

An Exploratory Study of Potential Entrepreneurship in Puerto Rico

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Generally, the economic environment in Puerto Rico is conducive to business start-up. The World Bank (2011) ranked the Island in 2010 as the easiest place in Latin America to start a business and sixteenth easiest for business start-up globally (of 183 countries, World Bank, 2011). While the institutional environment facilitates entrepreneurship in Puerto Rico, Puerto Ricans have been relatively reluctant to become entrepreneurs as compared to the United States or Latin America (Santiago-Castro & Pisani, 2011). The paper looks to answer the following research questions: What is the general level of potential entrepreneurship in Puerto Rico?; Does the rate of potential entrepreneurship in Puerto Rico differ by demographic factors?; and What are the determinants and baseline characteristics of potential entrepreneurs in Puerto Rico? This study utilizes data from the Adult Population Survey (APS) for 2007 from the Global Entrepreneurial Monitor (GEM) Project. For 2007, data consists of a stratified representative sample of individuals in 39 countries, including Puerto Rico. The survey was conducted through telephone interviews, and includes an array of questions related to the individual's demographics, business characteristics as well as attitudes and awareness of entrepreneurship in each country.

In terms of potential entrepreneurs, Puerto Rico is positioned between Europe and the United States and the Latin American countries. The results suggest that there is an inverse relationship between economic development (as measured by per capita income) and the rate of latent or potential entrepreneurship. In uncovering potential distinctions between potential and non-potential entrepreneurs in Puerto Rico, we estimated a logistic regression. Our results suggest that possession of existing knowledge and exposure to external knowledge indeed differentiates between potential entrepreneurs and their opposites. Moreover, foreseeing future business opportunities, being a female, and age also determines the possibility of business endeavors in Puerto Rico.

Keywords: Potential Entrepreneurship, GEM, Puerto Rico.

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I Introduction

Within capitalist economic systems, entrepreneurs have been both extolled and vilified as drivers of economic development or exploiters of labor. These positions are not static and represent a continuum of views. Eckhardt and Shane (2003) suggest that entrepreneurship requires disequilibrium in the system where opportunities are capitalized upon within a dynamic (and changing) environment. We believe that entrepreneurs—those individuals who are willing and able to make the most of opportunities (Shane & Venkataraman, 2000) — are more engines of growth and development (Baumol, 2004; Pisani & Patrick, 2002); we also believe that governmental policy-makers should foster environments where entrepreneurship may flourish (see De Soto, 2000). Whereas entrepreneurs are easily identifiable—after all they are the business owners— would be or potential entrepreneurs are not. One way in which policy-makers may facilitate growth and development is through policies which enable potential entrepreneurs to move from the business planning stage to the business implementation stage. This present study is a first step forward in defining potential entrepreneurship or those individuals planning on, or intent upon, starting a business within the Puerto Rican context.

Generally, the economic environment in Puerto Rico is conducive to business start-up. The World Bank ranked Puerto Rico in 2010 as the easiest place in Latin America to start a business and sixteenth easiest for business start-up globally (of 183 countries; World Bank, 2011). While the institutional environment facilitates entrepreneurship in Puerto Rico, Puerto Ricans have been relatively reluctant to become entrepreneurs as compared to the United States or Latin America (Santiago-Castro & Pisani, 2011). Davis and Rivera-Batiz (2005) argue that several distorting effects impact employment and entrepreneurship levels in Puerto Rico. With regard to

employment, they suggest the dominance and largesse of the public (and welfare) sector inhibits and dis-incentivizes employment growth and entrepreneurship.

Utilizing a unique and representative sample of Puerto Ricans generated through the auspices of the Global Entrepreneurship Monitor (out of Babson University), we explore potential entrepreneurship, through respondent agreement with the following phrase: “You are, alone or with others, expecting to start a new business, including any type of self-employment, within the next three years”. Our research purpose is to shed light on and identify the determinants of potential entrepreneurship.

