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THE IMPACT OF GLOBALIZATION ON LATIN AMERICA TASK FORCE



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“Globalization and Entrepreneurship in Latin America”

by

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Introduction

Globalization is raising the competitive stakes for everyone, particularly in the rich world, and it is being driven by developing economies. Developing countries are becoming hotbeds for business innovation, with innovations such as \$3000 cars, \$300 computers and \$30 mobile phones that provide nationwide unlimited service for just 2 cents per minute; all of which are



changing the traditional view that innovation happens in the developed world and is then transferred to the developing world.¹ Further, it is not only innovation of products, but also of systems of production and distribution, supply-chain management, recruiting and retention. Essentially, every business process and model is being reinvented.

In all cases, entrepreneurial thinking, entrepreneurial craftsmanship, entrepreneurial enterprises (large and small) and, above all, entrepreneurial individuals are impacted by—and are in turn impacting—the continuing and increasing phenomenon of globalization.

The most important factors in the globalization of entrepreneurs are technology and the falling costs of communications.² The success of entrepreneurship is driven by technological changes such as the personal computer, the mobile phone and the Internet. These changes have democratized entrepreneurship.³ Entrepreneurs can come from anywhere in the world and can reach customers anywhere from the day they open their doors. Thanks to the Internet, entrepreneurs can cheaply and quickly start a company and reach millions of potential customers from anywhere in the world. Similarly, mobile phones have revolutionized communication and business, particularly in developing countries where the infrastructure for landlines is poor or nonexistent. In Bangladesh, Grameen Bank provides microfinancing for Bangladeshi women, called phone ladies, who carry mobile phones with long-lasting batteries and sell time on their phones to local villagers. There are over 270,000 of these phone ladies in Bangladesh.⁴

Another factor that has traditionally transformed and shaped internationalization is foreign direct investment (FDI), which is now flowing to China in a disproportionate amount. For entrepreneurs, the “China price” presents tough competition and, as a result, only the most competitive and efficient entrepreneurs survive. India, on the other hand, has led the internationalization of information technology.⁵

An obvious consequence of globalization is that local companies, able to quickly and cheaply experience what is happening around the globe, are dreaming big dreams, driven by a mixture of ambition to expand worldwide and fear that cheaper competitors will penetrate the market. The number of companies from BRIC countries (Brazil, Russia, India and China) on the *Financial Times* 500 list more than quadrupled between 2006 and 2008, from 15 to 62.⁶ But this change is not just supply driven; customers in developing countries are also getting richer faster than their developed country counterparts, and, as a result, are demanding more products and services. However, consumers in emerging markets are hard to reach, tend to be more varied and volatile than those in mature markets and do not yet have strong brand loyalty. Companies in these

1 A. Wooldridge, “The World Turned Upside Down,” *The Economist*, April 15, 2010: 2.

2 A. Wooldridge, “Global Heroes,” *The Economist*, March 14, 2009,
http://www.economist.com/node/13216025?story_id=13216025.

3 A. Wooldridge, “An Idea Whose Time has Come,” *The Economist*, March 14, 2009,
<http://www.economist.com/node/13216025>.

4 Ibid.

5 J. Haar and J. Meyer-Stamer, *Small Firms, Global Markets: Competitive Challenges in the New Economy*. New York: Palgrave Macmillan, 2008: 11.

6 A. Wooldridge. “The World Turned Upside Down,” *The Economist*, April 15, 2010: 1.



markets have an advantage over their Western counterparts and are able to connect with potential customers through strategies such as product demonstrations in department stores.

Some notable examples of successful entrepreneurial companies from emerging markets that have become multinationals are Lenovo and South African Breweries. Lenovo did not exist in 1990, yet five years ago it bought IBM's personal computer business and it is now the fourth largest PC maker. Similarly, South African Breweries was a local brewer in 1990 and today it is one of the top-three largest beer companies in the world.

