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Sustainable Competencies

The LATAM Perspective

WHERE LEADERS COME TO LEARN



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TT in the Radar

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TT Problematic Factor: WCI

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WCI TT Where are we?

Type of Pillars	Name of Pillar	CA	Total CA	%
Basic	Institutions	2	19	11%
Basic	Infrastructure	2	7	29%
Basic	Macroeconomic Stability	3	5	60%
Basic	Health and Prim. Edu	4	11	36%
Efficiency	Higher Education and Tran	3	8	38%
Efficiency	Goods Market Efficiency	4	15	27%
Efficiency	Labor Market Efficiency	2	9	22%
Efficiency	Financial Market Soph.	5	9	56%
Efficiency	Technological Readiness	2	8	25%
Efficiency	Market size	0	2	0%
Innovation+Soph	Business Soph.	0	9	0%
Innovation+Soph	Innovation	1	7	14%
Total		28	109	26%



Best and Worst

- Bottom 3 Pillars:
 - Capacity for Innovation: 131 place
 - Degree of Customer Orientation: 129
 - Cooperation Labor-Employer: 129
 - Business cost of crime and violence: 128
- Top 3 Pillars
 - Rigidity of Employment: 9 place
 - Government Surplus: 14 place
 - Extent and effect on taxation: 16 place



Ideas: Perspective

- TT: Macroeconomics of a First World, Microeconomics of the Third World
- Regional Perspective: Short Term Focus
 - Argentina: ROI main obstacle for innovation
 - Brazil: Innovation entails economic risks and high costs
 - LATAM perspective: Too much emphasis in SMEs



Ideas: Relevance

- Country development depends on larger firms, not on SMEs
 - Chile:
 - SME Annual sales per worker: \$9,257 US
 - Large Firms Annual sales per worker: \$94,008 US
 - 78% of total sales: Large Enterprises
 - LATAM:
 - Most of MSMEs: Wholesale and retail trade
 - Most of SME support programs are manufacturing and industrial
 - Half of MSME are in the retail sector
 - Brazil:
 - Median salary workers SME retail: \$1,304
 - Median salary workers Manufacturing: \$3,201



Ideas: Financing

- The Big Obstacle for SMEs: Financing!
 - Inhibitors:
 - Lack of guarantees smaller firms
 - High interest rates
 - Bureaucracy
- LATAM approach to financing:
 - SMEs less frequently request credit
 - SME are less aware of financial products
 - SMEs are less eligible for financing
 - Mostly engaged in informal financing
- Innovation:
 - Introduction of new or improved products
 - Putting into practice a new productive processes
- Innovation LATAM:
 - Weak copyright laws and enforcement (no benefits appropriation)
 - Argentina: Financing biggest obstacle



Ideas: Innovation

- Innovation Latam:
 - SMEs: Spend less on innovation than large firms
 - SMEs: Rely more on innovation than large firms
 - You don't need to be a big spender of R&D to be an innovator
- Brazil:
 - 84% of total sales Small Businesses (10-29 employees) are due to new products developed internally
- SMEs innovate less than large firms, but their innovations are more significant



