpretation is concerned, the fact that many new companies are created by the former executives of large companies means that outsourcing has a rather negative connotation for two reasons.

First of all, the creation of a new company that deals in the same products/services and that focuses on the same clients as the company where the entrepreneur formerly worked denotes a relatively low entrepreneurial and innovative spirit. In effect, these are “me too” products and services.

Secondly, when the new enterprise is the result of the outsourcing of a large company, the effects of the creation of new jobs are practically nil. At the macroeconomic level, the positions recorded as “new jobs” are offset by the loss of jobs in the large company due to “downsizing” and outsourcing. Hence, an interesting debate has been taking place in recent years regarding the “net” creation of new jobs, which questions the statistics on the number of new jobs created, precisely due to this phenomenon (Watkins 2001).

In contrast to this rather negative view, there are some positive aspects worth noting. The fact that new entrepreneurs have typically been employed by an SME or a large company confirms our theory that business experience is essential to the creation of a new enterprise.

This aspect becomes even more significant when designing policies intended to promote and support the creation of enterprises and employment.

In effect, since 1995 when the European Commission published the study entitled “Local Development and Employment Initiatives,” the discussion of public policies and of the measures of central, regional, and local governments in Europe have focused on the “new sources of employment” identified in that study. In other words, official agencies have directed unemployed individuals who want to start their own companies in the direction of these employment sources.

As we mentioned in a previous paper (Veciana 1998), we believe that the policies to promote entrepreneurship and business creation must be geared not so much toward the unemployed and new “sources of employment” but rather toward “sources of entrepreneurs.” We believe that the leading sources of entrepreneurs are clearly found in the ranks of directors and managers: that is, among people with business experience. This implies a fundamental change in the focus of public policies.

2. EDUCATION LEVEL

An important finding of the study is that the entrepreneurs surveyed in both regions have a high level of formal education, and the most common college majors are business administration and engineering.

However, our interpretation of the findings regarding the importance of a formal education is different: less limited and more positive than the view expressed in the final report. We do not question the opinions of those surveyed in the sense that their education did not have a direct effect on the development of skills or motivation. However, it should be pointed out that university studies have enabled the new entrepreneurs to occupy positions of responsibility in the companies—large and small—and to acquire useful business experience for creating a new company. Moreover, it is interesting to note in this regard that the study indicates that a university background, particularly at the post-graduate level, is considered beneficial for facilitating access to resources.

Thus, formal education is an increasingly necessary prerequisite, although not the only one, for the creation of a new enterprise. The empirical evidence demonstrates that education contributes to success. While the failure rates of new companies created by persons with little formal education can be as high as 80 percent, in samples that include only college graduates, the rate is well below 20 percent. There are obviously cases of people with a minimal education who achieve success, but they are the exception that confirms the rule.

On the other hand, it makes sense that these entrepreneurs, when asked where they acquired their skills and competencies, would think more about their recent business experience than about their university studies years ago. We must remember that 15 or 20 years ago entrepreneurship was not discussed at all in universities, and very little in society.

With this in mind, we have the following comments with regard to policy recommendations.

First, in the information and knowledge society, a college education is becoming increasingly important for the creation of new business, particularly with regard to the promotion of new enterprise in the new technology sector. We believe that another important “source of entrepre-

neurs” can be found among university students, particularly in technical majors, as well as university researchers.

A comprehensive public policy to promote entrepreneurship and the creation of business should include actions targeting the university system. As indicated in the study, these actions should be designed to promote entrepreneurial skill and motivation.

However, we believe that this is still not enough. Schools of entrepreneurship are urgently needed; they should be established and organized as areas of knowledge, the same way as there are schools or institutes of finance, marketing, and so on. The existence of such schools would give academic legitimacy to this new field of study—ENTREPRENEURSHIP—and would be the source of information and education for future graduates. In addition to teaching and research, these schools would be in charge of promoting a business culture within the university and of making good use of the university's abundant scientific-technical knowledge for the creation of new enterprises.

Most European countries have already begun to set up schools of entrepreneurship, sponsored by governments but also by banks, chambers of commerce, and others, similar to those that have existed for years in the United States. In Cataluña, innovative projects are currently underway to take advantage of the university's scientific-technical knowledge for the creation of new technology-based businesses, through the use of so-called “technological springboards.”

3. THE ROLE OF “ROLE MODELS” IN THE CREATION OF BUSINESS

It is surprising that there is such a difference in the influence of “role models” in East Asia and Latin America.

While it is difficult for us to interpret these findings, we would venture to make the following comments. The difference may be due to the different contexts or to how the questions are interpreted by the respondents.

Obviously, role models or credible examples that demonstrate that the creation of a new company is feasible play an important part in the decision to start a new business. As we have explained previously, these facts or examples are more credible and effective as a stimulus to the

creation of business when they come from the environment of the person who is considering an entrepreneurial career (Veciana 1988). Therefore, in our opinion, role models must include the SME and particularly the small business owner where the surveyed entrepreneur formerly worked. Furthermore, since they are closer to the future entrepreneur than the media, they are a more effective role model than those disseminated by the media.

The fact that the respondents apparently did not identify such small business owners as role models in Latin America may be the result of contextual or cultural factors. For example, the fact that small business owners are not viewed positively by society in that region—that entrepreneurship is not a social role to be imitated—may also have an impact on the media's lack of interest.

The issue of “role models” is of great importance in the business creation process. Therefore, from the perspective of policy recommendations, we believe that actions are necessary on two fronts. The first is intensifying the dissemination of exemplary entrepreneurial role models (real cases—credible examples—of new entrepreneurs and companies created) in the media, particularly in Latin America. The second is promoting encounters between business owners and new entrepreneurs with university students and directors. This is being done in Europe by the institutions devoted to assisting with business creation (universities, business development centers or incubators, government agencies, chambers of commerce, and so on).

4. THE RELATIVE IMPORTANCE OF CONTACT NETWORKS AS OPPOSED TO BUSINESS EXPERIENCE

Obviously, both new and existing businesses thrive by transforming certain “inputs” or recourses into “outputs” that are products or services that satisfy human needs. To do so, relations must be established with suppliers, clients, and credit entities, among others. This has always been the case.

It was only recently that these commercial relations began to be called contacts, underscoring the role they play in identifying business opportunities and acquiring resources.

The study concludes that networks of contacts are important for identifying opportunities and for accessing and mobilizing the resources needed during the initial stage.

There is no reason to question these findings. However, we would like to underscore the fact that the origin of these personal relations or networks is basically found in the job held by the entrepreneur prior to founding his/her company. In other words, the entrepreneur relies on his/her knowledge and contacts with the suppliers and clients of the company where he/she worked prior to founding the company. This confirms the need for developmental measures and incentives for directors or managers. The new entrepreneur's personal network of relations is correlated with his/her previous job; to a large extent, the former is determined by the latter. Thus, from a pedagogical point of view, we believe it would be more appropriate to insist that the principal source of opportunity identification was the entrepreneur's “prior job experience” rather than placing the network of personal contacts before business experience. This interpretation is more precise and does not reinforce the current “mystique” surrounding contact networks. It is also in line with the results of the study regarding the insignificant role played by personal networks in solving the problems of dynamic enterprises.

This circumstance has both a positive and a negative side. On the positive side, it facilitates the identification of the business opportunity, because the entrepreneur is going to work in the same sector and with the same products/services and clients as his/her former employer. This in turn facilitates success. On the negative side is the fact that the “new opportunity” lacks innovation and a more specific ingredient of real business opportunities. These are not simply identified in the environment, but rather are the result of a personal creation process by the new entrepreneur consisting of “conceiving and configuring a product or service” to satisfy a need or solve a problem that others have not identified. Herein lies the more specific attribute and task of the real entrepreneur. And this is what should be taught in universities and publicized in society to raise public opinion of the entrepreneur's function and image.