The results reveal that in terms of potential entrepreneurs, Puerto Rico is positioned between Europe and the United States and the Latin American countries. In addition, the results suggest that there is an inverse relationship between economic development (as measured by per capita income) and the rate of latent or potential entrepreneurship. In uncovering potential distinctions between potential and non-potential entrepreneurs in Puerto Rico, we estimated a logistic regression. Our results suggest that possession of existing knowledge and exposure to external knowledge indeed differentiates between potential entrepreneurs and their opposites. Moreover, foreseeing future business opportunities, being a female, and age also determines the possibility of business endeavors in Puerto Rico.

The paper proceeds as follows. Section 2 discusses the relevant literature concerning potential entrepreneurship. Section 3 describes the data sources, sample selection, variables of interest and the descriptive statistics as well as the methodology employed on our multivariate analysis. Our results and a discussion thereof are presented in Section 4. Concluding remarks are presented in the last section of the paper.

II Theory and Research Questions

Per Davidsson (1991) argued that entrepreneurship research should move beyond the dichotomous view of entrepreneur or non-entrepreneur and focus on the process of entrepreneurship. This process uncovers a continuum from business conception to business divestiture. In this paper, we are interested in the front end of the continuum—business conception in the form of those aspiring or potential entrepreneurs. Potential entrepreneurs are the cadre in which the supply of future entrepreneurs emerge (Liñán, Rodríguez-Cohard, & Rueda-Cantuche, 2011). De Clercq and Arenius (2006) have linked higher education, belief that one possesses the skills need to become an entrepreneur, and personal knowledge of an entrepreneur with nascent entrepreneurship. Demographic variables, such as ethnicity, gender, self-employed parents, and education, continue to be associated with the prospect of entrepreneurial business development (Athayde, 2009).

Liñán et al. (2011, p. 205) argue that “perceived feasibility and perceived desirability” constitute the primary components of “entrepreneurial intention.” In essence, knowing one’s self—both capabilities and interest—provides a pathway toward entrepreneurship. Liñán et al. (2011) seek to intervene in the higher education process to provide awareness of one’s self in order to foster prospective new business development at least through students studying business and economics (e.g., entrepreneurship orientation).

In other words, individuals might become an entrepreneur if (s)he has the confidence in this career choice based on their knowledge and skills (De Clercq & Arenius, 2006). Furthermore, the exposure to others with previous entrepreneurial experience can provide nascent entrepreneurs with useful knowledge (Boyd & Vozikis, 1994; Chen, Greene & Crick, 1998; Krueger & Brazeal, 1994) and lower their uncertainties (Bandura, 1978). In sum, the potential entrepreneurs might

be fostered with two kind of knowledge: exiting knowledge and external knowledge (De Clercq & Arenius, 2006).

Within this backdrop, we seek to explore the characteristics and determinants of potential entrepreneurs in Puerto Rico. The purposes of this paper are to: 1) determine the general level of potential entrepreneurship in Puerto Rico, 2) explore whether the rate of potential entrepreneurship in Puerto Rico differ by demographic factors, 3) provide baseline characteristics of potential entrepreneurs in Puerto Rico, and 4) examine the determinants of potential entrepreneurs in Puerto Rico.

Hence we offer the following research questions:

- RQ#1: What is the general level of potential entrepreneurship in Puerto Rico?
- RQ#2: Does the rate of potential entrepreneurship in Puerto Rico differ by demographic factors?
- RQ#3: What are the baseline characteristics of potential entrepreneurs in Puerto Rico?
- RQ#4: What are the determinants of potential entrepreneurs in Puerto Rico?

III Data and Methodology

This paper utilizes data from the Adult Population Survey (APS) for 2007 from the GEM Project. GEM is an ongoing large-scale academic project designed to study the causes and implications of entrepreneurial behavior across many countries (Reynolds et al., 2005). For 2007, data consists of a stratified representative sample of individuals in 39 countries, including Puerto Rico, the U.S., and eight Latin American countries (Argentina, Brazil, Chile, Colombia, Dominican Republic, Peru, Uruguay and Venezuela). For all data reported, we use the Adult Population Survey (APS) for 2007 from the GEM Project, the first time the survey was conducted in Puerto Rico.