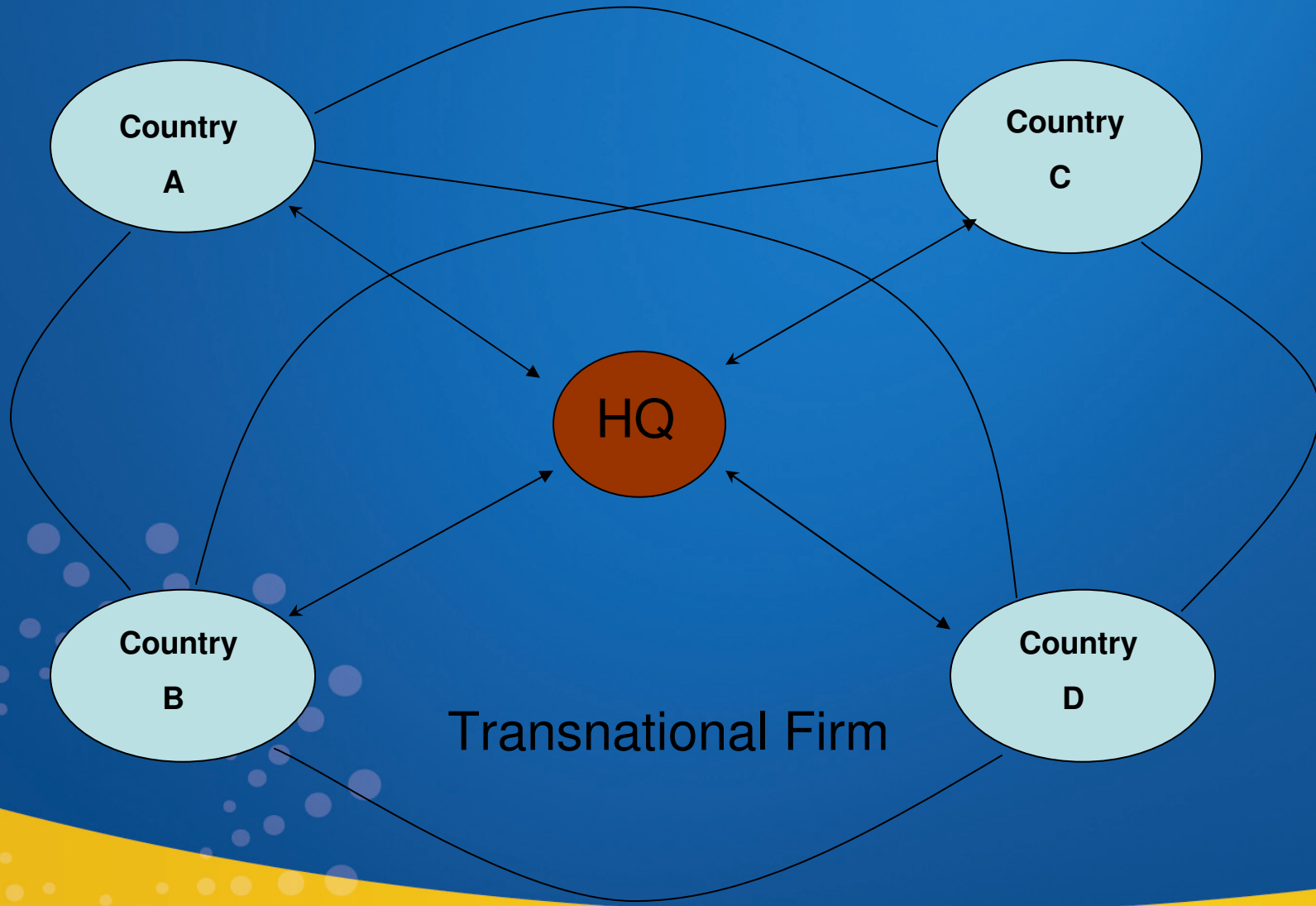
Ideas: Internationalization SMEs

- Latam: Most SMEs are not involved in international trade and investment
- < 5% SMEs (Brazil, Argentina, Chile, Colombia) export
- Why?
 - Scale and scope disadvantages
 - Networking disadvantages
 - Technology Disadvantages
 - HR disadvantages
 - Financing disadvantages
- What to do? How to grow? With all these obstacles?



