Post-Investment Trajectories of Latin American Young Technology-Based Firms: An Exploratory Study

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Abstract

The primary objective of this study is to identify and discuss the different post-investment trajectories of Latin American young technology-based firms not only at the firm but also at the regional level. Differences found in post-investment trajectories are mainly related to the role played by local resources in the emerging organizational configuration, including the role of the founders. The match between entrepreneurs' skills and vision, the growing demands of the firm after the investment, and the level of development of the local ecosystem, constitute the main determinants of the different routes followed by the studied firms (i.e.: from early trade sale to sustained growth until becoming large global firms (multilatinas). Foreign VC could play an important role in this regard by accelerating the pace of growth and internationalization faced by these firms. As well, this also could imply entrepreneurs 'exit. However, our results show that an assessment of the effects of these trajectories at the regional level should include what happens with the entrepreneurs after the investment, recalling the 'entrepreneurial recycling' concept suggested by Mason and Harrison (2006).

Keywords: Latin America; young technology-based firms; venture capital; post-investment

Post-Investment Trajectories of Latin American Young Technology-Based Firms: An Exploratory Study[1]

Introduction and problem statement

During the last decades, young technology-based firms (hereafter, YTBFs) have captured the attention of both academics and practitioners. Their increasing relevance has been supported by the conviction that YTBFs could become driving forces for growth and economic revival through (i) the generation and spread of innovations, (ii) the channelling of talent and existing knowledge, (iii) the generation of new highly qualified jobs, (iv) the appearance of new sectors and activities, and (v) the change in each economy's specialization pattern (Acs and Naudé, 2011, Audretsch and Keilbach, 2007; Braunerhjelm et al., 2010).

A vast amount of literature has documented the positive effects of VC during the start-up stage - the screening role - as well as during the growth stages - the coaching role (Hellmann and Puri, 2000; Colombo and Grilli, 2010; Puri and Zarutskie, 2011, Gompers and Lerner, 2001). [2] VC is meant to provide not just money but also value added to the invested companies (DaRin et al., 2011; Politis and Gabrielsson, 2006; Hellman and Puri, 2002; Sapienza, 1992; Sørensen, 2007).

In Latin America, the business environment for private equity and VC is still underdeveloped (LAVCA, 2010). Several factors, such as the lack of adequate sources of finance, , the existence of social barriers that inhibited the access to relevant social capital and networks and a complicated regulatory framework, negatively influence the

[1] We gratefully appreciate the comments and contributions received from Colin Mason, Lisandro Bril and two anonymous referees. The usual caveats apply.

[2] Here and henceforth we refer to VC in general terms as an homogeneous concept, although it is well recognized that this industry embraces informal investors (business angels) as well as investment funds (formal VC). Moreover, even within the formal VC a great deal of heterogeneity is present, namely independent VC and corporate VC.

context for entrepreneurship development in Latin America. These constraints are even stronger for knowledge based new firms (Kantis et al., 2004; Kantis and Angelelli 2005).

However, even in this context, a number of YTBFs have managed to survive and grow significantly (Kantis and Drucaroff, 2011). Furthermore, some of them have become global firms and attracted the attention of VC investors not only from Latin America but frequently from abroad. This feature is related to two phenomena. On one side Latin America's VC industry is still in its early stages exhibiting a number of limitations *vis-à-vis* international VCs regarding not only the amount of money that can be raised but also in terms of skills, reputation, and management. On the other side, cross-border VC activity is a now a widespread phenomenon (Alhorr et al., 2008; Meuleman and Wright 2011). Moreover, after the global crisis in the leading economies, VC firms started to diversify their portfolios looking for investments in emerging regions, such as Latin America. Indeed, although our study covers only four Argentinean cases, concerns about the post-investment trajectories of YTBFs and the possible exit routes and their effects at the regional level are global as Mason and Harrison (2006) or Davenport (2009) illustrate for Scotland and New Zealand, respectively.

This concern is especially strong in less developed regions such as Latin America. All in all, it seems that in general the growth path of YTBFs would imply to a certain extent the "foreignization" of the firm. According to Techcruch more than 30 Latin American YTBFs from different countries were involved in M&A and VC investments from abroad (CrunchBase, 2012). Some examples are the Argentinian firms MercadoLibre and Globant (which are analyzed in this study); Boo-Box, Brandsclub, and Buscape, from Brazil; and Interactive Networks and Pedidos Ya!, from Uruguay.

This paper focus on the study of this kind of firms, i.e. Latin American YTBFs which have experienced a rapid-growth during their earlier years and have received investments either from local or foreign VCs. In particular, we want to identify their post-investment trajectories and the factors that may influence them. In addition, this study also explores their effects on the regional ecosystem, particularly when the trajectory implies the trade sale of the firm and the entrepreneurs' exit. Following pioneering research on this issue, our unit of analysis will include not just the firm but also the entrepreneurs (Mason and Harrison, 2006).

The main research questions are: (a) what are the post-investment trajectories of venture backed firms?; (b) what role are playing international VCs in such post-investment trajectories? (c) what happens with the founders after receiving VC investments?; (d) what factors may influence post-investment trajectories of venture backed firms and their founders?; and e) what are the main effects and implications of such trajectories at the regional level?.

