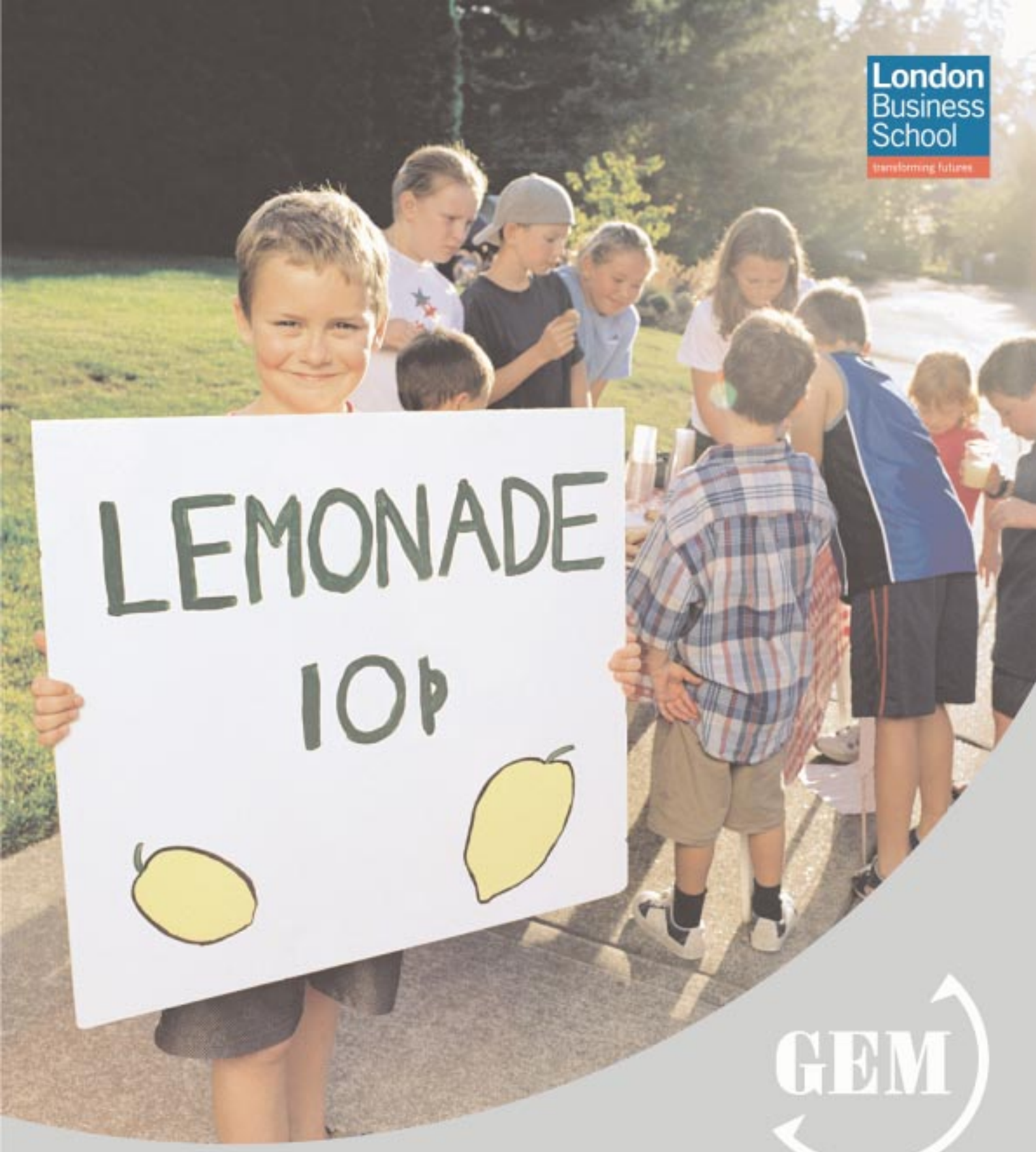

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Global Entrepreneurship Monitor
United Kingdom 2003

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contents

acknowledgments

There are always a number of unsung heroes in a piece of work like this.

GEM UK 2003 would not have been possible without the support of, literally, hundreds of people throughout the year. One of the most exciting aspects of the year has been building up our own UK team to tackle the issues of entrepreneurship from the perspectives of Wales, Scotland and Northern Ireland in addition to my own, pretty English, approach. I am indebted to Dr. Jonathan Levie (Hunter Centre for Entrepreneurship, Strathclyde), Professor Dylan Jones-Evans (University of Wales, Bangor), Professor David Brooksbank (University of Glamorgan), Dr. Maureen O'Reilly (Queens University, Belfast), Professor Mark Hart (Kingston) and Dr. Marc Cowling (The Work Foundation) for their input and comments throughout the year. Their patience with me, as we have sought to expand both the scope and the rigour of GEM UK has been exemplary and I am truly grateful.

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There are always a number of unsung heroes in a piece of work like this. Experts across the country gave up their valuable time to put their views on entrepreneurship forward. Being an expert is not easy, but theymake the GEM UK report so much richer for an honest practitioner perspective. There are too many of them to thank individually, but I hope their views are reflected in the expert summaries at the end of each section. Steve Lomax from IFF research put up with constant iterations of the questionnaire and changes in the total survey size with exemplary professionalism and patience, as did the GEM global team of Steve Hunt, Natalie De Bono and Paul Reynolds. Bill Bygrave has been a constant source of inspiration and support. Marc Cowling and Dennis Harding did all the hard work on, respectively, the data, the expert surveys and the depth of analysis and commentary would have been much weaker without them. Any mistakes, of course, are all my own!

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executive summary

Total entrepreneurial activity (TEA) in the UK rose to 6.4% from its 2002 level of 5.4%. This rise is accounted for entirely by a rise in opportunity entrepreneurship.

Total Entrepreneurial Activity

- Total entrepreneurial activity (TEA) in the UK rose to 6.4% from its 2002 level of 5.4%. This rise is accounted for entirely by a rise in opportunity entrepreneurship.
- The UK is the only other G8 country apart from the US to have seen a major recovery in levels of entrepreneurial activity since the overall drop in TEA in 2002.
- Spanish and Belgian levels of entrepreneurship increased significantly in 2003 on their 2002 levels and German TEA rose marginally. In all other European Union member countries included in the GEM 2003 study, entrepreneurship remained static or fell.
- Male TEA stands at 8.9% and female TEA at 3.8% in the UK. Both are increases on their 2002 levels. However, the gap between male and female entrepreneurship has widened slightly over the 12 month period.
- All regions across the UK saw a rise in TEA except the East of England which saw a fall in total entrepreneurial activity from 6.5% in 2002 to 5.5% in 2003

Cultural Factors

- Generally the climate for entrepreneurship in the UK improved, with more respondents taking a positive attitude towards setting up their own business.
- 5% of the UK population is likely to be involved in start-up activity, 2.2% are involved in start-up activity related to their work, and 12.7% are the owner-managers of entrepreneurial businesses. These are all higher levels than in 2002.
- The level of business angel activity has fallen slightly since 2002 from 1.7% of the population to 1.6%.
- 8% of the population expect to start a business in the next three years, 39% see good start-up opportunities and 54% think that they have the skills to start a business. 64% think that starting a new business has high status in society and 63% consider it a good career choice. However, nearly 32% of the population still fear failure.

Entrepreneurial Impact

- Nascent businesses and owner-manager (baby) businesses have become more circumspect in the last 12 months about predicting the number of jobs they are creating or will create over a five year period. Thus, the mean number of jobs that might be created by entrepreneurial businesses has fallen. However, the median number of jobs created has not changed significantly.
- Start-up business median turnover is £30,000. Owner-manager median turnover is £39,000. The top 20% of owner-manager and start-up businesses, however, have six-figure turnovers.
- The highest number of start-ups is in the business services sector.
- Business churn (all start-ups plus closures) has increased, but the net impact on stock (all start-ups minus closures) is positive and has increased since 2002.
- UK entrepreneurial businesses remain predominantly UK focused. On average, just 19.2% of all start-ups and 11.2% of all owner-manager businesses have more than 25% of their customers abroad.

Who are the entrepreneurs?

- Entrepreneurs in the UK come from all demographic backgrounds, although individuals with higher incomes and higher levels of education are still more likely to be entrepreneurs.
- Women are proportionately more likely than men to be opportunity entrepreneurs.
- Individuals in the 25-34 year old age grouping are more likely to be entrepreneurs than their counterparts in other age groupings.
- The number of entrepreneurs with degrees fell during 2003. Individuals with vocational training are now just as likely to become entrepreneurs as those with higher qualifications.
- Individuals in the highest third of the income distribution are more than twice as likely to be entrepreneurs as those in the lowest third (8.1% compared to 3.0%)
- Individuals in full time or part time employment are more likely to be entrepreneurs. Total Entrepreneurial Activity amongst the student population is just 0.9%.

The Regional Dimension

- There are no statistically significant differences between regions in terms of the numbers of jobs created by entrepreneurial businesses.
- Informal investments fell in six regions (the East Midlands, London, Northern Ireland, the South West, the West Midlands and Yorkshire and Humberside). There were increases in Wales, Scotland and the South East.
- London is the region with the highest number of export oriented entrepreneurial businesses (49% of all start-ups and 26% of all owner-manager businesses).
- There are significant differences in attitudes towards entrepreneurship at a regional level. The South East remains the region where respondents are most positive about start-up opportunities.

Female Entrepreneurship

- Women are more likely to fear failure, see fewer opportunities, have a lower perception of their skills to start a business and are less likely to know an entrepreneur than men. However, there are no significant differences between men and women in their attitudes to entrepreneurship as a career option and as a high status activity.
- There have been major improvements in levels of female entrepreneurship in the East of England, the North East, the East Midlands, Northern Ireland and the South East since 2002.
- Female businesses are more likely to be innovative in that they probably will use technology that was not available a year ago and more likely to be providing a good or service to market that is new to some or all customers.
- Female entrepreneurs are less likely to attempt to access external finance, but when they do, they are more likely to be successful than men.

Ethnic Minority Entrepreneurship

- Black people are more than twice as likely as white people to set up a business independently, or to be involved with a job related start-up. They are five times as likely as their White British counterparts to be Business Angels.
- Asians from the Indian sub-continent are twice as likely as White British people to be involved in start-up activity, and three times as likely to be Business Angels.
- Both Blacks and Indian sub-continent Asians have more positive attitudes towards entrepreneurship.
- Mixed ethnic background entrepreneurs are nearly five times more likely to set up new technology businesses than their white British counterparts. They are also more likely to be innovative in terms of the newness of their product or service.
- Indian sub-continent Asians are most likely to respond that lack of finance would prevent them from starting a business.