5. PRINCIPAL PROBLEMS: FINANCIAL RESOURCES AND ATTRACTING CLIENTS

The availability of financing is not among the leading positive factors considered by new entrepreneurs when making the final decision to found their companies in either Latin America or East Asia, although the percentages vary from one region to the next. On the contrary, it

is considered a negative factor in both regions. Moreover, financing and financial management are considered to be two of the leading problems during the company's first three years in business.

In this regard, it should be noted that this is a finding that always comes out in the surveys conducted in all countries. The lack of economic resources and financing is the leading problem cited by entrepreneurs. We have called this circumstance one of the myths of business creation (Veciana 1997).

Perhaps it is worth mentioning here what Penrose wrote on this subject back in 1959 when he stated that the lack of initial resources is resolved thanks to the entrepreneur's special skill (Penrose 1959: 37-38).

Case studies of specific companies (such as Hewlett-Packard, Nixdorf, and El Corte Inglés) show that most companies that have achieved success and have grown to be large corporations started out with very few economic resources (generally, their own personal savings and those of their closest family members) and under modest and precarious conditions. However, if the product or service was suitable or innovative, they were able to make it thanks to the entrepreneur's special skills—mentioned by Penrose—and thanks to their motivation and determination. This is even more true today, given the availability of venture capital, business angels, and the credit lines offered to SMEs by large banks in most countries.

Curiously enough, venture capital companies in Spain complain that they have the capital but cannot find enough interesting projects in which to invest.

The general problem is not so much the lack of financing as the lack of interesting projects with innovative products/services. This, in turn, depends on the skills of new entrepreneurs. The fact that business ideas are based on existing, albeit differentiated, products or services rather than on authentic innovations, also explains the fact that one of the main problems is "finding clients" and the competition is extremely intense. When a new entrepreneur places a new, highly innovative product or service on the market that satisfies a new need or resolves a new problem, he or she is in the initial phase of the product's and/or sector's/segment's life cycle.

Therefore, he or she has no competition and it is easy for him or her to attract both clients and financing.

If it is true, as indicated in the study, that most new enterprises are based more upon differentiation than innovation, it only makes sense that entrepreneurs would have difficulties obtaining financing.

In conclusion, we believe that one must always consider the relativity of what entrepreneurs say in this regard and interpret their statements accurately. Our recommendation to the government would be to analyze the situation of each particular country to determine whether or not there are enough public and private entities to finance new enterprise and to coordinate the legal framework and incentive systems that support entrepreneurship. However, it should be understood that that any such insufficiency is merely a reflection of a lack of business and innovative spirit in both the public and private sectors.

6. THE ROLE OF INSTITUTIONAL SUPPORT IN THE DEVELOPMENT OF NEW BUSINESS

According to the study, a small percentage—between 10 and 15 percent—of small business owners in Latin America and East Asia stated that public institutions, professional associations, and universities or research institutes were useful in helping them solve problems during the initial developmental stages of their businesses.

These results could mean that the institutional support is insufficient, inadequate, or its impact is unknown.

The studies conducted in Cataluña (Urbano 2001) have revealed that a high percentage of the entrepreneurs who founded their companies in recent years (39.3 percent) were unaware of the support services and programs available, despite the fact that Cataluña is known for having numerous public agencies that specialize in this field. Another significant piece of information is that the entrepreneurs who have learned about and used such services consider the supply to be insufficient to meet the demand.

Studies focusing on the informal institutional framework (such as attitudes, values, and business culture) have also shown that both the attitudes toward business creation

and the image of entrepreneurs have improved in recent years in Spain (Genescá and Veciana 1984; Veciana 2000). This positive change is undoubtedly due to the fact that the institutional framework favors business creation.

Thus, from the perspective of the actions of public administrations, our recommendations would be not to neglect institutional support. Above all, it is important to analyze the formal and informal institutional framework in each country and to try to adapt the framework and the services offered to the demands of new and potential entrepreneurs. Needless to say, the existence of schools of entrepreneurship at universities is part of the formal institutional framework.

In closing, we would like to reiterate that this is a very interesting piece of research that provides valuable information that may be useful for establishing public policies to promote and support entrepreneurship and the creation of businesses, differentiated by region and country.

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THE OPPORTUNITY, THE ENDEAVOR MODEL, AND POLICY RECOMMENDATIONS

Linda Rottenberg
Founder and CEO, Endeavor

OVERVIEW

The IDB-commissioned study of leading factors in the launch and growth of firms in Latin America and East Asia provides an excellent overview of the motivations and obstacles facing young entrepreneurs in emerging-market regions. The policy recommendations, which follow a clear presentation of the research results, are both practical and feasible, though I would recommend a slightly different mix of roles for government, citizen sector organizations, universities, and the private sector. My comments in the succeeding pages are based on nine years of development work throughout Latin America, the last five of which directly relate to the promotion of entrepreneurship in the region.

I have divided my remarks into three separate sections. "The Opportunity" describes the entrepreneurial landscape in Latin America, echoing many of the same conclusions captured in the IDB-commissioned study. "The Endeavor Model" gives an overview of the organization I co-founded in 1997, whose mission is to pioneer a new model for global economic development through the promotion of entrepreneurship in emerging markets. Endeavor's experience in Latin America confirms many of the principle findings of the IDB report, particularly with regard to the importance of networks, role models, and a holistic approach to nurturing entrepreneurs. "Policy Recommendations" endorses many of the policies outlined in the IDB study, yet offers a slightly different approach to achieving the integrative strategy proposed in the report.

THE OPPORTUNITY

"In countries like Argentina, the only way for wealth creation to happen is by a lot of entrepreneurs daring to take risks...."

— *Wences Casares, Founder and CEO, Patagon.com and Endeavor Entrepreneur*

Entrepreneurship has been the key to the development and growth of the strongest economies in the world.

New ventures, and the entrepreneurs behind them, have been important drivers of wealth creation by generating jobs that promote social mobility and fairer distribution of income. Young entrepreneurial firms in the United States have been responsible for creating 90 percent of new jobs, 95 percent of radical innovations, and 50 percent of all innovations since World War II. The positive economic impact of entrepreneurship, moreover, is not only a U.S. phenomenon. A study conducted in ten different countries by Babson College and London Business School found that changes in the intensity of entrepreneurial activity account for 33 percent of the increase in the economic growth of those nations.

Most emerging-market countries, unfortunately, have not benefited consistently from the development potential of entrepreneurship. As the IDB-commissioned study correctly points out, entrepreneurs in emerging markets face a number of additional hurdles that hinder the creation and growth of new ventures. Their countries often lack a strong tradition of entrepreneurial initiative and risk-taking. They have few role models, colleagues, or support networks to approach for mentoring or advice. They have limited access to information and case studies on the entrepreneurial process. They have difficulty attracting capital to grow their companies beyond the early stage, as local capital markets are significantly underdeveloped and venture capital is scarce, if not non-existent.

Endeavor, described in the following section, is a global non-profit organization dedicated to helping promising emerging-market entrepreneurs overcome these barriers and to disseminating local entrepreneurial success stories so as to foster entrepreneurship and development on a broad scale. Endeavor selects future leaders with the potential to create jobs, generate wealth, and serve as positive role models for their countries. Endeavor annually screens hundreds of entrepreneurs in a broad range of industries and elects those whom it believes have the potential both to succeed and contribute back to their communities. The entrepreneurs' success need

not be global or defined solely on the basis of wealth creation or shareholder value. Success can be regional or local. Whether:

- Innovating in agribusiness
- Pioneering mission-critical IT systems in Brazil and abroad
- Producing gourmet nutritious snacks in Chile
- Reshaping Argentina's airline industry
- Developing state-of-the-art software technology in Uruguay
- Building Latin America's leading office supplies company
- Establishing "futbol" schools to teach children self-confidence through sports
- Shattering the myth that biotechnology can't be done in Latin America, or
- Inspiring people to believe that a kid reared on a sheep farm in Patagonia could build a world-class financial services company at the age of 24...