For over a decade, the GEM has organized national teams to survey entrepreneurship across dozens of countries using a standardized questionnaire designed by GEM's Consortium

research team. In 2007, the GEM survey was conducted through telephone interviews of about 2,000 individuals or more from each country. For Puerto Rico the sample is 1,979 respondents for 2007. The questionnaire includes an array of questions related to the individual's demographics, business characteristics as well as attitudes and awareness of entrepreneurship in each country.

Table 1 provides the sample size per country and the level of potential entrepreneurship for Puerto Rico and the other countries undertaken in 2007. These other countries are reported as a comparator for Puerto Rico and to determine the level of potential of entrepreneurship of the Island (research question #1). Puerto Rico's level of potential entrepreneurship (12%) is higher than for United States and the European average (11% for both); furthermore, it is lower in comparison with the Latin American and Asian average (32% and 24%, respectively). The highest potential for entrepreneurship, within their respectively areas, are Colombia (62%), India (51%), and Serbia (27%). By contrast, the lowest potential for entrepreneurship is reported, within their respectively areas, by Uruguay (15%), Japan and Russia (5%), and The Netherlands (4%). These results suggest that there is an inverse relationship between economic development (as measured by per capita income) and the rate of latent or potential entrepreneurship.

// TABLE 1 ABOUT HERE //

Examining just the descriptive GEM data for Puerto Rico, Table 2 provides the demographic characteristics (gender, age, working status, education, and income) of the potential entrepreneurs for 2007 (research question #2). Females represent a slight majority (59%) of individuals who expects to start a new business within the next three years.¹ The age distribution of potential entrepreneurs is well distributed along the first three categories which range from 18 to 44 years. All the demographic variables were significantly different for potential entrepreneurs

¹ For 2007, Puerto Rico's sample was 1,998 respondents of whom 72.4% were females. This group is somewhat oversampled.

and others (non-potential entrepreneurs).² Generally, Puerto Rican potential entrepreneurs are females, older, work more, are better educated, and are more affluent than non-potential entrepreneurs.

// TABLE 2 ABOUT HERE //

For determining the baseline characteristics for Puerto Rican potential entrepreneurs (research question #3), we have selected the following five variables: whether or not provide funds for new business, knowledge of others who had started a business, future business opportunities, possession of business acumen, and whether or not the fear of failure would inhibit business initiation. These variables and coding are offered below. The null hypothesis that the mean of these variables were different between potential and non-potential entrepreneurs was tested using univariate *t*-tests (cross tabulations).

Furthermore, for assessing whether knowledge determines the Puerto Rican potential entrepreneurs (research question #4), a logistic regression was estimated. The sample size was reduced to 905 observations because only completed cases for all variables were used for this analysis. A stepwise logistic procedure was used to identify the significant independent variables, which explained the probability of being a potential entrepreneur in Puerto Rico. A significant level of 95% was used to determine which variables entered and remained in the model. The following equation (Equation 1) models the relationship between the knowledge and the probability of starting a business (potential entrepreneur):

$$PE_i = \alpha + \beta_1 EK + \beta_2 EE + \beta_3 CONTROL + \varepsilon \quad (1)$$

Where:

PE = Potential Entrepreneur.
EK = Exiting Knowledge.

² A cross-tabulation between potential and non-potential entrepreneurs revealed the following statistically significant differences: gender (Pearson Chi-Square = 23.983, *p* = .000), age (Pearson Chi-Square = 136.768, *p* = .000), work status (Pearson Chi-Square = 26.322, *p* = .000), education (Pearson Chi-Square = 49.328, *p* = .000), and income (Pearson Chi-Square = 15.942, *p* = .000).