Another major change brought about by globalization is the rise of "born global" firms. Many entrepreneurs start global, rather than starting local and expanding globally. "Born global" firms not only find opportunities for their products or services globally, but they also search for materials, talent and factors of production globally. For example, EyeView is a company that uses "rich media" (a combination of video and audio) to teach customers how to use websites. Most of EyeView's customers are international, the company is now headquartered in Tel Aviv and its founders are originally from Boston, Sydney and Tel Aviv.⁷

The Case of Latin America

Entrepreneurship in the context of neoliberal reform is vividly illustrated in the case of Latin America within the context of the "Washington Consensus." The Washington Consensus was established during the last part of the 1980s. The idea behind it was to orient policy makers in the developing world, and particularly to help weak Latin American economies recover from the debt crisis. The consensus focuses on macroeconomic issues such as finance and trade, by improving banking systems and keeping interest and exchange rates reasonable. It also suggested that investment in infrastructure and basic education would increase through privatization and deregulation.

The Washington Consensus boosted entrepreneurship through measures that improved the economic environment. For example, fiscal discipline contributes to macroeconomic stability, and investment in human and physical capital empowers potential entrepreneurs. However, the consensus failed to reproduce a vital element of the U.S. economy: "support for entrepreneurship." Carl Schramm proposes a four-sector entrepreneurship model⁸, consisting of:

- (a) *High-impact entrepreneurs*: people who start businesses need not be scientists or inventors of new products themselves.
- (b) *Large, mature firms*: new companies require money, skilled people and other resources. U.S. entrepreneurs often obtain these things from mature firms, and U.S. corporations have learned to use new companies as reliable sources of innovation.
- (c) *The government*: it uses some of its tax revenues to foster new businesses.
- (d) *Universities*: they generate a constant flow of ideas for new businesses.

⁷ "Magic Formula," *The Economist*, March 12, 2009, <http://www.economist.com/node/13216077>.

⁸ C. Schramm. "Building Entrepreneurial Economies," *Foreign Affairs*, 83, 4, 2004.



Governments, especially those in developing countries, are less efficient compared to the market in allocating resources. Entrepreneurs acting through markets and supported by market-friendly institutions are usually the best agents for achieving economic growth and development. For example, import substitution and export promotion policies had an impact on development, but support for entrepreneurship and its aggressive resource allocation and mobilization would have generated a more tech- and innovation-based economic growth.⁹ Additionally, entrepreneurs fill in the gaps left by incomplete and underdeveloped markets through positive externalities such as demonstration effects, knowledge dissemination and network externalities.

An entrepreneurship-based development strategy that creates the institutions and incentives for productive, innovative entrepreneurship can positively impact growth and development in developing countries by: (1) removing many of the distortions currently present in their markets; (2) encouraging human-capital development; (3) better allocating scarce resources through market processes; and (4) providing employment alternatives to the public sector.

There have been important improvements in Latin America over the last decade in all areas of interest to the Washington Consensus, especially in Brazil in basic education (even if it remains below the Organisation for Economic Co-operation and Development average). Exceptions such as Venezuela, Paraguay, Nicaragua, Bolivia and Ecuador still need institutional development, clear regulation for certain industries, infrastructure and basic education. (See Table 1, where the economic liberty index includes measures for economic openness, regulatory efficiency, the rule of law and competitiveness.)

Table 1: Economic Liberty Index

11	Chile	49	Costa Rica	99	Honduras
33	Uruguay	59	Panama	113	Brasil
39	El Salvador	77	Paraguay	138	Argentina
41	Peru	79	Guatemala	147	Bolivia
45	Colombia	90	Rep. Dominicana	175	Venezuela
48	Mexico	98	Nicaragua		

Sources: The Wall Street Journal and The Heritage Foundation January 2011

The Washington Consensus approach to development – which stresses privatization of state-owned companies and the freeing up of local business environments to help existing firms – has already had a positive impact on large firms. But more needs to be done to induce a real symbiosis between established firms and universities with entrepreneurs. Latin American countries must establish conditions that allow entrepreneurship to flourish: favorable business policies and regulations and access to investment and human capital.

Macroeconomic Stability as the Anchor of Entrepreneurship

Macroeconomic stability, understood as openness of finance and trade, good banking systems, reasonable interest and exchange rates, and stable tax structures, is important for new firms.

⁹ Z. Acs and N. Virgill, “Entrepreneurship in Developing Countries,” *The Jena Economic Papers*, 2009.