The Endeavor Entrepreneurs, like their counterparts in East Asia and elsewhere around the globe, are contributing positively to the economic, social, and cultural development of their countries.

Endeavor's five-year experience of identifying and nurturing high-potential entrepreneurs in Latin America gives added substantiation to the "motivations" of young entrepreneurs described in the IDB report. Of the 3000+ Latin American entrepreneurs Endeavor has screened, the vast majority were motivated primarily by non-economic reasons. "Self-realization," and "desire to contribute to society" do in reality play a key role for these young innovators. Given the inadequacies of the local capital markets, not to mention the difficulties in attracting venture capital, one would have to be either crazy or motivated by such non-economic reasons to attempt an entrepreneurial career in Latin America!

THE ENDEAVOR MODEL

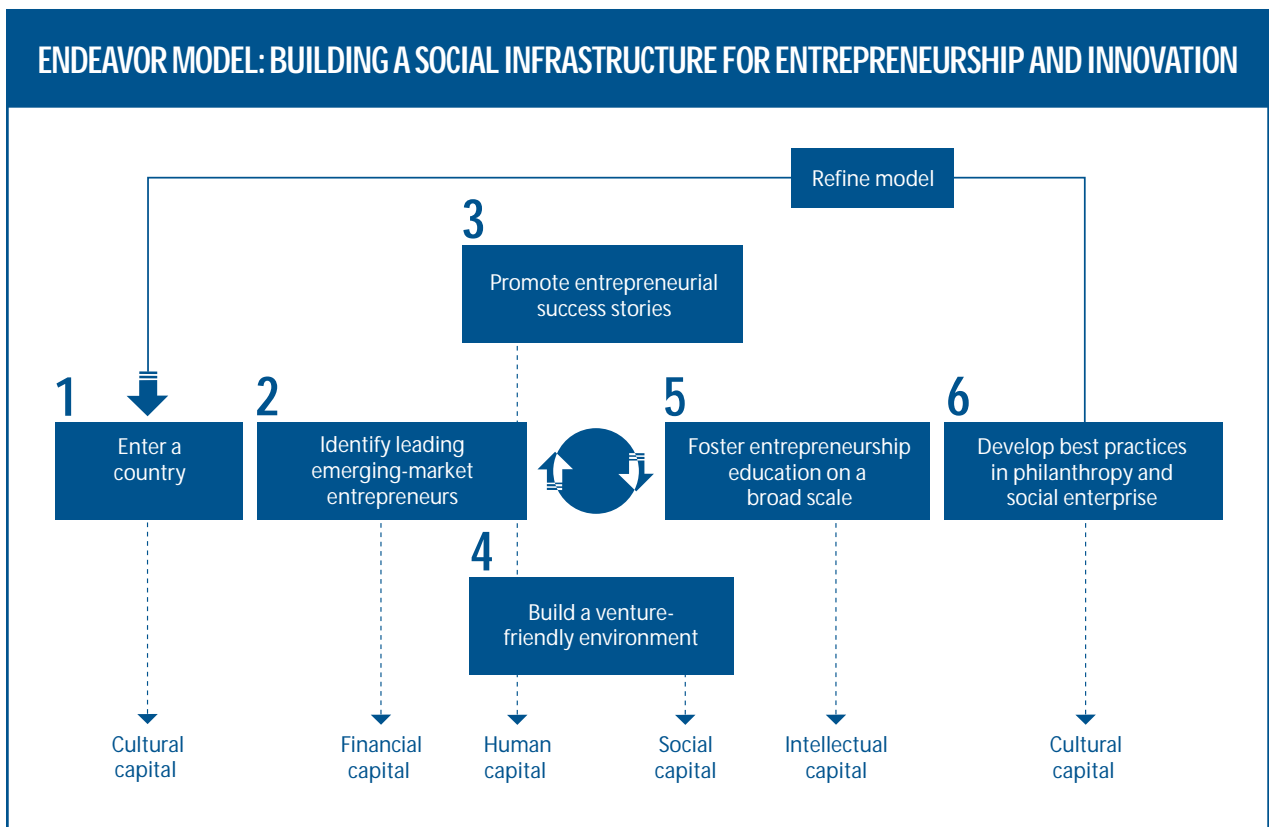
The birth of Endeavor grew out of a "coalescing of the minds" of its two founders, Peter Kellner and Linda Rottenberg, in mid-1996. Peter had a track record of successful entrepreneurship, having co-founded Russia's

largest western-managed independent oil company (KMOC) and launched an environmental law and policy organization in Hungary. Linda was working in Latin America for *Ashoka*, the global not-for-profit organization that pioneered the field of venture philanthropy.

The idea of forming Endeavor took root in Peter's mind while he was at a conference in China, where he saw first-hand how entrepreneurs were transforming the business landscape. Simultaneously, through her development work in Latin America, Linda realized that the scarcity of private sector entrepreneurs, venture capital, entrepreneur support networks, management training, and international learning opportunities significantly impeded new enterprise development. Following an introduction through *Ashoka*, they started a dialogue about the lack of wealth creation and employment opportunities in Latin America and the need for a new organization or development approach to bridge the large gap between "micro-credit" institutions (financing the poorest of the poor) and private equity firms (supporting companies with minimum US\$100 million in annualized revenues).

A more in-depth survey of existing international development organizations and for-profit entities promoting the small business sector confirmed the need for an external player to systematically remove market inefficiencies for entrepreneurship and new venture creation. Both founders felt strongly that a comprehensive new development model—one that blended the tools and networks of the private sector with the long-term focus and neutrality of the non-profit (civil society) sector—would provide the most catalytic and long-lasting solution to the problems facing emerging-market entrepreneurs.

In 1997 the co-founders formally launched Endeavor as a non-profit organization pioneering a new model for global economic development through the promotion of entrepreneurship in emerging markets. Unlike the micro-lending institutions, Endeavor would target the equally underserved yet slightly up-market sector of high-growth entrepreneurs—the next-generation business leaders and job creators of emerging markets. Different from the private equity groups, Endeavor would target entrepreneurs leading companies with US\$1 million to US\$15 million in annualized sales, and would not make financial investments of its own. Instead, Endeavor would offer countries a comprehensive, high-impact and locally



adaptable methodology that would catalyze the process for entrepreneurship and new venture creation.

Taking into account all of the impediments described in the IDB-commissioned study (which were even more prominent back in 1997), the co-founders carefully designed Endeavor’s model to take a step-by-step approach to nurturing entrepreneurship in emerging markets. Through the six stages of Endeavor’s model (see diagram above) different actors are engaged and specific impediments to entrepreneurship removed.

Essential to Endeavor’s model are local ownership and accountability, guaranteed through Stage 1. Prior to formally entering a new country, Endeavor engages the local business community to form a board and Country Benefactor syndicate that will finance and guide the first four years of local operations. The local board, in turn, selects the local Managing Director to lead the day-to-day country operations. Within the prescribed framework of Endeavor’s proprietary methodology, codified through a “Global Affiliate Agreement,” the local board and staff are empowered to adapt the model to local circumstances.

Through its multi-step Search & Selection process (Stage 2), Endeavor identifies entrepreneurial leaders willing and able to take risks, create jobs, spread wealth, expand opportunities and inspire others with their passion and determination. Once selected, Endeavor Entrepreneurs gain access to local and global networks, services and programs designed to meet their needs and spur their companies’ growth (Stage 3). As the entrepreneurs and their businesses mature, Endeavor focuses on their role as future leaders, training its entrepreneurs to engage in private philanthropy and corporate social responsibility (Stage 6).