The remainder of this article is as follows. First, we present a summarized literature review which serves as a framework to analyze the different cases included in this study. Then, we describe the methodological approach and the sources of information used for this research. After that, we describe the selected case studies included in the paper. We then discuss our results in the light of the above-mentioned research questions before concluding with some comments and implications of this study.

Literature review

The evidence collected by a large number of studies, points out the relevance of VC for firm performance. In general terms, post-investment performance of VC-backed firms is higher than that of non-VC backed firms, not only in terms of sales or employment growth but also in terms of productivity growth (e.g. Puri and Zarutskie, 2011, Bertoni et al., 2011; Croce et al., 2012; Davila et.al, 2003; Chemmanur et al., 2011). Recent studies reveal that VC impact on firm performance is obtained soon after the investment and derives most from the value added by the VC on their portfolio companies rather than from their ability to chose the right projects (Bertoni et al., 2011; Colombo and Grilli, 2010; Croce et al., 2012)[3].Previous research on VC added value has emphasized on close supervision and monitoring of the investee as one of the key differences of this kind of external financial source compared with others (i.e. banking). Rooted in the agency theory, some authors affirm that the close relationship between the investor and the portfolio firm helps to avoid agency costs and hence improves firm performance (Kaplan and Strömberg, 2003; Lerner, 1995).

However, the added value of VC goes well beyond monitoring (Sapienza et al., 1996; Sørensen, 2007; Colombo and Grilli, 2010). VC also contributes to their portfolio firms by sharing their expertise in strategic and operational planning, human resource management and organizational development, leading to a professionalization phase of the company (Bygrave and Timmons, 1992; Gorman and Sahlman, 1989; Sørensen, 2007; Baum and Silverman, 2004, Hellmann and Puri, 2002). As well, VC-backed firms may profit from highly qualified VC's networks of contacts as a way to access to extra resources (Hsu, 2006; Lindsey, 2008, Piva y Lamastra, 2011). Finally, VC acts as a relevant signal to the market (Megginson and Weiss, 1991). As a result, portfolio firms

[3] However it is important to stress that not every kind of VC contributes in the same manner. As the recent literature reflects, the final contribution will depend not only on whether we consider informal or formal VC (Da Rin et al., 2011), but also when considering independent and corporate VC (Bertoni et al., 2011a). Moreover, there is strong evidence supporting that the more experienced the VC is, the higher the contribution would be (Bottazi et al., 2008).

gain legitimation and market reputation as they are linked to VCs trajectory (Hsu, 2004).

These contributions acquire some particularities when it comes to cross-border VC, i.e. VC investments across nations by foreign VC firms. For instance, previous research emphasizes the contribution of foreign VC to the internationalization process. Indeed, an international VC located in firm's foreign target market may play a critical role by sharing market knowledge, contacts with clients and suppliers, and reputation (Fernhaber and McDougall-Covin, 2009; Lutz and George, 2010; Mäkelä and Maula 2005; Hursti and Maula, 2007). However, cross-border VC investments may also have negative outcomes such as firm closures, the loss of top-management jobs and operations functions (R+D, marketing, planning); all of them, with detrimental effects at the regional level (Mason and Harrison, 2006).

Most of the studies about post-investment trajectories are focused, however, at the firm level. Only few authors have focused on what happens with the founder team after the deal. In their study, Hellman and Puri (2002) show that the likelihood of experiencing CEO turnover is much higher for those firms that have obtained VC investments. In other words, this study suggests that VC-backed firms are more likely to move beyond their original founders.

This idea is at the heart of the "paradox of entrepreneurial success" proposed by Wasserman (2003). According to this author, there use to be a gap between entrepreneurs' skills and the new contingencies that the firm will face after investment, and this leads investors to replace founders. This is the traditional framework, where founder succession would be a function of firm size and age (Boeker and Karichalil, 2002).

Recently, Davenport (2009) offers a different view. According to her study, YTBFs may reach certain barrier in their growth and internationalization process which ‘force’ them to look for foreign partners and big investors. At this stage, the trade sale appears - from the entrepreneur’s viewpoint - as a simple exit route for harvesting their investment or alternatively to exit the firm and ‘do it all again’, becoming an habitual entrepreneur.

This feedback effect is analyzed by Mason and Harrison (2006) who identified different ways in which a process of ‘entrepreneurial recycling’ take part after a trade sale. Former entrepreneurs may start another firm, become hand on angel investors, build new institutions or invest in various civic activities. This entrepreneurial recycling will equilibrate the balance and take full account of the effects of entrepreneurial exits at the regional level.

Methodological approach and presentation of case studies

To address the research questions set out in this study, we adopted a qualitative methodological design based on Yin’s (1994) multiple case study technique. This inductive methodology is particularly appropriate when trying to answer questions related to why and how agents behave in a certain way (Miles and Huberman, 1991). In this sense, the main advantages of this method include its sensitivity to the possibility of complex heterogeneous circumstances, its capacity to facilitate exploratory discovery and its suitability for analysing patterns across cases (Eisenhardt, 1989; Yin, 1994).

Argentina provides an interesting laboratory for exploring the phenomenon under study and for providing preliminary answers to our research questions. The number of technology-based start-ups in Argentina has grown significantly in the last decade (Kantis et al, 2011). Argentina is outperforming in the IT sector in the regional context, especially in sectors such as software development and other ICT applications (Ceria and Pallotti, 2010; Lopez and Ramos, 2008). Indeed, Argentinian YTBFs have attracted more than USD 46 million in investment between 2004 and 2010, and the country ranks second in the region in the TechCrunch database, behind Brazil (LAVCA, 2012). Besides this, the country has somme features in common with the rest of the region, i.e.: lack of a well developed VC industry and a weack deal flow. Therefore, the paper´s relevance extends beyond Argentina.