Low income groups

- Entrepreneurial activity amongst the lowest income decile is two-thirds of the level in the remaining 90% by income grouping. They are half as likely to be involved in a job-related start-up and half as likely to be Business Angels. Owner-manager entrepreneurship is one quarter of the level in the rest of the population.
- Attitudes and self perceptions amongst the lowest income groups are less positive, although there are no significant differences in fear of failure.
- Low income groups are more likely to see entrepreneurship as a high status activity and as a good career choice than their high income counterparts.

Finance

- 4% of the businesses identified in GEM UK 2003 were successful in obtaining equity finance.
- Two thirds of those who applied for equity finance were successful, while one third were unsuccessful.
- The largest single reason for failure was the nature of business that rendered it unsuitable for equity finance.
- If a business was unsuitable for equity finance, its owner was also more likely to be unwilling to share ownership and more likely to be part of a weak management team.
- There is a visible equity gap evident in the data for amounts between £150,000 and £1,175,000.

Technology Businesses

- London has the highest number of technology start-ups and the South West the highest number of technology owner-managed businesses.
- 43% of technology owner-manager businesses develop their technology in house.
- 7.1% of technology owner-manager businesses develop their technology in partnership with universities.
- 12.0% of owner-manager businesses form strategic R&D alliances with other companies in the same or related sectors.

Social Entrepreneurship

- The level of Social Entrepreneurship Activity (SEA) is higher than Total Entrepreneurial Activity (TEA). Some 6.6% of the UK's adult population are involved with socially oriented start-ups or own or manage socially oriented ventures.
- London has the highest number of social entrepreneurial start-ups and London and the South West have the highest number of social entrepreneurial owner-manager businesses.
- Individuals on higher incomes and with post graduate qualifications are more likely to be social entrepreneurs.
- Individuals from all ethnic minorities are more likely to be social entrepreneurs than their White British counterparts.

introduction

The macroeconomic climate for entrepreneurship in the UK is good and, as the world emerges from recession, the challenge is to build on the strong foundations that are apparent from the GEM UK 2003 survey.

Entrepreneurship and innovation have become synonymous with the UK government's second term policies towards productivity, regeneration and growth. As part of this emphasis the government has during 2003:

- Followed through the implementation of the Enterprise Act which tightens competition and consumer provisions and streamlines insolvency procedures.
- Has consulted on the feasibility of Small Business Investment Companies as a means of closing the equity gap
- Undertaken a major review of innovation and small business support services in the UK.
- Announced an £11million boost to the Phoenix Fund, to encourage entrepreneurship in disadvantaged communities.
- Announced measures to improve entrepreneurial education in secondary and tertiary education, with a particular focus on promoting enterprise in disadvantaged regions and a "Council for Graduate Entrepreneurship".
- Announced a Strategic Framework for Women's Enterprise.

The increasing focus on entrepreneurship and innovation across all areas of UK economy and society was rocked, however, by the aftermath of September 11th and the subsequent world recession and downturn in equity markets for fast growing businesses. GEM UK reported a fall in the rate of Total Entrepreneurial Activity (TEA) from 7.7% of the UK population to 5.4% during 2002. While this was part of a wider drop in entrepreneurship across the world in 2002, this was clearly of concern to policy makers since it appeared that levels of entrepreneurship and attitudes towards entrepreneurship would be affected by economic downturn.

In the event, the UK economy has weathered the economic storm relatively unscathed, with unemployment rates close to their lowest levels since the 1970s, inflation at historically low levels and economic growth consistent and in line with budget forecast range of 2-2.5% during 2003. Similarly, during 2003 total levels of entrepreneurial activity (TEA) have increased from 5.4% to 6.4%. While this is not yet back to the 2001 levels, attitudes towards entrepreneurship across the UK have become substantially more positive, with more people expecting to start a business, more people seeing good opportunities and fewer people fearing failure compared to 2002.

However, despite evidence that entrepreneurship is stronger in communities and countries where entrepreneurial networks are widespread, there are still fewer people in the UK who personally know an entrepreneur and fewer who expect to start a business in the next three years than in the US or Germany.

[1] Entrepreneurial practitioners (for example, venture capitalists, business support agents, Chambers of Commerce, policy makers, academics and bankers amongst others) were interviewed and surveyed for their opinions on the effectiveness of support structures for entrepreneurship in the UK.

[2] The total sample in the UK is stratified to make it representative of the UK population by age, gender, educational background and ethnicity. In a sample of this size, therefore, this makes the conclusions on ethnicity robust and reliable.

Similarly the gap between male and female entrepreneurship is still wide. Female entrepreneurship is less than half (43%) of male entrepreneurship at 3.82% for women compared to 8.91% for men in the total population. The gap is smaller than the gap in 2001 but larger than in 2002. The difference between male and female entrepreneurship in the UK is still wider than it is in the US, Canada, Germany, the Netherlands or Italy and narrowing this gap would go some way towards improving overall levels of entrepreneurial activity.

This report discusses the challenges for UK policy in the light of the evidence from a survey of 22,000 adults randomly selected and interviewed by telephone from July-October 2003 and from an in-depth survey of 60 experts[1] conducted between April and October 2003. It looks at inclusion (women and ethnic minorities), entrepreneurship in deprived areas, access to finance, technology entrepreneurship and provides a regional dimension to all of this.

Ethnic minority businesses, as was reported in the 2002 GEM UK report, are key drivers of entrepreneurship in the UK[2]. Again, we find greater acceptance of entrepreneurship, higher levels of entrepreneurial activity and stronger community-based entrepreneurship amongst these communities and their role in driving forward an entrepreneurial agenda cannot be understated.

For the first time in 2003, we have also included extra questions on social entrepreneurship and attempted to develop a measurement of Social Entrepreneurial Activity (SEA) using a similar construction to the TEA index. With some confidence we can say that around 6.6% of the whole UK population, nearly as many as are involved in "orthodox" entrepreneurial activity, are engaged in socially oriented activities of one form or another. Of these, over 40% fund more than 75% of their activities[3] from their own revenues rather than from grants or donations. This suggests that the level of social enterprise activity (in other words activities that are funded largely by their own revenues) is high at nearly 2.5% of the whole UK population. Further, there is a substantially smaller gap between male and female entrepreneurship with women almost as likely as men to be social entrepreneurs.

The macroeconomic climate for entrepreneurship in the UK is good and, as the world emerges from recession, the challenge is to build on the strong foundations that are apparent from the GEM UK 2003 survey. Specifically, there are still cultural and financial barriers to entrepreneurship. Ethnic minority and female entrepreneurship could be further encouraged (especially in technology oriented growth businesses where they have major strengths). An identifiable equity gap in the financing of growth businesses could be closed and social entrepreneurship could be supported as vehicle for promoting community development and regeneration.

[3] We used the phrase "activity or venture" to capture as much social entrepreneurial activity as possible. This allows us to distinguish between those individuals who are running relatively small-scale "charity-type" organisations from proper social "enterprises" that fund their activities through revenue.

GEM global and GEM UK - overview

An understanding of entrepreneurship and of the cultural, economic and political drivers behind it, is key to understanding one of the oldest and most important aspects of labour markets across the world.

Is entrepreneurship important in a downturn[4]?

The recessionary pressures of 2003 have been felt throughout the world's economies in terms of sluggish growth, rising unemployment and a suggestion that major economies, like Germany, Japan and the US, would enter deflationary spirals during the year. Arguably, French and German economic growth has been restrained by the European Union's Growth and Stability Pact, and levels of unemployment across Europe have continued to rise. Although there was evidence towards the end of 2003 that demand and export markets were beginning to pick up, the legacy of the downturn is visible in terms of lack of business confidence and a relatively slow pick up in continental European growth.

There is one feature of the current economic climate that makes its negative effects more acute amongst the world's entrepreneurs. September 11th, the subsequent war on terrorism in Afghanistan and the war in Iraq during 2003 have had an obvious and marked effect on world markets in terms of certainty and overall confidence levels. However, it is the collapse of stock markets, and in particular the bursting of the "hi-tech bubble" that arguably will have had the most profound effect on entrepreneurial behaviour, both from the demand side (businesses themselves) and the supply side (for example the supply of growth finance). The interest in entrepreneurship as an area of investigation in its own right and as a means of generating innovation-led growth was predicated, on the belief that Initial Public Offering (IPO) markets would continue to generate resources and revenues to stimulate start-up businesses, particularly in new technologies, as they had done in the US during the 1990s. When these markets appear to weaken, the belief in entrepreneurship as a means of stimulating growth also begins to falter.

The roots of entrepreneurship as a means of generating growth, employment and regeneration, particularly in continental Europe are relatively shallow, not least because the "new economy" and enterprise agenda really only took hold during the 1990s. As a result, the cultural, economic and personal risks are high, say, in comparison to the US, which, as an economy is founded on principles of enterprise. Any stalling of the enterprise engine, particularly if it originated in the US, could be seen as a signal that the Anglo-American system[5] is vulnerable. Accordingly, the traditional base of employment, social security and fairness intrinsic to the European "model" could be seen as a better guarantee of long term stability and economic well being. Any interpretation, therefore, of the data on entrepreneurship needs to be seen in the light of both political insecurity and an economic downturn, with a particular impact on entrepreneurship.

Despite all this, however, an understanding of entrepreneurship and of the cultural, economic and political drivers behind it is key to understanding one of the oldest and most important aspects of labour markets across the world. Self-employment and

[4] The UK has not officially been through a recession in that real GDP growth has not declined in three consecutive quarters. However, in 2000 real GDP growth was 3.8%, in 2001 it was 2.1%, in 2002 it was 1.7% and in the first three quarters of 2003 it had risen to 2.0% (NIESR, *Economic Review* December 2003).

[5] Debate in the literature characterises the flexibility and dynamism of the competitive, laissez-faire structures of the United States as "Anglo-American" and the European collectivist model as "Rhineland Capitalism" (after Andrew Schonfeld's 1969 book, *Modern Capitalism*, Oxford University Press).

entrepreneurship can be seen both as a means of generating household income and as a mechanism for empowering individuals, across diverse communities, to reach their full potential through work. To this end, it remains as important in a recession as in a boom and looking at how it is affected by a downturn is a key part of building the process of recovery.

What is GEM?

The Global Entrepreneurship Monitor (GEM) started in 1999. Now in its fifth year, this world-wide project involves around 80 researchers in 28 countries. This is slightly smaller than the 2002 study, but GEM nevertheless still represents the largest and most rigorous longitudinal study of entrepreneurship in the world.

GEM defines entrepreneurship as:

"Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business by an individual, teams of individuals, or established business."