EE = Exposure to External Knowledge.
CONTROL = Control variables for perceptions about fear of failing and availability of opportunities, and four demographics variables (age, income, work status, and gender).

Dependent Variable

The dependent variable – Potential Entrepreneur – represents observations i's of individuals that are expecting to start a new business within the next three years. This variable includes those respondents that affirmatively answer whether “You are, alone or with others, expecting to start a new business, including any type of self-employment, within the next three years”. This is dichotomous variable is coded “1” if the individual is a potential entrepreneur and “0” otherwise.

Independent Variables

Following De Clercq and Arenius (2006) we identified two sources of knowledge that might foster entrepreneurship among individuals: existing knowledge and external knowledge. Previous studies have provide evidence that the odds for entrepreneurship increases with higher levels of education (Arenius & De Clercq, 2005; Arenius & Minniti, 2005); and individuals' self perceptions of having the necessary skills for a successful end (Arenius & Minniti, 2005; Boyd & Vozikis, 1994; Chen et al., 1998). Therefore, existing knowledge is measured by two variables: Education and Capabilities of launching a venture (SUSKILL). Education represents respondents' highest degree. The responses were harmonized across all countries into a five-category variable³. For this study, we categorized the variable into three groups: no education, high school or less, and more than high school. SUSKILL represents the respondents' self-perception about whether he/she has the knowledge, skills and experience required to start a business. This dichotomous variable is coded “1” if the individual's response was “Yes” and “0”

³ The categories are: some secondary school, secondary degree, post-secondary degree, graduate experience, and no education.

otherwise.

Although an individual might have the knowledge and skills to engage in a new venture, uncertainty about the outcomes might hinder her or his aspirations. Based on the social capital⁴ literature, Johannisson, (1996) argue that access to the knowledge from other entrepreneur may decrease the ambiguity of entrepreneurial process or as lower the uncertainty (Bandura, 1978). Exposure to external knowledge is proxied by two variables: Knew entrepreneur (KNOWENT) and Business angel (BUSANG). KNOWENT is whether the respondents personally knew someone who started a business in the two years preceding the survey. BUSANG is the respondent personally provided funds for a new business in the past three years. Both variables are dichotomous and were coded “1” if the individual’s response was “Yes” and “0” otherwise. The rationale behind this variable is the assumption that an individual’s experience as informal investor can be a mean of exposure to the entrepreneurial experience of other (De Clercq & Arenius, 2006).

The control variables includes self-perceptions of respondents about fear of failing (FEARFAIL), and opportunities’ availability (OPPORT), and demographics variables for age, income, work status (WORK), and gender. FEARFAIL is whether the respondent would not start a business due to the fear of failure. OPPORT is whether the individuals believed that, in the six months following the survey, good business opportunities would exist in the area they lived. Both variables are dichotomous and were coded “1” if the individual’s response was “Yes” and “0” otherwise. Age is a continuous variable, representing the respondent’s age at the time of the survey. Income represents the respondents’ household income divided in three categories⁵ based on the income distribution of their country of origin. WORK is the respondents’ occupational

⁴ Social capital is the actual or potential benefits that one accrues from exposure to knowledge provided by others (De Clercq & Arenius, 2006).

⁵ The three income categories are: lower 33%, middle 33%, and upper 33%.

status at the time of the survey. For this study, the seven original categories⁶ were re-coded into a dichotomous variable where “1” represents individuals who work full time, part time or self-employed and “0” represents individuals not working (includes students, retired/disabled, and house-makers). Gender is a dichotomous variable coded “1” if the individual is a female and “0” if the individual is a male.

IV Results and Discussion

In this section, we discuss the results of analyses which seek to shed light on our two latter research questions – what are the baseline characteristics of potential entrepreneurs and what are the determinants of potential entrepreneurs in Puerto Rico.