Multiple case studies research focus on descriptive and explanatory cases (Mason and Harrison, 2006). So, the decision is not a matter of how many cases or how statistically representative they are but whether the selected cases shed light on the phenomena under study (Eisenhardt and Graebner, 2007). As stated by Yin (1994) even single case based studies are allowed for exploratory research, but between four and six cases are better for analytical generalization. So, four firms were chosen for this study. The selection criteria were based on what are known as typical cases (Neergaard and Ulhoi, 2007; Mason and Harrison, 2006), which are those that reflect most fully the diversity of the phenomenon being called into question. To identify qualifying firms, the following criteria were taken as parameters. Selected firms needed to: (i) have experienced an accumulated annual increase in turnover of at least 20 per cent for three consecutive years; (ii) be associated with sectors with high technological dynamism; (iii) have experienced significant international expansion; and (iv) have been at least partly financed by foreign capital.

Firms were identified using secondary information sources such as specialized magazines, prior research, and a range of databases. In two of the four cases we designed a research protocol and then undertook semi-structured interviews with the founders. Additionally, we refer to articles and quantitative information series provided by the firms themselves (turnover, exports, employees, investments, etc.), and, where available, prior studies of the firms. The remainder two cases were elaborated using secondary information such as news articles, previous research into the firms in question and also with some information provided by key informants. Full details of the information sources used to create each case study are included after the reference list at the end of this paper.

In the next section, we describe each case in detail, focusing on the emerging stage, the evolution of each firm, and their financial path.

Core Security Technologies

Team and Project

Iván Arce, Jonathan Altszul, Ariel Futoransky, Emiliano Kargieman, Gerardo Richiarte, and Lucio Torre met around 1994 through X25, an old social network. Before starting Core, they were hackers at a time when internet use had yet to become widespread. All founders were between 17 and 25 at the time, studying mathematics and computing. After spending some time as a hacker, Futoransky was hired by the Federal Public Revenue Agency (AFIP) to develop their IT security area, a project that he shared with Altszul, Kargieman, and Richiarte. This experience motivated them to start Core Security Technologies, which they invited Torre and Arce to join.

Core was started in 1996. The first project was generated through their relationships within the world of hackers. A group of Canadians who had started a company similar to Core subcontracted the founders to develop part of a piece of software called Ballista, which scanned company security systems and detected their weak points. At the same time, Core carried out consulting work related to firms' IT security problems and the outsourcing of R&D.

Growth and financial path

After Core had developed almost 40 per cent of Ballista, the Canadian firm that had hired them was sold for almost USD 30 million. Core had been paid around USD 40,000 for its part in the process. By only selling services, they were ending up with a tiny fraction of the value chain. They realized they needed to develop and start selling a product. One positive outcome of the sale of the Canadian company was that Core was given a bonus of USD 280,000 and a contract to continue to provide services to the new firm. This contract took Kargieman to Silicon Valley, which helped broaden his vision of the industry and opportunities for new product development while getting to know the US market.

In 1999 Core had several ideas for products and decided to screen potential clients directly. Thus, they sent faxes to the IT managers of all the large and medium-sized firms in Buenos Aires offering products that were just ideas on paper. Bank Boston needed just such a solution and became their first client.

Bank Boston's contract and minor sales to small customers were not enough to cover the total costs for product development, so Core sought an investor. Endeavor[4] introduced them to Woods Staton, the head of McDonalds in Argentina and a member of the Endeavor board. Staton liked Core's project and invested USD 700,000 for 10 per cent of the shares. Over the next four years, the development area grew to have 60 people on its payroll.

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[4] Endeavor is a global non-profit organization established in 1997 that promotes and assists high-impact entrepreneurs in emerging economies by providing them with a huge network of qualified business leaders and specific high-quality services.

By the end of the year 2000, the entrepreneurs realized they had developed a unique product. Opportunities to expand in Brazil and the US emerged. However, the US was struggling with 9/11 and Brazil was waiting for newly elected president Luiz Inácio Lula da Silva's first political decisions. Meanwhile, the economic crisis of 2001–2002 was unfolding in Argentina. To make matters worse, Core Force required a long sales process, which implied a larger sales force than Core had available. These factors led Core into a crisis that almost brought the firm to an end.

As a result, entrepreneurs decided to concentrate its efforts on the US market and resorted to a second round of foreign investment (FI) to shore up their entry to the US market and to keep the firm operating. In 2002, Morgan Stanley became a shareholder in Core, investing USD 1.5 million and retaining a seat on the board. The entire R&D staff was kept on and reorganized in order to develop "Impact", which would become Core's star product.

Jeff – a business graduate from MIT who had worked at Core's Buenos Aires offices as part of the Endeavor programmes – found a first buyer for the product in the USA: NASA. The White House soon followed suit, as did a variety of smaller public offices, and later Google. Jeff's network and knowledge of the US market were extremely important to this process, as was the effect that Morgan Stanley's investment had on the firm's reputation.

After the success of Impact, in 2005 Morgan Stanley invested another USD 4.5 million and acquired a 66 per cent shareholding in exchange. Once the company reached this stage, the board hired an American CEO and developed an internet sales platform that opened up marketing opportunities for Impact.

