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## Latin American Middle-Class Entrepreneurs and their Firms: A Regional View and International Comparison

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**July 2012**

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## **Abstract<sup>1</sup>**

Based on a cross-country comparison of dynamic new firms, this paper attempts to characterize Latin American middle-class entrepreneurs and their firms. In general, Latin American middle-class entrepreneurs tend to face more difficult conditions in terms of resources and skills acquisition than those belonging to more affluent social strata. They tend to have earlier exposure to business experience since they generally belong to families in which their fathers' occupation allowed for such exposure, and the universities where they studied are sounder platforms for developing abilities and contacts. Likewise, compared to middle-class entrepreneurs from more developed regions, Latin American middle-class entrepreneurs tend to be less exposed to the business world and entrepreneurial role models. Additionally, they are more likely to rely on a less qualified and less business-specific support network, and initial financing is less accessible to them. The paper summarizes several key policy implications and recommendations derived from the analysis.

**Keywords:** Entrepreneurship, Middle class, Dynamic new firms, Latin America

**JEL Classification:** L26, M13, O54

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## 1. Introduction

In the last decade, there has been a renewed interest in the middle class. Recent empirical evidence shows that the proportion of middle-class households in Latin America has grown steadily since the late 1990s (Franco, Hopenhayn, and León, 2011). There are solid grounds to affirm that a stronger and more stable middle class would contribute to higher incomes, higher growth, and more education (e.g., Banerjee and Duflo, 2008; Birdsall, Graham, and Pettinato, 2000; Easterly, 2001, 2002; Torche and López-Calva, 2010).

The Research Department (RES) of the Inter-American Development Bank (IDB) organized a project to study the relationship between entrepreneurship and social mobility. Another paper, written by this research team as part of the same project, explored this relationship using household surveys as a source of information. Its aim was to assess the contribution of entrepreneurship to economic mobility. That paper suggested that entrepreneurship, especially middle-class entrepreneurship, could be one of the vehicles for economic mobility, given the importance of combining capabilities and resources that are present in higher proportions in the middle class than in the lower classes.<sup>2</sup>

The results were less conclusive than expected. One possible reason may be that entrepreneurs were defined as business owners in general. Household survey data do not allow for a more detailed differentiation inside this generic occupational category. Therefore, the study was not able to differentiate between different profiles of entrepreneurs, namely those owning a microenterprise or a vibrant small business, or those managing a newly created firm.

Today, it is widely recognized that most businesses in Latin America and around the world are micro and small enterprises. In addition, necessity entrepreneurs, i.e., those individuals involved in setting up a new business motivated by financial need, tend to dominate the landscape in the region (Kelley, Bosma and Amorós, 2010). Consequently, this kind of entrepreneurship is not always associated with dynamism and wealth creation (Schoar, 2010). Overall, one could expect that most of the conclusions of the previous study refer to micro and small enterprises with low growth expectations, which thus have little impact at the macro level in terms of innovation, diversification, dynamism, and structural change. They do, however, have a great impact on employment.

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<sup>2</sup> See Kantis, Federico and Trajtenberg (2012).

Previous research has shown that middle-class entrepreneurs are responsible for the creation of the vast majority of dynamic new firms in Latin America (Kantis et al., 2004). Dynamic new firms contribute decisively to employment creation as well as economic diversification (Kantis et al., 2002 and 2004; Kelley et al., 2010; Henrekson and Johansson, 2009; Nyström, 2008; Van Praag and Versloot, 2007). Thus, it is important to understand the entrepreneurial process that they have followed and the variables affecting it in order to design policy interventions aimed at increasing the number of middle-class entrepreneurs and creating a favorable climate for their businesses to grow.

The overall objectives of this study are the following:

- To describe middle-class entrepreneurs in Latin America, focusing on their background (education, skills, and previous work experience) and the entrepreneurial process they have followed.
- To describe the firms created by Latin American middle-class entrepreneurs, focusing on variables such as their size, dynamism, sector, and strategy.
- To identify the main problems and constraints faced by middle-class entrepreneurs during their entrepreneurial process and once they have created their firms.
- To propose policy recommendations aimed at promoting the emergence of middle-class entrepreneurs and improving the chances for survival and growth of their firms.

A dataset was compiled by combining data from two research projects: *Entrepreneurship in Emerging Economies* (Kantis et al., 2002) and *Developing Entrepreneurship: Latin America and the International Experience* (Kantis et al., 2004). It includes background information on entrepreneurs, including their social origins, some characteristics of their firms, and the venture creation process.

This report is organized in three sections following this introduction. Section 2 presents conceptual and methodological issues, and Section 3 contains a description of Latin American middle-class entrepreneurs and their firms, as well as comparisons with countries in other regions. Section 4 presents conclusions and policy recommendations for a regional agenda for middle-class entrepreneurship.

## 2. Entrepreneurship and the Entrepreneurial Process: Some Concepts

Compared to other regions, Latin America still has a number of cultural, social, and economic factors that adversely affect the entrepreneurial context (Kantis et al., 2004). One particular indicator of this is the limited number of growth-oriented and innovative ventures. In fact, most newly established businesses are microenterprises with lower growth expectations and, hence, little impact at the macro level (GEM, 2010). As Kantis et al. (2002 and 2004) show, the entrepreneurial process considers business creation a continuum of different events and stages influenced by myriad cultural, social, and economic variables such as factor market conditions and industry structure, among others. A systemic approach is needed to fully understand this process.

One of the few references to the social origin of these companies shows that about two out of three dynamic new ventures (i.e., those new firms that exhibit high growth) were founded by middle- and upper-middle-class entrepreneurs (Kantis et al., 2002 and 2004). These dynamic entrepreneurs contribute decisively to employment creation as well as industry diversification. It is important to understand where they came from and how they created such dynamic firms.

Broadly defined, the entrepreneurial process starts with the *gestation stage*, when the entrepreneurial vocation, the motivation to be an entrepreneur, and the main entrepreneurial capabilities are acquired, the business idea is identified, and the project is designed. Since this implies a process of building competencies, it is important to explore the role of the family, prior work experience, and the educational system as learning contexts (e.g., Colombo and Grilli, 2005; Gimeno et al., 1997; and Verheul et al., 2001). The second stage is the *launching stage*, comprising not only the final evaluation of the project but also accessing and organizing the resources needed to start the business. At this stage, the focus is on the sources used by entrepreneurs to access information and other resources required to launch the venture. Since access to financing tends to be an obstacle for entrepreneurs, the role of networks should be analyzed. The launching stage is followed by the *early development stage*. This stage is characterized by market entry and addressing the operational problems faced by new firms in interacting with customers and suppliers (Garnsey, 1998; Veciana, 2005).

This approach suggests that entrepreneurship research should concentrate not only on the individual behavior of entrepreneurs, but also on the social structure (including social fragmentation and the importance of the middle class) that could influence the development of



“human entrepreneurial capital” in a society. Entrepreneurship is a systemic phenomenon (Kantis et al., 2004).

Despite significant heterogeneity among countries, there are several common features affecting demand and supply for entrepreneurship. In general, the risk propensity of the population is rather low (Hofstede, 2010) and, in most countries, human capital and general educational level are also an important constraint on the supply of entrepreneurs (UNDP, 2010).<sup>3</sup> In addition, Latin American societies tend to be highly fragmented and, with the exception of a few countries, the middle class has emerged only in the last decade. In addition, culture tends to be hierarchical, affecting the social capital platform that facilitates or inhibits networking (Hofstede, 2010). This feature imposes significant restrictions on accessing business networks and adequate resources.<sup>4</sup> All of these characteristics constitute clear constraints on the development of dynamic entrepreneurship (Kantis et al., 2004).

Moreover, the structure and strategies of Latin American firms are not conducive to entrepreneurship. Risk tolerance is rather low, and innovation efforts are scant. Investment in research and development (R&D) by Latin American firms is lower than in more advanced economies (UNESCO, 2010). As a whole, these features may indicate that the Latin American business sector is less likely to encourage the creation of new, innovative firms or to promote the emergence of corporate ventures (Kantis and Drucaroff, 2009). In the same vein, according to the *Global Competitiveness Report*, the Latin American business sector is perceived as less sophisticated and innovative than the European and East Asian business sectors. This also affects the demand side for innovative entrepreneurial firms (World Economic Forum, 2010).<sup>5</sup>

Continuing with the demand side, in spite of strong economic growth experienced by most Latin American countries in recent years, consumption patterns may also constitute an inhibiting factor by limiting the opportunity for the emergence of innovative and dynamic new ventures. Consumers in Latin America are perceived to be more price-oriented than quality-oriented compared to those in more developed countries, which may result in lower buyer sophistication (World Economic Forum, 2010).

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<sup>3</sup> According to UNESCO, tertiary education enrollment rates in Latin American countries are half those of more developed countries (UNDP, 2010).

<sup>4</sup> Income disparity, measured by the average income Gini coefficient, is 1.5 times greater in Latin American countries than in the most developed countries (UNDP, 2010).