The Next Practice: Orchestration

- Novel assumptions:
 - No firm of any size could master all business processes and practices
 - Challenge the limits and borders of the business
 - From Value Chains to Value Network
 - A firm could belong to a value network as:
 - A node that coordinates (“orchestrator”)
 - A node that is coordinated (orchestrated)
 - Node that creates value
 - Node that delivers value
 - Emulate the logic of a transnational firm without subsidiaries
 - Customers are not just consumers of value:
 - They co-create value
 - Ikea Customers Provide:
 - Time - Transportation
 - Knowledge - Information
 - Assembly





The Next Practice: Orchestration

- Novel assumptions:
 - Suppliers are not just providers or value
 - Ikea's new customers are its suppliers:
 - Headquarters provide technical assistance
 - IKEA provides financing
- The logic of value networks:
 - Customers do not just consume value, they generate it as well
 - Suppliers do not just create value, they consume it as well
 - Every node is in charge or re-inventing systematically their value proposition
 - A firm in charge of orchestrating value must understand its business as a set of different types of knowledge
 - Learn to identify enabling processes and core processes
 - Enabling processes are aimed to integrate the value from other nodes:
 - IT and Logistics
 - Core processes are aimed to create knowledge and capture knowledge: Human Centered Design
 - Customers are more than a node that pays