By the end of 2009, Core's turnover stood at around USD 10 million, over 50 per cent of which represented exports to the USA. The firm currently employs 180 people, 150 of whom are based in Buenos Aires, where most of Core's R&D activities take place. Today, most of the firm's shareholdings are in American hands and the firm’s decision-making unit is in Boston. Most of the founders no longer occupy management positions – although Iván Arce is currently CFO – and only Jonathan Altszul sits on the board of directors. Since then Kargieman and Altszul have created Aconcagua Ventures investment, a fund that was specialized in financing technology-based start up. Kargieman has also co-founded another internet start-up, Popego, which has already merged with another Brazilian company and is currently working on a new high-tech start-up.

Three Melons

Team and Project

Three Melons was started in 2005 and specializes in producing and selling web-- and social network–based video games. It was created by Mariano Suárez Battán – who had a degree in business and had previously founded another software company – and his friend Patricio Jutard – a systems engineering graduate and e-learning specialist. They later decided to recruit Augusto Petrone, Nicolás Cuneo, and Santiago Siri, who they knew from the world of programming and gaming and who were working at software companies or developing products themselves. With a business plan and an idea for a firm, Suárez Battán convinced them all to join, despite the rest of the team having little experience in their professional fields.

They decided to focus first on advergames: games commissioned by other companies for marketing, loyalty programmes, or to improve their ranking among gamers. Basically, the work scheme for clients followed the traditional idea of software as a service. After developing products for Repsol YPF, Sony Argentina, and Lego (their Lego Indiana Jones was a big hit, attracting 20 million individual gamers), the firm's reputation rapidly grew. This reputation, combined with clever networking through industry events and contacts abroad, helped incorporate new clients.

Growth and funding history

The first step was getting funding to set up the firm formally, rent offices, cover the salaries of the development team, and travel to international industry events. They needed USD 150,000 to cover the first eight months of operations for product development without sales. Suárez Battán tried to convince different angel investors and VC funds but he was unsuccessful at this stage. As he put it, "in Argentina, venture capital doesn't gamble on the stages where the risk of failure is still very high".

Thus, in 2005, the group decided to finance the venture through family and friends, notably through investments by members of Suárez Battán's family. However, the founders soon realized that the advergames industry would only be a first step to gain confidence, acquire more complex capabilities, and of course, a useful financial platform for new product development. The aim was to transform Three Melons into a company that developed its own video games products with cutting-edge technology that would compete globally.

This transition proved difficult. The firm had to bring about organizational changes and invest in hiring product development personnel who would help speed up the time to market, which they put into action between 2006 and 2008. As time went on, they realized a new special area – with exclusive full-time developers – had to be created to launch new products, and revenues were not high enough to do it. As a result, they sought VC aid. At the end of 2008, Nexo Emprendedor, a fund owned by Banco Santander Río, bought a percentage of the shareholding for USD 600,000.

Funds were mainly used for new product development and paying off informal debts with family and friends. All the same, the firm's path was still a bumpy one. Keeping on all their staff implied high monthly costs, and, at times, the firm's customer base was not diverse enough. When a major client left, it was difficult to make up for the drop in income with new short-term sales.

Although in Suárez Battán's words "venture capital helped us to put things in order", at the same time he felt that the contribution of VC was not enough to deal with the challenges because it lacked industry specialization and funding experience[5]. Its organizational challenges were particularly complicated. Rapid internal organizational development was needed and the leading founder had to travel continuously to the US to keep in contact with new trends and opportunities in the international videogames market.

At the end of March 2010, Three Melons announced its sale to Playdom, a major American player in the video game industry. The terms of this transaction were not disclosed by board members on either side. Furthermore, in July 2010, Disney bought Playdom and the founders of Three Melons received financial compensation for this.

Over the next three years, Three Melons doubled its staff annually. By 2010 it employed a historical maximum of 60 people, with an average age of under 30. Almost two thirds of these worked in areas related to product development. Turnover had grown from USD 164,000 in the first year to USD 1 million at the end of 2009. At the beginning, exports represented 37 per cent of their turnover, but they now make up 93 percent of this the (US represents 75 per cent). Playdom's deal did not to affect founder roles in the company initially and it was agreed that R&D staff would keep their jobs.

[5] Three Melons was Nexo Emprendedor – Santander Rio's first investment in its history in Argentina.

However, shortly after Disney bought Playdom, the company downsized considerably and now has less than 30 employees, and all founders have left the company.

Suárez Battán has since launched another company called Idea.me, a crowdfunding platform which helps other start-ups, artists, and inventors to finance their ideas through the web. As well, Jutard and Suárez Battán recently founded Tactivos, another internet start-up. Santiago Siri, a former member of the Three Melons founding team, left the company after a while and co-founded Popego, another technology-based start-up that recently sold to Disney and has now merged with Boo-Box, one of the most promising young companies in Brazil, to create Grupo 42.

Globant

Team and Project

The company was founded in 2003 by Martin Migoya, Martin Umaran, Guilbert Englebienne, and Néstor Nocetti, all of whom were in their mid-30s at the time.