Expectations and perception have much to do with the choice of becoming an entrepreneur. Entrepreneurs expect to succeed despite the statistical odds against it. Furthermore, their perception of all other opportunities must be such that those other opportunities are seen as less desirable than attempting to create a business on their own.

External macro factors determine the likelihood of success between the entrepreneur's two choices: entrepreneurship or traditional employment. For example, GDP growth, which is an indicator of the economy's health, is correlated with the level of entrepreneurship. Another is unemployment: during periods of relatively high unemployment, individuals fear suffering extended periods of unemployment or underemployment (a position that does not maximize a person's potential productivity). These individuals may find entrepreneurship more attractive.

Tables 2 and 3 show total GDP and GDP per capita of several Latin American nations. Fortunately, inflation is now far more controlled in this group of countries, decreasing from an average of 48 percent per year in the 1980s to only 11.1 percent in 2008 and 7.6 percent in 2009.

Table 2: GDP Annual Rates of Growth (%)

<i>Year</i>	<i>Argentina</i>	<i>Brazil</i>	<i>Chile</i>	<i>Colombia</i>	<i>Mexico</i>	<i>Uruguay</i>	<i>Venezuela</i>
1997	8.1	3.3	6.6	3.4	6.8	5	6.4
1998	3.9	0.1	3.2	0.6	5	4.5	0.3
1999	-3.4	0.8	-0.8	-4.2	3.8	-2.8	-6
2000	-0.8	4.4	4.5	2.9	6.6	-1.4	3.7
2001	-4.4	1.3	3.4	1.5	0	-3.4	3.4
2002	-10.9	1.9	2.2	1.9	0.8	-11	-8.9
2003	8.8	0.5	3.9	3.9	1.4	2.2	-7.7
2004	9	4.9	6.2	4.8	4.2	11.8	17.9
2005	9.2	2.3	6.3	5.1	3	6.6	9.3
2006	8.5	4	4.6	6.7	4.9	4.3	9.9
2007	8.7	6.1	4.6	6.9	3.3	7.5	8.2
2008	6.8	5.1	3.7	2.7	1.5	8.5	4.8
2009	0.9	-0.2	-1.5	0.8	-6.5	2.9	-3.3

Sources: World Bank. World Development Indicators. <http://www.worldbank.org/> (2006-2009) and www.eclac.org (1997-2005)

Latin America has exhibited high growth potential as well as high sensitivity to increases in aggregate demand, but its economies have been prevented from realizing their full potential by the generalized adoption of contradictory macroeconomic policies, even within the Washington Consensus. However, there has been a recent shift in countries like Chile, Colombia, Brazil, Mexico, Uruguay, Peru, Costa Rica and Panama, which are now making great progress in realizing their full potential.

Idle resources, such as unemployment and underutilization of invested capital, are two very important measures of potential growth. As seen in Table 4, labor unemployment is widespread in the region. Even worse, open unemployment figures do not tell the whole story because



precarious or informal employment is very common. The estimated figures for informal employment as a percentage of the labor force for selected countries were as follows at the beginning of the past decade: Argentina, 42.5 in 2002; Brazil, 46.2 in 2001; Mexico, 47.2 in 2002; Uruguay, 45.7 in 2002; Venezuela, 56.5 in 2002. The figure was high even in Chile (32.5 in 2000), where the rate of growth has been well above the regional average for more than two decades.

Table 3: Per capita GDP Annual Rates of Growth (%)

<i>Year</i>	<i>Argentina</i>	<i>Brazil</i>	<i>Chile</i>	<i>Colombia</i>	<i>Mexico</i>	<i>Uruguay</i>	<i>Venezuela</i>
1997	6.9	1.7	5.1	1.5	5	4.3	4.2
1998	2.7	-1.4	1.9	-1.3	3.3	3.8	-1.6
1999	-4.4	-0.7	-2	-6	2.1	3.6	-7.8
2000	-1.8	2.9	3.2	1.1	5	-2.2	1.8
2001	-5.4	-0.2	2.2	-0.3	-1.5	-4.1	1.5
2002	-11.7	0.4	1	0.2	-0.7	-11.7	-10.5
2003	7.8	-0.9	2.8	2.1	0	1.5	-9.3
2004	8	3.4	5	3.1	2.7	11	15.8
2005	8.2	0.9	5.2	3.4	1.6	5.8	7.5
2006	7.4	2.8	3.5	5.1	3.8	4.1	8
2007	7.6	5	3.5	5.3	2.3	7.2	6.4
2008	5.7	4.1	2.6	1.2	0.5	8.2	3.1
2009	-0.1	-1.1	-2.5	-0.6	-7.5	2.5	-4.8