This is a sufficiently broad definition to include anyone who is adding value to the work they do by acting entrepreneurially, although too narrow to identify those enterprises that fulfill a not-for-profit or specific social purpose.

GEM's core research questions remain those that were first set at the start of the programme:

- How much entrepreneurial activity is taking part in the world?
- Why do levels of entrepreneurial activity differ between countries?
- What are the links between entrepreneurial activity and national economic growth and productivity[6]?

Equally as interesting, especially to national policy and practitioner audiences, however, are a further set of questions that are focused on the cultural and labour market contexts in which entrepreneurship thrives. More specifically these questions centre around:

- Individual motivations.
- The demographic profile of entrepreneurs.
- The types of entrepreneurial businesses being created.
- The political, economic, social and technological drivers of entrepreneurship.
- The role of government in stimulating entrepreneurship.

How does GEM measure entrepreneurial activity?

Each of the countries in the study has a team of researchers who use a standardised questionnaire survey of the adult population to create the Total Entrepreneurial Activity (TEA) index. This random adult population survey is conducted by telephone during June and October of each year and, on the basis of the 18-64 year olds within the population it is used to identify:

1. Nascent ventures: these are the firms that would be called start-ups by most analysts. Anyone in the survey who said they were actively involved in creating a new business that they would own all or part of, and had not paid any salaries or wages to anyone for more than three months fell into this category.
2. Baby businesses: these are the more established, owner-manager businesses that have been running for between 4 and 42 months and have not paid salaries for longer than that.

There is some double counting between these two groups - serial entrepreneurs may be setting up and running businesses simultaneously. This problem is overcome by allocating these individuals either to nascent or to baby businesses, but not to both. Adding together the two categories of people makes the TEA index that can then be used to illustrate differences and similarities between countries, regions, types of people and types of entrepreneurship.

[6] GEM has found interesting correlations between necessity entrepreneurship and levels of national economic growth, but has not established a causal link between GDP growth per se and total entrepreneurial activity. Establishing directional causality is, in any case, open to dispute within the economics profession and a better route to establishing the role of entrepreneurial businesses in growth may be to look at the relationships between employment and turnover growth in entrepreneurial businesses themselves and, hence, total factor productivity. This is something that is explored later in the text and is examined at a national level by Cowling, M. and Harding, R. (2003): "Entrepreneurship and the Wealth of Nations" The Work Foundation, Work and Enterprise Working Paper No. 1.

Since 2001, GEM has distinguished between two types of entrepreneurship:

1. Necessity entrepreneurship: These are the people who believe they have no better choices for work.
2. Opportunity entrepreneurship: These are the people who perceive a business opportunity and take advantage of it, either independently or from paid employment.

The adult population survey is supported by a practitioner survey of experts involved with policy formulation and delivery, small business support, small business finance and entrepreneurs themselves. This gives the study a richness and allows each country team to be able to make specific and evidence-based policy recommendations to their national governments.

What's new about GEM UK 2003?

GEM UK 2002 was the largest ever single country study of entrepreneurship within the GEM project. The survey was expanded further in 2003 to include 6 separate regional studies (summaries in the folder), additional questions on finance, technology and turnover, and case studies of entrepreneurial businesses as part of the expert survey. From a base sample size of 16,000 in 2002 (with 4000 additional cases from the Barclays enterprise survey), the UK study has now grown to a base level of 22,000 (again compared with an additional 4000 cases from the Barclays study).

The expanded sample size allows us to provide reliable and robust inter-regional comparisons of entrepreneurial activity and to have a large and representative sample of the UK's entrepreneurial businesses, including an attempt to understand entrepreneurship by low income profile. We have asked additional questions on turnover and employment, as well as the postcode locations of the businesses in order to examine more closely:

- The relationships between entrepreneurship and employment growth (and ultimately productivity).
- The role of different types of finance for start-up businesses.
- Technology networks and intrapreneurship.

The biggest addition to the survey in 2003 however, is a first attempt to measure social entrepreneurial activity in a systematic way. This is an important area of investigation for policy makers and businesses alike, yet definitions and data are much disputed. We have taken GEM's broad approach to defining entrepreneurship and have adapted it to ask similar questions about social enterprise businesses, to create a Social Enterprise Activity Index (SEA). Like TEA it is the sum (minus double counting) of those answering positively to one of the following two questions[7]:

1. Are you, alone or with others, currently trying to start any kind of social, voluntary or community *service, activity or initiative?* This might include providing subsidised or free training, advice or support to individuals or organisations; profit making activity, but where profits are used for socially orientated purpose; or self-help groups for community action.
2. Are you, alone or with others, currently managing any such social, voluntary or community *service, activity or initiative?*

[7] The same timescales apply to each, so start-ups or "baby" social enterprises are 0-3 months and owner-manager (nascent) social enterprises are 4-42 months.

The SEA index is based on as broad a definition of social entrepreneurship as possible, derived from the GEM definition of entrepreneurship as follows:

Any attempt at new business or enterprise, or new venture creation, such as self-employment, a new business organisation, or the expansion of an existing business by an individual, teams of individuals, or established businesses, with social or community goals as its base.

Interpreting GEM data

GEM captures a larger proportion of entrepreneurial activity than business or household surveys, since it measures entrepreneurial behaviour as well as actual businesses established[8]. This is particularly useful for understanding entrepreneurial potential (for example in different demographic groupings, such as ethnic minorities), as well as total entrepreneurial activity. Effectively it establishes the extent to which people are likely to be entrepreneurial if the entrepreneurial drivers in the economy are effective (for example, government policy, innovation, finance, education and training and culture).

As a result of this, the data presented in this text should not be interpreted as an accurate comparative measure of actual numbers of businesses in particular regions, communities or sectors, particularly where the sample size is small. Instead it should be taken as a measure of the number of businesses that are likely to exist if appropriate drivers are in place.

GEM UK, based as it is on a such a large survey, does have a substantial number of actual businesses within it, as well as a representative sample of the UK's adult population (according to 2001 census classifications). As a result, the margins of error[9] are relatively small and the degree of statistical inference possible from the data high. All data shown within this text are shown with their levels of significance[10], for ease of interpretation.

One further note of caution should be sounded in relation to the international comparisons reported below. Frequently the GEM study is used as a means of ranking individual countries and their overall levels of entrepreneurship. This is misleading on two grounds:

1. The sample sizes differ between the countries in the study. In participating nations with smaller sample sizes the margin of error is greater. Thus differences in TEA rates may be accounted for by sampling error rather than actual differences.
2. The cultural and economic basis of entrepreneurship differ between nations. It is not appropriate, for example, to compare the highest-ranking country in 2003, which was Uganda, with a TEA rate of 26.6% with levels of entrepreneurship in the UK[11].

[8] This approach is also taken by the Small Business Service's household survey. Even so, the GEM data for 2003, because of the large sample sizes do bear comparisons with other studies, such as the December 2003 Labour Market Trends survey and internal Barclays publications on entrepreneurial business activity.

[9] Defined as one standard deviation either side of the mean.

[10] Defined at the 1% (***), 5% (**)or 10% level (*).

[11] For this reason, only "like with like" direct comparisons have been made: for example, between the G8 and the EU 15 countries only.

[12] The initial French results were not available at the time of writing and the Japanese study was not part of the GEM global 2003 report.

entrepreneurship in comparable countries to the UK

Despite the limitations of an international comparison, it is interesting to compare trends in the participating countries.

Despite the limitations of an international comparison, it is interesting to compare trends in the participating countries. In absolute terms, the UK's "ranking" altered in 2003 from 23rd out of 37 countries to 18th out of 27 countries. However, this fact should be treated with extreme caution:

- There are fewer countries in the 2003 study and some of our major competitors, such as France and Japan, were not included in the first tranche of the GEM global results[12].
- The countries that were "above" the UK in 2003 included Uganda (29.26), Venezuela (27.3), Argentina (19.7), Chile (16.9), Brazil (12.9), New Zealand (13.6) and Australia (11.6) where considerable policy efforts have been made to stimulate entrepreneurship, do represent interesting comparisons, at least from a policy perspective.

As a result, for the purposes of this report, the comparisons are made with our G8 competitors[13], and with those EU countries participating in the study in 2003. The comparison with our G8 competitors are illustrated in Figure 1, this shows Total Entrepreneurial Activity over a three year period since 2001.

Figure 1 presents an interesting and complex picture with entrepreneurial activities in the US dipping in 2002, but recovering to a level above their 2001 levels in 2003. The UK is the only other country that apparently has started the process of recovery towards its 2001 levels. TEA increased marginally in Germany[15], but in all other countries the picture is one of decline.

Figure 2 looks at TEA rates across the GEM participating nations in the EU, again across the three years from 2001. Entrepreneurial activity picked up in Spain, the UK and Belgium in 2003, remained roughly the same in Germany and Sweden and continued to fall in all other countries covered in this study.

A note on opportunity and necessity entrepreneurship

The rise in the UK's TEA rate is accounted for entirely by a 1% rise in the levels of opportunity entrepreneurship from 4.4% of the whole population in 2002 to 5.4% in 2003. Levels of necessity entrepreneurship in the UK, in other words, those individuals who set up businesses because they had no other alternative for work, remained the same as the 2001 level.

There is no obvious pattern in necessity or opportunity entrepreneurship across the other participating nations examined above. Opportunity entrepreneurship in the US has remained about the same as the 2002 levels, for example, while necessity entrepreneurship has increased. Opportunity entrepreneurship in Germany has gone down, but necessity entrepreneurship has risen. Elsewhere, where entrepreneurship has risen, it appears that both necessity and opportunity entrepreneurship has also risen. The converse is true where the overall TEA rate has fallen.

[13] The world's largest economies: France, Russia and Japan for 2001 and 2002 only.

[14] The GEM global report usually puts an error margin against each country result, which is larger when sample sizes are smaller.

[15] Given comments on the sampling errors intrinsic to this type of approach, the very small increases in Germany and Canada are positive indications that there is no decline in TEA, but should not be interpreted as statistically significant.

A note on male and female entrepreneurship

Levels of entrepreneurship amongst males in the United Kingdom rose from 7.4% in 2002 to 8.9% in 2003. Female entrepreneurship also improved over the same time period in the UK from 3.27 to 3.82. The comparisons with other participating EU and G8 countries are given in Figure 3, which shows the relationship between male and female entrepreneurship in each of those countries.