<sup>5</sup> The averaged index of Business Sophistication is 3.85 for Latin American countries and 5.08 for the most developed countries. Additionally, the Average Innovation Index is 2.96 for Latin American countries and 4.48 for the most developed countries (World Economic Forum, 2010).

Additionally, certain cultural, social, and other structural factors increase transaction costs in Latin American economies. For instance, red tape and inefficiencies in certain factor market conditions, such as labor, information, and finance, impose barriers to entrepreneurs willing to start and run a new venture. Today, despite efforts to reduce transaction costs, most Latin American countries remain at the bottom of the Ease of Doing Business Ranking (World Bank, 2010).

Access to financial resources constitutes a significant barrier in most Latin American countries. The region's venture capital industry is still nascent. According to the Latin American Venture Capital Association (LAVCA), the business environment for private equity and venture capital in the region is still underdeveloped (LAVCA, 2010).

Finally, organizations that provide assistance and training to entrepreneurs tend to be financially and technically weak and do not provided systemic support (Kantis, 2010). They do not reach a critical mass of entrepreneurs. The number of entrepreneurs trained and projects undertaken is too small to generate a noticeable impact. Additionally, the quality of the services provided for entrepreneurs and their projects is still limited in most cases.

In summary, from a systemic perspective, Latin American countries present structural factors that are not conducive to dynamic entrepreneurship that contributes to economic growth, industry diversification, or income mobility. Previous research has confirmed the importance of the middle class for the creation of dynamic new firms, but very little is known about the characteristics of these new firms, their entrepreneurial processes, or how they differ from those created by individuals from other social strata. As a result, there are important research questions to be answered. Some of them are the following:

- What are the main demographic characteristics (i.e., skills, education, age, gender, and experience) of middle-class entrepreneurs? Are there differences between those entrepreneurs coming from lower classes and those coming from the middle class? Are there differences among regions?
- What are the main characteristics of firms created by middle-class entrepreneurs? Are they different from those created by entrepreneurs from other social classes? Are there differences across regions?

- What are the main characteristics of the entrepreneurial process followed by middle-class entrepreneurs? Are there differences depending on the entrepreneurs' social origins? Are there differences across regions?
- What are the main problems faced by middle-class entrepreneurs and their firms and how do they solve them? Are there differences related to entrepreneurs' social origins? Are there differences across regions?
- What policy recommendations to promote the emergence and sustainable growth of middle-class entrepreneurship can be derived from the findings of this study?

## **2. Latin American Middle-class Entrepreneurs and their Firms**

### ***2.1. Dataset and Sample Description***

The dataset for this study was obtained by combining datasets from two research projects: *Entrepreneurship in Emerging Economies* (Kantis et al., 2002) and *Developing Entrepreneurship: Latin America and the International Experience* (Kantis et al., 2004). This dataset includes information about entrepreneurs' origins, firm characteristics, and the venture creation process for different Latin American countries (Argentina, Brazil, Mexico, Peru, El Salvador, Ecuador, and Chile) and some countries from other regions (East Asia and Mediterranean Europe). For methodological details, see the Annex at the end of this study.

After controlling for missing and invalid observations, 1,074 entrepreneurs were included in the regional database. Half of them (54.5 percent) belong to the middle class, 27 percent to the lower class and 18.5 percent to the upper class. The definitions of the social strata are based on interviewees' self-perceptions of the social origins of their households. As Pressman (2007) has notes, people tend to over- or underestimate their position; therefore, these definitions must be considered with caution. To minimize this problem, for the purposes of this study, social origin was grouped by joining adjacent categories into three groups: i) upper class and upper-middle class (upper class); ii) middle class; and iii) lower-middle class and lower class (low class).

Since the database used in this study was designed to study the entrepreneurial process of dynamic new ventures, some limitations arise, especially when using it for the analysis at the country level. These are related to the limited number of observations of upper-class entrepreneurs in some countries. For example, in Argentina and Mexico, this number is almost

the minimum required for doing statistical tests (*z-test*) applied in this research. Therefore, in these cases, the results should be interpreted with caution. In Brazil and El Salvador, the number of observations of upper-class entrepreneurs is not large enough to calculate any test. Therefore, they are not reported in the country-level analysis. The composition of the sample used in this study is described in Table 1.

**Table 1. Sample Composition**

Country	High-Class		Middle-Class		Low-Class		Total	
	N	%	N	%	N	%	N	%
Argentina	25	16%	97	62%	35	22%	157	100%
Brazil	11	7%	77	48%	72	45%	160	100%
Mexico	27	19%	81	57%	33	23%	141	100%
Peru	33	23%	74	52%	34	24%	141	100%
El Salvador	10	12%	40	47%	35	41%	85	100%
Ecuador	44	23%	109	58%	34	18%	187	100%
Chile	49	24%	107	53%	47	23%	203	100%
Latin America	199	18%	585	54%	290	27%	1,074	100%
Korea	52	26%	80	40%	70	34%	202	100%
Taiwan	20	9%	47	23%	144	68%	211	100%
Spain	19	13%	82	57%	42	30%	143	100%
Italy	14	10%	103	70%	30	20%	147	100%

Source: Authors' compilation based on IDB database.

Another characteristic of this database is that it is biased toward dynamic new ventures, defined as young firms (between 3 to 10 years old) with more than 15 employees when the survey was done. Almost 60 percent of the sample is dynamic new firms. Therefore, some caution should be used when analyzing the results since the firms included in this study are not representative of the general entrepreneurial population but rather of a particular portion of the total: the more dynamic.<sup>6</sup>

<sup>6</sup> It is important to bear in mind that the composition of this sample differs from the one used in Kantis, Federico and Trajtenberg (2012). This one includes only young registered firms, mainly dynamic young firms, whereas the other uses a broad definition of entrepreneurs as employers (regardless of the size and age of the firm). In fact, relevant differences could be observed. Although the proportion of middle-class entrepreneurs is similar, the proportion of entrepreneurs belonging to the upper classes is larger than that observed in the other study. Hence, comparability among the two studies is rather limited.

The middle class plays an important role as a seedbed of such dynamic new ventures in Latin America. This role is even greater in European countries such as Italy and, to a lesser extent, Spain. Table 2 illustrates the importance of the middle class in contributing to the creation of dynamic new firms.

**Table 2. Dynamic New Firms by Social Class**

Country	High-Class		Middle-Class		Low-Class		Total	
	N	%	N	%	N	%	N	%
Argentina	17	16.5%	63	61.2%	23	22.3%	103	100%
Brazil	7	6.2%	53	46.9%	53	46.9%	113	100%
Mexico	25	23.8%	54	51.4%	26	24.8%	105	100%
Peru	22	25.3%	41	47.1%	24	27.6%	87	100%
El Salvador	7	19.7%	19	48.7%	13	33.3%	39	100%
Ecuador	22	24.7%	49	55.1%	18	20.2%	89	100%
Chile	25	22.5%	61	55.0%	25	22.5%	111	100%
Latin America	125	19.3%	340	52.6%	182	28.1%	647	100%
Korea	42	26.9%	64	41.0%	50	32.1%	156	100%
Taiwan	20	11.3%	37	20.6%	122	68.1%	179	100%
Spain	13	12.9%	58	57.4%	30	29.7%	101	100%
Italy	11	11.2%	72	73.4%	15	15.4%	98	100%

*Source:* Authors' compilation based on IDB database.

## ***2.2. Characteristics of Middle-Class Entrepreneurs***

### ***2.2.1. Age and Family***

In general, Latin American entrepreneurs found their first ventures when they are about 30 years old (31.3 years old on average), but they began exploring the idea of being an entrepreneur a few years earlier (when they were 27 years old on average). However, entrepreneurs coming from the wealthiest social strata tend to start their entrepreneurial process at an earlier age. On average they created their first venture when they were 29 years old, and they began to consider it when they were 25 years old.

**Table 3. Age of Entrepreneurs**

	Latin America	Korea	Taiwan	Spain	Italy
Age when started to think of becoming an entrepreneur (average)	26.9	36.3**	31.5**	27.7	26.6
Age when the first venture was created (average)	31.3	37.8**	33.8**	31.1	29.9*
Gap between motivation and first venture	4.4	1.5	2.4	3.4	3.3

*Reference:* Only figures from middle-class entrepreneurs are reported.

\* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

This result could be related to the earlier exposure of more affluent families to the business experience.<sup>7</sup> In fact, half of all middle-class entrepreneurs in Latin America come from families where the father used to work as an employee or independently (i.e., self-employed or liberal professional).

Those whose fathers were entrepreneurs or executives/managers make up one-third of the total (32.8 percent). But this proportion is significantly higher in the more affluent classes (63 percent) than in the middle class (32 percent). In other words, Latin American middle-class entrepreneurs' families are less exposed to the business world than their more affluent counterparts. This feature is even more pronounced in lower social strata, where only 14 percent of the sample had a father who was an entrepreneur or an executive.<sup>8</sup>

<sup>7</sup> Chile is the only country that shows statistically significant mean differences in this variable. Chilean middle-class entrepreneurs create their first venture at 33.8 years old and start to think about it at 29.7 years old, while the more affluent Chilean entrepreneurs started their first venture at 28.8 years old, thinking of becoming an entrepreneur since they were 25.9 years old. Other countries such as Mexico, Ecuador and Argentina exhibit a similar pattern but no statistically significant mean differences are observed.