Sources: World Bank. World Development Indicators. <http://www.worldbank.org/> (2006-2009) and www.eclac.org (1997-2005)

Table 4: Unemployment Rates (%)

<i>Year</i>	<i>Argentina</i>	<i>Brazil</i>	<i>Chile</i>	<i>Colombia</i>	<i>Mexico</i>	<i>Uruguay</i>	<i>Venezuela</i>
1997	14.9	5.7	6.1	12.4	5.4	11.5	11.4
1998	12.9	7.6	6.4	15.3	4.7	10.1	11.3
1999	14.3	7.6	9.8	19.4	3.7	11.3	15
2000	15.1	7.1	9.2	17.2	3.4	13.6	13.9
2001	17.4	6.2	9.1	18.2	3.6	15.3	13.3
2002	19.7	11.7	9	17.6	3.9	17	15.8
2003	17.3	12.3	8.5	16.7	4.6	16.9	18
2004	13.6	11.5	8.8	15.4	5.3	13.1	15.3
2005	11.6	9.8	8	14	4.7	12.2	12.4
2006	9.5	8.4	6.0	12.7	3.2	10.6	9.3
2007	9.2	9.3	7.2	10.9	3.4	9.2	7.5
2008	7.3	7.9	7.8	11.7	4.0	7.6	7.4
2009*	8.7	8.1	9.6	12.0	5.5	7.6	7.9



Sources: World Bank. World Development Indicators. <http://www.worldbank.org/> (2006-2008) and www.eclac.org (1997-2005), *<https://www.cia.gov/library/publications/the-world-factbook/index.html>

The existence of unused resources, which would suggest substantial growth potential, is also shown in capacity-utilization data. According to Banco de Mexico's surveys, in 2003, firms used only about 72 percent of their capacity; that rate never exceeded 75 percent in the 1996–2003 period. In Brazil, even in 2004, when the country's highest rate of GDP growth in the first part of the decade was recorded, capacity utilization reached only 82.7 percent. In Argentina, the degree of utilization of capacity in the manufacturing industry has remained below 72 percent between 2004 and 2006, in spite of rapid economic growth.¹⁰

To overcome stagnation and employ these idle resources it will be necessary to reconstruct the state's capacity to implement pro-growth policies. Short-term macroeconomic policies to reduce unemployment and to increase the degree of capacity utilization should be used to promote the generation of profits for firms and to awaken entrepreneurs' "animal spirits." Short-term expansionary policies should be coupled with measures to improve competitiveness and avoid balance-of-payments problems. Some of this actually occurred during the 2009 economic crisis. Alternatives to the liberal program (Washington Consensus) will fail unless a pro-growth strategy is adopted that includes both short- and long-term policies such as sustained increases in effective demand and prioritized investments in strategic sectors and branches of the economy.

Additionally, there are some elements that must be carefully monitored. Continued capital influx to the region makes local currencies more expensive, which in turns affects export competitiveness and local prices. The dependence on remittances and tourism in Mexico, Central America and the Caribbean made them especially vulnerable to the economic performance of the United States. To make matters worse, European deleveraging could diminish FDI, especially from Spain and Portugal. With its recent macroeconomic stability, known idle resources and recent forecasted growth for the next few years, Latin America is promising ground for new businesses and the growth of entrepreneurial activities.

Asymmetrical Impacts of Reform and the Resulting Backlash in Andean Countries: Venezuela, Ecuador, Bolivia

Most countries in Latin America followed macro policies oriented towards improving stability and healthy growth. These policies also strengthened democracy, which impacted how countries managed the 2009 crisis. "We find strong evidence that positive perceptions of government economic performance and of the national economy are a major determinant of support for democracy and the political system."¹¹ However, there have been backlashes in Venezuela, Bolivia and Ecuador, which introduced certain reforms towards what some call the new twenty-first-century socialism. How does socialism encourage or discourage entrepreneurship in Latin America?

