

# The Magic Happens When You Focus on People

*Innovations Case Commentary:  
Start-Up Chile*

Governments the world over have tried to re-create the magic of Silicon Valley by focusing on infrastructure and industry. They follow the prescriptions of management consultants who tout Michael Porter's cluster theory. They act on the belief that if you build a magnificent technology park next to a research university, provide incentives for chosen businesses to locate there, and bring in some venture capital, then innovation will happen.

These efforts inevitably fail, because entrepreneurial ecosystems simply can't be built from the top down. They must be built from the ground up, with entrepreneurs helping entrepreneurs. What is needed—and what governments can't create—is a culture of information-sharing and mentorship, which is what has made Silicon Valley a success.

Chile is among the countries that drank the “cluster Kool-Aid.” It spent hundreds of millions of dollars building a series of clusters, including one focused on IT outsourcing, but none of them was able to create an indigenous innovation capability because they were focused on the wrong things and weren't tailored to Chile's needs.

Chile's Economic Development Agency (CORFO) invited me to Santiago in September 2009 to meet executives of its IT outsourcing industry. They wined and dined me, and tried to impress me with the progress they had made in creating an \$840 million services industry, which they predicted would grow to \$5 billion by 2015. I was impressed with their progress—and I loved the Chilean wine—but I told them that their projections were baloney. I told them that, before long, the IT services would choke off other industries and then implode, as labor shortages got

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more severe and salaries began to rise. After all, Chile only had a population of 16 million people and was graduating a mere 1,400 engineers per year. Their vocational schools were producing another 4,500, but most didn't speak English. Where would the necessary IT workers come from?

I was very blunt in my meetings with CORFO executives. After returning to the U.S., I felt bad that I had upset my Chilean hosts, so I wrote a *BusinessWeek* column praising their efforts and detailing my views on how they should move forward.

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A few weeks later, in meetings with Chile's innovation chief Nico Shea and economics minister Juan Andres Fountaine, I suggested a strategy to help Chile by taking advantage of weaknesses in U.S. immigration policy. I recommended that Chile build an innovation economy by importing the skilled immigrants the U.S. was chasing away. I suggested that they could attract these innovators and job creators to Chile by offering visas and financial incentives, and by providing them with mentoring and entrepreneurial networks like what they were leaving behind in Silicon Valley.

As Horacio Melo's article highlighted, Chile tried the experiment, and so far it has been a runaway success. There are valuable lessons to be learned from this, but first, let's understand the challenges Chile faces.

Chile not only has a small population, its entrepreneurial ecosystem has the same disadvantages as most regions of the world: failure is vilified, secrecy is highly valued, and mentoring and social networks are lacking. Then there is Chile's remote location—its southern end borders the South Pole, and entrepreneurs there are not only disconnected from one another but from the rest of the world.

Cultures often take generations to change, and connecting entrepreneurs even within the same city is often a challenge, let alone across the world. That's why the Start-Up Chile experiment made so much sense for the country.

Skeptics had argued that the small amount of money Start-Up Chile was offering would not attract entrepreneurs from anywhere but the poorest Latin

American countries. They said it would be almost impossible to attract 1,000 global start-ups. Others argued that a tech center could not be built without a large venture-capital fund as its foundation. There were also concerns that the program would be politically untenable, because some Chileans would regard educated immigrants as a competitive threat and voice the same fear that nativists in the U.S. do: 'that foreigners take jobs away.

The skeptics were wrong. As Melo noted, the program has received more than 1,600 applications from 70 countries—most of them from the U.S. Venture capital has started flowing in from a number of countries, including Argentina, Brazil, France, the U.S., and Uruguay.

Most important, Silicon Valley-style entrepreneurship has been spreading across the country. The events I attended during my last two trips to Chile were at least as dynamic as those that take place in Silicon Valley every night. The entrepreneurs had organized themselves into tribes and were sharing their knowledge with locals on diverse topics, from biotech to social media. Participants were sharing their own product ideas and business plans, and at the same time building networks. Many told me they had never imagined they could get this type of assistance and were now considering starting companies of their own.

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Although it is too early to declare the overall program a success, a key lesson has been learned: the magic happens when you focus on people, rather than on industry.

Lesla Mitchell, the Kauffman Foundation's vice president of innovation, who is researching the program, says it is a model other regions of the world should emulate. The Foundation is already advising leaders from more than two dozen countries, from Australia to Venezuela, on how to replicate the model. The program may not work everywhere because the local conditions and challenges aren't the same, but the lesson remains the same: the regions will only gain by investing in entrepreneurs rather than in industry.

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1. Nativism is a sociopolitical policy that favors the interests of established inhabitants over those of immigrants.