<sup>8</sup> This trend observed in the regional database is also found in Peru, Ecuador, Chile, Argentina, and Mexico. Due to the limited number of observations from the upper classes in Argentina and Mexico, statistics for these countries should be interpreted with caution.

**Table 4. Father's Occupation, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Entrepreneur	49**	26	13**	60 **	36	20 *	36	28	8 **	50 *	31	9 **	48 **	23	15	60	27	15	57 **	21	15	37 **	20	15
Executive/ manager	14**	6	0**	8	9	0 *	0	8	0 **	11 *	2	0	33 **	11	3	20	5	0	2	0	0	18	10	0 **
Self-employee/ Independent	20	25	26	20	20	31	64	28	21	27	20	24	6 **	26	23	10	20	15	14 **	34	53 *	22	21	23
Employee	15**	31	38 **	8 *	25	34	0	33	50 **	4 **	22	27	12 **	34	26	10	37	44	25	29	21	20 **	40	47
Other	2**	11	22**	4	8	14	0	4	21 **	8 *	25	39	0	7	32 **	0	10	26 *	2 **	16	12	2 *	9	15
Subtotal Entrepreneur and Executive	63**	33	13**	68 **	45	20 **	36	35	8 **	61 **	33	9 **	82 **	34	18 *	80	32	15 *	59 **	21	15	55 **	30	15 **
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

### 2.2.2. Education and Work Experience

Most middle-class entrepreneurs are well educated. Two out of three are university graduates or more (67 percent). But this proportion is smaller than in the more affluent strata, where 78 percent have a university degree or more. Conversely, entrepreneurs from lower social strata are less educated (45 percent).<sup>9</sup>

Before they created their current venture, middle-class entrepreneurs worked as employees (57 percent), mostly in small and medium-sized enterprises, SMEs (31 percent). Having prior experience as an entrepreneur is less common among middle-class entrepreneurs than among the wealthiest strata (44 percent and 34 percent, respectively).<sup>10</sup> This is not the case among European middle-class entrepreneurs, who have more prior experience as entrepreneurs.

**Table 5. Entrepreneurs' Previous Occupation**

	Latin America	Korea	Taiwan	Spain	Italy
Employee in an SME	31%	47%**	25%	30%	23%
Employee in a Large Firm	26%	20%	55%**	17%	7%**
Subtotal Employee	57%	67%*	81%**	47%*	30%**
Entrepreneur	34%	28%	6%**	49%**	55%**
Other	9%	5%	13%	4%	15%**
Total	100%	100%	100%	100%	100%

*Reference:* Only figures from middle-class entrepreneurs are reported.

\* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

### 2.2.3. Entrepreneurial Vocation and Motivation

In Latin American countries, the main context where entrepreneurs have acquired the desire to become entrepreneurs (business motivation) is on the job (50 percent), followed by the family environment (38 percent). The influence of family is significantly lower among middle-class entrepreneurs than in entrepreneurs from the upper class (38 percent and 48 percent, respectively). However, the contribution of work experience is significantly greater for middle-class entrepreneurs. The role of the university in shaping the desire to be an entrepreneur is also much less significant in middle-class than in upper-class entrepreneurs (14 percent and 19 percent, respectively). In summary, the role of family and the university is more important in the upper class than in the middle class.

<sup>9</sup> At the country level, these differences are statistically significant in Peru and, to a lesser extent, in Mexico. Compared to other regions, there are no significant differences. Most middle-class entrepreneurs are well educated.

<sup>10</sup> At the country level, statistically significant differences can be identified in Chile (59 percent in the upper class and 42 percent in the middle class).



**Table 6. Context Where Entrepreneurs Acquired their Vocation, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
University	19	14	8**	16*	5	6	27	13	11	18	23	6*	27	19	9	10	10	11	16	17	9	16	8	2
Previous work experience	43	50	53	44	48	34	45	53	74**	48*	67	61	45	39	53	40	40	40	43**	62	47	37	37	45
Family context	48**	38	29**	52	37	29	36	44	21**	56**	33	36	42	36	21	60	37	34	48**	28	41	45	49	32**

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

The role of the university and the family context in the acquisition of an entrepreneurial vocation is even smaller in the poorest strata of the database (8 percent for the university and 29 percent for the family). This coincides with the fact that the lowest proportion of university graduates is found among the least affluent segments. Likewise, fewer lower-class families have experience with the business world.<sup>11</sup>

Entrepreneurs were asked about their main motivation to start a business using a set of options that appear in the literature (Kantis et al., 2004). Middle-class entrepreneurs mentioned not just a single factor but a set of different motives, including positive economic as well as non-economic factors (see Table 7). The top five motives for middle-class entrepreneurs are: self-actualization (87 percent); the desire to apply their knowledge (81 percent); the desire to improve their income (76 percent); the desire to be independent (60 percent) and the desire to contribute to society (59 percent). Although these motives are important for entrepreneurs from all social strata, some differences in the regional database were found. The family plays a greater role among the more affluent entrepreneurs than among middle-class entrepreneurs. Following in the family tradition appears more frequently as a motive among the wealthiest entrepreneurs (31 percent and 18 percent in the regional sample).<sup>12</sup> Similarly, family role models are more important for wealthy entrepreneurs than for those in the middle-class.<sup>13</sup> Negative reasons, such as unemployment or the impossibility of continuing one's studies, are not common motives for starting a business in general, although they are more frequent among lower-class entrepreneurs.<sup>14</sup>

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<sup>11</sup> Ecuador and Mexico show statistically significant differences in terms of the influence of prior work experience and the family context. Argentina also shows this pattern, although the differences are not statistically significant.

<sup>12</sup> This is particularly the case in Peru, Mexico and Ecuador where statistically significant differences are observed.

<sup>13</sup> At the country level, both Mexico and Chile exhibit statistically significant differences in this regard.

<sup>14</sup> For instance, the impossibility of continue studying appears to be relevant in Argentina, Mexico and Chile whereas being unemployed is only statistically significant in the Chilean case.

**Table 7. Main Reasons for Starting a Business, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Independence	63	60	58	44	45	49	73	43	43	70 *	86	82	58	50	56	80	75	66	75	77	71	57	49	55
Self-realization	89	87	87	88	78	80	100	90	89	100	94	94	91	85	82	90	100	94	86	88	94	84	82	77
Family role models	28 **	17	18	16	11	14	0	12	7	44 *	27	33	24	19	32	30	15	20	39 **	15	15	22	19	19
To contribute to society	59	59	63	40	47	43	54	51	51	59 **	35	73 **	64	73	76	80	72	74	93	87	91	31 **	52	49
To gain social status	34	32	35	12	16	11	45	19	19	52	38	61 **	42	45	62	20	30	37	50	57	44	14	18	34 **
To follow the family tradition	31 **	18	14	20	18	6 *	9	14	4 **	44 **	22	24	42 **	22	21	30	22	17	41 **	15	21	16	15	15
Unemployment	9	9	14 **	8	12	9	0	10	12	15	6	12	9	5	15	0	7	11	7	10	6	12	8	32 **
Impossibility of continuing studies	3	3	12 **	8	3	11 *	0	1	7 *	4	2	21 **	3	8	15	0	7	6	7	3	6	0	1	21 **
To be a wealthy person	38 **	27	25	28	25	11 *	27	18	22	44 **	22	45 **	36	27	26	10	20	14	45	48	32	41 **	20	30
To increase their income	74	76	82 *	56	70	57	54	69	81	70	81	91	73	81	97 **	60	80	94	93	87	79	78	67	79
To apply their knowledge	80	81	80	80	78	77	91	80	79	74	72	64	88	78	79	90	90	91	84	88	88	71	83	83

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

The importance of having positive role models in motivating new entrepreneurial vocations is significantly higher in Korea and Taiwan than in Latin America. It is more important than the role of the family. It includes the positive influence of friends and acquaintances from the same city. Interestingly, the comparison shows the important role played by the mass media in creating and disseminating entrepreneurial role models.

**Table 8. Presence of Role Models**

	Latin America	Korea	Taiwan	Spain	Italy
Role models coming from					
Family	17%	47%**	17%	10%	17%
Friends	9%	40%**	38%**	11%	13%
Acquaintances from the same city	9%	57%**	21%**	11%	13%
Entrepreneurs appearing in the Media	8%	42%**	60%**	13%	12%

*Reference:* Only figures from middle-class entrepreneurs are reported.

\* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

### 2.2.3. Main Learning Contexts

In most countries, the family context has been more relevant for upper-class entrepreneurs, particularly with respect to the acquisition of negotiation skills. Consistently, this contribution was less important for lower-class entrepreneurs, especially for the acquisition of problem-solving and social skills (see Table 9).<sup>15</sup> Beyond the specific form it assumes in each country, the contribution of work experience to the acquisition of entrepreneurial skills tends to be greater among middle-class entrepreneurs than among the wealthiest entrepreneurs in the database. As Table 10 shows, this is particularly true with respect to social skills, risk tolerance, negotiation, teamwork, creativity, marketing, hard work and planning, and others.<sup>16</sup>

<sup>15</sup> At the country level, the contribution of upper-class entrepreneurs' families to acquiring negotiation skills is significantly higher in Argentina, Mexico, and Ecuador. Mexican data show significant differences between middle-class and lower-class entrepreneurs in other entrepreneurial factors, such as marketing, administration, and hard work.

<sup>16</sup> At the country level, some statistically significant differences are observed. Previous work experience is more prevalent among middle-class than upper-class entrepreneurs in Argentina (in problem solving, administration and hard work), Mexico (marketing and communication), Peru (in technical knowledge), Ecuador (in negotiation), and Chile (in teamwork, planning, communication, and motivation).

**Table 9. Previous Work Experience as a Context for Acquiring Entrepreneurial Skills, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Problem solving	68	72	68	92 **	71	74	91	87	92	74	84	70 *	70	62	68	50	52	51	73	69	47 **	45 **	68	53 *
Social skills	47 **	58	60	40	54	49	36	66	71	52	69	79	58	47	50	10	35	51	50	62	50	49	58	57
Risk tolerance	54 **	63	62	44	51	51	73	78	72	74	83	73	64	68	62	30	42	54	59	70	62	39	48	51
Negotiation	68	75	72	64	71	69	54	80	82	74	84	76	79	70	76	50	57	51	70 *	84	65 **	63	68	74
Teamwork	59 **	67	69	56	67	57	64	84	82	67	68	70	58	59	59	70	42	71 **	66	71	59	47 **	64	70
Creativity	44	51	52	32	45	46	45	60	69	48	62	64	21	31	53 **	40	42	40	61	64	41 **	47	46	38
Technical knowledge	51	56	57	68	49	46	45	70	72	63	68	64	15 *	32	50 *	40	40	49	70	68	53	45	53	49
Marketing	50 **	58	54	44	51	43	54	69	69	59 **	80	58 **	39	36	44	40	52	34	68	72	59	39	43	53
Administration	57 **	66	63	52 **	58	49	73	78	78	67	80	61	45	47	59	30	57	51	70	77	68	53	62	64
Hard work	54 **	66	61	32 **	56	40	73	71	72	63	75	64	45	59	62	10	50	54	75	81	68	53	60	55
Planning	52 **	69	59 **	52	71	49	64	82	71	74 *	76	61 *	27	49	44	20	55	57	68	76	59 *	45 **	66	60
Communication	54 **	66	56 **	52	63	54	45	69	68	56 *	74	58 *	54	59	59	60	55	37	70	76	56 **	39 **	59	49
Motivation	61 **	70	62 **	56	62	51	54	70	72	63 **	89	64 **	58	62	65	30	65	54	86	75	50 **	49 *	64	66

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

Finally, universities have played a larger role for the more affluent segments than for the middle class, particularly in acquiring managerial capabilities such as marketing, administration, planning, and even technical knowledge (see Table 11). This result could be related to the prevalence of entrepreneurship courses in private universities, where the presence of upper-class students is higher.<sup>17</sup> In contrast, a university education tends to be less important for lower-class entrepreneurs.

In summary, middle-class entrepreneurs tend to be young employees from small and large firms, to a great extent university graduates. However, they tend to start their entrepreneurial process later and are less exposed to prior business experience than upper-class entrepreneurs, who consistently tend to accumulate more entrepreneurial experience before launching their own businesses.

The influence of entrepreneurial role models in Latin America is more important for the upper class than for the middle class. This contrasts with East Asian countries, where the influence of entrepreneurial role models is strong for the middle class as well.

Learning contexts also tend to show differences. While middle-class entrepreneurs who are formerly employees or professionals tend to acquire their business motivation and most of their entrepreneurial skills on the job, the more affluent segments take more advantages from their higher exposure and linkages with the business world provided by their families. In addition, universities play a greater role as learning platforms than among middle- and lower-class entrepreneurs. Hence, universities could play a significant role in fostering entrepreneurial motivation and developing entrepreneurial skills, given that two out of three middle-class entrepreneurs are university graduates.

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<sup>17</sup> At the country level, the main statistically significant differences are observed in Argentina (in social skills, teamwork, marketing, and motivation), Mexico (in creativity), and Peru (in technical knowledge, marketing, administration, hard work and communication).

**Table 10. Family as a Context for Acquiring Entrepreneurial Skills, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Problem solving	32	35	26 **	36	40	37	18	36	22	41	25	21	21	30	12 **	50	15	17	36	39	29	29 *	44	40
Social skills	37	40	31 **	48	39	34	36	57	44	33	28	9 **	15 **	43	15 **	60	32	17	34	31	29	45	47	45
Risk tolerance	36	30	31	32	39	46	36	31	29	33	21	18	24	22	21	70	32	26	32	20	26	43	45	49
Negotiation	30 **	20	18	44 **	23	20	18	22	15	33 *	17	6	15	19	21	60	30	14	27 **	12	23	31	21	28
Teamwork	20	17	13	8	8	14	18	21	17	30	16	6	6	15	9	40	7	3	27	21	23	20	22	17
Creativity	28	24	25	36	23	37 *	27	32	22	22	21	18	21	23	21	30	17	17	25 *	13	12	35	37	43
Technical knowledge	7	6	7	4	3	6	9	9	3	7	5	12	0	5	0	0	2	3	9	4	3	14	10	19
Marketing	5	4	4	16 *	5	11	18	9	1 **	15 **	4	9	0	1	0	0	2	0	0	4	6	2	3	2
Administration	18	13	9 *	36 *	20	17	18	26	8 **	11 *	4	12	6	4	0	30	10	0	20	8	6 *	14	18	17
Hard work	47	40	43	36 *	20	17	36	53	36 **	52 *	33	33	33	32	32	80	37	37	36	28	44 *	45	46	55
Planning	18	15	14	20	13	20	9	19	19	26	11	18	9	11	3	20	0	6	18	22	15	18	18	11
Communication	23	24	24	20	10	20	36	45	35	26	16	18	21	26	21	20	10	17	25	25	21	18 *	33	28
Motivation	25	24	18 *	36 **	16	23	27	36	21 **	26	17	6	21	22	12	20	17	17	23	21	32	24	34	15 **

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

**Table 11. University as a Context for Acquiring Entrepreneurial Skills, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Problem solving	33	32	24 **	44	43	37	91	42	26	41	30	15	27	31	18	30	20	9	20	27	32	26	26	30
Social skills	31	25	18 **	36 **	17	14	36	31	24	33	28	6 *	30	18	21	20	30	14	29	33	21	29	21	19
Risk tolerance	9 *	14	9 **	16	19	6	18	18	10	18	12	12	18	9	9	0	10	3	2 **	16	9	2 **	12	11
Negotiation	9	12	10 *	0	7	20 **	9	10	12	22	15	12	6	8	3	10	12	6	11	16	9	6	12	8
Teamwork	35	31	19 **	52 **	21	26	18	34	19	44	33	15	36	27	15	20	42	20 **	27	36	29	35	29	13 **
Creativity	31	29	20 **	32	28	17	27	40	19 **	44 **	22	9	48	31	18	20	20	11	23	34	38	22	22	23
Technical knowledge	58 **	46	32 **	60	53	46	82	51	32 **	44	31	15 *	82 **	53	23 **	30	47	23 **	50	47	44	55	41	38
Marketing	39 **	24	17 **	32 **	9	11	36	23	18	37	23	12	54 *	35	12 **	50	35	17	39	28	35	31	22	15
Administration	36 *	29	20 **	36	25	11	45	27	18	56	27	12	36 **	38	23	50	32	23	32 *	30	35 **	24	25	19
Hard work	14	13	7 **	8	12	11	27	16	8	22	15	6	27 **	11	6	10	10	3	4 *	16	3 **	10	12	6
Planning	37	30	25 **	36	28	29	54	35	19	37	21	21 **	61	38	29	40	37	23	20	22	26	33	33	30
Communication	24	22	14 **	20	21	20	54	31	18	30	21	3 **	27 *	12	9	20	25	11	14	22	18	22	21	17
Motivation	19 *	13	12	20 *	7	14	36	17	12	15	11	9	18	13	15	30	7	9	23	23	18	10	11	8

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.



### ***2.3. The Entrepreneurial Process and Firm Characteristics***

The international comparison shows that the time lapse until the first venture is created is longer in Latin American countries (4.4 years in Latin America on average, compared to 1.5 in Korea, 2.4 in Taiwan, and 3.4 in Italy and Spain). This fact points to possible differences in personal skills and accumulated contacts but also to the existence of important economic, regulatory, and motivational contrasts between the two contexts. Those differences could be affecting the gap between motivation and firm creation. As was argued in previous studies, this could reveal the existence of more “entrepreneur-friendly” environments in those countries than in Latin America. Some key factors, such as culture (i.e., role models), industry structure, networks, and financing, foment entrepreneurship in those regions (Kantis et al., 2005). The following sections will analyze some of the factors affecting this process and their implications.