10 All the estimates come from ECLAC and *Revista de Economía Política* 28, 3, 2008.

11 Mitchell Seligson and Amy Erica Smith, Eds. *Political Culture of Democracy*. Nashville: Vanderbilt University, 2010.



Venezuela's President Hugo Chávez was reelected in December 2006 with over 60 percent of the vote. During the campaign, and ever since, he has insisted that voting for him amounts to supporting twenty-first-century socialism, although he never offers a very precise definition of it. The core of his campaign consisted of more public spending, not unlike the first term of his archrival, former Venezuelan president Carlos Andrés Pérez.

Despite experiences around the world with state inefficiency, the centerpiece of the new socialism is the renationalization of the backbone of the economy: communications, energy, mines, and hydrocarbons, and perhaps later also food, tourism, banking and education, declaring them to be "strategic" and critical to "national security," among other arguments. Nationalized industries, which are government controlled, cannot have entrepreneurial activity.

During the 1980s, the Sandinista government of Nicaragua engaged in the nationalization of industries. One of the main problems they faced afterwards was the lack of management capacity. Under the new socialism, all these big state-owned companies will act very differently in the markets compared with privately-owned firms, because of political interference.

Privately-owned firms exist under these regimes, such as new nonstate, or only partially state, economic units that may possibly produce directly for the market. Even then, it will be a domestic market that is well protected by the government. In addition, the most extreme countries are already talking about increasing the say of the government in companies' decision processes. For example, the government may appoint directors to the board.

Under political uncertainty and without incentives to create their own company, potential entrepreneurs will seek to reduce their risk, look for a job with a nonstate or state-owned local company or, if they can, leave the country. The entrepreneurial spirit is difficult to kill in short periods of time, but the longer these regimes persist, the harder it will be to see entrepreneurial activities in those countries.

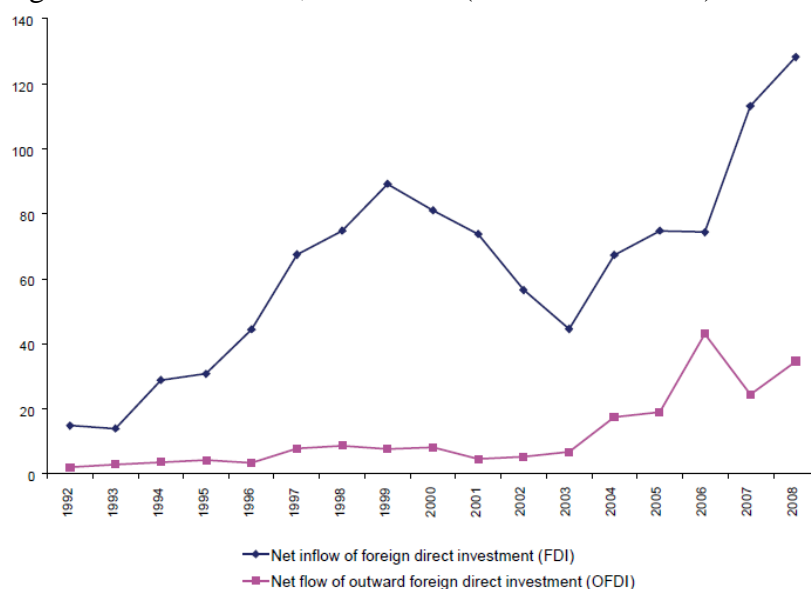
There have been some recent turning points, such as Bolivia's infamous increase of fuel prices. President Evo Morales argues that his government has to use international prices to stop illegal imports. This is a powerful argument since, for the first time, his government recognizes that Bolivia is not alone; there is a real-world economy. It is also an important message for the new socialist community.

Entrepreneurship and FDI Across Nations in Latin America

Companies from Latin America have sharply increased their outward foreign direct investment (OFDI) since 2003, as can be seen in Figure 1.7. This investment has gone to other Latin American countries as well as overseas.



