

INVITED APPLIED ARTICLE: THE RISE OF DIGITAL ENTREPRENEURSHIP IN LATIN AMERICA

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ABSTRACT

Objective: This article discusses why digital start-ups are flourishing in Latin America. **Method:** Our research setting is Latin American digital companies. Our analysis is based on digital companies from Brazil, Argentina, Mexico, Chile, and Colombia. We examined lists of Latin unicorn companies (valuation + US\$ 1B) and other prominent digital companies compiled from available sources from CB Insights, and TechCrunch. We systematically gathered data on the companies' growth trajectory from data sources, including online material from the companies' official websites and public reports, press releases, and press interviews made by the heads of the companies, and internal reports. **Main Results:** The article discusses the drivers behind the scaling and expansion of digital start-ups and the increasing maturity of the entrepreneurial ecosystems that support them. **Relevance / Originality:** While Latin digital companies have gained media and investors' attention, there is scant analysis of how these companies have surpassed the startup stage and scaled up their operations. **Theoretical / Methodological Contributions:** Our contribution focuses on understanding Latin America's particular conditions and the impact of digital ventures on the region's business landscape. We bring practical insights on how Latin American digital companies are growing, as digital entrepreneurship is experiencing an extraordinary growth route in the region and is linked to economic growth and innovation.

INTRODUCTION

Back in 2010, the world's digital entrepreneurship happened almost exclusively in developed economies, with a heavy concentration in Silicon Valley on the West Coast of the United States. However, as the global tech economy expands, other ecosystems will likely challenge Silicon Valley. The Startup Genome report (2021) indicates that digital entrepreneurship

in emerging markets has been blooming since 2015 and has accelerated during the pandemic. Outside the US, China has the greatest number of unicorns — private companies with a valuation of at least one billion USD — with giants like Alibaba, Baidu, and Tencent. Additional examples of digital giants from emerging markets are India's Paytm and Ola Cabs, among others. Latin American unicorns are on a similar upward trend.

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The dissemination of the internet and smartphones, especially after 2015, was accelerated by the pandemic years, resulting in a surge in connectivity that fostered unprecedented business opportunities for small innovative companies in e-commerce, digital services, and digital platforms (Oliveira Jr., Cahen, & Borini, 2019).

Following market turbulence in Argentina, a recession in Brazil, a continued political conflict in Venezuela, and new unrest in Chile, Colombia, and Ecuador, the region had a slight growth in the late 2010s. The pandemic brought about a dramatic economic collapse in 2020 (-6.8% gross domestic product [GDP] contraction), followed by spectacular growth in 2021 (6.9%). However, the forecasted economic growth for 2022 (3.2%) is disappointing (Casanova & Miroux 2020). Despite these ups and downs, the digital sector in Latin America has developed a business-friendly environment with supportive ecosystems at different stages of maturity that seem to resist negative economic scenarios (Oliveira Jr. et al., 2019) and trigger the rise of Fintechs, Edtechs, and e-commerce businesses. Year 2022 is already the second largest year for investment in Latin America (Latitud 2022).

Regional companies with very innovative business models include Brazil's standalone online bank Nubank and iFood (platform, logistics, and delivery), Argentina's Etermax (digital games) and Ualá (Fintech), Mexico's Bitso (fintech) and Kavak (e-commerce), Colombia's Rappi (Platform, logistics, and delivery). If we take the Fintech sector, for example, the performance of Latin American companies stands out. Payment platforms such as the Argentine Mercado Libre's Mercadopago (for more on that, see Cahen, Casanova & Miroux 2021) and the Brazilian PagSeguro have become widely used in most Latin American countries, and several crypto exchanges have flourished. São Paulo is the fourth city in the global ranking of fintech ecosystems behind San Francisco, London, and New York, while Brazil takes the 14th position in the global ranking of nations.

Why are some Latin American digital start-ups successfully scaling and expanding beyond their borders? Since 2010, internationalization and digital technological advancements have facilitated the rapid growth of a particular kind of entrepreneurial venture — unicorns (Casanova, Cornelius & Dutta 2018). Unicorns are less common outside well-es-

tablished entrepreneurial ecosystems, such as those in the US, UK, or China. Still, they offer enormous potential to promote hope and optimism toward the leap-frogging potential that digitalization brings to emerging markets.

