



REPORT 2016

Global Entrepreneurship Monitor (GEM) Puerto Rico

Executive Summary

The Global Entrepreneurship Monitor (GEM) is an international research project that studies the emergence and development of entrepreneurial activity. Each year both the context (sociocultural values and conditioning factors) as well as the rates of business creation in its different phases are analyzed, through surveys.

The results of GEM 2016 indicate that the interest in creating new enterprises is increasing in Puerto Rico, although there are still serious obstacles that make it difficult for nascent firms to establish as consolidated businesses.

In 2016 there is an important growth in the percentage of people who express their intention to start an enterprise in the next three years (19.4% of the total of people who do not carry out any entrepreneurial activity now), as well as people who are currently carrying out some activity to start an entrepreneurial initiative (8.5% of respondents; GEM defines these initiatives as nascent enterprises)¹. However, the number of new entrepreneurial activities is relatively stable, around 2 percent. New ventures are defined as initiatives that generate wages or benefits for the entrepreneur at least three months ago, and began to operate three and a half years ago or less. There is therefore a disparity between the number of nascent enterprises and the number of initiatives that generate income for the entrepreneurs. Puerto Rico's entrepreneurial activity rate (TEA) stands at 10.3 percent, higher than previous years, and above that of many innovation-

based economies. However, while one of the components of TEA, the rate of nascent entrepreneurial activity, stands out among the highest in the international level, the other component, the new entrepreneurial activity rate, is among the lowest. No participating country has such a large difference between the proportion of population with nascent initiatives and those that manage a new enterprise. In addition, partly because of the accumulation of years of low rates of new ventures, Puerto Rico obtains the lowest rate of consolidated business: only 1.6 percent of the population surveyed indicates that it has a business that operates and generates income for more than three and a half years. Innovation-based economies have a 6.7 percent of their population, on average, with consolidated enterprises.

These figures reflect structural problems for the creation of new ventures in Puerto Rico, although it is also true that they are given in the context of an unfavorable economic situation. The long recession of the economy continues, now exacerbated by the fiscal crisis of the government of Puerto Rico. As in previous years, the proportion of respondents who perceive that in the coming months there will be good opportunities to start an enterprise in the area where they live barely reaches 25% (in other economies the figure is usually between 40% and 50%). Among those who start a business, the proportion of those who indicate that they do it by necessity has grown, i.e. because they lack better options to generate income: in 2016 this rate reaches 30.5%, when in 2013 and 2014 it was around 21 percent.

¹ In comparison, in 2015 11.1% stated their intention to start an enterprise and 6.6% had nascent ventures.



The analysis of the socio-cultural and economic context highlights that in Puerto Rico only one of every five respondents (21.5%) consider that becoming an entrepreneur is a desirable career choice. There is an increase in comparison to the figures obtained in previous years in this same indicator, but this proportion remains the lowest among the 62 countries that include the question in their questionnaire. The increase could be the result of the economic recession that the country is going through. The evolution can also be associated with the news about new entrepreneurs who have been successful, which according to respondents can be seen more often in public media or on the Internet. However, changes in social values often occur in a very gradual manner. Despite this trend, the vision that the population has of entrepreneurship as a good career choice remains a challenge for the promotion of business initiatives. In fact, there are no changes in the perception of respondents about the status and respect enjoyed in Puerto Rico by people who are successful as entrepreneurs: only 50.5 percent believe that society places them at a high level, one of the lowest proportions among all countries conducting the survey.

In contrast, the perception of the population on their individual attributes to undertake a new venture represents a favorable basis for the development of entrepreneurial initiatives: 47.9 percent of respondents perceive that they have the knowledge and skills needed to start a new venture. Although it is less than that observed in previous years, it still exceeds that recorded in other innovation-based economies (43.8% on average). Among those who perceive that there will be business opportunities in their environment in the coming months, only 20.1 percent indicate that fear of failure can prevent them from launching a venture, a very low proportion compared to other countries.

The Global Entrepreneurship Monitor also collects information on the entrepreneurial framework conditions that influence the creation of new ventures. In this case it is done through a survey of experts in each country, who value different premises on economic, social, cultural and political factors that influence the creation of new enterprises. In the case of Puerto Rico, the experts offer a negative assessment of most of the factors, that is, they

consider the factors hinder, rather than favor, the development of entrepreneurship. The biggest differences with other innovation-based economies are the valuation of the premises related to bureaucracy, regulation and taxation, government programs and the openness of the internal market. This is not a conjunctural situation, as experts consulted in previous years also emphasized the weakness of these same factors. In fact, the difficulties with bureaucracy are also highlighted as a reason for closure by the surveyed population who indicated that they had to discontinue an entrepreneurial activity in 2016.

In conclusion, GEM's results in Puerto Rico in the year 2016 show a scenario in which a larger proportion of the population is initiating ventures or considering doing so, partly because of the economic downturn. However, the entrepreneurial framework conditions and the prevalence of some sociocultural values hinder the development of entrepreneurial initiatives. In this way, despite the growing interest of the people to become entrepreneurs, the proportion of people with new or consolidated enterprises in Puerto Rico is still at a very low level, compared to other countries.