Figure 1: Latin America and the Caribbean: Inward Foreign Direct Investment and Outward Foreign Direct Investment, 1993-2007 (Billions of dollars)



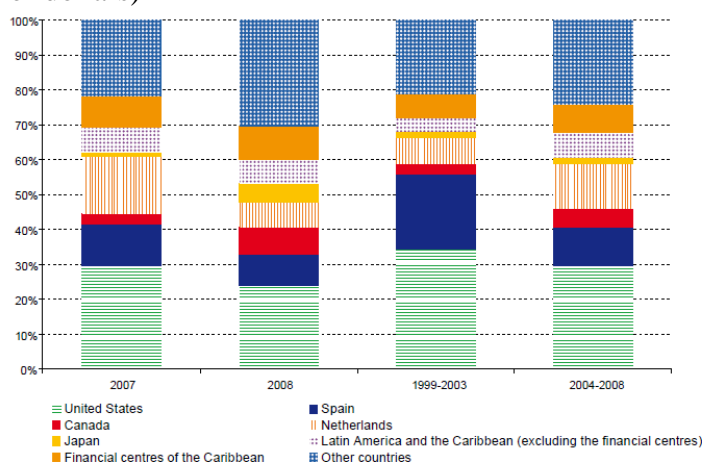
Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as of 15 May 2009.

During the last decade, Latin American firms have become more international. Many now operate in many different countries. As can be seen in Figure 1.8, within-region FDI has increased rapidly from the period 1999–2003 to the period 2004–8. The most active countries in this new way of doing business are Mexico, Brazil and Chile. This intraregional FDI partially fell in 2009 due to the global economic crisis. However, it will recover and continue growing during the next decade.¹²

12 United Nations Economic Commission on Latin America and the Caribbean, *Foreign Direct Investment in Latin America and the Caribbean*. Santiago: ECLAC, 2008.



Figure 2: Latin America and the Caribbean: Origins of Foreign Direct Investment, 1999-2008 (billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), estimates on the basis of official figures as of 15 May 2009.

This intraregional cross-country entrepreneurship is relatively new and its growth benefits from a new business-regionalization mentality, which comes from better understanding of other countries, improved transportation options, and more political and macroeconomic stability. Liberalization policies and free-trade agreements from around the region had an important effect on this process. In addition to the general improvement in business conditions, some countries are actively encouraging FDI for entrepreneurs with interesting ideas. For example, Chile has a program in which it offers up to \$40,000 for the development of an idea, as well as a visa (open to all nationalities) for one year, renewable automatically, for entrepreneurs who come to live and develop their businesses in Chile.¹³

The Emerging Middle Class

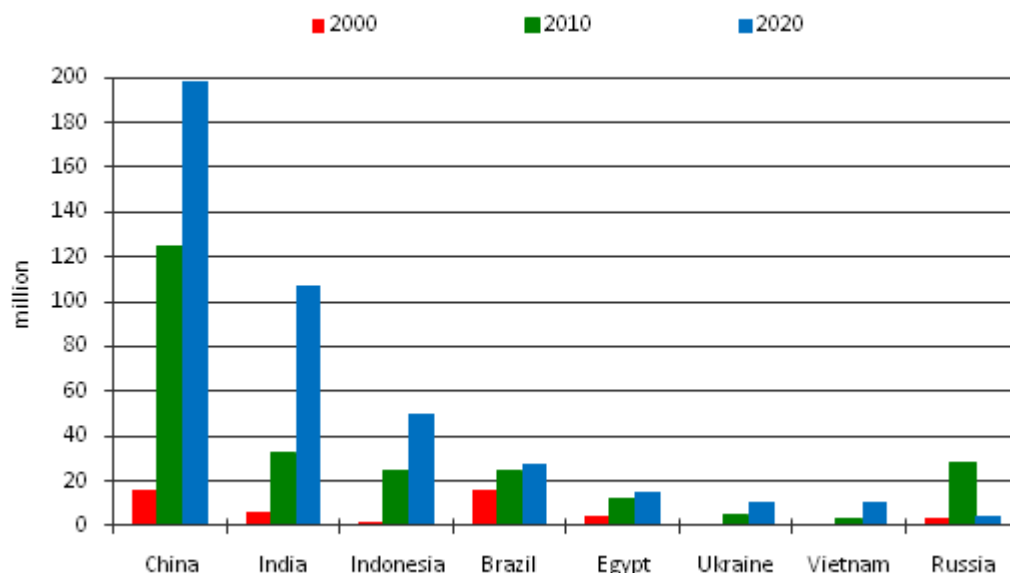
The middle class, another socioeconomic segment that is a driving force, is growing all over the world, from 430 million people in 2000 to 1.2 billion by 2030. China and India will contribute two-thirds of that growth. In Latin America, Brazil and Mexico are the countries that will contribute the most to the rise of the emerging middle class (see Figure 1.3). While GDP growth has been only moderate in Mexico, poverty has fallen from 37 to 14 percent over the last ten years. A growing middle class reflects better levels of education and therefore more productivity in the labor force.