In 2022 Latin America had 27 unicorns, 15 from Brazil, six from Mexico, two from Chile, two from Colombia, one from Argentina, and one from Bermuda (CBInsights, 2022). What exhibits the importance of unicorns is related to the evolution of most companies that have graduated from this list, as these unicorns have gone public and have more than ten years of existence as public corporations. Some of these former Latin American unicorns became targets of notable Initial Public Offerings (IPOs) and increasing Merger and Acquisitions (M&A) activity. Examples include the Brazilian Vtex, Stone, PagSeguro, the Argentinian Despegar, Globant, the Mexican Qpagos, and the Uruguayan Dlocal. Moreover, some companies have positioned themselves among the region's largest market capitalization, such as the e-commerce platform Mercadolibre and Nubank.

1. DRIVERS BEHIND SUCCESSFUL LATIN AMERICAN UNICORNS

Looking for the forces behind the appearance of Latin American unicorns and the successful IPOs of former unicorns, we analyze three main factors: the overall entrepreneurial ecosystem dynamics, investment capital, and internationalization drive.

2. ENTREPRENEURIAL ECOSYSTEMS

Digital entrepreneurship depends critically on a supportive entrepreneurial ecosystem. Entrepreneurial ecosystem arises out of the interactions among six domains and the pertaining actors (Isenberg, 2016): (i) entrepreneurial finance is a necessary condition for experimentation, scaling, and ultimately positive economic outcomes and exits; (ii) both government programs and agencies support and shelter the entrepreneurial spirit against volatile market trends and fashions, giving stability to the system; (iii) academic and research institutions, as well as research and development (R&D) transfer capabilities, ensure that a healthy flow of innovations arrives at product-market fit phase, from where scaling up is possible; (iv) mar-

ket-supporting institutions and the degree of sophistication of the private sector's competitive strategies and business processes represent a measurement of how conducive the local context is to business success. Together with the (v) infrastructure — physical, legal, and human —, these domains represent the most tangible elements that nurture entrepreneurial activities. However, it is the (vi) entrepreneurial mindset shaped by the local cultural specificities that brings to life and shapes the new venture creation process. It is as much the proximate environment, comprised of family members and role models, as the distal cultural environment that reflects social norms and values that matter for shaping entrepreneurial intentions and, ultimately, entrepreneurial activity (Andonova, Nikolova, & Dimitrov, 2019).

The number of start-ups created in the region has increased significantly, followed by an apparent effort by the local government and private entities to promote innovation and entrepreneurship in the region. Some Latin American countries, including Argentina, Brazil, Chile, Colombia, Mexico, Panama, Peru, and Uruguay (OECD, 2016; Atlantico 2021), have adopted digital development strategies, which include developing broadband infrastructure, promoting digital companies, and encouraging large and small companies to adopt digital technologies, as well as promoting general IT skills and competencies. Not all countries have taken the same path regarding digital entrepreneurship, nor have the same configuration of their entrepreneurial ecosystems.

Brazil has the region's most mature national innovation and entrepreneurial ecosystems and is one of Latin America's most successful high-tech entrepreneurial sectors. Brazil is ranked the fourth-largest producer of mobile applications globally, fourth in terms of Internet users worldwide, and the sixth-largest smartphone market worldwide (McKinsey Global Institute, 2019). All Brazilian unicorns were born after 2012 and have been worth more than USD 1 billion after 2015, highlighting that the successful scaling of these companies is relatively recent. Around 90% of the start-ups in the Brazilian digital scene are small and medium-sized businesses. The government also has played an essential role in creating and supporting innovation hubs, such as incubators and technology parks. According to the Brazilian association of entities promoting innova-

tive entrepreneurship (ANPROTEC), in 2021, there were 94 technology parks: 30 in operation, 31 being built, and 32 at the project stage.

Brazil has been one of many countries where state support has contributed to the entrepreneurial ecosystem. Mexico passed the Express Companies Act to make it easier to start a business. Mexican government institutions have invested in entrepreneurship and technology development in the last decade via grants, loans, and even direct investment into start-ups and venture capital funds. In 2010, Chile's government introduced the program Start-Up Chile intending to attract motivated early-stage entrepreneurs to the country. The initiative evolved from an experimental pro-startup program to a highly structured policy instrument linked to Chile's national production transformation strategy (OECD, 2016). Since the program's inception, more than 2,000 businesses have been funded, and their value is more than USD 5 billion.