 - Prod-tumers

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The Next Practice: Orchestration

- The new role of customers IKEA:
 - Customers are more than a node that pays
 - Prod-tumers
 - From market share to feelings share
 - Emotional component by engaging customers in the assembly
 - IKEA was able to insert itself in the physical, cognitive, and emotional space of customers
 - Uniqueness
 - Affordability
 - Novelty
 - Diversity
 - Brand as lovemark!

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The Next Practice: Orchestration

- Orchestration dynamics
 - Decompose knowledge in Lego pieces easy to assemble
 - Seamless transfer of
 - Creative knowledge
 - Operations knowledge
 - Simple process:
 - Innovate
 - Integrate
 - Replicate

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Orchestration practices in LATAM

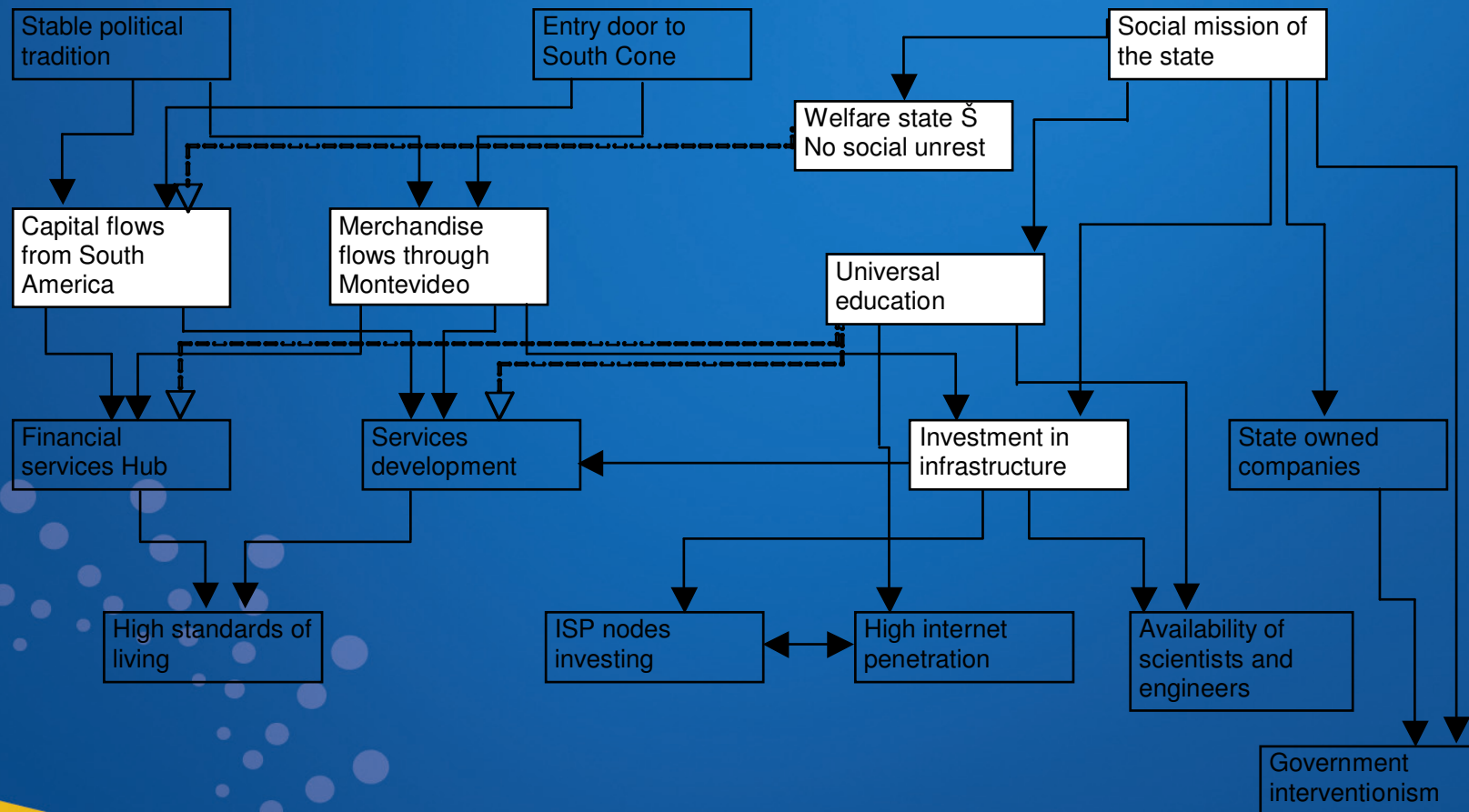
- Clustering:
 - Significant source of employment
 - Clustered SMEs: 90% most likely to export
- Clusters in LATAM:
 - Based on natural resource products
 - Light manufacturing such as furniture, textiles, metalwork
 - Innovation Clusters:
 - Uruguay in software:
 - All primary students got an XO laptop
 - Density of LKS (Local Knowledge Spillovers)
 - Software exports grew 320 in 10 years
 - Currently it exports \$320M
 - Export Markets: Argentina, Brazil, Chile, and Colombia
 - 1/3 of national software needs is supplied by local firms
 - Followed steps of Ireland and Israel
 - Chile in Biotechnology



