A Risk Management approach around Latin American Entrepreneurship

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Abstract

This Qualitative approach, pursuits the identification of the Risk Management best practices, along the Latin American Entrepreneurship context, by evaluating their present status, current entrepreneurship strategies and risk management mitigation procedures, in order to describe their application and compliance levels within these practices.

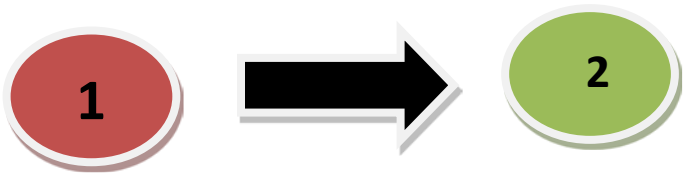
On the other hand, this document aims to extend the Daniel Letterman and Julian Messina analysis, defined as "Latin American Entrepreneurs Many Firms but Little Innovation", with the use of new inputs and outputs that support and reinforce their criteria towards the need of a continuous assessment, financial and technological support and monitoring across the Latin American Risk Management Entrepreneurship scenario.

Keywords: Entrepreneurship, Competitiveness, Innovation, Risk Management.

Varibles Explored:

1. Risk Management Best Practices appliance
2. Latin American Entrepreneurship Context

Figure No 1 Variables in Anlysis during the study



Source: Self Interpretarion of the Variables evaluated during the investigation previosly described

Main Objective:

The determination of the Risk Management core features towards performance enhancement across the Latin American EntrepreneurshiLandscape.

Specific Objectives:

- The description of the Latin American Entrepreneurship contemporary challenges and scenarios towards the achievement of new competitiveness standards.
- The detection of the Risk Management Best Practices applied on the Latin American Entrepreneurship

Introduction

Globalization has widen the Latin American opportunities to diversify their industries and sectorial competitiveness, by stimulating the technological conditions on specific enviorments. While analyzing the Latin American Entrepreneurship context it is worth mentioning that one of the milestones along this theme refers to the global 2008 finantial crisis, that also hurted the Latin America economies (although not with the same severity as other regions), the Latin America countries emerged relatively unscathed from the current crash, despite the collapse of so many commodity prices and "sectorial shut downs" (Turley, 2014).

Latin America's performance during the economic crisis, with just a few exceptions, marked a coming of age for the region, nearly as much as it did for Asia. Since currently, this market of 597 million potential consumers is getting the attention it deserves and one in particular, Brazil, who is increasingly seen as a power in its own right (UCB, July 2014).

By taking into account that the global economic crisis of 2008 did´nt hit the Latin American Economies as other regions on the globe, one may state that their present economic enviorment depicts the best time ever to launch or grow a business on the area, since trade relationships have multiplied and economic institutions have grown, it may still be seen as a relatively small achievement when compared to its potential.

By taking into consideration the previous statements one may assume that along the Latin American context the entrepreneurship culture is being strengthen parallel to the economic growth currently met, nonetheless Latin American entrepreneurs continue to face numerous challenges, due to the fragile property rights, excessive regulation and high taxing on the context. But besides the 3 factors formerly defined, the combination of profound country flaws with the lack of strong business networks (clusters), joined with the limited availabilities of subcontracting services and acquiering financing, often cancel or slow down the former entrepreneurs initiative progress (Argueta, 2013).

Parting from the above, it is of great importance to state that this study aims to describe the core factors around the Latin American potentialities and current limitations around entrepreneurship, in order to sensibilize the government authorities about the reforms required to mitigate the taxation policies and financial support systems for entrepreneurs in order for to obtain a sustainable enviorment, with the help pf Risk Management tools and best practices.

Entrepreneurship:

Entrepreneur is a loan word from the French language, defined as an individual who organizes or operates a business or businesses. Several industrials researches have concluded that the term entrepreneur counts with a universal definition developed by the Irish-French economist Richard Cantillon who defined it as an "Essay on the Nature of Trade in General", however Cantillon also stated that the entrepreneurship term describes the establishment of new organizations or the revitalization of mature societies in response to the awareness of a business opportunity (Abdeslam, 2005).

On the other hand, when unfolding the term into the description of the individuals who undergo the initiatives as "Entrepreneurs", various literature describes these folks as leaders willing to take risks and exercise an initiative, by taking into account a specific advantage of a particular market opening, either by planning, organising and anticipating the current uncertainties, before it turns into a risk, through the use of innovation and product upgrading (Neagu, 2005).