It must again be remembered that there are cultural and social differences between these countries that render a direct ranking meaningless. However, levels of female entrepreneurial activity in countries outside of the G8 and EU, where substantial policy efforts have been made to encourage entrepreneurship are, although still lower than male entrepreneurship, visibly higher. Thus for example, female entrepreneurship is 70% of male entrepreneurship in Australia and 58% of male entrepreneurship in New Zealand[16]. This is higher than all the G8 and EU countries in this study. Italy is an interesting exception where female where female entrepreneurship is very similar to male entrepreneurship and where substantial policy efforts to raise the profile of entrepreneurship have also been made.

Figure 1: TEA in the G8 participating countries, 2001-2003[14]

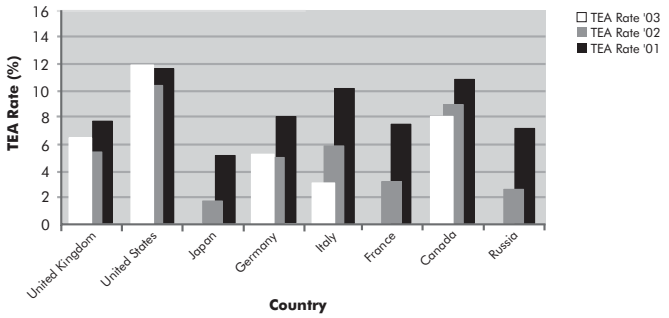


Figure 2: Entrepreneurial Activity in Participating EU Regions

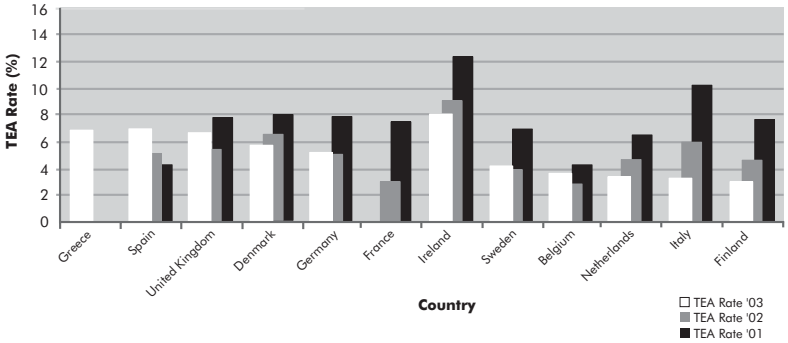
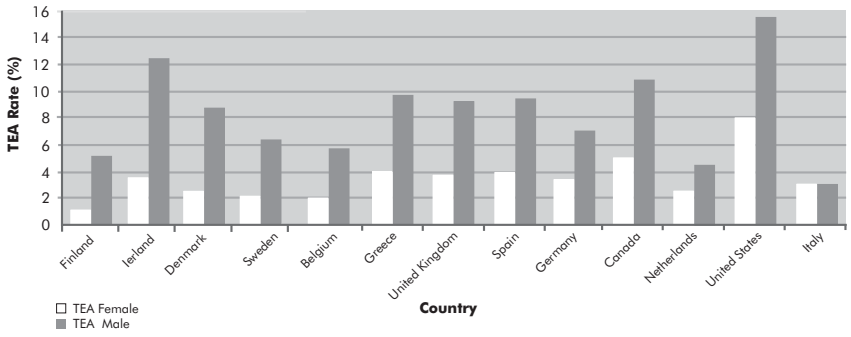


Figure 3: Comparisons of Male and Female Entrepreneurship in G8 and European GEM Participating Countries



[16] As cited above, the equivalent figure for the UK is 43%.

entrepreneurship in the UK

Government policy has continued to build the innovation, skills, investment and competition climate for entrepreneurship in the UK.

Policy towards entrepreneurship

The five productivity drivers defined by H.M.Treasury and the Department of Trade and Industry are innovation, skills, investment, competition and enterprise[17]. Entrepreneurship crosses all five of these areas and government policy has continued to build the innovation, skills, investment and competition climate for entrepreneurship in the UK. To this end, the Small Business Service works with government and private sector business support agencies around 7 key areas:

- Building an enterprise culture.
- Encouraging a more dynamic start-up market.
- Building the capability for small business growth.
- Improving access to finance for small businesses.
- Encouraging more enterprise in disadvantaged communities and under-represented groups.
- Improving small businesses' experience of government services.
- Developing better regulation and policy.

Alongside this, H.M. Treasury also has a raft of market correcting measures to improve the environment for entrepreneurship. These include:

- Fiscal measures to stimulate start-ups.
- Fiscal measures to encourage research and development (such as the widening of the R&D tax credit to include smaller and entrepreneurial businesses).
- Widening access to the Small Firms' Loan Guarantee Scheme, especially for technology businesses.
- Consulting (after the 2003 budget) on introducing Small Business Investment Companies as a mechanism for closing the equity gap.
- Encouraging entrepreneurship in 2000 "Enterprise Zones" comprised of the UK's most deprived wards in the UK.

The GEM UK 2003 report is based on a sample of 22,000 adults across the whole of the UK. It covers attitudes towards entrepreneurship, looks at the contribution of entrepreneurial businesses to the UK economy and to their communities (for example in terms of employment growth and growth potential) and looks at the dynamics of UK markets for entrepreneurship (broadly, the rate of business churn). It examines the types of people who are entrepreneurs and looks at differences between groups of entrepreneurs.

As in 2002, the report is themed around a number of focus areas. This section begins by putting forward some detail on levels of and attitudes to entrepreneurship. It looks at the impact of entrepreneurship on the numbers of jobs created, the sectors in which entrepreneurship is strongest, turnover and business churn (the difference between the levels of start-ups and business closures). Section 4 then goes on to look at the characteristics by age, gender, educational profile and income of the

[17] These are the government definitions, and not those of GEM Global or GEM UK. "Enterprise" may be taken to be a slightly broader term than entrepreneurship for policy purposes.

UK's entrepreneurs, builds a picture of the "typical" entrepreneur and establishes where the obvious entrepreneurial gaps are.

After that, the report is themed and looks, in order, at the regional dimension, social inclusion (specifically female, ethnic minority and low income entrepreneurship), the finance of entrepreneurial businesses, technology entrepreneurship and social entrepreneurship. Cross regional comparisons are made throughout.

GEM UK, since it is based on a substantially larger sample than other comparative studies, allows us to examine in some detail both labour market trends and attitudes towards entrepreneurship, as well as to look at overall levels and patterns of entrepreneurship amongst the18-64 year old age group. It therefore provides a good reality check for policy makers who believe that self-fulfilment and an inclusive labour market are linked with higher levels of innovation and entrepreneurship.

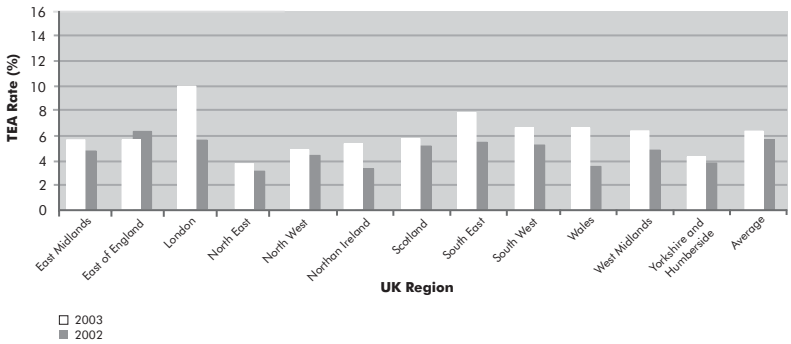
A breakdown of the levels of entrepreneurship in the UK

The regional dimension

Total entrepreneurial activity in the UK increased from 5.4% to 6.4% in 2003. This pattern was generally replicated across the whole of the UK, with all regions experiencing an increase in TEA, except the East of England where it fell from 6.5% to 5.5%.

GEM 2003 is based on larger regional samples across the country, with some regions, notably the East Midlands, the South West, the West Midlands and Northern Ireland providing additional funding, to allow larger regional samples to be taken[18]. This was in addition to the integration of the Scottish and Welsh data. Because of this, the comparisons of regional levels of entrepreneurship are more reliable in 2003. A cross regional comparison is given in Figure 4.

Figure 4: Total Entrepreneurial Activity, 2002-2003 by UK Region[19]



GEM UK 2002 reported that the London and the South East had the strongest potential for entrepreneurship since there were strong and significant correlations between entrepreneurship and attitudes, as well as job creation potential. Clearly this has translated into higher levels of entrepreneurial activity in both those regions. The third highest expansion in entrepreneurial activity after London and the South East was in Wales.

[18] Average samples in the participating regions were 3,400 (depending on regional demographic profile) and in non-participating regions, 1000.

[19] No ranking is intended here, so the regions are listed alphabetically rather than in order of TEA score.

Attitudes towards entrepreneurship

Table 1 shows the key differences in attitudes towards entrepreneurship between 2001 and 2003 for the whole of the UK.

Table 1 shows the attitudes towards starting a business amongst the GEM UK 2003 sample and compares it with the responses in previous years. What is interesting here is that although the levels of TEA have not yet risen to levels seen in 2001, attitudes towards actually starting a business are generally more positive. For example, substantially more people expect to start a new business, feel that they have the skills to do so, and know an entrepreneur. Business Angel activity has fallen on its 2001 level, as has the number of people involved with start-up activity as part of their work. The number of people owning and managing their own businesses has increased substantially over the period from 8.0% of the whole population in 2001 to 12.7% of the whole population in 2003.

For the first time in 2003 GEM UK asked questions about attitudes towards entrepreneurs themselves. Entrepreneurs, and business support agencies suggest that although attitudes are improving towards entrepreneurship, the culture in the UK is still a major weakness that undermines attempts to drive up overall levels of activity in the country.

The responses to questions about attitudes towards entrepreneurship make interesting reading and are presented in Table 2 and are compared with responses to the same questions in the US and Germany[20].

These comparisons are purely descriptive and should not be interpreted as having a causal link with levels of entrepreneurship in these countries. Indeed, the UK has a higher TEA score in 2003 than Germany, but has lower numbers of people answering 'yes' to questions about entrepreneurship as a good career choice and starting a new business as a high status activity. What is interesting from Table 2 though, is that more people consider starting a new business as a high status activity in the UK than in the US.