The founders shared a passion for the IT industry, solid work experience in different positions in the industry, and deep knowledge of multinational companies. They either worked within multinational companies (MNCs) – such as Repsol YPF, Santander Bank and IBM – or had direct contact with MNCs as clients throughout their careers. All the founders had also lived in different countries – such as Brazil, Chile, Ecuador, Mexico, the United Kingdom, the United States, and Venezuela – as a result of their careers before Globant. This was undoubtedly a key factor behind their global vision.

Globant currently has offices in Argentina (two in Buenos Aires and Rosario, and one in Cordoba, Tandil, Resistencia, and La Plata), and in Boston, London, New York, Mexico City, Santiago, Sao Paulo, Bogota, San José, and Montevideo.

The company's main undertakings within the world of IT solutions are: software development from conception to implementation, continuous infrastructure management for clients, and other services. It currently specializes in the development of programming and agile methodologies to combine open-source technologies with proprietary software to develop customized solutions.

Growth and financial path

Globant's rapid growth was encouraged by its founders' dense networking in different regions of the world, which they had developed through their work experience and education. This growth was partially based on recruiting talent in each of the company's locations, often by appealing to the diaspora of Argentinians abroad to maintain the company culture and facilitate internal communication. The result of this particular cultural and global recruitment process was the development of a company that has intended to be a global player in the IT outsourcing industry right from its inception. Another strategy for scaling up the company was to specialize in developing services in targeted industries such as tourism, telecommunications and finance, based on the expertise developed in previous work experience and working with their first customers.

Three years after its creation, Globant employed 240 people and had annual sales of USD 12 million. The company received investment funds from FTV Capital (San Francisco, USA) and Riverwood Capital (Menlo Park, Silicon Valley, USA) in two funding rounds: USD 13 million in 2008 and USD 15 million in 2011.

Funding was used to expand and acquire other technology-based companies with strategic assets that would increase Globant's competitiveness. Thus, in 2008, the company acquired Accendra and Openware, two Argentinian software companies based in Buenos Aires and Santa Fe, respectively, in order to take advantage of their product development capabilities and their track record in the industry with important clients abroad. More recently, Globant also acquired Nextive and TerraForum, two Brazilian mobile, social, and web development companies.

Today, Globant employs over 1500 people worldwide and its 2010 sales stood at USD 60 million. One of the main pillars supporting the company is the proximity of its development centres to sources of human resource training, both in Argentina and its different international locations. These locations are, unsurprisingly, also home to host universities and research centres specializing in software. As Globant faced a shortage of engineering professionals in the market, it decided to train skilled professionals by developing alliances with local universities. The company provided internships for advanced university students, and helped universities to include market-oriented contents for their professional training. In 2010, with the objectives of promoting training and entrepreneurship among its staff, Globant created the Globant University project, in collaboration with eight MBA students from the Massachusetts Institute of Technology (MIT).

MercadoLibre

Team and Project

MercadoLibre is an Argentinian company that was founded in 1999 by Marcos Galperín and Hernán Kazah, two economists in their early 30s who graduated from the University of Buenos Aires first and were MBA students at Stanford University years later.

Both founders had worked at MNCs such as Repsol YPF and Procter & Gamble. Over the course of their graduate studies in the US, they developed a business plan for developing a Latin American e-commerce site, emulating the business model developed by eBay in the US. Their proximity to key sources of information for validating and to revise the idea facilitated the launch and implementation of the project, with the assistance of Stanford professors. Another extremely important factor in shaping the business project was their early approaches to key figures at eBay, who commented on the idea.

Growth and funding history

Contacts from Stanford introduced Galperín and Kazah to John Muse, director of the Hicks, Muse, Tate & Furst (HMTF) VC fund, which ended up investing USD 7.6 million at the start-up stage, with Chase Capital Partners, a New York–based fund.

In May 2000, Goldman Sachs, GE Capital Equity, and Santander Bank invested USD 46 million in MercadoLibre. In other words, within a year, Galperín had been able to bring together more than USD 50 million in investment, even though the business was still nascent and Latin America had a ridiculously low number of internet users, let alone people making online transactions. The general context of the “dot-com fever” of the late '90s probably helped to facilitate these VC funds' investment decisions. However, the founders were aware that their business needed to be developed: it was still too small and emerging, even if they intended to cover all of Latin America by opening offices in several countries in the region. In Galperín’s words, "It wasn’t capital for us, it had to be used to invest and grow and the challenge was always making a profitable business based on a genuine business model."

In 2001, two years after MercadoLibre was founded, eBay grew interested in the company – which at the time hosted 13,000 transactions per month, nothing compared to its current transaction flow – and became its largest shareholder, with 19.5 per cent of shares.

After years developing technological solutions and new products, the company's growth and investors' demand for more liquidity on their assets, led to an IPO on

NASDAQ in 2007. The company's revenues for that year were USD 80 million. In 2008, MercadoLibre acquired DeRemate.com – its main competitor in the region – in Argentina and Chile, DeReto.com in Mexico and Colombia, and other companies in the region.

The company currently employs over 1500 employees, almost 20 per cent of whom are dedicated exclusively to the development of technological solutions for enhancing e-commerce (R&D). In Argentina, MercadoLibre employs 700 people, who are distributed between the headquarters and technology development centres in the cities of Buenos Aires and San Luis, respectively.

The founders have actively promoted entrepreneurship and fostered the local entrepreneurial ecosystem. Galperín won the Konex Prize and is well known for advising and helping other entrepreneurs through the Endeavor Foundation in Argentina, where he participates as a board member. Kazah is on the board of companies such as Restorando.com, Pedidosya.com, Cinemaki, and Vostu, and also co-founded and is currently running the regional VC fund Kaszek Ventures.