#### ***2.3.1. From the Business Idea to the Startup***

Middle-class entrepreneurs tend to develop their business ideas by using the information they have acquired on previous jobs (75 percent) and/or by networking (76 percent). Although networking is an important source of information to identify and validate business ideas in all social strata, upper-class entrepreneurs tend to have more contacts with other SME entrepreneurs and professionals than middle-class entrepreneurs (49 percent and 42 percent in the former case, and 44 percent and 39 percent in the latter case). Entrepreneurs from the lowest social strata tend to interact most with other employees. These results reveal the existence of differences in the quality of the networks accessed by entrepreneurs according to their social origins.<sup>18</sup>

Latin American entrepreneurs tend to rely more on social ties (family and friends) than their colleagues from other regions when capturing information to formulate their business idea. However, the proportion of business relationships and colleagues is higher among East Asian and, to a lesser extent, European entrepreneurs. In other words, middle-class entrepreneurs from Latin America tend to rely more on strong but less specialized ties.

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<sup>18</sup> At the country level, differences in the composition of networks are observed in Peru, Mexico, Chile, and Argentina.

**Table 12. Type of Relationships**

	Latin America	Korea	Taiwan	Spain	Italy
Friends	53%	39%	67%*	33%**	27%**
Family	41%	4%**	18%**	41%	30%*
Colleague	27%	61%**	47%**	24%	33%
Business relationship	29%	74%**	40 %	39%	30%

*Reference:* Only figures from middle-class entrepreneurs are reported.

\* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

Beyond the particularities observed in each country, the higher the social origins of the entrepreneurs, the more frequent is the use of professional tools to evaluate the decision to start up. As the next Table illustrates, this fact is observed in terms of the development of business plans, cash flows and/or the estimation of payback periods, sales and operational costs, and personal opportunity costs. This result shows the more professional approach of higher-class entrepreneurs and the need for support to middle- and lower-class entrepreneurs.

**Table 13. Networks Profile, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Executive from a large firm	42	33	31	17	29	41	22	28	33	19	22	0	62 **	33	25	50	46	18 *	46	41	62 *	50	38	24
SME owner	49 **	42	41	44	51	55	44	45	50	69 **	40	40	45	55	54	2	21	27	54	35	14 *	47	37	34
Professional	44 **	39	29 **	61	43	45	44	36	25	44	26	10	72	53	46	17	21	27	37	56	43	21	25	13
Bank Officer	2 **	2	1	0	1	0	0	4	0	0	2	0	3	5	7	0	0	0	8 **	0	0	0	1	3
Member of a Public Institution	4	5	2 **	6	5	3	0	4	2	0	4	0	10	9	0	0	4	9	4	4	0	3	6	0
Employee	17	24	38 **	33	17	38 **	44	32	40	25	26	35	7	12	36 **	33	33	45	4 **	30	24	13	26	42 *

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

**Table 14. Evaluation Process and Criteria, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Business plan	66 **	51	39 **	64 **	38	40	54	52	46	63 **	30	27	79	72	32 **	40	55	31 **	66	54	44	67	61	43 **
Cash-flow	62 **	50	36 **	48	38	46	45	40	36	52 *	32	24	61	68	38 **	70	52	26 **	68	58	38 *	71	63	43 **
IRR estimation	46	41	27 **	36	28	34	36	29	18	44	35	21	51	53	29 **	20	40	17 **	59	53	44	43	46	30 *
Payback period estimation	61 **	50	36 **	36	35	43	54	43	28 *	59	44	36	79 *	62	44 *	50	45	29	64	58	35 **	63	56	43
Sales and costs estimation	87 **	75	68 **	84	70	69	73	82	78	93 **	68	61	94	82	76	100	80	54 **	75	64	50	92	85	77
Opportunity cost estimation	71 **	60	52 **	60	51	34 *	54	54	49	74 *	56	39	76	66	59	60	55	54	73	65	56	75	70	70

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

### 2.3.2. Sources of Finance

Most entrepreneurs (around 80 percent), regardless of their social origins, finance their start-up fundamentally with personal savings. Although not reflected in Table 15, this feature itself implies important differences among those belonging to distinct social segments, since their capacity to generate savings is also different. Moreover, differences in the availability of finance observed among entrepreneurs from different social segments tend to be accentuated by their different degrees of access to external sources of funds.

Moreover, in Latin America, access to private external sources of financing, such as bank loans and private investors, is more common among more affluent entrepreneurs than among middle-class entrepreneurs (39 percent and 30 percent) or among lower-class entrepreneurs (30 percent). To compensate for this situation, lower-class entrepreneurs tend to make use of bootstrapping measures, such as secondhand equipment purchases and cash advances from clients (30 percent and 22 percent in the first case and 20 percent and 14 percent in the second one). Public support was rarely used by any social stratum.

The situation of middle-class entrepreneurs in other regions seems to be relatively more relaxed than in Latin America with respect to financing a startup. Although personal savings continue to be the main source of financing in all regions, the degree of access to external financing is clearly lower in Latin America, providing a weaker platform for startups. In Italy, Spain, and Korea, the use of private banks by middle-class entrepreneurs is significantly more widespread. Risk capital (both formal and informal) is more frequently obtained by East Asian entrepreneurs, principally in Taiwan. Public financial support also tends to be higher outside Latin America.

**Table 15. Financial Sources**

	Latin America	Korea	Taiwan	Spain	Italy
Personal savings	79 %	62%**	68%**	84%	79%
Family and friends	25%	25%	66%**	11%**	4%**
Private Banks	26%	42%**	25%	44%**	51%**
Risk capital	7%	12%**	25%**	5%	4%
Public financial support	3%	15%**	4%	11%**	17%**
Bootstrapping	53%	30%**	40%**	56%	23%**

*Reference:* Only figures from middle-class entrepreneurs are reported.

\* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

**Table 16. Access to External Financial Resources, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Personal savings	83	79	79	84	77	77	91	80	69	89	95	97	91	80	79	100 *	75	80	80	84	79	71	64	79 *
Family and friends	28	25	21	20	23	17	45	25	10 **	37	35	27	21	23	32	20	22	26	36	30	29	20	16	21
Private Banks	32 *	26	23	16	23	20	54 *	26	25	18	15	15	39	35	26	50	27	17	29	26	15	63	69	66
Venture capital	9	7	4 *	4	6	6	0	8	1 *	22	11	3	9	9	6	0	7	6	7	5	9	10	4	2
Subtotal Banks and Venture capital (private external sources)	39 **	30	25	20	27	26	54	30	25	33	25	15	48	38	26	50	30	23	34	30	21	45	32	34
Public support	1	7	4	0	5	0	0	3	8	4	2	3	0	0	3	0	5	6	0	1	3	2	3	0
Bootstrapping	48	53	58	72	64	63	64	69	72	56	51	51	56	53	68	70	72	60	32	33	29	31 **	49	51

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

The relative lack of access to external funds by Latin American entrepreneurs adversely impacts new firms. Middle-class entrepreneurs, and lower-class entrepreneurs, have had to adjust their original projects to make them feasible and start with a significantly higher proportion of financing than more affluent entrepreneurs. As Table 17 illustrates, this implies starting smaller, or with a lower level of technology and/or later than desirable to be competitive. Alternatively, this also implies greater efforts to obtain support from suppliers or new partners.

The consequences of not having access to external financing are also different among regions. European entrepreneurs tend to be less affected by the lack of external funding. One out of four Italian entrepreneurs affirmed that they did not face significant negative consequences, while just 21 percent had to start smaller or latter than expected (vs. 62 percent in Latin America). On the other hand, in East Asia, entrepreneurs tend to rely more often on third parties, especially new partners (57 percent vs. 9 percent in Latin America), to overcome financial shortfalls.

Summarizing, financing is a clear area where specific policies could help to level the playing field among entrepreneurs from different social strata. Middle-class entrepreneurs in Latin America face disadvantages when compared to more affluent entrepreneurs and to their middle-class counterparts in other regions.

**Table 17. Main Consequences of Not Having Access to External Sources of Finance, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
The firm started smaller	44	51	65 **	60	53	51	54	53	71 **	41	62	73	51	54	71	40	62	69	34	48	56	39	37	60 **
The firm started latter	28	31	41 **	44	32	29	36	34	44	30	39	64 **	24	30	53 **	30	32	31	25	28	35	20	25	34
The firm started with a lower technological level	38	44	59 **	40	46	49	45	43	64 **	48	60	73	45	49	65	60	45	57	32	34	44	26	35	55 **
Sub-total downsizing	58	62	77 **	72	65	63	73	65	85 **	74	83	94	58	62	85 **	60	70	71	45	54	68	51	49	68 **
It was necessary to get clients/ suppliers financial help	46	50	58 **	44	46	46	45	53	69 **	59	47	64	45	57	71	20	47	46	61	67	62	31	31	43
It was necessary to incorporate a new partner	12	9	10	12	12	6	27	8	18	11	9	6	15	8	3	0	10	6	23	21	32	10	4	4
Sub-total third parties help	52	53	60 *	48	53	46	64	56	75 **	67	51	64	58	62	71	20	52	49	66	68	65	35	34	45
No negative consequences	20	21	26	12	22	23	54	51	54	11	7	12	33	40	35	10	5	0	23	21	32	10	4	4

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.