Beyond helping a select group of entrepreneurs, Endeavor works closely with local individuals and groups interested in learning about best practices in angel investing, venture capital and entrepreneur support networks (Stage 4). Endeavor also serves a public education function, sharing its institutional knowledge with thousands of local citizens through public conferences and speaker series, training workshops, published case studies, university partnership programs and the Endeavor website, www.endeavor.org. (Stage 5). Finally, Endeavor is leveraging its experience and relationships in Latin America to make policy recommendations to local governments (Stages 4, 5 and 6).

Between October 1997 and December 2001, Endeavor successfully piloted and replicated its innovative development model in four Latin American countries (Argentina, Brazil, Chile, Uruguay). Endeavor screened over 2,800 entrepreneur candidates from 1,700 companies from these countries and elected 82 outstanding entrepreneurs from 50 companies into the Endeavor Entrepreneur Network. The results are clear.

Endeavor Entrepreneur Growth Statistics: 1998-2000

- ▶ 5,700 jobs created, representing average compound annual growth of 69 percent.
- ▶ US\$870 million in financing raised, representing 72 percent of the entrepreneurs' companies.
- ▶ US\$390 million in revenues generated, representing average compound annual growth of 88 percent.

POLICY RECOMMENDATIONS

Recognizing the early positive results and long-term development impact of the Endeavor model, the Inter-American Development Bank awarded Endeavor with a three-year, US\$1.8 million grant in 2001. The primary purpose of this IDB grant is to help finance the launch of Endeavor in smaller Latin American countries, where local private sector funding would be difficult to raise. The success of Endeavor's model stems from a variety of factors, all noted as essential in the "Policy Implications and Recommendations" section of this Study.

First, Endeavor identifies and nurtures high-potential entrepreneurs, a number of whom are first-time entrepreneurs and most of whom do not come from family money.

Second, Endeavor has developed, tested, and refined a comprehensive and highly integrated approach to promoting entrepreneurship in emerging markets.

Third, Endeavor engages local leaders and institutions—businesses, universities, entrepreneur service organizations, and government—in its approach, and adapts its model to complement existing local initiatives.

Fourth, Endeavor takes a long-term approach to fostering economic development through entrepreneurship. Human capital, social capital, intellectual capital, and cultural

capital are as much a part of its value proposition as is financial capital. Non-profit status enables Endeavor both to weather market downturns and to focus on the people behind its companies and their development into role models and community leaders. At the same time, Endeavor's programs generate tangible short-term results.

Fifth, Endeavor's model helps enlarge the base of would-be entrepreneurs by establishing clear benchmarks for world-class entrepreneurs, by publicizing the local role models and success stories, and by collaborating with local universities to incorporate entrepreneurial case studies and experiential learning opportunities into the curricula.

Sixth, Endeavor places strong emphasis on entrepreneur support networks. All stages of the Endeavor model center on the continued development and expansion of entrepreneur support networks at the local, regional, and global levels. Initially these networks help Endeavor find and mentor a select group of high potential entrepreneurs; eventually, however, these become the base of much broader local networks, which in effect institutionalize Endeavor's work.

Seventh, Endeavor focuses on the importance of managerial teams. Through its eMBA and Global e-Lab programs, human resource training workshops, and ongoing network events, Endeavor transmits the importance of strong management teams and facilitates interactions among people with complementary skills.

Eighth, Endeavor facilitates business linkages among existing firms and would-be entrepreneurs, promoting the diffusion of knowledge and innovations.

Ninth, Endeavor unleashes the potential of new ventures by helping to eliminate barriers to the launch and early growth of new firms. Endeavor does this by acting as a "certification agent" for entrepreneurs and serving as a neutral bridge between financial providers and entrepreneurs. Endeavor also works with individuals and groups to develop solid local angel investor and venture capital communities. Together with these local financiers, Endeavor has made policy recommendations to local governments urging the reduction of senseless red tape and compliance costs.

Tenth, Endeavor involves a variety of institutions in promoting entrepreneurship—including local business

associations, chambers of commerce, universities and incubators, civil society organizations, and local government. Endeavor's role is that of catalyst and integrator, pooling together the combined efforts of many people and institutions to form a holistic approach to entrepreneurship promotion.

As outlined above, Endeavor already has put into practice—with a fair amount of success—the policy recommendations put forth in this important IDB study. As the report itself suggests, many of these societal effects will take place over years and will become apparent over a much longer term. Still, Endeavor's 2000 Impact Report demonstrates a number of tangible measures of success to date.

From my personal experience working in the Southern Cone of Latin America, the policy recommendations of this

study, which follow a clear presentation of the IDB's research results, are both practical and feasible. My only point of difference with the conclusion of the report lies in which actor is best suited to play the roles of catalyst and integrator of the desired "value-added institutional network." Based on Endeavor's experience, I would recommend a slightly different mix of roles for government, citizen sector organizations, universities, and the private sector. We have a foundational rule at Endeavor that catalytic, or start-up, funds and network support for a country must come from the private sector rather than from government. At least in the case of Latin America, where the government acts as primary catalyst for entrepreneurship, the private sector rarely follows. But where the private sector and civil society team up to promote entrepreneurship in a country, it is nearly always possible to look to government support for subsequent initiatives.

COMMENTS ON ENTREPRENEURSHIP IN EMERGING ECONOMIES

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Congratulations to the Inter-American Development Bank for this study, which has helped uncover some of the key factors that influence the differences in SME performance in Latin America and East Asia. In joint efforts with the Bank, we have undertaken several different projects to promote the business sector, in which we have seen the enormous potential of SMEs as a development factor. These projects have helped SMEs to professionalize their management within a context of coherent policies, thus enabling them to become competitive within a reasonable period of time.

This report corroborates several of the conclusions reached as a result of having analyzed more than 200,000 companies, 80 percent of them Latin American. Out of this total, we have chosen 50,000 to work with, after evaluating and confirming the entrepreneurial potential of their founders and the viability of their projects.

Despite the fact that this is an elite business sector, there have been growing indications over the last three years of high stress levels brought on by a situation of generalized uncertainty.

Stress conspires against the entrepreneurial force itself. It is fueled by the relative neglect that SMEs suffer in Latin America, where the global market phenomenon coincides with a lack of fluidity for accessing new technology sources, friendly financing, and an appropriate knowledge of business opportunities. With their motivations not fully satisfied, these businessmen-entrepreneurs lower their expectations and pursue a traditional and routine solution to their problem. And so it goes with hundreds of potential entrepreneurs as they submerge themselves in the search for steady employment, abandoning their venture in frustration or, in the best of cases, setting it aside as an alternative for a more predictable future.

The situation is very different in East Asia, as the comparative analysis shows us (chapter 2—acquiring the motivation to become an entrepreneur), where qualified work-

ers leave their secure jobs in established companies to start their own businesses. This is a consequence of a higher level of participation in the global economy.

We should ask ourselves what is wrong with large companies in Latin America where, for the most part, far from motivating their employees to become entrepreneurs, they eliminate them through dismissal, swelling the ranks of unemployed who, in general, are not necessarily in the best position to become entrepreneurs. Does this mean that this sector of large, established companies has not found new opportunities in the global economy?

In the same chapter, the report leads us toward some answers. While in East Asia, companies have always looked beyond their own borders, in Latin America they have taken longer to fully assimilate the new reality of a global market with practically no trade barriers. Without trying to justify this situation, it is important to remember that for decades the strong discretionary power of several internal markets in the region satisfied the growth and profitability expectations of a large part of the business sector in a number of countries. Only in the last two years, with foreign competition in their own backyards, have we seen a preventive and proactive reaction toward the conquest of other markets, even those beyond neighboring markets.