Due to the country's focus on strengthening entrepreneurship and innovation ecosystems, Colombia has become one of the fastest-growing countries for start-ups. In 2012, the Colombian government launched INNPulsa Colombia to promote high-tech entrepreneurship (OECD, 2016). INNPulsa Colombia is the entrepreneurship and innovation agency of the National Government that accompanies the acceleration process for high-potential ventures through innovative and financing strategies that allow such companies to scale up. With the Entrepreneurship Law launched by the Ministry of Commerce Industry and Tourism in 2020, which includes initiatives such as regulatory sandboxes and financing programs, Colombia became a regional benchmark. The country promotes the transformation of its entrepreneurial ecosystem through regulations designed to promote small and medium-sized enterprises' (SME) creation, growth, and consolidation (International Trade Administration, 2020).

While government support is critical for the growth of digital entrepreneurship, a few countries have managed to create dynamic companies despite having weak incentives from the state. In Argentina, public policies have not been consistent (Finchelstein, 2017). Despite that, the entrepreneurial ecosystem is vibrant, and several of the most salient Latin American digital ventures have originated in this country. Other key variables for successful digital ventures have been

present, such as a cooperative environment between start-ups and the support of successful entrepreneurs who fund new ventures.

3. VENTURE CAPITAL AVAILABILITY

Much has changed regarding Venture Capital availability in Latin America. Traditionally, the lack of venture capital was a critical constraint for developing the region's tech entrepreneurship. Companies of all sizes and sectors have historically found obstacles in obtaining capital for their investment projects. However, since 2015 there seems to have been a new context for digital entrepreneurship funding in Latin America. Funding options are growing more diverse with the addition of venture capital funds, angel investor networks, crowdfunding sites, corporate ventures, and accelerators. In 2021, venture capital investments in Latin America surpassed USD 15 billion for the first time, increasing 274% from 2020 (LAVCA, 2022). Deal volume surged from 197 in 2016 to 700 in 2020 and 1,095 in 2021 (LAVCA, 2021). International investment in Latin American start-ups has more than doubled since 2015, with new investors entering the region, including the Japanese SoftBank, the Chinese Didi Chuxing, and the American TPG. Some of Silicon Valley's most prominent investors are also active in Latin America. This critical mass of investors operating in the region enhances financial resources and improves Latin American entrepreneurs' access to international business community advice and relational networks.

According to data from Preqin, more than three quarters (or USD 26.8 billion) of the total amount of VC investments in Latin America between 2017 and 2021 went to the Information Technology and Financial Services sectors. At the intersection of the two sectors, fintech is booming. Fintech accounts for two-fifths of total venture capital investment in this region, with total capital more than that of e-commerce, super apps, property technology, and logistics combined. The growth of fintech — and the growing volume of capital poured into this sector offer a good example for us to illustrate the uniqueness of entrepreneurship in Latin America. First, the financial services market is large but underdeveloped. About 70% of Latin Americans are either unbanked or underbanked (Kemp, 2022). Fintech bridges the gap in access to financial products and services to leverage

financial inclusion. In addition, the growth of Fintech in Latin America is also driven by a Fintech-friendly regulatory environment. As of 2022, the five most valuable unicorns in Latin America are Nubank from Brazil, Kavak from Mexico, Rappi from Colombia, Quinto Andar, C6 Bank, and Numshop from Brazil. Three of these companies — Kavak, QuintoAndar, and Numshop — are e-commerce companies, and the other two — Rappi and C6 Bank — focus on supply chain logistics and fintech, respectively (Table 1).

Interestingly, the composition of these five companies reflects the key pillars of an e-commerce ecosystem. The growth of e-commerce platforms depends heavily on the expansion of non-cash payment, and supply chain logistics also act as critical enablers for e-commerce. Ultimately, seamless payment and fast delivery are what e-commerce customers need.

Large Latin American corporations are also involved in tech entrepreneurship as they have launched corporate ventures. In Brazil, examples of such initiatives include Cubo, an initiative of Itaú Bank, InovaBra by Bradesco Bank, and Braskem Labs, in the chemical sector, launched by Braskem. Techint, one of Argentina's most traditional business groups, has created a department to fund new, more environmentally friendly, and technologically based ventures in the renewable energy area. In Colombia — Ecocontrol, Davivienda, and several family offices and business groups also have venture funds.

Table 1. Top 10 Latin American unicorns in terms of market value (in billion USD) as of October 2022.

Ranking	Company	Country	Market value (USD, billions)
1	Nubank	Brazil	30.0
2	Kavak	Mexico	8.7
3	PagSeguro	Brazil	8.2
4	Rappi	Colombia	5.2
5	QuintoAndar	Brazil	5.1
6	Stone	Brazil	5.0
7	Nuvemshop	Brazil	3.1
8	Loft	Mexico	2.9
9	Ualá	Argentine	2.5
10	VTEX	Brazil	2.2

Source: Fleischmann (2021).