#### ***2.4. Features of Firms of Middle-Class Entrepreneurs***

Most middle-class firms are located in large cities (66 percent). However, their importance in local areas dominated by SMEs is greater than that of new firms founded by upper-class entrepreneurs (34 percent and 22 percent).<sup>19</sup> Entrepreneurial networks and “proximity relationships” in these local areas tend to reduce transaction costs and other barriers to entry for new firms. The occurrence of this phenomenon in Italy is well known. In fact, according to an IDB database, a large number of Italian entrepreneurs (61 percent) are located in areas dominated by SMEs. This feature introduces a regional dimension into the consideration of entrepreneurship policies for middle-class entrepreneurs.

The presence of entrepreneurial teams, rather than solo entrepreneurs, is significantly more prominent in the firms of middle-class entrepreneurs than in those founded by lower-class entrepreneurs (75 percent vs. 68 percent). This trend is even more pronounced among middle-class entrepreneurs from other regions. In Taiwan, Spain, and Italy, all of the firms surveyed were created by teams.

Middle-class firms tend to build their competitive advantage on differentiation of a product or service (56 percent) much more than on lower prices or innovation (27 percent and 38 percent, respectively). In comparison, firms created by middle-class entrepreneurs in Taiwan and Spain tend to be more innovative (70 percent and 54 percent, respectively).

Two-thirds of the firms created by middle-class entrepreneurs tend to operate in conventional manufacturing industries such as metalworking, furniture, food, and textiles (66 percent). As distinct from lower-class entrepreneurs, middle-class entrepreneurs are more involved in the creation of knowledge-based companies (34 percent vs. 23 percent).<sup>20</sup> But their role in the creation of such firms is less prominent than in other countries, such as Taiwan (where knowledge-based firms created by middle-class entrepreneurs account for 68 percent of the firms created by them). In other words, although middle-class entrepreneurs are contributing to the creation of knowledge-based firms, they do so less in Latin America than in other regions of the world.

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<sup>19</sup> This characteristic is even more pronounced in Peru, where 36 percent of middle-class firms are located in local areas (versus 9.1 percent of upper-class firms).

<sup>20</sup> At the country level, statistically significant differences are only reported in Mexico where the presence of middle-class entrepreneurs' firms tend to be lower among technology-based industries than that observed among upper-class entrepreneurs' firms (20 percent and 41 percent).

**Table 18. Industry Classification, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Conventional sectors	64	66	77 **	60	57	66	36 *	65	76	59 **	80	91	73	72	79	90	70	83	61	58	62	67	68	81
Knowledge-based sectors	36	34	23 **	40	43	34	64 *	35	24	41 **	20	9	27	28	21	10	30	17	39	42	38	33	32	19
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

Most of the young firms surveyed—regardless of social origins or region—tend to sell their production to other firms. However, other firms are the main customers of the young ventures in East Asia and Mediterranean Europe even more frequently (91 percent in both regions compared to 80 percent in Latin America). Outsourcing is a less exploited source of business opportunities in Latin America than elsewhere (East Asia 50 percent and Europe 40 percent compared to 24 percent in Latin America). The industrial structure in Latin America is more fragmented, and it is characterized by weaker linkages between large and small firms than in East Asian and European countries. In other words, the business environment in Latin America is less advantageous for the exploitation of business opportunities by emergent firms, which pay a price for being new as well as small.

Young Latin American firms tend to sell their production almost entirely (slightly above 80 percent) in their domestic markets.<sup>21</sup> Among firms that export, export coefficients tend to be larger for the highest social strata, especially in Peru and Chile. Comparing the export orientation of young Latin American middle-class firms with that of other regions, it is evident that the percentage of young firms that sell part of their output to foreign markets in other latitudes is significantly higher. Additionally, the export coefficients are statistically higher in all countries except Spain.

**Table 19. Export Orientation across Regions**

	Latin America	Korea	Taiwan	Spain	Italy
No exports	84%	57%**	53%**	65%**	74%**
Exporters	16%	43%**	47%**	35%**	26%**
Total	100%	100%	100%	100%	100%
Export coefficient	24.7	51.2**	45.7**	28.0	38.0**

*Reference:* Only figures from middle-class entrepreneurs are reported.

\* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

<sup>21</sup> Statistically significant differences are found only in Mexico.

**Table 20. Export Orientation, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Non-exporters	80	84	83	60	71	63	82	87	85	78 *	91	94	70	76	85	80	72	80	100 *	93	88	82	90	87
Exporters	20	16	17	40	29	37	18	13	15	22 *	9	6	30	24	15	20	23	20	0 *	7	12	18	10	13
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Export's coefficient (mean)	31.9	24.7	18.2	13.6	17.9	14.0	37.5	17.2	12.8	22.3	15.9	2.4	63.6* *	36.8	27.0	21.0	38.4	31.0		33.3	42.7	24.7* *	15.0	3.9**

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

#### *2.4.1. Initial Investment and Firm Size*

Middle-class firms tend to start with smaller initial investments than their counterparts from more affluent strata. Almost 85 percent of them began with less than US\$ 100,000 (compared to 75.7 percent in the case of upper-class entrepreneurs). As expected, this situation is even more widespread among firms of lower-class entrepreneurs (92.9 percent).<sup>22</sup> Financial constraints and downsizing of their projects prior to startup are more frequent. Investing large amounts of resources is less frequent among middle-class entrepreneurs in Latin America than in East Asia and Europe. One in five in those regions has invested more than a half million dollars to launch their ventures (compared to just 5 percent in Latin America).<sup>23</sup>

Employment data also confirm some differences between Latin American firms and those of other regions. Compared to those created by more affluent entrepreneurs, middle-class ventures created by upper-class entrepreneurs tend to employ around 15 people, middle-class firms initially employ fewer than 10 people.<sup>24</sup> Nevertheless, the initial downsizing of middle-class firms does not imply that entrepreneurs relinquish their ambitions. In fact, early in the life of their companies, they abandon the world of microenterprises to become SMEs. On average, three years after establishing the firm, they are employing 16 workers.

However, it is also worth mentioning that, three years after startup, firms created by middle-class entrepreneurs remain smaller than those founded by more affluent entrepreneurs (26 employees against 16 on average). This contrast is even more pronounced when comparing them with Korean and Taiwanese companies (32 and 37 employees at the third year, respectively). This difference would be even greater if one takes into account indirect employment created through subcontracting, a well-known feature of the productive structure of these countries.

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<sup>22</sup> This is particularly noteworthy in Mexico and Peru.

<sup>23</sup> This is particularly true in Taiwan, where 25 percent of the firms of middle-class entrepreneurs have invested more than US\$500,000, followed by Spain, where this proportion is around 20 percent.

<sup>24</sup> This is verified in all of the countries studied, but is only significantly different in Peru, where the richest entrepreneurs tend to employ almost 30 people at the beginning (11 in the case of middle-class entrepreneurs). Similar results can be obtained by splitting the initial size into different categories.

**Table 21. Employment Size**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Mean employment size (1 <sup>st</sup> year)	14.5**	9.2	8.0	7.8	6.9	6.9	12.4	7.0	9.5	19.5	12.9	9.8	29.7**	11.3	8.0	8.6	10.1	4.8	9.1	7.8	7.0	11.3	9.4	8.1
Mean employment size (3 <sup>rd</sup> year)	26.2**	16.6	15.2	17.9	14.9	13.3	21.4	15.7	17.5	28.2	20.5	17.7	46.3**	20.4	17.4	22.8	25.3	9.1	21.3**	11.0	11.9	21.9	16.3	16.6

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

**Table 22. Employment Size, Comparison with Selected Countries**

	Latin America	Korea	Taiwan	Spain	Italy
Employment (average)					
At the 1 <sup>st</sup> year	9.1	22.7**	10.8	8.2	9.2
At the 3 <sup>rd</sup> year	16.6	31.7**	36.8**	13.8	16.1

*Reference:* Only figures from middle-class entrepreneurs are reported.

\* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

#### 2.4.2. Obstacles to Survival and Growth

Once the firm is created, the three main problems faced by middle-class entrepreneurs are: hiring qualified employees (62 percent), acquiring clients (61 percent), and managing cash flow (60 percent). These problems topped the list for all social strata. However, the average number of identified problems is significantly lower as we move from the poorest segments towards the more affluent ones. Indeed, the average number of initial problems identified by upper-class entrepreneurs is 4.7, while the number of problems mentioned by middle-class entrepreneurs is 5.3, and 5.9 in the case of lower-class entrepreneurs.