Large reductions of poverty levels accelerate the growth of a mass consumer market. The increase in purchasing power and improved living conditions not only make established markets grow; they also generate new business opportunities for entrepreneurs. Moreover, a solid middle class means that politicians will be held accountable for maintaining and expanding progress rather than catering to elites and ignoring the plight of the poor who are striving for their own middle-class lifestyle.

¹³ Area Development Online, "Start-Up Chile Seeks Innovative Entrepreneurs," July 28, 2010.



Figure 3: Households with annual disposable income of US\$5,000-15,000 in selected economies: 2000-2020



Source: Euromonitor International from national statistics. Data for 2010 and 2020 are forecasts.

The emerging middle class will eventually become interested in other issues that in the long run will contribute to stability and sustainability of the countries with positive consequences for entrepreneurship. Middle-class members are more concerned than members at the base of the income-distribution pyramid about democracy, religion, the environment and general life satisfaction.¹⁴ Entrepreneurs can profit from addressing those concerns.

Multiple Market Segments

The Latin American market is composed of more than 35 countries populated by over 560 million consumers, many of them with similar characteristics, origins and shared language (Spanish and Portuguese). It is a market that is rich in natural resources and also hungry for technology and creative ideas, products and services. This creates an extraordinary opportunity for entrepreneurs around the region. In the 1960s and 1970s, when markets were totally closed, the opportunities for entrepreneurs were limited to their home countries. During that time, large and very profitable companies diversified into different businesses, leaving little space and few opportunities for new entrepreneurs.

Today's openness and integration of Latin American markets allow companies to identify market segments that are similar in several countries, and with minor adjustments, they can approach

¹⁴ Pew Global Attitude Project, 2009. *The Globe's Emerging Middle Classes: Views on Democracy, Religion, Values and Life Satisfaction in Emerging Nations*. February 12, 2009. <http://pewresearch.org/pubs/1119/global-middle-class>.



those groups. Companies can grow and gain economies of scale that are important for their competitiveness. These multinational companies from the region are called *multilatinas*.¹⁵ This is not to say that integration is complete. Marketers launching regional campaigns based solely on research in their own country may fail disastrously. Local cultural nuances still hold significant value. Most companies are taking those differences into consideration to reach their niches. The opportunities to expand regionally are growing as new trade agreements among countries come into effect. The most exciting process today is the potential integration of the capital markets of Chile, Peru and Colombia. This implies that integration in Latin America may be going beyond trade issues.

The Spirit of Enterprise: Opportunity and Necessity Entrepreneurs in the New Millennium

There must be a sense of spirit involved when deciding to become an entrepreneur, a spirit that forces somebody to be really passionate about what he does, and also to be very ambitious, innovative, and with high levels of perseverance. Culture influences both economic development and the spirit of entrepreneurship. Latin America's religious history is one that manifests a preference for the poor over the rich, making the rich feel like sinners, as opposed to other religions which actually prefer the rich and successful and where being rich is a blessing. In the latter case, both the rich and the poor have a strong incentive to improve their condition, thus promoting an entrepreneurial society. In the former case, if rich people are sinners, this inverts the value of work, as in Latin America, where entrepreneurs are suspect while manual laborers are not since they must work to survive.

Spanish and British colonies distributed uninhabited land differently. In the former, all land was claimed by the Crown. In the latter, it was available to those who would work it. An exception to the Spanish rule was Costa Rica, where land was distributed by the government in the colonial period to produce coffee. This historical accident may partially explain the broader middle class in Costa Rica.