4. INTERNATIONALIZATION OF DIGITAL VENTURES

Another salient point of digital ventures in Latin America is that most of these companies have expanded beyond their borders. Successfully competing abroad implies capabilities beyond the specific advantage created by unique local knowledge (Andonova & García, 2018) and involves being cost-competitive and having the ability to face competitors with global efficiencies and value propositions. Some emerging markets unicorns, such as Alibaba, are global. Still, for most of them, their revenues are highly concentrated in their country of origin and have a comparatively small foreign presence. Latin American unicorns have a significant presence beyond their home country.

The internationalization of most Latin American digital companies has mainly occurred within the region. These digital companies commonly capture the local market by replicating the business model of successful international players. However, developing this strategy requires their local knowledge's creative and efficient use. Through that local knowledge, they better adapt to the gaps and needs existing in other Latin American countries. This context is the case of Mercadolibre with their payment system, UALA and Nubank targeting non-bancarized customers, Rappi with the delivery systems, and Kavak with car sales in countries with large bureaucracies to buy and sell. Moreover, this initial expertise could be (and has been) applied beyond the region, as Kavak's recent expansion in Turkey shows.

FUTURE RESEARCH DIRECTIONS

Since 2012, when the first Latin unicorns appeared, the region has demonstrated the capacity of local entrepreneurial ecosystems to generate innovative start-ups. The global devaluation in the tech sector in 2022 presents a new challenge for tech firms in Latin America. However, while foreign investors are slowing their investments everywhere, local funds have largely stayed the course. Furthermore, although about 30% of companies saw (small) layoffs and postponed fundraising plans, most companies plan to resume it in the next 12 months. Hence, the region still shows massive potential for increasing tech penetration and solving regional problems, attracting top local talent (LAVCA, 2022).

Our article attempts to understand why digital entrepreneurship is booming in Latin America and sheds light on three key factors in analyzing why digital companies are scaling up and expanding from the region. The revealed dimensions, the maturing entrepreneurial ecosystems, the increased investment capital availability, and internationalization intent provide insight and inform future research on digital entrepreneurship. However, future efforts should examine other factors, such as innovative business models, the role of larger partners, and founders' profiles. Finally, while the growth trend observed concerning digital entrepreneurship seems rooted in solid forces, we still need to wait and see if the process will continue and at what pace. Latin America has many challenges that may affect this growth trajectory. Political, institutional, economic, and social instability threaten this region's potential nascent companies. Moreover, if we conceive it from a regional comparative perspective, Latin America needs to create conditions to increase the growth pace of digital start-ups even more. The current boom of digital start-ups is auspicious, but the challenges ahead are still significant.

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ARTIGO APLICADO CONVIDADO: A ASCENSÃO DO EMPREENDEDORISMO DIGITAL NA AMÉRICA LATINA

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RESUMO

Objetivo: Este artigo discute por que as *start-ups* digitais estão florescendo na América Latina. **Método:** Nosso cenário de pesquisa são as empresas digitais latino-americanas. Nossa análise está baseada em empresas digitais do Brasil, Argentina, México, Chile e Colômbia. Examinamos listas de empresas unicórnio latinas (avaliação + US\$ 1 bilhão) e outras empresas digitais proeminentes, compiladas de fontes disponíveis da CB Insights e TechCrunch. Coletamos sistematicamente dados sobre a trajetória de crescimento das empresas de fontes de dados, incluindo material *on-line* dos *sites* oficiais das empresas e relatórios públicos, comunicados à imprensa e entrevistas à imprensa feitas pelos CEO das empresas e relatórios internos. **Principais Resultados:** O artigo discute os *drivers* por trás da escala e expansão de *start-ups* digitais e a crescente maturidade dos ecossistemas empreendedores que as sustentam. **Relevância / Originalidade:** Embora as empresas digitais latino-americanas tenham conquistado a atenção da mídia e dos investidores, há poucas análises de como essas empresas ultrapassaram o estágio inicial e ampliaram suas operações. **Contribuições Teóricas / Metodológicas:** Nossa contribuição está focada em entender as condições particulares da América Latina e o impacto dos empreendimentos digitais no cenário de negócios da região. Trazemos *insights* práticos de como as empresas digitais latino-americanas estão crescendo, já que o empreendedorismo digital está experimentando uma rota de crescimento extraordinária na região e está vinculado ao crescimento econômico e à inovação.

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