Summarizing the information and stylizing each firm's evolution, Table 1 shows the main milestones in each case study

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Analysis and discussion of case studies

Firms' post-investments trajectories

The following paragraphs will describe and analyze the different post-investment trajectories followed by these YTBFs and the contributions they have made to the local entrepreneurial ecosystem. Four main issues will be discussed: (i) how these firms organized their R&D efforts and leverage resources from the ecosystem, (ii) their internationalization process, (iii) the incorporation of foreign VC and how it affects the post-investment trajectory, and (iv) the role of the entrepreneurs after the investment.

Regarding R&D, one common feature among the studied firms is that they require strong internal R&D processes to maintain their competitive advantage. In all the cases included in this paper, R&D continued to be developed in Argentina after the successive investments. Even more, in three of the four cases, the local component of R&D tended to increase after the deal.[6]

In order to fulfil their need for qualified human resources, these firms forged relationships with relevant local actors, mainly universities. Globant and, to a lesser extent, MercadoLibre are examples of this kind of university-industry arrangement. These firms established joint laboratories or R&D centres to carry out their R&D activities and, in addition, have a fluent relationship with Argentina's S&T system. Core also maintains a close relationship with the S&T system but relies more on informal ties than formal agreements. Three Melons, in turn, tends to rely more on internal R&D teams and industry contacts.

In sum, after being invested these firms tended to expand their demand for highly qualified human resources in Argentina and deepened their R&D activities in the country, although linkages with the Argentina's S&T system were important just in some cases. As expected, the former implies more direct and positive externalities especially in those cases where university-firm relationship goes beyond the mere provision of qualified human resources by the universities.

Another general trend among the analysed firms is a significant export expansion. Foreign sales currently represent more than 75 per cent of turnover, with the

[6] The case of Core is particularly interesting since the headquarter of the company moves to Boston and the Argentinean office became the R+D centre of the firm. Somehow VC investment played a role equivalent to a Foreign Direct Investment in R&D activities, something that is not common at all in the region.

US market being a significant proportion of these exports. However, the pace of internationalization varied from firm to firm. On one hand, Globant and MercadoLibre are clear examples of what the literature has termed as “born global” firms (e.g., Oviatt and McDougall, 1995). That is, firms that from their very beginning are envisioned in global terms and are characterized by a markedly export-oriented business profile. In these cases, the post-investment international expansion was characterized by the acquisition of regional competitors or key suppliers as a strategy for accelerating their growth.

Core illustrates another path. This firm also reached external markets during their early years but in this case, the process was more gradual. In this context, the domestic market was really important, serving as a “work-bench” for both the product and the firm as a whole. In particular, the role of foreign VC was critical to the expansion into international markets. Moreover, even the company's search for VC investors was directed towards those which could contribute the most to its international expansion, mostly in terms of penetrating the US market, reinforcing what Hsu (2006) says about the ‘price’ entrepreneurs are willing to pay in order to be part of certain VC portfolio.

In sum, post-investment trajectories tended to deepened and accelerate the international expansion of those firms, contributing to the diversification of industry and export structure of the country. In addition, some of these firms have enabled their respective sectors to gain visibility in global markets, thus favouring – under certain entrepreneurial leadership – the configuration of a pool of exporting firms or, simply, the opening-up of destination markets for other firms belonging to the same sector[7].

VC enters in these companies in two very different ways. In Globant and MercadoLibre, founders looked for foreign VCs right from the beginning trying to raise large amounts of money. The other two cases included here (Core and Three Melons) followed the traditional path from internal sources to local investors (business angels and/or local funds). However, this path soon reveals its limits and firms need to look for second-round funding, which is the time when foreign funding appears. Three Melons is a singular case in this regard since it second round ended up in the trade sale of the company to a foreign company in the same industry.

So, why these firms' financial paths rapidly call for foreign money, which then leads to a certain degree of "foreignization" of the company's equity and ownership? [8]. The cases show that entrepreneurs tend to look for foreign VC funds either when the investments in question are on a huge scale (as in the case of MercadoLibre) or when they want to enter or consolidate their position in foreign markets. The cases of Core and, to some extent, Globant are clear examples of this latter explanation. As Davenport (2009) affirms, early internationalization leads young firms to look for foreign partners and big investors.

Regarding the contribution of international VC our results are somewhat mixed. Indeed, we were able to identify situations in which the foreign capital served to acquire other firms and hence consolidate the position of YTBFs as Latin American holdings in

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[7] In this sense, it is worth noting that these firms have been able to successfully integrate into sophisticated markets – such as the US – and become suppliers for big global players such as IBM, Facebook, and Google, which reinforces the demonstration effect mentioned above.

[8] We would like to alert the reader that our use of the term "foreignization" implies no negative considerations or value judgments. Rather, it is simply intended to describe that a relevant part of the firm has been purchased by foreign (usually American) investors.

the ICT industry (e.g., Globant and MercadoLibre). Also, we observed other cases in which it allowed YTBFs to enter or consolidate their position in a leading market, such as the US (as is the case with Core), supporting the existing evidence on the literature (Mäkelä and Maula 2005; Hursti and Maula, 2007).