While all of this is true, it would not be completely fair to mention only the factors that negatively affect SMEs and to portray them as “victims.” Part of this frequent and recent “loss of direction” of Latin American entrepreneurs is due to their own individualistic attitude. The study addresses this issue (chapter 2—the inception stage) with certain benevolence towards the Latin entrepreneur, in our opinion. We respect this and, what’s more, we would like to base our work on an attitude that is close enough to and respectful of entrepreneurs, in order to assist them technically in the organization of more or less formal groups and to win their trust. This type of organization will permit them to work together, save time, and define new business opportunities and new markets.

For SMEs operating on the global market, the need to cooperate with one another becomes an essential aspect due to the inherent disadvantages they face: low production levels and lack of economies of scale, among others. The resistance of small business owners, subject to the rigors of market competition, will depend on their ability to relate to one another and on the strategic alliances they form with one another. Moving from individualistic entrepreneurship to collective entrepreneurship will be a determining factor for their survival.

Another aspect highlighted in the report, the importance of which we agree with, refers to contact networks. Beyond the personal networks that a dynamic entrepreneur may build, the institutions that implement support programs for SMEs would do them a service by rationalizing and "customizing" the multiple information networks that overwhelm today's entrepreneurs.

There are also cultural aspects to be taken into account in connection with the building of contact networks. Latin Americans, unlike their East Asian counterparts, attend more trade fairs and business conferences, and will probably do so for some time in the future as they view these venues as more promising than anything they might find on the Internet. This is still true in a large part of Western Europe and the Mediterranean.

The report shows very clearly the hurdles faced by Latin Americans in comparison to their Asian counterparts when it comes to accessing financing or guarantee funds. We are familiar with the trauma suffered by entrepreneurial initiatives in Latin America that depend on the granting of a loan. The financial system's indifference, in practice, to the entrepreneur's motivation is a frequent sight in Latin America. We underscore the words "in practice" since in most countries of the region there are public and private financing systems that are, in theory, considered to be special programs for SMEs.

Moreover, the constitutional charters of the leading national development banks explicitly state that the "institution's mission" is to contribute to development with programs that take the specific needs of the country's product and service sectors into account.

However, it is at the fund management level where gaps in decision-making and differences in value judgments on a particular loan application occur.

Even today, civil servants in the financial system are commended for minimizing risk, even at the cost of aborting new ventures that would generate jobs and currency for their country. The key does not lie in not minimizing risks, but rather in creating a culture that makes it possible for real dialogue to take place between the financial institutions and the entrepreneur, by presenting a well-founded professional project or credit application.

Even within large institutions which serve the business sector, it is necessary to create an entrepreneurial attitude which would be beneficial to the institution itself and consequently to its clients.

The report focuses with great precision on the education variable as another one of the determining factors in the differences identified between entrepreneurs in both regions. It is of the utmost importance to protect a person's freedom of vocational choice at any point in his or her life. Therefore, by not transgressing but rather by broadening this freedom, educational systems at all levels and using their respective methods would do well to promote entrepreneurial conduct all the way from primary school on through higher education.

Most importantly, universities need to place greater emphasis on entrepreneurship, by connecting it to specific ideas, projects, or enterprises. This would be a valuable contribution to society.

METHODOLOGICAL ANNEX

1. QUESTIONS AND HYPOTHESES OF THE STUDY

After reviewing the literature and carrying out interviews with key informants and entrepreneurs in the first stage of the study, a set of hypotheses was prepared to answer the main questions posed by the study. This section presents the basic questions and hypotheses relating to each stage and key factor. The reader must keep in mind that, given the very early stage of research into entrepreneurial development in the countries studied, these hypotheses were aimed fundamentally at guiding and organizing research in each country. Comparisons among countries, both at the regional and inter-regional levels, were made in this framework of questions and hypotheses, but also included a deeper analysis of the differences among countries. The study results go far beyond a simple verification of the hypotheses. The wealth of information gathered is the reason why the main document goes beyond the verification or rejection of the hypotheses.

a. The inception stage

(i) Acquiring the motivations to become an entrepreneur

At a certain moment, certain people begin to think about becoming entrepreneurs and find they like the idea. Such a decision may be vague, for example, in the case of a child or teenager following his father's role model; or it may be firmer, in the case of a student who has studied successful entrepreneurial case histories. These are the questions and hypotheses put forward:

- ▶ What initially motivates a person to think about becoming an entrepreneur?
- ▶ How does the entrepreneur's social context influence the motivational process?
- ▶ Where do they acquire the motivation and skills to be entrepreneurs?

The first hypothesis is based on the fact that creating and developing a business is a personal undertaking that goes beyond merely economic goals. The key

informants consulted during the first stage of the project indicated that the cultural context of the countries studied does not favor the entrepreneurial process. To better understand this factor, the following hypotheses were posed:

H1.1. Non-economic motivations play as fundamental a role as economic ones in the desire to be an entrepreneur.

H1.2. Aspiring entrepreneurs tend to encounter negative reactions from their most intimate circles when they declare their intention to become entrepreneurs.

H1.3. The role models presented by other entrepreneurs are not a significant source of motivation.

H1.4. The educational system plays a limited role in providing entrepreneurs with motivation and skills.

(ii) Identifying the business opportunity on which to base the new company

The aspiring entrepreneur identifies an opportunity and comes up with a business idea. At this point, he has still not taken any risks or given up his job.

- ▶ What are the main sources of business opportunities?
- ▶ How do entrepreneurs identify these opportunities?

Entrepreneurs do not operate in a vacuum. On the contrary, the dynamism of new companies is influenced by general business trends, by the way production is organized and by the strategies of existing companies. In this context, a set of hypotheses was developed to suggest that the most successful business ventures have a greater ability to identify and exploit the opportunities with the greatest growth potential. Taking advantage of these opportunities also depends largely on the ability of entrepreneurs to take part in networks of contacts. Networks of this type enable them to obtain, for example, essential information on unsatisfied needs and business ideas that have been successful in other contexts. An active search for various sources of information is fundamental.

H1.5. The most dynamic entrepreneurs take better advantage of business opportunities with large clients than less dynamic entrepreneurs.

H1.6. The commercial projects of the most dynamic entrepreneurs are based more on innovation than projects of their less dynamic counterparts.

H1.7. The most dynamic entrepreneurs take better advantage of growing market segments than the less dynamic entrepreneurs.

H1.8. Most entrepreneurs use their social networks to identify business opportunities.

H1.9. The most dynamic entrepreneurs use wider-ranging sources to identify opportunities than the less dynamic entrepreneurs.

(iii) Developing the business idea and specific venture

After identifying the opportunity, the entrepreneur must develop the business idea and the specific venture for his company.

- ▶ What information and planning tools do entrepreneurs use prior to starting up their businesses?

The business project may be a specific business plan or a less formal commercial scheme. To be successful, it is fundamental for the company to have a solid base of both economic and technical information, as well as the professional tools to enable the entrepreneur to correctly assess the business before start-up. To be sure that his decision is rational, the entrepreneur must compare it with the option of working as an employee.

H1.10. The most dynamic entrepreneurs seek out a wider range of economic and technical information than the less dynamic entrepreneurs.

H1.11. The most dynamic entrepreneurs use planning tools (for example, business plans) more frequently than their less dynamic counterparts.

H1.12. Before starting up a business, the most dynamic entrepreneurs calculate the opportunity costs more than the less dynamic do.

b. The start-up stage

(i) The final decision to start

The moment comes for the decision of whether or not to start the business up. Apart from convincing themselves, entrepreneurs must persuade their families and give up their job to concentrate on organizing and launching the new company. Once an entrepreneur has made this decision, he/she has burned his bridges. A great deal is at stake here. This final decision is the result of assessing the non-economic factors that motivate the entrepreneur, as well as the economic conditions that will make it all work.

- ▶ How do entrepreneurs make the final decision to begin a business?

H2.1. Non-economic factors play a significant role in the final decision to start up a business.

H2.2. Available funding is one of the main considerations when deciding whether to start up a business.