Orchestration practices in LATAM

- How it happened:
 - Vision: From Agriculture based economy to an IT based economy
 - Government role:
 - Tax incentives: Exoneration of local taxes and VAT for software products
 - Membership to supranational economic entities, such as Mercosur
 - Creation of Free Trade Zones (FTZ): Zonamerica
 - Unique talent pool??
 - Sophisticated venture capital community??
 - The government actually was late to realize the importance of the sector
 - Financial sector: The seed that pushed the sophistication of local software sector
 - Need for customized systems
 - Main customers: Multinationals (ABN AMRO)
 - LATAM brand building based in a superior product

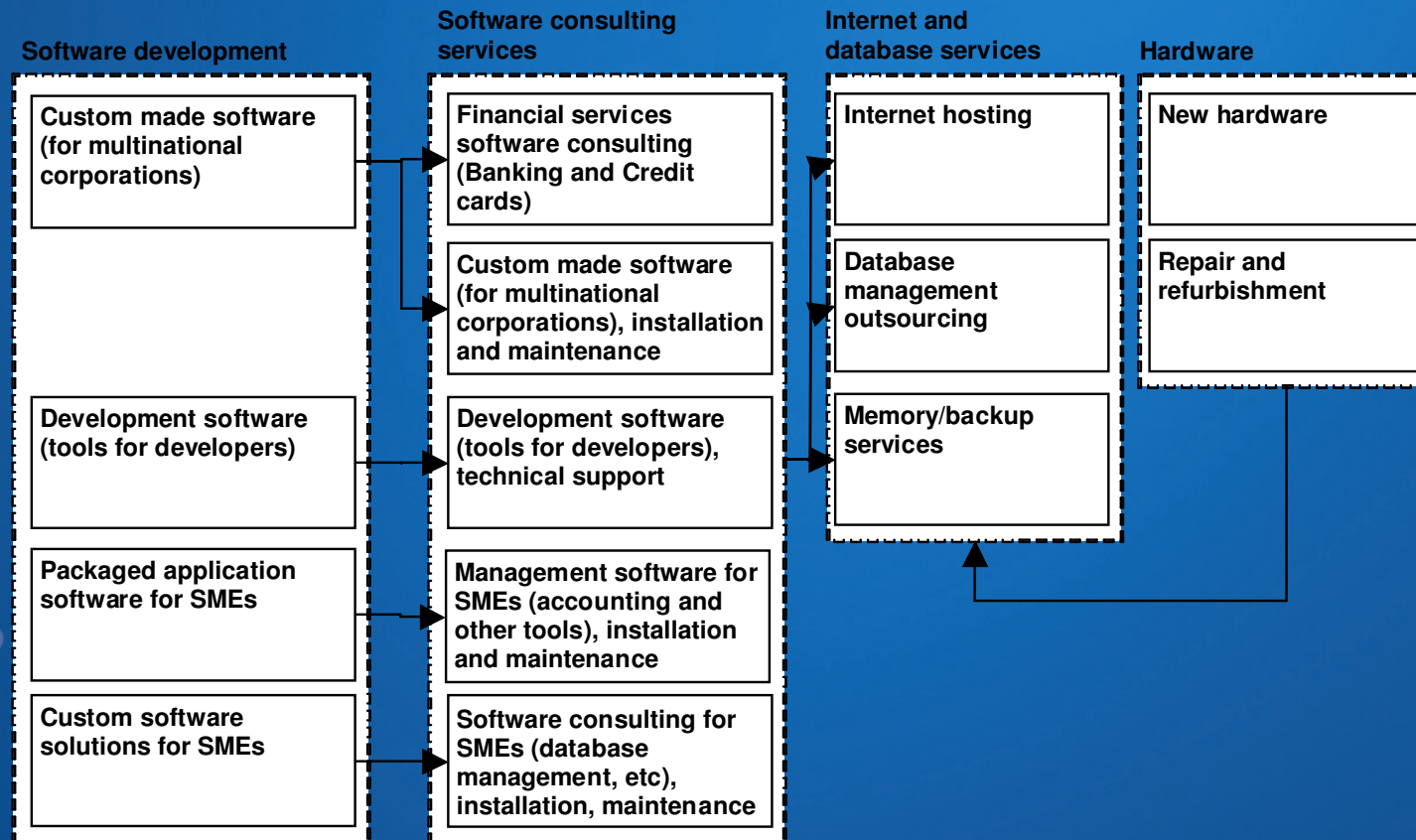
Macro-level advantages Uruguay



Source: Alfaro et al: Software in Uruguay Report, 2004



IT Industry Infrastructure Uruguay



Source: CUTI, 2002 and Alfaro et al, 2004.



Uruguay: What else?

- Government promoted trips to Chile and Colombia to identify “bundling” opportunities
- Local universities with distinctive educational programs
- Membership to international angel investors communities
- Plan CEIBAL (one laptop per chile) attracted even further business!



Uruguay: What else?

- Local conditions:
 - High degree of education in English and Portuguese skills
 - Software pool of talent
 - High political stability
 - Montevideo: Safest city in LATAM
 - Willingness of the government to negotiate
 - Software copyrights are in place and are strongly enforced
 - Zonamerica: Wonderful IT infrastructure



Success stories

- MTW Studios
- Genexus
 - Relational databases
 - CASE
 - Artificial intelligence for business solutions
 - Country Ambassador
 - Uruguayan Multinational firm



Conclusions

- Competitiveness is based on:
 - Collaboration between private and public sectors
 - Change requires stability
 - Development as a product of creating and deploying knowledge based products/services
 - Education:
 - Technical based
 - Cultural based
 - Global awareness of opportunities
 - Access to sources of venture capital (global, regional, and local)
 - Focus