There are some considerable regional differences[21] within the UK that should be highlighted here. In particular:

- The region with the highest level of independent start-ups is London with 8.3% of the adult population involved in this activity. The North East has the lowest numbers of people involved in start-up activity at 3.3%.
- Job start-ups are highest in the West Midlands (2.8%) and lowest in the North West (1.6%).
- London is the region with the highest number of owner-manager businesses (14.1%) while the North East has the lowest (9.4%).
- Business Angel activity is highest in London (2.7%) and the South East (2.5%). Northern Ireland (0.9%) and Yorkshire and Humberside (0.5%) have the lowest levels of informal investment activity.
- London has a substantially higher proportion of the regional population expecting to start a business over the next three years (14.9%). The regional population with the second highest number of people expecting to start a business is Wales with 8.1%.
- 34.4% of the population personally know an entrepreneur in London compared to 30.3% in the East of England and 30.1% in Northern Ireland. The region with the fewest people knowing an entrepreneur is the North West (23.5%).
- Respondents in the South East were most positive about start-up opportunities – some 46.5% responded positively to this question, compared to 33.3% in the North East.
- Respondents in the South West were most positive about their entrepreneurial skills. 57.4% of the population felt they had the skills to start a business.
- Fear of failure was lowest in the South West, where only 28.4% of respondents said it would prevent them from starting a business.
- London and the South East had the fewest respondents answering positively to the question "in the UK, do people prefer uniform living standards?" The highest number of "yes" answers to this question was in Northern Ireland, where some 78.2% of the population said that uniform living standards were preferred.

Table 1: Attitudes towards starting up a business (2001-2003)

	2001	2002	2003
I am an independent start-up business	4.6	3.5	5.0
I am involved with start-up activity as part of my job	3.2	1.8	2.2
I am the owner-manager of a business	8.0	10.3	12.7
I have been involved with Business Angel activity in the last 3 years	2.3	1.7	1.6
I expect to start a business in the next 3 years	-	6.2	8.0
I have shut down a business in the past 12 months	-	1.8	2.1
There are good start-up opportunities	18.2	22.3	39.0
I have the skills to start a business	40.2	42.9	54.2
I personally know an entrepreneur	27.0	23.0	29.1
Fear of failure would prevent me from starting a business	30.1	34.0	31.7

Table 2: Attitudes towards entrepreneurship in the UK, the US and Germany

	UK	US	Germany
Most people would prefer everyone to have the same standard of living	70.6	53.8	57.0
Starting a new business is a good career choice	51.2	63.2	54.9
Starting a new business is high status in society	71.0	63.5	72.2
There are lots of stories in the media about people who have started new businesses	56.2	64.1	53.0

[20]These questions were asked across all the participating nations in the GEM 2003 round. Germany and the US, however, are often seen as polar extremes in terms of their economic model, with the Germans representative of a nominal "European" model with an emphasis on fairness (Gerechtigkeit) and equity and the US representative of the "Anglo Saxon" model where inequality is accepted as a necessary part of a dynamic and flexible model.

[21]All regional differences presented here are statistically significant at the 1% or 5% level.

- Attitudes towards entrepreneurship as a career choice were most positive in Northern Ireland, where 58.7% saw it as a good option. This compares to 51% in London and 47.7% in the South East.
- 76.5% of respondents from the North East and 76.8% of respondents from Northern Ireland saw setting up a new business as a high status activity.
- Coverage of entrepreneurship in the media is strongest in Northern Ireland where 61.4% of the population saw the coverage as good.

Summary and expert views

There are a number of points that can be drawn out of this aggregate picture of entrepreneurship in the UK. First, and rather encouragingly, there are strong signs that attitudes towards entrepreneurship in general and setting up a business in particular are increasingly positive and, in most cases, back to the levels seen in 2001. Experts agreed that people's attitudes were becoming more positive about entrepreneurship as a career choice. Although this does not mean that these attitudes always convert into actual business start-ups, the anecdotal evidence that there is more start-up activity on the ground is supported by the data presented here[22]. The key driver, argued one Business Links Chief Executive, is the increasing emphasis that is being placed on networks: "one-to-one discussions are nowhere near as useful as one-to-many networks, and across the country there are more initiatives on the ground to support business networking." Business Links were seen as having a strong role in this, but were self-critical about their lack of focus and depth in their support for start-up and growing businesses.

Second, the number of owner-manager businesses has increased substantially since 2002 and consistently over the three years covered here. This is encouraging as it suggests that the number of sustainable businesses that are emerging through the start-up phase into maturity is increasing. For many experts, the issue of how to grow a business through the regulatory and taxation hurdles that arise at between 18 and 24 months was critical. They argued that the environment for start-ups in the UK is good and has improved over the past five years, helped by the positive economic climate that we have witnessed – "It's easy to set up a business in the UK," said one. But the hard work for business support is to help companies through the growth phase into enduring business propositions with money, legal and managerial advice and networks to build markets. Clearly if there are more owner-manager businesses, this is evidence that the strategies of individual organisations at the coal-face are beginning to work.

Finally, both the proportion of the adult population who are involved in informal investment activity and the proportion of people starting up businesses as part of their current employment have declined. This is arguably a reflection of a wider pattern of declining risk capital and economic uncertainty in the UK and beyond. One venture capitalist argued, "Oh, there's money around – it's just that nobody wants to invest it. It's really tight out there." Similarly, there is less flexibility in the work-place during a downturn for companies to allow their employees the freedom to experiment in a way that might lead to spin-out businesses or intrapreneurship. As the HR director of a FTSE 100 company commented, "innovation, intrapreneurship – they are all about the softer side of people management that allows people to be creative. And what's the first thing to go in a recession? The soft management skills."

[22]There was not scope to triangulate the results from the expert questionnaire and the adult population survey within the context of this report. There is scope for further research within the GEM UK team to match the opinions of UK experts with those of the general population.

what impact do entrepreneurs have?

Policies towards entrepreneurship often take as their base an assumption that there is a causal link between entrepreneurship and higher economic growth and productivity.

Policies towards entrepreneurship often take as their base an assumption that there is a causal link between entrepreneurship and higher economic growth and productivity. Largely this is based on anecdotal rather than statistical evidence. GEM global, for example, over the past five years has found little or no correlation between opportunity entrepreneurship and GDP growth. While there may be a positive correlation between necessity entrepreneurship and GDP growth, this arguably reflects a labour market displacement effect from paid to self-employment (no other work alternatives exist) and not real productivity improvements.

This is not to suggest that entrepreneurship does not have an economic impact. Of far greater importance for the lives of ordinary people are the numbers of jobs that are created by entrepreneurs, whether or not entrepreneurship and job creation leads to greater well-being at a community level and the consequences for social cohesion and inclusion. Clearly the impact that these businesses have is a function of their growth aspirations, the sectors in which they operate and the extent to which they create and disseminate wealth, through their purchasing power or their job creation potential.

Table 3 then, compares the numbers of jobs that are, and will be created by entrepreneurial start-ups and owner-manager businesses.

Table 3: Mean and Median Jobs Created by Entrepreneurial Businesses, 2002-2003

	Start-up Jobs Now		Start-up Jobs in Five Years	
	2002	2003	2002	2003
Mean	6.3	4.2	24.3	13.9
Median	2.0	1.0	5.0	4.0
	Owner-Manager Jobs Now		Owner-Manager Jobs in 5 years	
	2002	2003	2002	2003
Mean	77.0	9.8	217.1	16.0
Median	1.0	1.0	2.0	2.0

At first sight, table 3 appears to be telling us that the average number of jobs created by start-up and entrepreneurial businesses has fallen dramatically over the 12-month period since the 2002 report. Certainly the mean number of jobs created has fallen in both groups. However, the median number of jobs created is a more accurate picture of the number of jobs created since it is not as sensitive to the few companies in the sample that anticipate creating very large numbers of jobs. Looking at this figure, then, the picture is slightly different:

- The median number of jobs created immediately has fallen from 2 to 1 during the past year (a drop of 50%).
- The median number of jobs that start-ups expect to create over the next five years has fallen from 5 to 4 (a drop of 20%).
- The median number of jobs created by owner-manager businesses now and in five years time has remained the same over the period – at 1 and 2 respectively.

What this suggests is that start-up (nascent) businesses have become visibly more circumspect in the numbers of employees that they take on at the outset over the last 12 months, and similarly more circumspect about predicting the number of jobs they will create over a five-year period[23]. When it comes to the more established businesses there is no difference in the median number of jobs created.

If entrepreneurship is to drive the process of wealth creation, then the entrepreneurial businesses themselves must be generating sufficient turnover to do this. Table 4 looks at the mean and median turnover of start-up and owner-manager businesses and breaks turnover up into percentiles, so that the distribution can be examined more closely.

Table 4: Mean and Median Annual Turnover of Start-up and Owner-manager Businesses, 2003

	Start-ups (£)	Owner-managers (£)
Mean Turnover	112,889	333,163
Median	30,000	39,319
Percentiles		
10	4,000	7,000
20	10,000	14,750
30	15,901	20,000
40	25,000	26,984
50	30,000	39,319
60	41,000	50,000
70	70,000	96,000
80	140,000	150,000
90	312,150	400,000

Table 4 demonstrates that 60% of entrepreneurial businesses are turning over substantial amounts of money, and, although this could not in anyway be equated to household income, this does suggest that they have some wealth creation capacity. The top 20% of entrepreneurial businesses have six figure turnovers.

The sectors in which entrepreneurial businesses are found, provides a picture of which are the most entrepreneurial overall. This is represented in Figure 5 that shows the distribution[24] of TEA at a 1-digit sectoral level[25] .

Figure 5: Distribution of TEA by 1-digit Sector

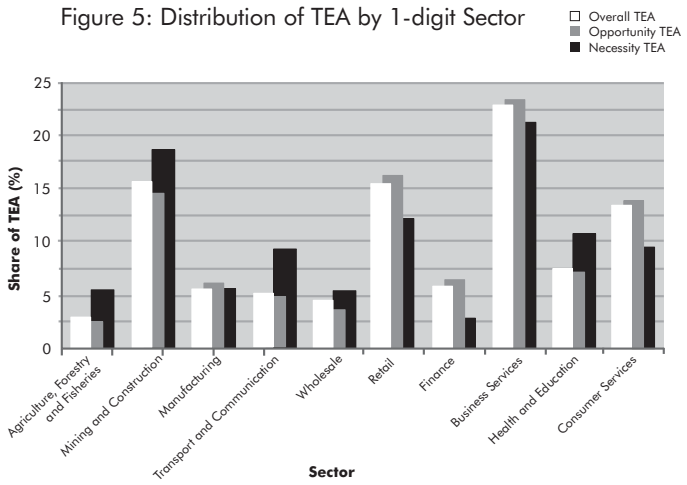


Figure 5 shows quite clearly that the majority of businesses, both in terms of overall levels of TEA and in terms of opportunity and necessity TEA are in business services. The sector with the smallest share of overall TEA is Agriculture, Forestry and Fishing. In this sector, necessity entrepreneurship exceeds opportunity entrepreneurship. This is also the case in the Health and Education, Transport and Communications, Mining and Construction and Wholesale sectors.