Baseline Characteristics of Potential Entrepreneurs in Puerto Rico

Building upon our demographic work in previous section which concluded that potential entrepreneurs are typically females, middle-aged, fully engaged in economic activity, with high levels of educational attainment, and come from affluent households, we added entrepreneur specific context to the baseline characteristics of potential entrepreneurs in Puerto Rico along five variables of interest (see Table 3).

According to the GEM survey, potential entrepreneurs (93.01%) have not provided funds for a new business of others in the past three years. By contrast, the majority (67.57%) know someone personally who started a business in the past two years. It seems that social networks play an important role of entrepreneurship possibility in Puerto Rico. More than half of potential entrepreneurs reported that they foresee short-run business opportunities. This optimism is also reflected into their self-reported ability to conduct business, where more than eight in ten felt confident in their business skill set. Nevertheless, about one-fifth of potential entrepreneur noted

⁶ The six original categories were: full time, part time, retired/disabled, homemaker, student, self-employed, not working.

a fear of potential failure was a concern for future business ventures.

These results show a significant difference between potential and non-potential entrepreneurs along the five variables except for the fear of failure.⁷

Determinants of Potential Entrepreneurship in Puerto Rico

In uncovering potential distinctions between potential and non-potential entrepreneurs in Puerto Rico (research question #4), we estimated a logistic regression specified in equation (1). Our results suggest that possession of existing knowledge and exposure to external knowledge indeed differentiates between potential entrepreneurs and their opposites. Moreover, foreseeing future business opportunities, being a female, and age also determines the possibility of business endeavors in Puerto Rico.

V Conclusions

This study outlines the characteristics and determinants of potential entrepreneurs in Puerto Rico. The results show that possession of existing knowledge and exposure to external knowledge indeed differentiates between potential entrepreneurs and their opposites. Moreover, foreseeing future business opportunities, being a female, and age also determines the possibility of business endeavors in Puerto Rico.

This study has limited its analysis to one country. In the future, the same analysis could be extended to include other countries of the Caribbean, Latin American and North America. Despite this limitation, the study does shed some light on the profile of potential entrepreneurs in Puerto Rico.

⁷ A cross-tabulation between potential and non-potential entrepreneurs revealed the following statistically significant differences: business angel (Pearson Chi-Square = 38.662, $p = .000$), knowledge of others (Pearson Chi-Square = 107.702, $p = .000$), future opportunities (Pearson Chi-Square = 30.357, $p = .000$), and possession of business acumen (Pearson Chi-Square = 109.289, $p = .000$).

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Table 1. Potential and Non-Potential Entrepreneurs by Country (2007)

	Potential Entrepreneur		Non-Potential Entrepreneur		Total
	Number	%	Number	%	
Caribbean					
Puerto Rico	229	0.12	1,750	0.88	1,979
North America					
United States	232	0.11	1,903	0.89	2,135
Latin America					
Argentina	458	0.24	1,490	0.76	1,948
Brazil	479	0.25	1,473	0.75	1,952
Chile	1,202	0.30	2,780	0.70	3,982
Colombia	1,248	0.62	751	0.38	1,999
Peru	755	0.39	1,196	0.61	1,951
Uruguay	298	0.15	1,687	0.85	1,985
Venezuela	473	0.28	1,214	0.72	1,687
	Average	0.32		0.68	
Asia					
China	928	0.36	1,626	0.64	2,554
Hong Kong	289	0.14	1,756	0.86	2,045
India	703	0.51	667	0.49	1,370
Israel	287	0.15	1,593	0.85	1,880
Kazakhstan	291	0.15	1,647	0.85	1,938
Japan	98	0.05	1,748	0.95	1,846
Russia	82	0.05	1,718	0.95	1,800
Thailand	565	0.29	1,360	0.71	1,925
United Arab Emirates	819	0.43	1,090	0.57	1,909
	Average	0.23		0.77	
Europe					
Austria	126	0.06	1,814	0.94	1,940
Belgium	137	0.07	1,837	0.93	1,974
Croatia	227	0.12	1,719	0.88	1,946
Denmark	137	0.07	1,798	0.93	1,935
Finland	166	0.09	1,746	0.91	1,912
France	246	0.12	1,745	0.88	1,991
Greece	270	0.14	1,675	0.86	1,945
Hungary	127	0.09	1,273	0.91	1,400
Iceland	382	0.20	1,492	0.80	1,874
Ireland	167	0.08	1,814	0.92	1,981
Italy	178	0.10	1,631	0.90	1,809
Latvia	111	0.06	1,838	0.94	1,949
Netherlands	130	0.04	3,292	0.96	3,422
Norway	116	0.06	1,760	0.94	1,876
Portugal	278	0.14	1,688	0.86	1,966
Romania	171	0.09	1,707	0.91	1,878
Serbia	557	0.27	1,516	0.73	2,073
Slovenia	325	0.11	2,537	0.89	2,862
Spain	1,713	0.06	25,665	0.94	27,378
Sweden	165	0.08	1,817	0.92	1,982
Switzerland	198	0.09	1,907	0.91	2,105
Turkey	479	0.20	1,859	0.80	2,338
UK	2,453	0.06	38,909	0.94	41,362
	Average	0.13		0.87	