Compared to upper-class entrepreneurs, those coming from the middle strata tend to face more frequent problems related to securing reliable suppliers, purchasing equipment, and managing the company. Likewise, as can be seen in Table 23, those coming from lower strata tend to face more problems obtaining market information and purchasing equipment and machinery.<sup>25</sup>

<sup>25</sup> At the country level, some statistically significant differences are worth mentioning. In Chile, middle-class entrepreneurs face more problems than those coming from the wealthiest strata in getting the right suppliers, purchasing equipment and machinery, and managing operations. In Mexico, hiring professional managers and managing the operations are more frequent among middle-class than upper-class entrepreneurs. Difficulty in purchasing machinery and equipment is mentioned more frequently by lower-class entrepreneurs in Brazil, El Salvador, Ecuador, and Chile, which may reinforce the abovementioned arguments regarding lack of access to external financing.

**Table 23. Main Problems Faced during the First Years, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Getting market information	36	40	49 **	40	29	29	64	54	53	52	64	76	48	49	65	40	30	49	27	40	35	18	21	40 **
Getting clients	56	61	67	72	70	71	91	73	75	63	79	85	67	74	68	30	55	60	43	39	47	47	47	55
Getting proper suppliers	40 **	48	52	36	42	54	27	54	54	70	79	76	64	55	53	50	42	51	29	29	44	20 **	42	36
Hiring professional managers	18	21	21	12	14	11	36	27	37	41 *	62	51	27	15	21	30	25	6 **	7	8	3	4	9	6
Hiring qualified employees	62	62	64	68	55	51	54	71	75	81	86	79	76	65	62	60	60	69	36	44	44	63	61	62
Purchasing machinery	39 **	46	60 **	36	50	43	64	49	69 **	59	74	82	54	55	53	50	40	60 *	20	22	41 **	26 *	42	60 **
Managing firm	32 **	39	41	44	53	31 **	54	53	54	44	62	67	36	35	38	30	40	43	14	14	18	26	30	30
Attaining a balanced cash flow	55	60	65	60	63	51	91	74	82	74	76	76	56	65	56	80	60	60	25	27	41	55	64	70
Managing operations	34	34	39	52	40	29	36	36	56 **	41	60	73	58 **	35	47	40	30	26	20	12	15	16 *	30	21
Attaining quality standards	33	35	41	32	31	26 *	27	42	57	52	63	76	61 *	42	56	10	17	20	18	20	15	22	31	30
Adapting products	35	41	46	32	44	37	36	44	51	56	64	76	48	49	53	20	15	34 *	18	24	29	35	39	38
Managing relationships with clients	29	34	35	28	44	26	36	40	40	41	54	70	45	30	38	10	27	20	14	14	18	29	29	32

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.



The main problems facing middle-class entrepreneurs coincide across regions. However, compared to Latin American entrepreneurs, Europeans tend to face fewer problems (on average 3.6 vs. 5.3). In fact, looking at each problem individually, the proportion of middle-class entrepreneurs facing each problem is lower in Spain and Italy than in Latin America. Conversely, East Asian entrepreneurs—mostly Koreans—tend to have more problems acquiring clients, hiring professional managers, and managing their firms. This may be a function of the greater dynamism observed in East Asian firms. Similarly, getting a balanced cash flow appears to be the main problem mostly for Korean entrepreneurs. Asian entrepreneurs—especially Taiwanese—tend to face fewer problems purchasing machinery and equipment (46 percent in Latin America vs. 25 percent in Taiwan). This is a function of the scarcity of financing in Latin America, as noted above.

**Table 24. Main Problems Faced during the First Years,  
Comparison with Selected Countries**

	Latin America	Korea	Taiwan	Spain	Italy
Getting market information	40%	60%**	36%	17%**	28%**
Getting clients	61%	75%**	79%**	55%	59%
Getting proper suppliers	48%	70%**	57%	41%	18%**
Hiring professional managers	21%	65%**	66%**	12%**	11%**
Hiring qualified employees	62%	60%	62%	55%	45%**
Purchasing machinery and equipment	46%	42%	25%**	35%**	22%**
Managing the firm	39%	72%**	57%**	18%**	21%**
Attaining a balanced cash-flow	60%	82%**	60%	40%**	36%**
Managing operations	34%	62%**	34%	12%**	14%**
Attaining quality standards	35%	62%**	45%	28%	14%**
Adapting products to consumers' needs	41%	62%**	38%	35%	25%**
Managing relationships with customers	34%	60%**	38%	18%**	23%**

*Reference:* Only figures from middle-class entrepreneurs are reported.

\* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

To overcome these problems, the majority of entrepreneurs (60 percent) tend to use their networks, regardless of their social origins. Middle-class entrepreneurs who decided to contact external sources tend to resort to commercial, institutional, and social networks, in that order.<sup>26</sup>

<sup>26</sup> At the country level, some differences among middle class and high class entrepreneurs could be identified. In Ecuador, most middle-class entrepreneurs tend to solve their problems by themselves (66 percent) in a higher proportion than the registered in the other segments (43 percent for upper-class entrepreneurs and 44 percent for low-class entrepreneurs). In Chile, they tend to use less the support of their suppliers (28 percent and 10 percent). Public institutions are less used by middle class entrepreneurs in Peru (13 percent and 27 percent) and Ecuador (10 percent and 23 percent). Finally, they tend to use fewer consultants and consultancy firms than upper-class entrepreneurs in Mexico (6 percent and 22 percent).

**Table 25. Support Networks Used to Overcome Initial Problems, Percentage**

	Regional Sample			Argentina			Brazil			Mexico			Peru			El Salvador			Ecuador			Chile		
	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)	(H)	(M)	(L)
Public institutions	16	12	8	4	7	11	18	22	6 **	30	18	9	27 *	13	9	10	2	3	23 **	10	12	2	9	8
Chambers/Unions	15	13	9	12	15	9	9 **	0	1	33	32	24	27	19	18	20	10	9	11	10	12	2	6	4
Consultancy firms	10	10	9	20	15	23	18	13	11	22 **	6	0	6	12	15	10	7	6	7	6	9	2	7	2
Suppliers/customers	29	33	36	32	40	31	45	60	47	37	33	36	51	43	47	20	22	11	25 **	8	29 **	10 **	28	38
Family/friends	21	24	23	16	14	20	54	31	25	30	38	24	15 *	31	32	30	20	14	11	14	18	20	21	28
Colleagues	16	14	13	24	15	9	27	16	15	26	28	12 *	21	13	9	20	10	14	9	6	15	4	13	13
Universities	8	11	7	8	12	9	18	23	10 **	11	15	6	15	12	9	10	5	3	9	6	9	2	6	4
None of the above	43	42	42	44	36	34	27	19	36 **	33	36	39	21	31	23	50	52	74 **	43 **	66	44 **	65 *	49	45

*Reference:* (H) High-class, (M) Middle-class, (L) Low-class. The reference category is always the middle-class, which means that differences are calculated between high-class and low-class with respect to middle-class. \* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

Although the majority of middle-class entrepreneurs tend to rely on support networks, this strategy is less widespread in Latin America than in other regions. Forty-two percent of Latin American entrepreneurs rely on themselves to solve problems, while only 17 percent of Korean and 13 percent of Taiwanese entrepreneurs do so. Commercial networks (suppliers, customers, and other entrepreneurs) are the most widely used for assistance with problem-solving. Universities and other public institutions are also more frequently relied on, mainly in Taiwan. Consulting firms are important sources of assistance in overcoming initial problems, mainly in Italy.

**Table 26. Support Networks for Solving Initial Problems,  
Comparison with Selected Countries**

	Latin America	Korea	Taiwan	Spain	Italy
Public institutions	12%	20%*	30%**	13%	10%
Chambers/Unions	13%	12%	23%*	4%**	15%
Consultancy firms	10%	12%	19%*	8%	21%**
Suppliers/clients	33%	67%**	57%**	29%	16%**
Family/friends	24%	15%*	45%**	17%	15%*
Colleagues	14%	40%**	40%**	12%	8%*
Universities	11%	10%	32%**	1%**	2%**
None of the above (only own efforts)	42%	17%**	13%**	44%	48%

*Reference:* Only figures from middle-class entrepreneurs are reported.

\* significant at 10%; \*\* significant at 5%

*Source:* Authors' compilation based on IDB database.

Overall, the early stages of a new venture tend to be more challenging for entrepreneurs from middle and lower social strata in Latin America. This situation could be interpreted from a resource-based perspective in terms of both learning trajectories and differences in human, social, and financial capital. These entrepreneurs frequently downsize their original projects because of lack of resources. Finally, from a regional standpoint, Latin American middle-class entrepreneurs face more problems than Europeans and have less developed networks to solve them than East Asians.

In summary, middle-class entrepreneurs tend to come up with the idea for their businesses by making use of information acquired in previous jobs and/or through networking. However, their networks are less professional and business-specific than those of upper-class

entrepreneurs from Latin America or middle-class entrepreneurs from other regions. This situation calls for more direct public and private interventions to enlarge and extend business networks for both middle-class and lower-class entrepreneurs. In other words, networks need to be democratized.