[23] Further research on changes in job creation by specific size bands over time would deepen the understanding of the job creation phenomenon but, for reasons of brevity, was not included in this report.

[24] The Figure represents the distributions of TEA (i.e. the percentage of TEA taken up by each sector) hence the cumulative total of opportunity and necessity TEA will not be the same as TEA.

[25] NB: GEM global usually uses four sectoral categories: extraction, transformation, business services and consumer services. However, the larger sample size means that more detail at the 1 digit level can be given in this report.

Business churn, in other words, the sum of the numbers of businesses that are started and closed, is a measure of the dynamism of the market for entrepreneurship. If business churn is increasing, it would be an indicator that the environment for entrepreneurship is buoyant. If the net effect on numbers of businesses is positive, then there are more start-ups than there are failures – hence entrepreneurial businesses are having a positive impact on the number of businesses. The rate of business churn and the net effect on total business stock at a regional level is given in Table 5 for 2002 and 2003.

Business churn has increased in all regions of the UK and the net effect on business stock has also risen in all areas except the East Midlands. The fall in the East Midlands is due to both a higher start-up and a higher closure rate. Business closures have risen in all regions except the North East, the West Midlands and Yorkshire and Humberside, whilst business start-ups in all regions have gone up by a substantial amount everywhere. Overall in the UK the net effect on stock of business start-ups is a positive one.

Table 5: Churn and Business Stock at a Regional Level, 2002-2003

	Start-ups (1) (independent + job related start up)		**Closures (2)**		**Total Churn** (= 1+2)		**Net Effect on Stock** (= 1+2)	
	2002	2003	2002	2003	2002	2003	2002	2003
East Midlands	3.6	5.5	1.0	3.5	4.6	9.0	2.6	2.0
East	4.8	7.3	1.8	2.6	6.6	9.9	3.0	4.7
London	6.2	10.7	2.0	2.1	8.2	12.8	4.2	8.6
North East	2.9	5.0	1.2	0.5	4.1	5.8	1.7	4.8
North West	2.8	5.9	1.7	2.1	4.5	8.0	1.1	3.8
Northern Ireland	3.0	6.6	0.9	1.3	3.9	7.9	2.1	5.3
Scotland	2.9	6.0	1.4	1.3	4.3	7.3	1.5	4.7
South East	4.2	7.8	2.0	2.4	6.2	10.2	2.2	5.4
South West	3.4	7.6	1.8	2.4	5.2	10.0	1.6	5.2
Wales	3.2	7.6	1.3	2.5	4.5	10.1	2.2	5.1
West Midlands	3.7	7.5	2.4	1.7	6.1	9.2	1.3	5.8
Yorks & Humber	3.1	5.9	2.6	1.9	5.7	7.8	0.5	4.0
Average	3.7	6.9	1.7	2.1	5.3	9.3	2.0	5.1

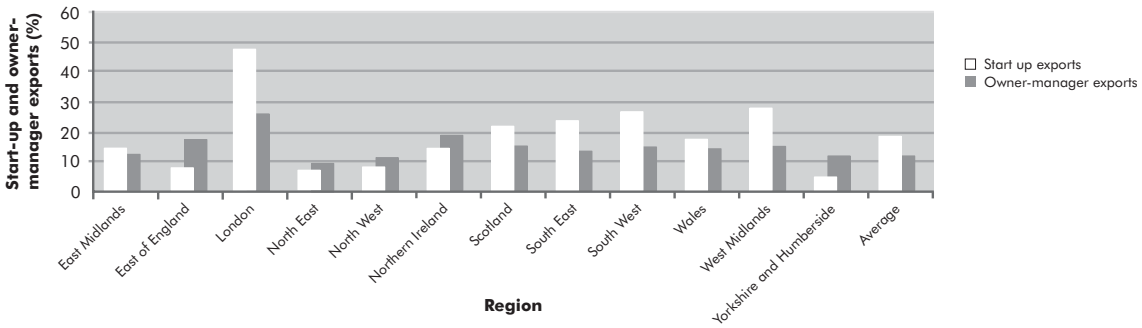
Finally for this section, it is interesting as well to look at export orientation of entrepreneurial businesses as this gives an indication, albeit a fairly crude one, of their growth aspirations. GEM looks at the percentage of businesses that have substantial markets overseas. A "substantial market" for an entrepreneurial business is considered to be greater than 25% of customers based abroad. Some interesting highlights come out of the data:

- 20.6% of female businesses and 21.2% of male business have more than 25% of their customers overseas. 14% of female owner-managed businesses have more than 25% of their customers abroad compared to 16.1% of male owner-manager businesses.
- 36.9%% of technology start-ups have more than 25% of their customers living abroad, compared to 18.9% of low technology start-ups. This result is significant at the 5% level.

The findings at a regional level are presented in Figure 6 below.

Figure 6 shows that the export orientation of London's entrepreneurial businesses is higher than the other regions of the UK. This is true of start-ups where some 49.0% are export oriented and for owner-manager businesses where some 26% are export oriented.
The West Midlands has the second highest level of export oriented start-ups, (26.8%) and the East of England has the second highest level of export oriented owner-manager businesses (26.0%). Northern Ireland has the third highest level of owner-manager businesses with strong export markets (19.5%) and the South
West the third highest number of export oriented start-ups (25.8%).

Figure 6: Export Orientation of Entrepreneurial Businesses in the UK[26]



[26] All comparisons for start-ups are significant at the 5% level.

Summary and Expert Views

The data presented above suggests that entrepreneurial businesses are having an impact on the environment in which they operate:

- The median number of jobs created by owner-manager businesses has not changed over the past year, although the number of jobs created and the job creation potential of start-ups over a five year period has fallen. This may reflect simply the uncertainties inherent to the market at the moment rather than any long term trend towards lower levels of job creation. Since entrepreneurs tend to be over optimistic at the initial stages of development, it is likely that in a positive economic climate they will anticipate creating more, rather than fewer jobs. The fact that median levels of job creation amongst owner manager businesses has remained the same supports the view that the numbers of jobs created over the longer term by entrepreneurs is relatively stable.
- Turnover does not necessarily lead directly to income for the individual entrepreneur, but it is an indicator of the amount of wealth that is being created in the economy. 60% of entrepreneurial businesses turnover substantially more than the average household income of £23,000 and this suggests that they are key sources of wealth generation.
- Both the overall level of business churn and the net impact on business stock has risen in the UK. This suggests that the climate for entrepreneurship has become more dynamic. Although this is partly a function of increased levels of business closures, the fact that there are also higher numbers of start-ups suggests that these "failures" are not translating into a cultural resistance to entrepreneurship.
- The majority of businesses in the UK are still not sufficiently export oriented. There is evidence that levels of export orientation have improved since 2002, but, in the words of one expert: "We simply don't think big in this country. We can't persuade our businesses that they should look abroad as well."

The evidence suggests that the entrepreneurial market is buoyant and that this is having a positive impact on wealth creation, jobs and exports. Experts were generally positive about the potential for real economic, and social benefits that encouraging entrepreneurship could bring. However, there were also concerns raised about the extent to which entrepreneurial behaviours are encouraged, especially within the school system[27], and it was felt that without this, the potential would never be fully realised. In the words of one financier: "Until we change the way kids are taught about businesses and enterprise in schools, we will never get anywhere." Another commented: "On the plus side, there is a real commitment amongst people, business support and government to move on the enterprise agenda. But this needs to be supported in schools as well."

[27] The Government Action Plan following the Davies Review of enterprise education has announced that this is a priority and set up a scheme to promote enterprise education in schools. This has yet to be felt by entrepreneurship practitioners, hence the feedback reported here.

who are the entrepreneurs?[28]

Entrepreneurs across the UK come from all types of demographic backgrounds. Male and female entrepreneurship differs, both in its level and in the type of activities.

Entrepreneurs across the UK come from all types of demographic backgrounds[29]. For example, as Table 6 shows, male and female entrepreneurship differs, both in its level and in the type of activities.

Table 6: A breakdown of male and female entrepreneurship (2002, 2003)

	TEA		Opportunity TEA (2003)	Necessity TEA (2003)
	2002	2003		
Male	7.4	8.9	7.5	1.5
Female	3.3	3.8	3.2	0.5

The gap between male and female entrepreneurship has widened slightly. In 2002, female entrepreneurship was 45.0% of male entrepreneurship. By 2003 the number of female businesses was 42.7% of male businesses, due largely to a proportionately higher TEA rate increase amongst men[30]. However, female necessity entrepreneurship is 16% of all female entrepreneurship while the equivalent figure for men is 20%.

Similarly more complex pictures emerge if entrepreneurship by age is examined. This is illustrated in Figure 7.

Levels of overall entrepreneurship are highest amongst the 25-34 year old age grouping with a TEA rate of 8.1%. This is in contrast to 2002 when the group with the highest level of entrepreneurship was the 35-44 age group which had a TEA rate of 6.8%. Entrepreneurship across all age groupings has increased, but the largest increase is in the 25-34 age group.

Education continues to be an important driver of entrepreneurship, although interestingly, entrepreneurship amongst those with degrees fell between 2002 and 2003. This was accounted for by a decrease in both opportunity and necessity entrepreneurship. Levels of entrepreneurship by educational background are illustrated in Figure 8.

Table 7 illustrates the changes in levels of entrepreneurship between 2002 and 2003 according to levels of income.

Table 7: TEA by income thirds: 2002-2003

	TEA 2002	TEA 2003
Lowest income third	2.1	3.0
Middle income third	4.5	5.3
Upper income third	6.9	8.1

Entrepreneurship has risen in the highest income group and, as in 2002, has the highest level of entrepreneurship. Entrepreneurship is still lowest in the lowest income grouping.

[28] For the sake of brevity, the comparisons are kept at a national level. Regional comparisons will be given in separate regional summaries accompanying this report.

[29] Whether male or female, people in the UK sample taken as a whole are more likely to be entrepreneurs if they are white, on high incomes and/or educated. The picture of a "typical" entrepreneur, however, is changing with more spread between the different demographic groupings.

Finally, Figure 9 shows the level of TEA by employment status. The only two categories with higher than UK average levels of TEA are those in either part time or full time employment. Those who are employed part time are more likely to be entrepreneurs than those who work full time. It is worthy of note, however, that just 0.9% of the student population is involved in some form of entrepreneurial activity. This compares to 1.3% of the retired or disabled population, 2.1% of the homemaker population and 2.5% of the unemployed population.