(ii) Networks and access to and use of the resources necessary to begin

The entrepreneur's goal at this stage is to obtain different kinds of essential resources (information, technology, funds, human capital, materials, and so on) and organize them to get the business underway.

- ▶ How do they gain access to the financial and non-financial resources necessary for starting business? And how do they mobilize them?

The entrepreneur's previous work experience, training and contact networks affect the access she/he has to the resources necessary to start up the business. Work experience and education also contribute to establishing these networks. Also, due to the lack of supportive financial systems, entrepreneurs must fall back essentially on their personal savings, while finding alternative ways of accessing and mobilizing resources. Networks are especially important for companies in the knowledge-based sector, given the intangible nature of a large part of the resources they need (information, technology, etc.), and also because of the greater risks implicit in such projects and the difficulty involved in evaluating them. This is also true in local areas with a strong SME presence, due to their greater reliance on corporate capital. The way companies are financed also depends on the entrepreneur's attitude. And

finally, having more efficient networks should mean that the most dynamic entrepreneurs require less time to gestate and set up their business projects.

H2.3. Work experience is a key factor for obtaining the resources necessary for starting up a business.

H2.4. Educational level is a key factor in the ability to obtain the resources necessary to start up the business.

H2.5. The most dynamic entrepreneurs make more use of their networks to gain access to non-financial resources (for example information, technology, and other resources) than the less dynamic ones.

H2.6. The networks of knowledge-based companies play a bigger role in terms of access to non-financial resources than those of companies in the conventional sector.

H2.7. Entrepreneurs' networks play a bigger role in terms of access to non-financial resources in local areas than in metropolitan areas.

H2.8. Personal savings and family funds are significant at the inception stage, providing the resources that entrepreneurs need to get started.

H2.9. The main sources of financing for entrepreneurs do not vary from sector to sector.

H2.10. The make-up of funds reflects the entrepreneur's attitude to external funding sources.

H2.11. Once they have begun thinking about the possibility of starting a business, the most dynamic entrepreneurs make the final decision more quickly than their less dynamic colleagues.

c. The early development stage

The entrepreneur has now invested resources and incurred costs. By definition, the early development stage begins when the company has been established and begins operations. However, in order to survive and develop, it must face the challenges involved in running a new company:

entering the market, facing the competition with suitable strategies, and overcoming initial problems.

(i) Entering the market

- ▶ What factors affect entry into the market?

The most dynamic companies enter the most challenging markets, where the competition is strongest.

H3.1. The most dynamic entrepreneurs enter markets with higher levels of competition compared to their less dynamic colleagues.

(ii) Company management in the early years

Having entered the market, the company faces a set of problems associated with, for example, financial management, the supply of raw materials and equipment, operational management, the hiring and management of human resources, and general administration. In addition to assessing the relative importance of the various problems, it is fundamental to know how the most dynamic companies deal with them. Diversification of financing sources to make expansion viable, and the support of social and commercial networks are critical factors.

- ▶ What are the main problems facing entrepreneurs at this stage?
- ▶ How do they finance their operations and growth?
- ▶ How do they face these problems?

H3.2. Entrepreneurs use more sources of external financing during the early development stage than they do at start-up.

H3.3. The most dynamic entrepreneurs make more use of their social networks to solve problems than the less dynamic do.

H3.4. The most dynamic entrepreneurs make more use of their commercial networks to solve problems than the less dynamic do.

H3.5. The support offered by institutions is not significant at the early development stage of dynamic enterprises.

2. ON THE GATHERING AND ANALYSIS OF INFORMATION

As the basis for fieldwork, the same questionnaire was used in all the countries. This was completed during personal interviews, except in Japan, where it was received by ordinary mail. Fieldwork was done between November 2000 and February 2001. To control the consistency of the information, rigorous quality control procedures were applied in the same way in all the countries. Telephone calls were made to verify that questionnaires sent by e-mail had been completed by the entrepreneurs themselves, and to clarify any doubts or problems in order to understand the answers. Inconsistencies or ambiguous responses that could not be clarified were rejected. To be included in the study, 90 percent of the answers on any given questionnaire had to be valid.

On the basis of the results of the fieldwork, a comparative inter-regional study was made of eight countries, four in East Asia (Japan, Korea, Singapore, Taiwan) and four in Latin America (Argentina, Mexico, Brazil, Peru). An ad hoc study carried out in Costa Rica, on the basis of the same methodology, was also used. The Costa Rican study grew out of a local initiative that began after this project had already started. For this reason, even though this country was included in the analysis, the regional aggregate charts do not include information from Costa Rica.

To analyze the information on a common minimum base, the teams of regional coordinators prepared a set of charts that were used by all the teams in each country. The SPSS® computer program was used to design and build a data-base for each country, as well as aggregate regional results. This allowed cross tabulations and other statistical measurements to be obtained.

To determine if there were significant statistical differences among the groups compared throughout the course of the research (the target group compared with the control group; knowledge-based sectors compared with conventional sectors; metropolitan areas compared with local areas, and so on), the Pearson chi-square test was used. A statistical relevance level of 90 percent was used in all the countries for accepting or rejecting the hypotheses. Finally, to examine the most distinctive features of dynamic enterprises and entrepreneurs, the CHAID (CHI-SQUARE AUTOMATIC INTERACTION DETECTOR) technique was applied. This technique requires a categorical dependent variable and various independent or predictive variables, which when combined enable the identification of the most distinctive characteristics of the group under study: in this case, dynamic enterprises as compared to other enterprises. Its use is limited to nominal and ordinal variables and makes no supposition of normality.

BOX A 2-1: SOME DETAILS ON THE STEPS INVOLVED IN APPLYING THE CHAID

- ▶ Definition of the variable to be explained and of the predictive variables.
- ▶ Development of cross tabulations between predictive variables and the dependent variable.
- ▶ Calculation of the Chi-square test for each table consisting of each pair of categories that could be combined and the dependent variable.
- ▶ The pairs of categories with differences that are not statistically significant, are put in a single category, in accordance with the Chi-square test as adapted by Bonferroni. When more than three categories are combined, the statistical relevance of this combination is assured. Among the significant pairs, the combination is made for the most similar categories (those with the smallest χ^2) with few observations.
- ▶ The process is repeated until all the sub-groups have been analyzed or until the groups become too small.

The final result is information on the variables, a tree diagram or dendrogram, cross tables for each level of segmentation, and gain tables.

3. QUESTIONNAIRE USED FOR FIELDWORK

A. BACKGROUND INFORMATION

FIRM'S BACKGROUND

A1. Company name	
A2. Phone/fax number	
A3. E-mail address	
A4. Year of starting your business	
A5. Address (street, number, city, country)	

A6. Size

	(1) The year you started the business	(2) Three years later	(3) Now
a) Sales (\$)			
b) Number of employees *			
c) Exports (approximate % of sales)			

* Expressed in terms of full time employees (e.g., 2 part-timers = 1 full-time employee)

A7. Primary business activities (please tick (X))

1. Knowledge-based industry*	
2. Conventional industry**	

*Advanced sectors based on IT, biotechnology and others

**Other than 1

Please describe the primary business in detail: _____

A8. Initial investment in the first year of operation (current US\$)

1. < 500,000	
2. 500,000 to 1,000,000	
3. > 1,000,000	

A9. Entrepreneurial team

a) Number of founding partners		b) Number of current partners	
Please choose 1, 2 or 9 both for c) and d)			
	1. All of the partners possess the same roles/skills	2. The partners' roles/skills are specialized and complementary	9. N.A.
c) In the start-up			
d) Now			

ENTREPRENEUR BACKGROUND

A10. Name	
A11. Title	

A12. Age

a) Current		years old
b) When started to think of becoming an entrepreneur		years old
c) When started your first venture		years old
d) When started the current venture (if applicable)		years old

A13. Gender

1. Male	
2. Female	

A14. Work experience (Please tick all that apply to you.)