Nevertheless the enetrepreneurs talents are simply not enough to survive on harsh business enviorments, since successfull entrepreneurs usually recognize the latent risks on their initiatives in order to fullfil their expected return for investment. Even so, the current business scenarios describe either a sectorial saturation, industries barriers, market limitations or a technological responsiveness to changes, that demand an integrated risk management analysis (Lederman, 2014).

Global Entrepreneurship

The term entrepreneurship has transcend so many borders in terms of macroeconomic lifting, self employment, new market development, Technological responsiveness and adaptability towards exogenous stimuli, etc. However, various analysis have proven that several factors trigger the entrepreneurship evolution into a "mute smoothen manner", such as:

- The rate at which Science, Technology, Engineering and Mathematics (STEM) programas are strengthened by the local Higher Education Institutions (HEIs).
- The rate at which innovation is ran through a specific market by the industries leaders.
- The development of academic and finantial alternatives for quick startups supported by local HEIs.
- Among others.

Nevertheless, through the exploration of the theoretical background, one may appreciate that the STEM programs truly stimuli the entrepreneurship culture by generating a positive feedback on the innovative landscape, since the current entrepreneurs are more empowered about the business knowhow and thereby get to identify and anticipate to the existing industry risks, far more faster than their former fellow entrepreneurs (please revise figure No 3).

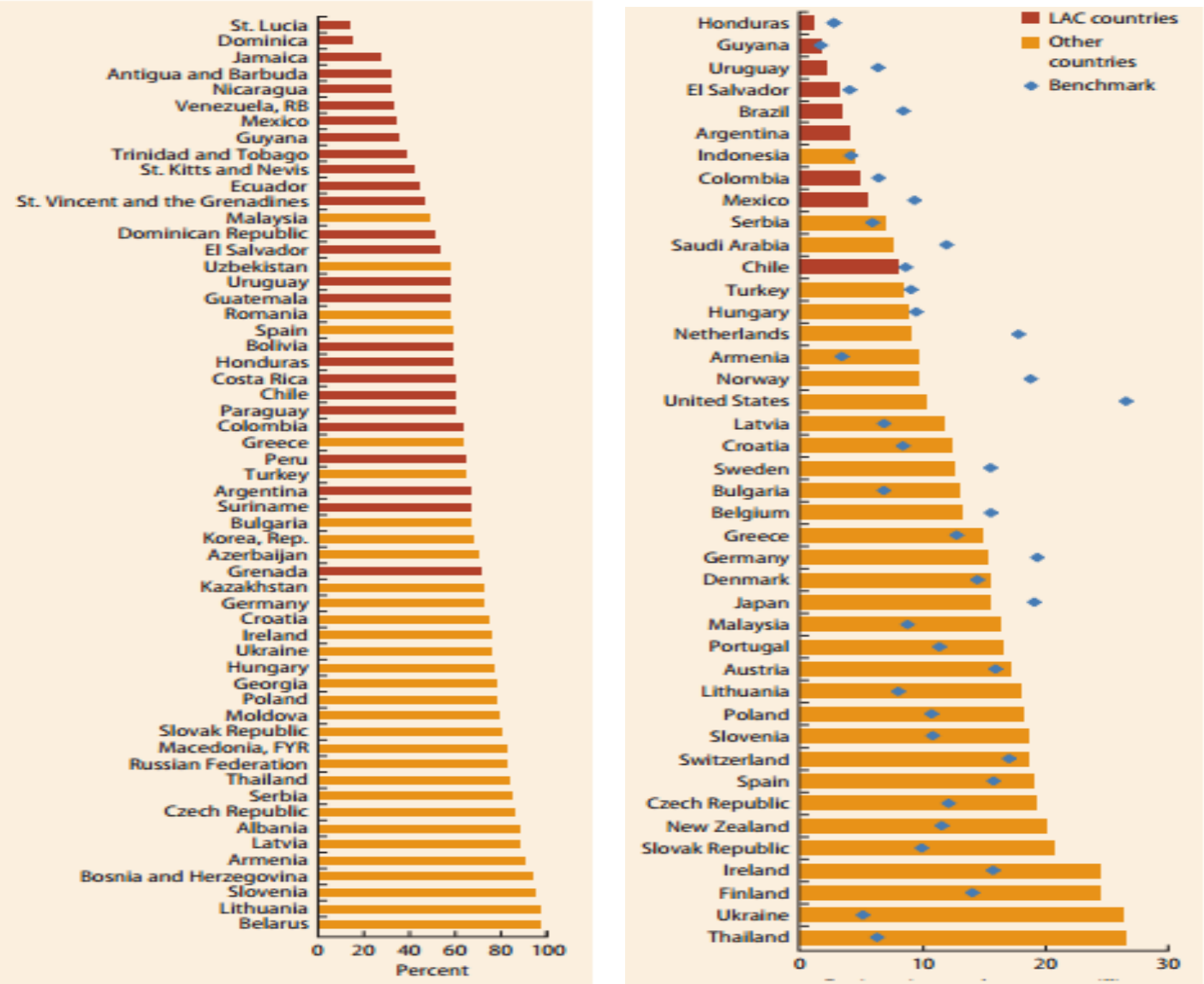
Another mute indicator in favor of the global entrepreneurship culture disemination is represented by the way large companies manage their benchmarch strategies when introducing a new product or service on the market (please revise figure No 2):