Summary and expert views

The material presented in this section highlights several points:

- Women are still less likely to be entrepreneurs than men. However, female entrepreneurship is proportionately more likely to be opportunity entrepreneurship than necessity entrepreneurship.
- The age profile of UK entrepreneurs has changed between 2002 and 2003. Although TEA has increased across all ages, the greatest increase was in the 25-34 year old age group.
- Those in work, either full time or part time, are far more likely to set up businesses than other employment groups. Less than 1% of students are engaged in entrepreneurial activity.

The profile of entrepreneurs found in the data reflects the concerns of entrepreneurs who argued that entrepreneurship is still relatively thin on the ground amongst some socially excluded groups – particularly women, those on low incomes and those who are unemployed. While much has been done to encourage greater levels of entrepreneurship amongst such groups, for example through the New Deal, the Phoenix Fund and through Enterprise Zone initiatives, it was argued by experts that the visibly lower numbers deciding to set up their own businesses was a barrier to using entrepreneurship as a driver of employment[31].

Our experts also viewed education and training amongst young people as critical in developing a more positive approach to entrepreneurship. Increasing business exposure and promoting enterprise as a career alternative in a clear and consistent way across the country was regarded by many as central and, while welcoming the Davies Report prioritising this, argued that the exposure was still too little too late. "It should be part of the mainstream – five days a year would just about do, but not five days in a whole school career."

Figure 7: TEA by age groupings

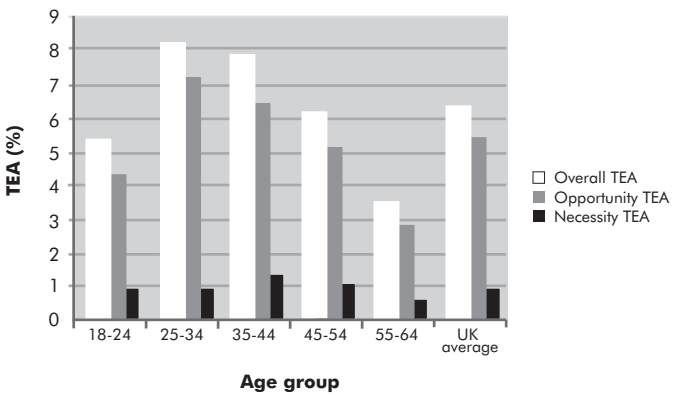


Figure 8: TEA by educational background over time

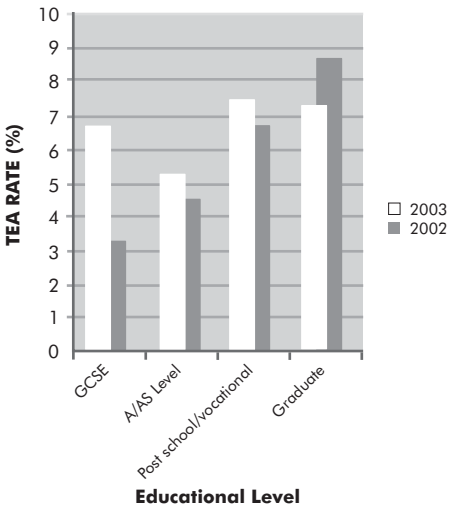
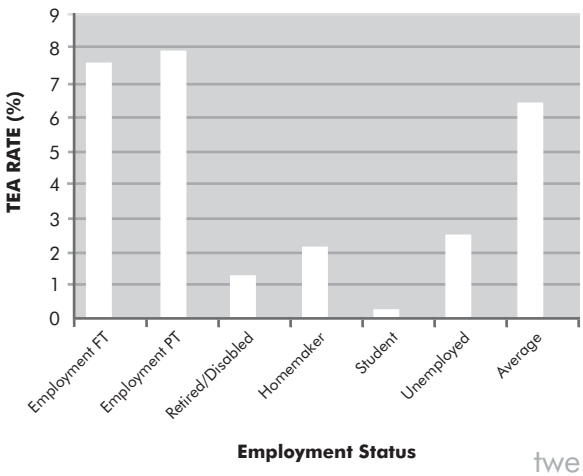


Figure 9: TEA by employment status



[30] The absolute increase was identical, at 0.5% of all entrepreneurship, but as male entrepreneurship was higher than female entrepreneurship to start with, the proportionate increase is higher.

[31] NB: some of the changes in levels of entrepreneurship may be attributable to the general economic climate.

the regional dimension: entrepreneurial potential

Regional policy, and a regional focus for small business and entrepreneurship support are increasingly important in the UK

Regional policy, and a regional focus for small business and entrepreneurship support are increasingly important in the UK. All English regions, the Welsh Assembly and the Welsh Development Agency, Scottish Enterprise and the Scottish Executive and Invest Northern Ireland have a strong focus on building their regions through enterprise and innovation. As was reported earlier in this report, this is beginning to bear fruit in terms of increased levels of entrepreneurship in most regions of the UK in 2003.

Figure 10 looks at necessity and opportunity TEA by region in 2003.

The figure shows that, across all UK regions, opportunity entrepreneurship is significantly higher than necessity entrepreneurship. Opportunity entrepreneurship has increased in all UK regions, except the East of England and the South West since 2002. In the East of England it has fallen from 5.1% to 4% while in the South West it has stayed the same at 5.6%.

Regions and Job Creation

There are no statistically significant differences at a regional level in the numbers of jobs created by entrepreneurial firms. That said, there are a number of points in relation to job creation that are worth bringing out:

- Start-ups in the East Midlands anticipate creating, on average, 13 new jobs, while in Yorkshire and Humberside start-ups anticipate creating an average of one new job. Over a five year period, the range varies from 4 in the East of England to 45 in London and Yorkshire and Humberside.
- Median job creation now for start-up business, however, varies little between regions and lies between 0 and 2 new jobs. Median job creation in five years varies between 2 jobs (Yorkshire and Humberside) and 10 (the North West).
- Owner-manager businesses anticipate creating 33 jobs now in London and 5 jobs in Northern Ireland. Job creation over a five year period is highest in London (39) and lowest in the East of England (4). Again, there is little variation between regions in the median number of jobs created either now or in five years, with the range being from 1-2 jobs now and 1-3 jobs in five years time.

Regions and Informal Investment

A region arguably has potential if it has a strong and vibrant informal investment climate to support entrepreneurial and growth businesses. This can range from immediate, and relatively small, cash injections from friends and family, to larger informal investments from Business Angels, depending on the type of business. GEM measures all informal investment activity and therefore captures the full range of investments.

The results at a regional level are captured in Figure 11 and compares informal investment between 2002 and 2003.

Figure 11 presents a mixed picture. The overall level of informal investment activity fell slightly in the UK between 2002 and 2003 from 1.7% to 1.6%. Informal investment activity has dropped in six regions: the East Midlands (0.6% fewer of all respondents), London (0.3%), Northern Ireland (0.4%), the South West (0.3%), the West Midlands (0.5%) and Yorkshire and Humberside (0.9%). Substantial increases were seen in Wales, Scotland and the South East[32].

One more aspect of the general activity is worth including here. Independent and job related start-ups give an indication of just how buoyant (at a regional level) entrepreneurial activity is, while the percentage of owner-manager businesses in the survey is a good proxy for the number of sustainable businesses that are created through entrepreneurship. The data for 2003 are shown in Figure 12.

Owner-manager businesses clearly dominate the entrepreneurial business scene, with the highest number respondents answering that they were the owner-manager of a business being in the South East (15.3%) and the South West (14.7%). Wales saw a sizeable increase in the number of owner-managed businesses between 2002 and 2003 from 10% to 13.4%. The number of owner-manager businesses fell in the East of England from 14.2% to 13.4%.

Figure 10: Necessity and Opportunity TEA by Region

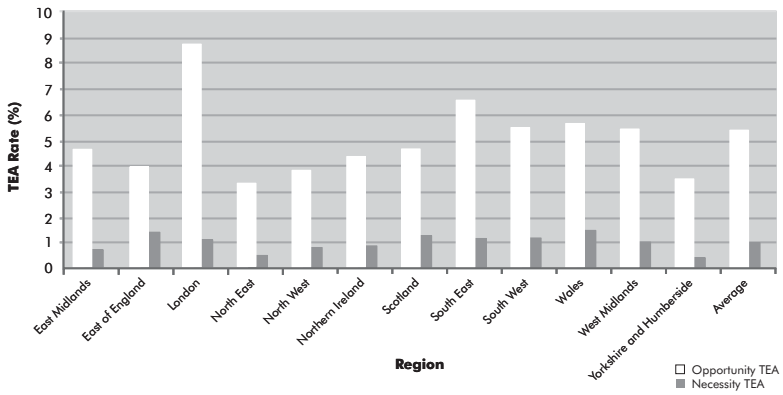


Figure 11: Regional Levels of Informal Investment

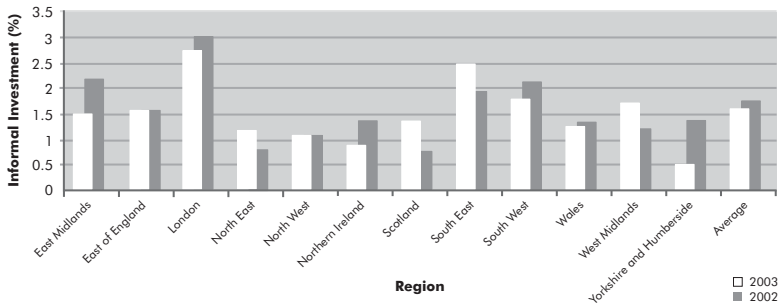
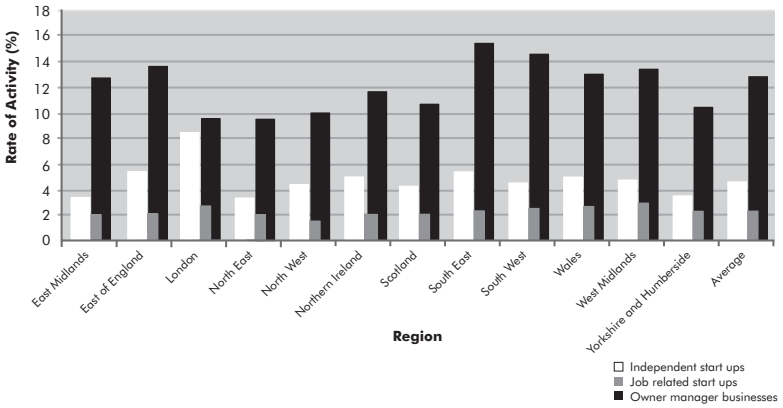


Figure 12: Comparison of Types of Entrepreneurial Businesses, UK Regions, 2003



[32] Since the fall in the whole UK was relatively small, and since the sample sizes are different in each of these regions, no reliable conclusions about regional levels of informal investment can be inferred.