1. Was an employee in an SME sectorally similar/related to the present firm (e.g., same line, suppliers, customers)	
2. from another sector but in a function related to the present firm	
3. from a completely different sector	
4. in a large firm sectorally similar or related to the present firm	
5. from another sector but in a function related to the present firm	
6. from a completely different sector	
7. Was an entrepreneur of an SME sectorally similar or related to the present firm	
8. from another sector but in a function related to the present firm q	
9. from a completely different sector	
10. in a large firm sectorally similar or related to the present firm	
11. from another sector but in a function related to the present firm	
12. from a completely different sector	
13. Others (please specify)	

A15. Education

	Unfinished	Graduated
a) High school		
b) Technical school		
c) Undergraduate in business/economics		
d) Undergraduate in engineering		
e) Undergraduate in other fields		
f) Postgraduate in business/economics		
g) Postgraduate in engineering		
h) Postgraduate in other fields		

A16. Parents' occupation (when you were a child)

	a. Father	b. Mother
1. Entrepreneur		
2. Executive/manager		
3. Self-employed professional		
4. Employee		
5. Other		

A17. In this section we would like your reaction to the following statements. There is no right or wrong answer; it is your perception that we are seeking 1: Disagree completely, 2: Disagree, 3: Neutral, 4: Agree, 5: Agree completely, 9: Not applicable

	1	2	3	4	5	9
a) I often take great risks when making decisions related to my business.						
b) I would rather run the risk of facing losses now than to realise afterwards that I missed a great opportunity.						
c) If I am not prepared to take calculated risks in business I cannot expect to make large profits.						
d) One should not think long about a risky situation.						
e) There is a certain tempting moment of game and excitement in risk-taking.						

A18. Social origin of your family (consider socio-economic aspects). I was born in a...(This item is optional and can be omitted by individual country teams.)

1. High class family	
2. Upper-middle class family	
3. Middle class family	
4. Lower-middle class family	
5. Low class family	

B. INCEPTION STAGE

HOW DID YOU GET MOTIVATED?

B1. When you started to think of becoming an entrepreneur, how important was each of the following motivations? (1: not important, 2: a little important, 3: important, 4: very important, 9: N.A.)

	1	2	3	4	5	9
a) To be your own boss						
b) For self-realization						
To become like an entrepreneur you admired:						
c) Parents						
d) Friends						
e) Somebody in your town						
f) Somebody in the media						
g) To contribute to society						
h) To obtain social status						
i) To follow family tradition of being in business						
j) Because you were unemployed then						
k) Because you could not go further in education						
l) To become wealthy (stock)						
m) To improve income (flow)						

B2. When you revealed your idea to be an entrepreneur, how did surrounding people react? (1: strongly negative, 2: negative, 3: neutral, 4: positive, 5: strongly positive, 9: N.A.)

	1	2	3	4	5	9
a) Nuclear family*						
b) Other family members						
c) Friends						
d) Colleagues						
e) Previous bosses						
f) Teachers						

* Spouse (if married), or parents (if single)

B3. If the reaction of your family was negative, in general that was because...

	1. To be an entrepreneur is risky.	2. Society does not respect entrepreneurial endeavors as highly as other careers.	3. Both 1 and 2	4. Other
a) Nuclear family				
b) Other family members				

B4. Regarding each of the following entrepreneurial competencies (a–n), please tick (X) for the main useful background (1–6):

(Please do not tick if none of the following were useful)

	EDUCATIONAL SYSTEM			4. Training courses	5. Work experience	6. Family context
	1. Up through high school	2. Technical institute	3. University courses			
a) Problem solving						
b) Business motivation						
c) Social relation skills						
d) Taking on risk/uncertainty						
e) Negotiating skills						
f) Teamwork						
g) Creativity						
h) Technical knowledge						
i) Marketing						
j) Administration						
k) Willingness for hard work						
l) Planning skills						
m) Communication skills						
n) Ability to motivate people						

HOW DID YOU TAKE ADVANTAGE OF THE OPPORTUNITIES?

B5. What type of clients did your business have in starting up?

1. Individual consumers:	Go to B7
2. Corporations which previously produced your current products/services:	Go to B6
3. Corporations which did not previously produce your current products/services:	Go to B6

B6. If your answer to B5 is 2 or 3(corporations), please indicate the type and size of the companies.

	(1) Large Firms	(2) SMEs
a) Manufacturing		
b) Services producers		
c) Trading companies		
d) Retail companies		
e) Others		

B7. a) Were your products/services already offered in the country when you started to provide them?

b) If so, where was the origin? (please tick)

a) 1. Offered in the country		0. Not offered in the country	
b) Origin:	1. Domestic		2. Imports
			3. Both

B8. Which of the following best describes your company's product/service when it started?

1. Innovative in the international market	
2. Innovative only in the domestic market	
3. Competitive in terms of product differentiation	
4. Similar to already existing products, but competitive in terms of lower price	

B9. Which of the following best describes the market situation when you decided to launch the venture?

1. Demand was increasing	
2. Demand was stable	
3. Demand was declining	

HOW DO YOU IDENTIFY OPPORTUNITIES?

B10. Did the following sources provide information that helped you identify your business idea?

	0. No	1. Yes
a) Interacting/discussing with other people		
b) Internet		
c) Television, radio		
d) Visiting a trade fair		
e) Reading a newspaper article		
f) Reading a magazine article		
g) Reading academic papers		
h) Experience in a previous job/task		

* If the answer to question B10 a) was yes, please go to B11 and B12; if not, please go to B13.

B11. How many people were important in providing that information? <inception stage>

1. 0 * <input type="checkbox"/>	2. 1 to 3 <input type="checkbox"/>	3. 4 to 8 <input type="checkbox"/>	4. 9 to 15 <input type="checkbox"/>	5. 16 to 30 <input type="checkbox"/>	6. >30 <input type="checkbox"/>
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* Go to B13

B12. The three most important persons among the above and their main characteristics (please circle the appropriate category as indicated in the notes)

Person	(1) Relationship with you (at that time)	(2) Occupation	(3) Current link with your firm	(4) Social origin	(5) Localization
a) 1 st	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5	1 2 3	1 2 3
b) 2 nd	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5	1 2 3	1 2 3
c) 3 rd	1 2 3 4 5 6 7	1 2 3 4 5 6 7	1 2 3 4 5	1 2 3	1 2 3

- (1) 1: Friend; 2: Relative; 3: Acquaintance; 4: Colleague; 5: Commercial relation; 6: Unknown person introduced by 1-5; 7: Unknown person met by chance
 (2) 1: Executive of a large firm; 2: Executive of an SME; 3: Professional (advisor/accountant, etc.); 4: Banker; 5: Member of an institution supporting SMEs; 6: Employee; 7: Others
 (3) 1: Supplier; 2: Customer; 3: Competitor; 4: Partner; 5: None
 (4) 1: Relatively similar to your family's; 2: Considerably higher than your family's; 3: Considerably lower than your family's
 (5) 1: Your own city; 2: Other city in your country; 3: Abroad

WHAT ARE THE MAIN FACTORS THAT INFLUENCED THE FINAL DECISION TO START UP?

B13. Principal events

a) Indicate the year when you got the idea	
b) How many months did it take to make the final decision to start after you got the idea indicated in a)?	months
c) How many months did it take to launch the venture after you made the final decision to start?	months

B14. To what extent did each of the following economic factors affect your decision to become an entrepreneur?

(1: strongly negative, 2: negative, 3: neutral, 4: positive, 5: strongly positive, 9: N.A.)

Economic factors	1	2	3	4	5	9
a) Tax level						
b) Compliance cost*						
c) Risk of bankruptcy						
d) Availability of finance						
e) Number and size of competitors						
f) Size and growth of the market						
g) Expected growth of the national economy						
h) Family income/assets						
i) To make a fortune						
j) To have a better income						
k) Availability of public support (e.g., training)						

* Related to regulatory or statutory requirement

B15. To what extent did each of the following non-economic factors affect your decision to become an entrepreneur? (1: not important, 2: a little important, 3: important, 4: very important, 9: N.A.)