The case of Three Melons, on the contrary, shows less clear results. First investments were positive from the financial perspective but less fruitful in terms of other type of contributions (i.e.: organizational development). In this context, the company was finally sold to Playdom, which in turn was bought by Disney. Optimism about the future of ex- Three Melons is not shared by key informant. So, the case of Three Melons could be an illustration of the potential harmful effects of trade sales.

The last but very important aspect to be considered refers to the changes observed in the role of the entrepreneurs, something that is not homogeneous among the cases. At Globant and MercadoLibre, the largest two companies in our study, the founders are still actively involved, playing a leading role in strategic decisions although they have delegated and professionalized the management. This coincides with the *accommodated* succession illustrated by Wasserman (2003).

This is not the case at Three Melons, where the founders left the company after the firm's sale. Another path can be seen at Core – although it seems closer to the situation observed at Three Melons – in that only one of the original founders is still involved in the firm's management. Indeed, Core's founders have seats on the board and one of them occupies the CTO position. Other functions have been left to outside professional CEOs and strategic decision-making has moved abroad.

Entrepreneurs' exit does not necessarily imply a net loss from a systemic perspective since they can be part of the 'entrepreneurial recycling' identified by Mason and Harrison (2006). As it is illustrated by the analyzed cases, these entrepreneurs tend to be involved in new start-ups as cofounders or as angels, capitalizing on the experiences, knowledge, and networks they have built up over the previous years. As such, they have a relevant role to play in reducing the lack of expertise in financing these sectors in a developing region such as Latin America. These entrepreneurs are also involved in different institutional initiatives that look to develop and spread new ideas, industries, and entrepreneurial culture in Latin America. As a result, even if they have left their companies, their entrepreneurial capabilities are being recycled into the local (regional) ecosystems in various ways.[9]

Finally, there is no doubt that all these entrepreneurs have become key players in the ICT industry in their country and even in the region. Through their involvement in a variety of activities and the sharing of their stories, these entrepreneurs and their firms have become inspiring role models of successful, dynamic start-ups and have started building an image of a new generation of successful technological entrepreneurs emerging from developing countries. This is a final indirect way through which these entrepreneurs are contributing to the local (regional) entrepreneurial ecosystem.

In sum, we found that all of the firms have received foreign investment sooner or later. Most of them have continued or even strengthened their R+D efforts in the country after being invested and they have grown and expanded their international operations. Main differences among the cases rely on the role of the entrepreneurs after the investment and its effects at the regional level. Next section elaborates further on this issue.

[9] This capitalization of entrepreneurial capabilities within the entrepreneurial ecosystem is not limited to those entrepreneurs who left their companies. The case of MercadoLibre illustrates how entrepreneurs are involved in the boards of new YTBFs and a regional VC fund even if they are still involved in the firm.

Main differences in post-investment trajectories and their determinants

The previous section illustrates different features of the post-investment trajectories of a number of YTBFs and discusses their implications for the local (regional) ecosystem in an emerging context, such as Argentina. The objective of this section is to discuss preliminarily the main determinants of the differences identified in the analysis of these trajectories.

Based on the evidence from the cases studied regarding these variables, we were able to establish at least two different types of trajectories and various intermediate situations.

At one extreme of this continuum is the “fast sale” type illustrated by Three Melons. In this case, the founders leaved the company, so the leadership is exercised by outside professional CEOs. In this case, the growth path is to consolidate the company position within a global value chain.

At the other extreme are ICT “multilatinas” like Globant and MercadoLibre. In these cases, the founder team still exercises a clear leadership of the growth process even when the size of the firm is considerable. The market focus is becoming large global payers in the industry and the growth path is characterized by acquisitions of smaller, closely related companies. Importantly, the R&D processes in these firms are organized through formal linkages with universities and research centres. This phenomenon is in line with the emergence of the microMultinationals already identified by Ibeh et al. (2004)

The case of Core lies somewhere between these two. This firm is characterized by professional management dominated by a foreign organizational culture and a quite limited involvement of the founder team. The market focus is to consolidate the firm's position in the US market and its R&D activities are mainly based on internal local teams with informal linkages with academia and key industry players.

But what are the main variables affecting these typologies? The first key factor in this framework is the founders' skills and vision. As Wasserman (2003: 165) clearly puts *"...succeeding at leading a company to key milestones often means that the company's needs outstrip the Founder-CEO's skills faster..."*. Leading the firm to the next steps may imply different skills than those which proved to be successful before. So the richer the skills' platform from the founder team, the less likely they are to be replaced. In other words, the background of the entrepreneurial team (i.e. education and professional work experience) exercises a clear influence on the company's post-investment trajectory and their own role in it. That is to say, there could be a tension between what the new phase of the firm will demand and the skills the founder team has to meet such demands. Do founders have the "right stuff" to lead the company to its next milestones? The founders' vision and ambition is another key aspect which clearly affects the company's growth trajectory and defines the role that the entrepreneurs may play in its future. Do they really want to lead a big, global company? Or they rather prefer to sell the firm? The answers to these questions also define the type of post-investment trajectory as Davenport (2009) illustrates.

But entrepreneurial skills and vision must be also considered relatively to the business conditions they have to face. These include the level of technological complexity, the sophistication of the demands, and the potential arrival of new competitors, which are only some examples of the external variables which may influence the challenges faced by entrepreneurs during the post-investment trajectory.