- Adaptability
- Responsiveness

- Flexibility

It is worth mentioning that when a new product is liberated into a market, these large entreprises/multilatinas, have already forecasted and quantified the uncertainty of the posible impacts generated by its presence (Porter, 1986).

Figure No 2 Percentage of firms in selected countries introducing a new product, 2006–10 vs the number of Engineers per million people in Selected Countries



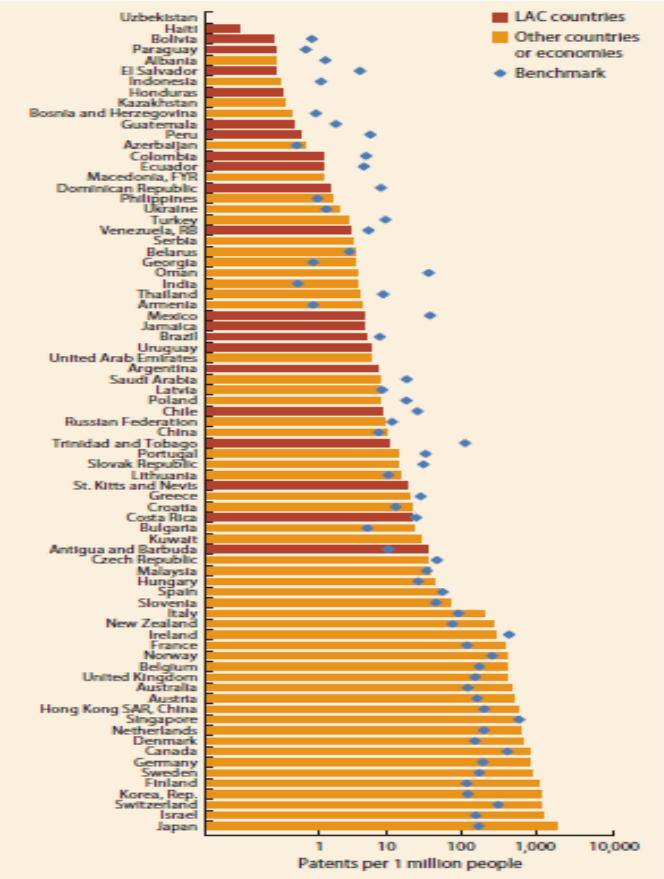
Source: World Bank, based on data from Seker 2013 and 2006–10 and UNESCO Surveys 2013.

Latin American Entrepreneurship

When reviewing the Latin American firm´s performance, one may state that they are the ones that introduce new products with less frequently than firms in other developing regions. As a matter of an example, countries such as Ecuador, Jamaica, Mexico and Venezuela introduce or develop new products at a rate that is less than half that of countries such as Thailand or Macedonia (Lederman, 2014).

With the exception of Brazil, which invests 1 % of GDP in research and development (R&D), on average the region invests much less (below 0.5 percent), which is one third the level of China and one fourth the level of high income countries. What's more interesting, is that the LAC governments, as opposed to the private sector of the Asian countries, does most of Latin America's investment on investigation. Not surprisingly the region is behind others when it comes to patents. For instance In Bolivia, Paraguay, El Salvador, Honduras, Guatemala and Peru, the number of patents per one million people is less than one, much lower than it should be for their level of development (Turley, 2014).

Figure No 3 Number of patents per capita granted by U.S. Patent and Trademark Office, actual and benchmarked, by inventor's country or place of residence



Source: World Bank, based on data from USPTO 2012 and World Development Indicators.

Perhaps the most surprising fact is that even Latin America's largest firms suffer from this innovation delayment. Even the region's big exporting nations, such as Chile, Colombia or Mexico, firms export far less frequently than what may be expected given their level of development. Multilatinas from the manufacturing sector invest on average a mere $0.06 per $1,000 of revenue on Research and Development (R&D). Meanwhile, multinationals invest $2 per $1000 in China and $2.6 per $1000 in high-income countries. Even affiliates of foreign multinational corporations in Latin America and the Caribbean tend to be less innovative (Lederman, 2014).