Upper-class entrepreneurs tend to be more professional in their approach to the evaluation of business projects. The main differences between them and entrepreneurs from lower social strata are associated with access to external sources of financing. The disparity in access to financing among entrepreneurs from different social strata is a key policy area needing attention.

Once the firm is created, the three main problems faced by middle-class entrepreneurs are hiring qualified employees, acquiring clients, and balancing the cash flow. However, compared to upper-class entrepreneurs and Europeans from the same social stratum, those coming from the middle class tend to face more problems, on average. It is particularly more common for them to have difficulties obtaining reliable suppliers, purchasing equipment, and managing the company. To overcome these problems, middle-class entrepreneurs tend to rely on their networks. But this practice is significantly less widespread in Latin America than in East Asian countries.

Finally, young middle-class firms tend to be located mainly in large metropolitan areas, but their presence in areas with a strong presence of SMEs is more frequent than in the case of firms created by wealthier entrepreneurs. This may introduce a regional dimension for policy making. Middle-class entrepreneurs tend to undertake manufacturing based on differentiation strategies. Their contribution to the creation of knowledge-based ventures is significantly smaller than that of East Asian middle-class companies.

Initial investments in young middle-class firms tend to be smaller than initial investments in firms founded by more affluent entrepreneurs or by middle-class entrepreneurs from other regions. Downsizing strategies are more commonly used by middle- and lower-class entrepreneurs in Latin America in order to make the startup feasible. This could be related to the relative scarcity of both their own and external resources. However, middle-class entrepreneurs in some countries of East Asia and Mediterranean Europe tend to face a relatively friendlier environment when seeking financial resources.

The good news is that three years after launching their ventures, young middle-class Latin American firms have already become SMEs. But in relative terms, these firms are smaller

than their upper-class counterparts. They are also smaller than young, middle-class East Asian firms. In addition, they are less dynamic in terms of export orientation than firms created by the wealthiest entrepreneurs or by those created by middle-class entrepreneurs from other regions.

### **3. Conclusions and Policy Implications**

The analysis of the entrepreneurial process and the early stages of the firms founded by middle-class entrepreneurs has several policy implications. In general, Latin American middle-class entrepreneurs tend to face less advantageous conditions in terms of resources and skills acquisition than those belonging to more affluent social strata. The latter tend to have an earlier exposure to business experience, since they are more likely to belong to families where the father's occupation allows them such contact, and since the universities where they study are sounder platforms for capabilities and the development of business contacts.

Likewise, Latin American middle-class entrepreneurs tend to be at a disadvantage when compared to middle-class entrepreneurs from more developed regions. In Latin America, middle-class entrepreneurs are less exposed to the business world and to entrepreneurial role models. Additionally, they tend to rely on a less qualified and less business-specific supportive network. Moreover, startup financing has been more difficult to obtain.

Firms created by Latin American middle-class entrepreneurs are not as dynamic as those created by the middle class in other regions in terms of exporting and employment creation. Because of resource constraints, they must downsize their business projects in order to be able to start them up. In the same vein, Latin American middle-class entrepreneurs face more problems managing the early stage of the venture than their European counterparts and have less developed support networks than their Asian counterparts.

These findings have direct policy implications and offer relevant inputs to the formulation of policies designed to democratize the entrepreneurial process and strengthen the contributions of middle-class entrepreneurship to overall economic growth. The following recommendations are some recommendations derived from the study's findings:

- Entrepreneurial options and skills development processes should be promoted through the educational system as a way of avoiding or mitigating disadvantages associated with social origins at the beginning of entrepreneurial careers. At the university level, this implies putting special

effort into the promotion of entrepreneurial skills among students from public institutions, attended more often by middle-class students. This, in turn, implies the promotion of institutional reforms to make this change feasible.

- An institutional platform of technical assistance should be developed to support entrepreneurial projects. This could also help compensate for the disadvantages faced by middle-class entrepreneurs pursuing entrepreneurial careers compared to entrepreneurs from higher social strata and other regions of the world.
- Network development strategies for entrepreneurs should be promoted as another device to overcome possible disadvantages faced by middle-class entrepreneurs. In particular, global contacts and closer relationships with the business world (SME owners, executives in large firms, etc.) are required for creating new, dynamic firms.
- Access to financing for entrepreneurs is a key issue in any effort to equalize opportunities for the middle class to create and grow their business ventures. In particular, entrepreneurial capital is needed, and mechanisms should be put in place to connect this financing with those entrepreneurs who need it.

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## **Annex: Methodological Notes on the IDB Databases**

The IDB Databases used in this study belong to several research projects focused specifically on new, dynamic ventures in Latin America. Strictly speaking, the universe of entrepreneurial initiatives spans a broad spectrum, ranging from those supporting a certain lifestyle or simply meeting the subsistence needs of the entrepreneur, to those targeting high value-added capacity and growth potential. Therefore, some definitions have to be made in order to target dynamic young ventures.

Young businesses are defined as those firms between 3 and 10 years old. This threshold period is intended to allow the inclusion of ventures that have survived the critical period of early development. The 10-year upper limit serves a dual purpose: first, it ensures that the focus is on ventures whose dynamism has been relatively well established; second, it minimizes the possibility that the founder might not always remember factors that are important to the research, what Davidsson et al. (2005) termed hindsight bias.

A dynamic enterprise is defined as one that has grown to a size of at least 15 and no more than 300 employees at the time of the study. The control group, that is, the group of less dynamic enterprises, is made up of new enterprises with a maximum of 10 employees. In each country, dynamic enterprises should account for about 70 percent of the enterprises in the panel. This requirement could introduce a certain degree of selection bias toward these kinds of dynamic new ventures, but this bias is not expected to affect the conclusions about the characteristics of firms created by middle-class entrepreneurs. Each country is expected to include 150 young firms. The study does not cover the sizable group of informal microenterprises, which represent a significant proportion of Latin American firms.

In order to capture the contextual nature of the entrepreneurial process, the same methodology was applied in the various countries, and territorial areas and sectors with distinct profiles were included. By gaining access to information on the entrepreneurial process in such diverse contexts, captured using the same methodology, it was possible to identify both the common aspects of enterprise creation and development and those that were specific to each environment. Enterprises from two types of sectors (conventional and knowledge-based) and two types of localities (metropolitan areas and local areas with a strong presence of small and medium-size enterprises) were included. The conventional sector includes manufacturing firms (for example, foodstuffs, furniture, clothing, and metalwork). The knowledge-based activities

associated with the new communications and information technologies include software firms as well as Internet-related services, remote voice and data communications, and other branches of applied electronics.

The local environments were defined as those where there is industrial concentration within a territorially delimited area that facilitates informal interaction among entrepreneurs. Although the population size of these cities differs across the countries under study, they frequently included enterprises located in sector clusters and industrial clusters with a high concentration of small and medium-size enterprises outside metropolitan areas. The next table summarizes the different cities where this study was conducted:

Country	Metropolitan Area	Local Areas
Argentina	Buenos Aires	Mar del Plata, Córdoba, Rosario and Rafaela
Brazil	São Paulo and Campinas	Americana
Mexico	Ciudad de México and Guadalajara	Jalisco, León, Guanajuato, Puebla, Taxco and Guerrero
Peru	Lima	Trujillo
El Salvador	San Salvador	
Ecuador	Quito and Guayaquil	Ambato, Loja, Cuenca and Manta
Chile	Santiago	Valparaíso and Bío-Bío

This study only includes independent firms. Subsidiaries of large firms were removed. Firms were selected at random from enterprise directories and other available information sources, following the previously defined company profile criteria. In Latin America, where there tend not to be registries of businesses that list the date of founding, a considerable effort had to be undertaken to create specialized directories of new firms based on information from such sources as municipalities, business chambers, support institutions, universities, foundations, and previous studies.

As the basis for fieldwork, a common questionnaire was designed and used for all the countries. It was completed during personal interviews made by qualified interviewers previously trained. For consistency, rigorous quality control measures were implemented in accordance with common guidelines in all countries. For example, there was telephone follow-up to ensure that the surveys had been completed by the entrepreneurs themselves. Inconsistencies

or ambiguous responses were rejected when it was not possible to resolve or clarify them. For a questionnaire to be used in the study, 90 percent of the answers had to be valid.

The procedures applied for gathering information and the quantitative techniques used adhered to rigorous methodological criteria. That said, it is necessary to explain some limitations of the study that were duly taken into account in the interpretation of results. While the definitions adopted for the selection of enterprises were the same, the sources of information used to identify the firms where interviews would take place varied somewhat across countries. In Latin American countries, there is a lack of directories and information on new enterprises. Therefore, the data were gathered on the basis of various sources, which made it impossible to estimate the degree of statistical representativeness with precision. In any event, the sources consulted were quite extensive, with a view to limiting biases. Similarly, it is important to stress that like many growth studies, this sample may suffer from attrition bias; that is, selection bias may be incurred by including only surviving firms. Nevertheless, different authors affirm that this bias is not as relevant as it might appear to be (Geroski, 1995; McPherson, 1996; and Weiss, 1998).