Non-economic factors	1	2	3	4	5	9
a) To gain social reputation/status						
b) To be your own boss						
c) To have influence in your community						
d) To be confronted by continuous challenges						
e) For self-realization						
f) To be like a person you admire (father, friend, somebody in your town)						
g) To contribute to society						
h) Because you were unemployed						

B16. What is the approximate weight of economic and non-economic factors in your final decision to become an entrepreneur?

Economic factors:	%
Non-economic factors:	%
Total	100%

HOW IMPORTANT IS RELEVANT INFORMATION BEFORE THE START-UP TO THE VENTURE'S SUCCESS?

B17. Did you have the following information before starting the venture?

	0. No	1. Yes	9. N.A.
a) Size of plant required to be competitive			
b) Size of investment required to be competitive			
c) Technical knowledge to be competitive or how to access it			
d) Number and characteristics of potential competitors			
e) Size of the market			
f) Characteristics of the market			
g) Distribution channels and how to access them			

B18. In order to make the decision of starting the business yourself or with professional help, did you elaborate:

	0.No	1.Yes
a) A comprehensive business plan		*
b) A projected cash flow for the first few years of the venture		*
c) A calculation of the internal rate of returns		*
d) A calculation of the period needed to recover the investment		*
e) Approximate projections for sales and cost figures of the venture		
f) A calculation of the personal income you could expect to have in the future		**

B19. If the answer to a), b), c), or d) of B18 was yes*, did you compare the figures with expected returns from alternative projects?

0.No	
1.Yes	

B20. If the answer to f) of B18 was yes, did you compare the figures with the incomes you would expect as an employee?**

No	
Yes	

C. START-UP STAGE

**HOW DID YOU GET ACCESS TO RESOURCES?
WHAT FACTORS INFLUENCE THE MOBILIZATION OF RESOURCES?**

C1. Please indicate to what extent you have used the following sources to finance your start-up. Please check for all applicable items (1: not at all; 2: limited; 3: moderate; 4: great)

	(1) Start-up stage				(2) Early development stage			
	1	2	3	4	1	2	3	4
INTERNAL SOURCES								
a) Personal savings of founding partners								
b) Relatives/friends								
c) Personal credit cards								
EXTERNAL SOURCES								
d) Private investors who are not relatives/friends								
e) Venture capital firms								
f) Banks:								
f.1) Loans								
f.2) Overdrafts								
g) National public institutions:								
g.1) Loans, guarantees								
g.2) Grants								
h) Local governments:								
h.1) Loans, guarantees								
h.2) Grants								
OTHER SOURCES								
i) Clients (advances)								
j) Suppliers (trade credits)								
k) Factoring								
l) Postponement of tax payment								
m) Postponement of payment for services								
n) Postponement of wages payment								
o) Buying second-hand equipment instead of new								
p) Other (please specify)								

C2. If you did not use the above external sources d) - h), why? (Please tick items that apply to your case)

a) Additional capital was not relevant/necessary.	(go to C3)
b) I preferred to avoid external financial sources for reasons of business control, debt risk, or lack of faith in institutions.	

External sources	(1) d) Private investors and e) Venture capital firms	(2) f) Banks	(3) g) National public institutions and h) Local governments
c) The source was not appropriate for my needs (high interests, overly high requirements for information/collateral/guarantee).			
d) I did not have the information about the source.			

C3. If your venture got only very limited access or no access at all to external sources at start-up, how did you cope with the situation?

	0.No	1.Yes
a) The venture started smaller than what was considered desirable to be competitive.		
b) The venture started later than it should have for it to be competitive.		
c) A partner was needed.		
d) The venture started with a less-than-desirable level of technology.		
e) Large client or supplier support was needed.		
f) Other		
g) The limited access did not have any important effects.		

C4. Please indicate which of the following sources contributed to the resource procurement to start the venture.

Sources	(1) Information		(2) Key technology		(3) Other useful resources (e.g., raw materials, facilities)	
	0. No	1. Yes	0. No	1. Yes	0. No	1. Yes
a) Friends						
b) Relatives						
c) Acquaintances						
d) Unknown person introduced by a), b), or c)						
e1) Suppliers located in the same region						
e2) Suppliers located in other regions						
f1) Customers located in the same region						
f2) Customers located in other regions						
g) Other colleagues						
h) Teachers						
i) Universities						
J) Public institutions						
k) Trade associations						
l) Other (specify)						

C5. How many people facilitated your access to necessary resources through your interactions with them. <start-upstage>

1. 0 <input type="checkbox"/>	2. 1 to 3 <input type="checkbox"/>	3. 4 to 8 <input type="checkbox"/>	4. 9 to 15 <input type="checkbox"/>	5. 16 to 30 <input type="checkbox"/>	6. >30 <input type="checkbox"/>
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C6. To what extent were the following sources important in getting access to the resources you needed to start up? (1: not important, 2: a little important, 3: important, 4: very important, 9: N.A.)

Sources	(1) Key technology					(2) Other resources				
	1	2	3	4	9	1	2	3	4	9
a) Work experience										
b) Education at the undergraduate level										
c) Education at the postgraduate level										

D. EARLY DEVELOPMENT STAGE

WHAT FACTORS AFFECT EARLY DEVELOPMENT?

WHAT WERE THE MAIN PROBLEMS YOU FACED IN THE FIRST THREE YEARS AND HOW DID YOU SORT THEM OUT?

D1. How was the market competition during the first 3 years?

	1. Very Low	2. Low	3. Medium	4. High	5. Very High
a) Intensity of competition					

	1. SMEs	2. Large Firms
b) Size of predominant competitors		

D2. How did your company compare with your main competitor in the first three years?

	1. Lower	2. More or less similar	3. Higher	9. N. A.
1) Price competitiveness				
2) Quality				
3) Service				
4) R&D, design				
5) Marketing				
6) Delivery				
7) Financial condition				
8) Economic/social segment of clients				

D3. (1) What were the main problems in the first three years after the start-up? (multiple answers are OK) (2) Have they been solved? (Please tick the solved problems)*

	(1) Main Problems	(2) Solved
a) To get information about the market		
b) To get clients		
c) To get suitable suppliers		
d) To hire managers		
e) To hire skilled workers		
f) To have suitable equipment		
g) To manage/operate the venture		
h) To finance and manage the cash flow		
i) To manage operations of a factory		
j) To certify quality standard		
k) To adapt the product/services to the customer need		
l) To manage the relationship with large clients		

* Question (2) is optional and can be omitted by individual country teams.

D4. Of the solved problems indicated in D3, with what support was that accomplished?

1. Public institutions	
2. Trade associations	
3. Consulting firms	
4. Suppliers/customers	
5. Family/friends	
6. Colleagues	
7. Universities/Research institutions	
8. None of the above: only with internal resources	

D5. Please estimate the approximate number of persons outside your business with whom you discussed relevant aspects of your business during the first years of your venture <early development stage>:

1. 0 ()	2. 1 to 3 ()	3. 4 to 8 ()	4. 9 to 15 ()	5. 16 to 30 ()	6. >30 ()
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D6. Please evaluate the importance (1: not important, 2: a little important, 3: important, 4: very important) of that interaction in order to:

	1	2	3	4
a) Get clients				
b) Get good suppliers/subcontractors				
c) Hire good employees				
d) Get information about the business context				

This publication is also available in Spanish. The summary report is available in English, Spanish, Portuguese, and Japanese.

To learn more about the study, enter <http://www.iadb.org/sds/sme> or http://www.iadb.org/sds/ifm_s.htm. The tables of statistics the study was based upon will be posted in the same website.



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