Risk Management

Risk Management derives from the study and quantification of uncertainty in financial markets, threats from project failures,credit risk, etc. Several risk management standards have been developed including by international acreditation organizations: The Project Management Institute (PMI), the National Institute of Standards and Technology (NIST), Actuarial Societies, and the International Organization for Standardization (ISO) standards (Ciccone & Alcala, 2004).

While exploring the theoretical backgroung around the Risk Management theme, the definitions and goals vary widely according to whether the risk management method is in the context of project management, engineering, financial portfolios or actuarial assessments. Where one of the most accepted definitions around this theme goes around the identification, assessment, and prioritization of risks uncertainty (defined in the ISO 31000 as the effect of uncertainty on objectives) followed by coordinated and economical application of resources to minimize, monitor, and control the probability (Schmukler, 2013).

On the other hand the strategies that regulate the risk manage uncertainty threats typically include the reduction of probability threats, or even accepting some or all of the potential of a particular threat.

Latin American Risk Management Tendencies

A n overall look at the Small Business Risks in Latin America classifies them into five main categories:

- Strategic risks - risks that are associated with operating in a particular industry.
- Compliance risks - risks that are associated with the need to comply with laws and regulations.
- Financial risks - risks that are associated with the financial structure of your business, the transactions your business makes and the financial systems you already have in place.
- Operational risks - risks that are associated with your business' operational and administrative procedures.
- Market/Environmental risks - external risks that a company has little control over such as major storms or natural disasters, global financial crisis, changes in government legislation or policies.

It is of great importance to keep in mind that not all risks will fit perfectly into one of the above categories (Cox, 2014). It si worth mentioning that there maybe incidents where a risk overlaps into two or more categories.

Some of the most common risks that apply to the Latina American small businesses include:

- The loss of a key staff member especially if they have unique skills
- Security of data and intellectual property
- Theft
- Increased competition
- Failure to comply with legislation, regulation and/or standards
- Bad debts created customers
- Negative cash flow
- Natural disasters such as fires and storms
- Issues relating to internet connectivity
- Internet fraud and scams
- Insurance coverage
- Consequences arising from lack of innovation

Latin American Applied Risk Management in Entrepreneurship

According to the Deloitte 2013 Annual Competitiness Report and the Forbes Business Stock Market Indicators, some the major weaknesses and risk management approach of the Latin American Companies rely on executive compensation disclosures, board independence, related party transactions, and share structures, over a complex business scenario defined by the presence of conglomerates and family owned firms.

According to data from Governance Metrics International ratings (GMI), the New York City-based corporate governance research firm, developed in 2014 a Latin American benchmark whose main purpose was to identifiy the 124 largest companies in Brazil, Chile, Colombia, Mexico and Peru that count with an average level of board independence of only 31%. In other words, more than two thirds of directors at Latin America's major companies are not independent. The current situation is defined as a dangerous Project Management practice, where the absecence of a Corporate Board on a multilantina, is proven to increase the probability of a proper Risk Management best practice compliance (RATINGS, 2014).

Many Latin American companies have delivered impressive returns to investors and emerged as global leaders within their industries and as global financial markets become increasingly integrated, try to attract the attention of international investors, although the local practices on the region related to risk management mitigation are still unreliable and lack the methodology and accuracy demanded by international standards in order to capture the foreign investors eye.

Conclusions

In order to succeed, Latin American entrepreneurs require favorable economic and institutional environments that enhance the expected returns of their innovative ideasm,

nonetheless the Latin American macroeconomic ambience presents specific flaws and limitations when approaching the risk management best practices, that lack the proper strengthening and assesment of their human capital, technological adjustment, inocuity sclaesand competitiveness encouragment, by taking into account the previously mentioned, in recent years, Latin American countries (specifically Brazil and Colombia), have supported a series of policies focused on assisting small and medium size enterprises. But such efforts need to be also directed at small new firms.

Entrepreneurs are key actors in turning low productivity around to create quality jobs and lasting economic benefit for the region. Consequently the analysis recommends establishing an economic environment which enables them to innovate and compete, thereby reducing the grip of monopolies, increasing productivity and diversifying the business environment. Even so the emergence of multilatinas is a positive development with respect to previous decades.

Finally, It is also encouraging to know that policy makers in the region are much more up to date about the importance of entrepreneurship encouragement and support on the area, however, the general strategies approached in some countries (particularly in Central America) are still not generating the expected stimuli.

Main Theoretical Background Explored

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