**Table 2. Descriptive Statistics for
Potential Puerto Rican Entrepreneurs**

Variable	%
Gender (N = 229)	
Female	59.0
Male	41.0
Age (Years) (N = 211)	
18-24	24.6
25-34	26.5
35-44	24.6
45-54	11.9
55-64	12.3
Work Status (N = 227)	
Full- or Part-Time	51.1
Part-Time Only	11.9
Retired/Disabled	6.6
Homemaker	8.4
Student	12.8
Not Working/Other	9.3
Education (N = 229)	
Some High School	6.1
High School	11.4
College	19.2
Graduate School	63.3
Income (N = 193)	
Lowest (third)	28.5
Middle (third)	33.7
Highest (third)	37.8
Note: All variables are statistically different at the 1% level between potential entrepreneurs and their opposites.	

Table 3. Baseline Characteristics of Potential Puerto Rican Entrepreneurs

Characteristic	N	%
Provide funds for New Business ***		
Yes	16	6.99
No	213	93.01
Knowledge of Others who had Started a Business ***		
Yes	150	67.57
No	72	32.43
Future Business Opportunities ***		
Yes	111	54.15
No	94	45.85
Possession of Requisite Business Acumen ***		
Yes	179	83.26
No	36	16.74
Fear of Failure		
Yes	56	25.57
No	163	74.43

*** imply statistical difference between potential entrepreneurs and their opposites at the 1% level. N varies across variables because only completed cases for each pair of variables were analyzed.

Table 4. Determinants of Potential Entrepreneurship Among Puerto Ricans

Variable	β Coefficient	S.E.	Wald	Sig.	Exp(β)
Constant **	-1.142	.476	5.765	.016	.319
Education	-.409	.262	2.431	.119	.664
SUSKILL ***	1.199	.255	22.064	.000	3.315
Business Angel **	1.244	.498	6.248	.012	3.47
KNOWENT ***	.891	.213	17.472	.000	2.438
FEARFAIL	.057	.228	.064	.801	1.059
OPPORT **	.589	.202	8.513	.004	1.802
Gender **	-.547	.210	6.802	.009	.579
Income			1.683	.431	
Middle	-.316	.248	1.628	.202	.729
High	-.186	.244	.580	.446	.830
Age ***	-.038	.008	23.513	.000	.963
Work Status	.046	.218	.045	.831	1.047

Cox & Snell $R^2 = .163$
Nagelkerke $R^2 = .276$

*** and ** imply statistical significant at the 1%, and 5% level, respectively.

Table 5. Classification Table

Observed	Future Entrepreneur		% Correct
	Predicted No	Predicted Yes	
No	741	15	98.0
Yes	119	30	20.1
	Overall percentage		85.2