Thirdly, in order to cope with such challenges, entrepreneurs can leverage their own resources with external resources (advice, contacts, technology, finance, etc.) that could be available at different degrees in the ecosystem. This fact calls for attention not only on the level of development of the ecosystem and, the links established with relevant actors (including VCs) and institutions within it, but also on the networking capabilities and networking efforts which are exercised by this firms. For instance, in weaker ecosystems, such as some in Latin America, YTBFs must apply greater efforts to achieve qualified contacts and resources which are frequently located outside the region. Hence, there would be a negative relationship between the degree of development of the local ecosystem and the intensity of networking efforts entrepreneurs should make, which in turn would increase the likelihood of ‘foreignization’ and entrepreneurs ‘exit.

Concluding remarks and implications

The objective of this study was to identify and discuss the post-investment paths of Latin American YTBFs, the main variables affecting each trajectory and the overall contribution of them to the strengthening and development of the local (regional) entrepreneurial ecosystem.

In this exploratory study we were able to identify at least two contrasting types of post-investment trajectories: the “fast sale”, in which local YTBFs are purchased by a foreign firm and founders decide to leave the company, and the “multilatina”, in which the YTBF grows mainly by organic means and also through acquisitions until it becomes one of the industry’s big global payers, with the founders still playing a leading role. Of course, there is also a continuum of intermediate situations such as in the case of Core where the original location remains as an R&D centre in the context of the emerging post-investment configuration of the firm. We then propose a framework for understanding the main variables affecting these trajectories. We postulate that founders' skills and vision jointly with business conditions and the development level of the entrepreneurial ecosystem may influence the post-investment trajectory of the firm.

In particular we focus our attention on the role that international VCs have played in these trajectories and the extent of which such 'foreignization' of YTBFs may imply a loss for the region. One conclusion of our research is that in their pace of growth, YTBFs will face certain barriers that lead them to look for more financial resources. This will imply sooner or later a certain degree of 'foreignization'. So, the question is… what is the net balance of such process at the regional level?

Our results show that the main positive effects of foreign VC in local firms would be the enhancement of their scaling up capabilities, their internationalization process and their strategic integration into global value chains. However, in some cases, this process might end with the entrepreneurs' exit. By means of a wider systemic view our study confirms the relevance of considering how "entrepreneurial recycling" could balance the final outcome of these cross-border investments, as Mason and Harrison (2006) suggested.

This research points to some important policy implications, particularly for Latin America. Since this phenomenon is part of the growth path of the Latin American YTBFs, interventions should be focused on how these firms' positive effects could be better capitalized on at the regional level. Heading the list are the strengthening of the local ecosystem by fostering the creation of qualified, industry-specific human resources, the articulation of these firms with the local S&T system (by means of clustering, for instance), and the establishment of platforms for promoting corporate ventures (e.g., spin-offs). There is also still much work to do in terms of the development of an effective financing chain, i.e.: including seed capital and the development of a local (regional) VC industry, and by strengthening those institutions that provide technical support to the entrepreneurs and their articulation with VCs. Finally, it is critical to consider how the networks these firms have abroad could be leveraged to generate knock-on effects for other innovating firms.

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Table 1. Illustrative summary of the milestones of each case study

	1997	**1999**	**2000**	**2002**	**Today**
CORE SECURITY IT Security	**Beginnings** 5 founders Hackers/Computing & maths students 17–25 yrs old Limited work experience	**1st Foreign Investment** Angel Investor: Woods Staton USD 700,000 10% shareholding	**Internationalization** Offices in USA and Brazil Crisis and relaunch	**2nd Foreign Investment** Morgan Stanley USD 1.5 million 33% shareholding	**Consolidation in the US?** Morgan Stanley invested USD 4.5 million and has a 66% shareholding. Founders in non-management positions
	2003	**2004–2007**		**2009-2011**	**Today**
GLOBANT Outsourcing	**Beginnings** 4 founders Engineers/IT experts Mid-30s Work experience at MNCs	**Internationalization** Targeting financial sector, tourism & telecommunications industry to grow. Recruiting talent globally.		**1st and 2nd round VC (Foreign Investment)** FTV Capital & Riverwood Capital: USD 13 million (2008) & USD 15 million (2011)	**Global IT Provider NASDAQ IPO in 2013?** +1500 employees, 7 R&D centres Founders still part of management
	1999–2001			**2007**	**Today**
MERCADO LIBRE E-commerce	**Beginnings** 2 founders Economists Late 20s Work experience at MNCs	**Foreign VC** Hicks, Tate, Muse & Furst (US): USD 7.6 million 2000: Goldman Sachs, GE Capital Equity & Santander Bank: USD 46 million	**Foreign VC** eBay buys 19.5% of MercadoLibre's shares	**IPO** Nasdaq IPO – Demanded by previous investors	**Global E-commerce solutions leader** +1500 employees, +700 employed at 2 R&D centres Founders still part of management
	2005	**2005–2008**		**2009**	**Today**
THREE MELONS Videogames	**Beginnings** 6 partners Young graduates 23–30 yrs old Very limited work experience	**Growth** First advergames, then social gaming Internal and foreign market		**1st Foreign Investment** Río Santander USD 600,000. FONTAR investment USD 1 million turnover 43 employees in Argentina	**Future uncertain** PlayDom (Disney) buys 100% shareholding. Considerable downsize. Founders outside the company.

Source: Own elaboration based on the cases studied.