Low levels of entrepreneurship in Latin America are often blamed on, and viewed as part of, the Iberian Peninsula heritage.¹⁶ A past-obsessed heritage that sees no use for thriftiness perceives competition as aggression, lacks trust in fellow citizens and encourages low compliance with laws, norms and authority. Another factor is the pervasiveness of socialism from the late 1950s until now. It was at its strongest in Cuba then, and is in Venezuela today, but in many other countries socialism has strongholds among government employees, unions or public universities and occasionally has reached power in governments.

15 For an in-depth analysis of *multilatinas* see: Alfonso Fleury and Maria Tereza Fleury, *Brazilian Multinationals*. New York: Cambridge University Press, 2011; Alvaro Cuervo-Cazurra, "The multinationalization of developing country MNEs: The case of multilatinas," *Journal of International Management*, 14, 2, 2008: 138-154; Robert E. Grosse and Luiz F. Mesquita, eds., *Can Latin American Firms Compete?* New York: Oxford University Press, 2007; and Fernando Robles, Françoise Simon, and Jerry Haar, Jerry, *Winning Strategies for the New Latin Markets*. Englewood Cliffs, New Jersey and London: Prentice-Hall and Financial Times, 2003.

16 H. Herrera and D. Brown, "Entrepreneurial Spirit in Latin America," *Universia-Knowledge@Wharton*, interview, March 19, 2008.



Those influences affect the way the population has regarded entrepreneurs and business people. Instead of looking at them as a source of employment and development, they are seen as something negative for society. High inequality and exclusion play important roles in that attitude. During the “fat cow” years of the 1960s and 1970s, many Latin American entrepreneurs prospered and grew with government support and protection from imports, at a high cost for their countries’ economies, and gave nothing in return to society.

The spirit of entrepreneurship has been growing all over Latin America as it has opened up, and market economies have shown some benefits from it. Attitudes change as countries prosper and their populations enjoy better education, health services and living conditions. Of course, the change is strong in Chile and Mexico, but not in Cuba, Venezuela, Bolivia and Ecuador. Governments now help emerging businesses; universities collaborate more with the business community; and people work harder as they recognize that their prosperity is based on their individual effort and no longer expect that prosperity comes only from government.

Nevertheless, entrepreneurial spirit is not enough to become an entrepreneur. As Herrera and Brown observe: “When somebody is trying to swim: you may have a great desire to swim in the sea, but if you don’t know how to swim and you just throw yourself in the water, two things can happen: Either you move forward with great difficulty, guided by your instincts, or you simply drown.”¹⁷ So the entrepreneur should keep in mind the importance of knowledge and learning as well as the right economic and political environment.

The (De)Evolving Family Firm

In Latin America, entrepreneurs often come from families active in business. This is partly because these families have substantial resources, networks and capabilities to develop new businesses, either within the family firm or as spin-offs. Hence, family businesses represent over 90 percent of the firms in Latin America.

The STEP Project¹⁸ has found, by looking at the history of Latin American family firms, that the generations that follow after the business founders remain highly entrepreneurial. However, there are ways to contribute to those entrepreneurial processes within the family and the family firm. Among these are being an exemplary entrepreneur for younger generations, motivating and incentivizing entrepreneurship and transmitting entrepreneurial values over generations. Successful families use entrepreneurial action as a strategy for growth. They also encourage innovation within the firm as an extension of the family values that inspire entrepreneurship. Less successful firms have leader-centered cultures and lack world-class corporate governance, both flaws which limit entrepreneurship.

The complex array of forces and factors that shape globalization and entrepreneurship is one that permeates the environment of all countries. This is especially true of Latin America’s big emerging markets and Central America’s most stable and democratic nation, Costa Rica. From

¹⁷ Ibid.

¹⁸ STEP Project: Several business schools from the region are coordinating ,with Babson College, a study to improve understanding of transgenerational entrepreneurship.



the bottom of the pyramid to the top, from start-up companies to seasoned multinational and large domestic firms, the nexus of globalization and entrepreneurship is transforming the business landscape, intensifying competition among companies and empowering consumers throughout the region.

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