

Longitudinal Analysis of Entrepreneurship and Competitiveness Dynamics in Latin America

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Principal Topic

For many countries, entrepreneurship plays a very important role like a key motor for economic growth and new job generation (Birch, 1979, 1987). Additionally entrepreneurs may contribute with innovations (products or processes) and make important contributions to market competitiveness (Acs and Audretsch, 2003). In Latin America (LA), the -micro and small entrepreneurial business- maybe are one of the most important factors for social development by the high level of job creation (or self-employment) that these kind of enterprise efforts can generate.

As a field of research, entrepreneurship in LA is a relative young and rapidly expanding field of knowledge (Tiffin, 2004). Some Latin American countries have experienced a remarkable transformation in the last 20 years, both in terms of economic growth and institutional development. Export of natural resources or commodities and some low value-added processing led the economic expansion until the mid-1990s, but in the last few years the economic growth has showed variations and lower degrees of growth (Echecopar, 2004). For this reason, there is an emerging interest in opinion leaders from public administration, business, academics and general society on how to develop more value-added industries. We think that entrepreneurship and innovation are keys to overcoming this recent lack of dynamism on LA economy. In this research we investigate the relation of entrepreneurial activity and economic development and competitiveness performance of some LA countries.

Methodology/Key Propositions

Based on the Global Entrepreneurship Monitor Study, GEM, this paper analyze the relationship between the GEM LA countries' rate of entrepreneurial dynamics and its levels of competitiveness and economic development. The entrepreneurial dynamic is measured by the GEM's so-called early-stage entrepreneurial activity (formerly named Total Entrepreneurial Activity Index, TEA). The level of economic development is measured by indicators like national per capita income taken from IMF World Economic Outlook database and UNDP development index. Competitiveness performance is based on the Global Competitiveness Reports of the World Economic Forum that includes the Growth and Global Competitiveness Index and the Business Competitiveness Index (Porter, 2002-2006).

GEM Global Report (2004, 2005) and Wennekers et al (2005) show a U-shaped relationship between the country's rate of entrepreneurship and it level of economic development and competitiveness. We want to verify that relationship using a longitudinal data base from countries that had participated on GEM from 2000 to 2005. This is a contribution to the literature that has study these relationships using only cross sectional data. We hypothesized that LA countries follow the U-shaped path. For this reason, LA countries have a relative uncertain or negative effect of entrepreneurship dynamics on economic and competitiveness growth (Van Stel et al, 2005).

Results and Implications

Study results suggest that LA countries have two possible alternatives on their entrepreneurial context in these scenarios: 1) "Low track" scenario to follow the path of growth on the U-shaped relationship that means, take the "natural rate" of entrepreneurship decreasing the levels of necessity entrepreneurship, maintaining the nascent entrepreneurship and gaining economic and competitiveness develop. 2)"Fast track" follow the high grow rates like some countries that are placed over the curve and gain both entrepreneurial dynamics

and economic (and competitiveness) develop. This last scenario is present like the more recommendable path to follow.

Our study has some limitations. GEM Global Reports, consistently place LA countries among the most entrepreneurial in the world, others, operating outside the GEM methodology, show them considerably low, compared with other emerging economies like South-eastern Asia countries (Kantis et al, 2004; Casas, Etkowitz and Carvalho de Mello, 2005) that exhibit most favorable ratios of opportunity based business, generally related with high value added industries. Latin-American countries are continually affected by strong cyclical components that influence the entrepreneurial activity. By this reason no all the conditions are uniform across the countries. Finally some specific industrial sector has different rates of entrepreneurship activities. Even though this limitations, we propose research the critical success factors in the creation of new business ventures in LA. These countries need to transform the typical self-employment or necessity new business venturing from isolated experiences involved with local markets, to a strong, networked innovative firms competing globally. For this commitment, is important to develop a more compressible framework to understand this phenomenon on LA context. Second to create more competitive new firms, they need to improve their performance working on collaborative multi-firm network basically that young entrepreneurial small firms can engage in continuous innovation processes (Miles, Miles and Snow, 2005). Some new ventures strategy management and policy implications are discussed.

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