



REPORT 2017

Global Entrepreneurship Monitor (GEM) Puerto Rico

Executive Summary

Global Entrepreneurship Monitor (GEM) is an international research project that studies the creation and development of enterprises in participating countries, through surveys of the population and experts.

According to the theoretical framework on which the GEM project is based, the development of new enterprises is influenced by social values towards entrepreneurship, individual perceptions towards entrepreneurial activity and the entrepreneurial framework conditions of the national context.

Although Puerto Rico is still in the midst of the economic recession, the population's perception of good opportunities to start an enterprise in the area where they live increased from 25.1 percent in 2016 to 28 percent in 2017. In spite that this percentage is much lower than the average of innovation-based economies (43.4%), it is interesting that the fear of failure among the people who perceive good opportunities to start a business is lower in Puerto Rico (28.6%) than the prevailing in innovation-based economies (40.3%). The intention to start a business in the next three years (18.3%) – of the total number of people who currently do not carry out any entrepreneurial activity - remained stable with respect to the previous year and surpasses that of innovation-based economies (15.2%). Another favorable aspect for new venture creation is that the population of Puerto Rico perceives that it has the capacities to start new enterprises. The 46.7 percent of respondents claimed to have the knowledge and skills needed to undertake, which exceeds the average of innovation-based economies (43%).

This attitude contrasts strongly with the social value of the Puerto Rican population concerning the development of a new venture as a choice of professional career desirable for most people. In this question, the percentage reached (22.6%) places Puerto Rico in the last position among the participating countries, a situation repeated consistently since 2013. Similarly, the perception that the successful entrepreneur enjoys prestige in that society was much lower (52.3%) in Puerto Rico than in the innovation-based economies (70%) or in the Latin American and Caribbean region (62.7%). However, 81.2 percent of respondents in Puerto Rico recognize the media's attention to entrepreneurial activity, versus 60.8 percent in Latin America and the Caribbean and 62.3 percent in innovation-based economies.

The early entrepreneurial activity rate (TEA) was 10.6 percent in 2017, almost equal to that of the previous year (10.3%) and higher than the average rate of innovation-based economies (9.2%). The 10.6 percent is distributed between 9.5 percent of nascent enterprises that are defined as people involved in setting up a business and 1.4 percent of new business. These generate wages or benefits for the entrepreneur and have been in business for more than three months, but less than three and a half years at the time of the survey. The rate of nascent enterprises place Puerto Rico 14 among 54 participating economies. However, the rate of new business places us 52 of 54. The disproportion between the number of nascent and new business has reached the largest gap since Puerto Rico joined this study in 2013. As the authors have highlighted in previous reports, this points to a serious structural problem for the creation of new business in Puerto Rico that must be known, understood and urgently addressed. What is the point of the Government and private entities placing resources to promote the



creation of nascent business if they do not get to the stage of new business and then to consolidated business?

Among those who are nascent and new entrepreneurs (who are part of the TEA), 31.7 percent expressed that they started the business by necessity (in 2013 this percentage was 21.5) and 42.3 percent said they had initiated it by opportunity to improve their situation. In innovation-based economies, the onset by necessity is 17.2 percent, while the opportunity-based entrepreneurship is 53.5 percent.

In terms of gender distribution, the percentage of men in Puerto Rico conducting entrepreneurial activity is 13.2 while the female group is 8.3 percent. The age group with a higher TEA is 25 to 34 years old: 16.1 percent of these young people have initiated efforts to develop their own venture or have already begun to operate it. This result coincides with those of the innovation-based economies and with Latin America and the Caribbean where this is the age group with the highest percentage of entrepreneurs. The rate of consolidated business in Puerto Rico—those that have been operating for more than three and a half years—was 1.6 per cent, equal to that of the previous year. This percentage places us 51 of 54 among the participating economies in 2017; While the closing or discontinuation rate of ventures was 2.7 percent. Among the reasons for this, the surveyed mentioned personal matters (27.3%) in the first place and opportunity to sell, retirement or other opportunity (24.4%) second. The other reasons identified were not profitable business (20.2%), bureaucracy (19.6%) and financing problems (8.5%). In the case of enterprise discontinuation due to bureaucracy of the governmental processes, the percentage of Puerto Rico (19.6%) placed us 7 of 54 participating economies. This percentage is higher than the one obtained in 2016 (12.1%), and much higher than the average of Latin America and the Caribbean (6.5%) and of the innovation-based economies (10.1%).

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 assessed all the factors below the average of all participating countries. That is, they consider the factors hinder, rather than favor, the creation and development of entrepreneurship. The premises that received lower average ratings are those related to bureaucracy, regulation and taxation, as well as to entrepreneurship education at the primary and secondary levels. It is important to highlight that the experts consulted in previous years valued these same factors among the weakest.

In conclusion, GEM's results in Puerto Rico in the year 2017 show a population that despite the prolonged recession of the local economy, sees good opportunities to create new enterprises where they live and is considered capable of doing so despite the prevalence of some sociocultural values that hinder the development of entrepreneurial initiatives. This resulted in a higher rate of entrepreneurial activity (TEA) than that of innovative economies. However, the important gap between nascent and new enterprises clearly points to an urgent problem in the sense that nascent initiatives do not prevail over time. This problem seems to have its causes in the entrepreneurial framework conditions that year after year are valued almost entirely by the experts surveyed, below the average of the participating countries.