Regional cultures

Comparisons at a regional level are interesting on a descriptive level, but it is more useful for regional policy makers to understand why the culture of the region leads to the levels of entrepreneurial activity seen. This is illustrated in Table 9 which shows the responses to the GEM attitudinal questions. All results are significant at the 1% level except fear of failure, which is significant at the 10% level.

Table 9: Entrepreneurial attitudes: UK regions compared

	Know entrepreneur	Good start-up opps	Have skills	Fear failure	Prefer uniform living stds	Entrepreneur is a good career	Entrepreneur has high status	Media coverage good
East Midlands	28.3	37.3	53.3	30.4	69.9	48.4	70.6	55.7
East of England	30.3	42.7	56.3	30.5	70.6	47.8	67.8	55.7
London	34.4	38.1	56.1	32.4	66.5	51.0	71.3	51.5
North East	23.5	33.3	50.0	33.8	75.4	53.5	76.5	60.2
North West	23.5	34.1	49.2	31.1	72.7	54.4	70.4	56.3
Northern Ireland	30.1	35.7	47.2	38.1	78.2	58.7	76.8	61.4
Scotland	30.0	39.3	53.2	30.3	74.0	50.3	73.4	61.1
South East	30.4	46.5	56.7	31.5	66.8	47.7	64.0	52.3
South West	29.9	43.2	57.4	28.4	70.5	51.1	69.7	56.2
Wales	27.7	37.0	53.4	32.3	76.0	52.0	73.8	57.0
West Midlands	30.1	36.5	55.8	32.0	71.5	55.5	72.4	57.6
Yorkshire and Humberside	24.4	34.4	52.0	35.0	68.3	51.0	75.9	60.1

Several points can be brought out of this table:

- There are significant differences in attitudes towards entrepreneurship between regions. For example, the number of respondents knowing an entrepreneur in Yorkshire and Humberside is 10% lower than in London.
- The South East is the region where most respondents saw good start-up opportunities (46.5%). This is more than 13% higher than the North East, where a comparatively low number of respondents saw good start-up opportunities (33.3%).
- Respondents in the South West are most likely to think that they have the skills to start a business (57.4%) and this is over 10% higher than Northern Ireland where the analogous figure is 47.2%).
- Respondents are more likely to prefer uniform living standards outside of London and the South East.
- Northern Ireland respondents were the most positive about entrepreneurship as a career choice (58.7%) and its status in society (73.4% saw it as high status).

Summary and expert views

The material presented here presents some interesting general conclusions:

- Overall the regional picture for entrepreneurship in the UK is improving. TEA rates in all areas (except the East of England) have gone up over the last year, and much of this is accounted for by a rise in opportunity entrepreneurship.
- The differences in median levels of job creation by entrepreneurial businesses are not significant at a regional level.
- The level of Business Angel activity at a regional level has varied with some regions seeing a net decline and others seeing a net increase. The reduction is part of a wider pattern of reduced informal and formal investment in firms across the UK.
- There are significant differences between regions in terms of attitudes towards entrepreneurship.

The growth in levels of entrepreneurship at a regional level suggests that measures to promote entrepreneurship may be starting to have an effect, at the very least in terms of creating an entrepreneurial buzz across the UK. Experts too suggested that attitudes were changing towards entrepreneurship with people increasingly more positive about it as a career option and as something to admire.

In the view of experts, however, there is still some way to go. One major difficulty that many pointed out was not so much that there is a paucity of businesses, or even a paucity of capital. Rather, the issue is that people with skills to set up a business are not doing it, and those with business ideas, irrespective of their skills level, are not investor ready and hence, often cannot obtain the necessary finance to grow. Frequently, as was highlighted above, the role of the education system in promoting entrepreneurship and business across the UK was criticized. It was felt that until schools and universities systematically promoted business-like thinking, the progress of entrepreneurship would be limited.

Experts did feel that much was being done by the Regional Development Agencies and devolved administrations to address these issues, through cluster policies, through education outreach programmes and through the regional venture capital funds and regional Business Angel networks. The combined role of access to finance and mentoring at a regional level was seen as essential. However, several interviewees complained of a "myriad" of different initiatives, and confusion still over the separated role of Business Links and the Learning and Skills Councils in England in particular. They argued that they needed to be addressed with some urgency at a regional and national level.

focus on inclusion

Specific focus has been on three groups of people: women, ethnic minorities and low income groups (or those in disadvantaged areas).

All Regional Development Agencies, the British Chamber of Commerce, Business Links, the Learning and Skills Councils, the DTI, the Small Business Service and the Treasury amongst many realise the importance of promoting entrepreneurship in "under-represented" groups, as a mechanism for increasing overall levels of entrepreneurial activity in the UK. Specific focus has been on three groups of people: women, ethnic minorities and low income groups (or those in disadvantaged areas).

Female entrepreneurship

Attitudes and TEA

As Table 10 shows, women are only half as likely to expect to start a business compared to men. They are around a quarter less likely to see good opportunities and two-thirds as likely to think that they have the skills to start a business. They are around a third less likely to know an entrepreneur and considerably more likely to fear failure.

Table 10: Attitudes towards entrepreneurship by gender (2003)[33]

	Men (%)	Women (%)
I expect to start a business in the next 3 years	10.5	5.1
There are good opportunities to start a business	44.0	33.1
I have the skills to start a business	63.2	42.9
I know an entrepreneur	33.6	23.9
Fear of failure would prevent me from starting up	29.8	33.9
People prefer uniform living standards	65.9	75.9
Setting up a business is a good career choice	51.3	51.1
Entrepreneurs have a high status	71.2	70.7
The media coverage of entrepreneurship is positive	57.7	54.4

Fairly understandably, these negative attitudes towards entrepreneurship translate into lower levels of business start-ups and owner-manager businesses amongst women than amongst men. This is illustrated at a regional level in Figure 13.

Figure 13: Breakdown of Male and Female Entrepreneurship across the UK Regions

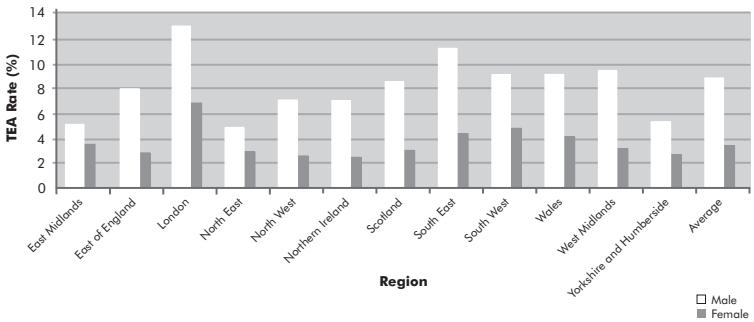


Figure 13 demonstrates the extent of the persistent gap between male and female entrepreneurship at a regional level. Female entrepreneurship in the UK as a whole has increased between 2002 and 2003 from 3.3% to 3.5%. However, as was pointed out above, the gap has actually widened because, proportionately, the level of male entrepreneurship has gone up more.

[33] The results for start-ups, job start-ups and owner-manager businesses, and for fear of failure, skills, knowing an entrepreneur and seeing opportunities are significant at the 1% level, as are the results on media coverage and uniform living standards.

At a regional level, there are some interesting details behind this overall picture. For example, in the East of England, female entrepreneurship has increased considerably in the 12 month period from 1.8% to 2.7%. Although this still represents the widest gap in the UK, the change between 2002 and 2003 is an improvement 18 percentage points (from 13% of male entrepreneurship to 33% of male entrepreneurship). The other areas where there have been major improvements in female entrepreneurship are the North East (which has the best male:female entrepreneurship ratio in the UK at 61%) and the East Midlands (which has the second best ratio at 52%). Female entrepreneurship has increased substantially in Northern Ireland and in the South East, so although the gap is still wide, there is evidence that female entrepreneurship is becoming more widespread.

Male and female entrepreneurial activity compared

There are a number of specific points from the data that should be brought out here:

- Women are just under half as likely to be setting up a business as men (3.1% compared to 6.9%), a third as likely to be involved with job related start-up activity (1.1% compared to 3.3%) and just under half as likely to be owner-managers of businesses (8.0% compared to 17.2%).
- Women are under half as likely to be informal investors compared with their male counterparts. 1% of women make informal investments compared with 2.2% of the male population.
- Women are equally positive about entrepreneurship as a career choice and as a high status activity as men.
- As noted above, women are proportionately less likely to be involved in necessity entrepreneurship.
- Female business start-ups and owner businesses are less likely to be export oriented. 56.2% of all male start-ups have no overseas customers compared to 58.2% of all female businesses. This is illustrated in Table 11.

Table 11: Export orientation of Male and Female Entrepreneurial businesses.

Start-up exports				
	No exports	1-24% of customers overseas	25-74% of customers overseas	75-100% of customers overseas
Male	56.2	23.8	12.7	7.3
Female	58.3	24.8	11.2	5.8
Owner manager exports				
	No exports	1-24% of customers overseas	25-74% of customers overseas	75-100% of customers overseas
Male	81.9	5.0	6.5	5.2
Female	84.1	3.1	5.8	3.5

[34] Results for start-up and owner-manager businesses significant at the 1% level

- The only area where there is an exception is in the 1-24% of customers abroad category for female start-up businesses. Here, women have 24.8% of their customers abroad compared to 23.8% of male businesses.
- 48% of female start-ups and 41.9% of female owner-manager businesses are in the consumer services sector. This is the largest single sector for manager businesses and women are more likely than men to be in this sector for both start-ups and owner-manager businesses.

There is evidence from the GEM UK 2003 data that female businesses have greater propensity to innovate. This is illustrated in Table 12 showing the "innovativeness", albeit in very general terms, of male and female businesses.

Table 12 illustrates quite clearly that female businesses, whether start-ups or the more established owner-manager businesses, are more likely to be providing a new product or service, have fewer competitors and are more likely to be using technology in the product or service than their male counterparts. All of these results are significant at the 1% level. Further, once female businesses become established, they are more likely to create between 6 and 20 jobs than their male counterparts, both immediately and in the future (12.2% of female businesses are in this category compared to just 10.5% of male businesses).

Financing female businesses

In the GEM UK 2003 survey, 57% of women said that lack of finance would prevent them from starting a business, compared to 53% of men[36]. This suggests that one way of increasing female entrepreneurship would be through greater access to finance. Female businesses require, like their male counterparts, around £20,000 in start-up money[37]. Female entrepreneurs will, on average, put in £10,106 of their own money at this stage, while men will put in around £13,500, on average of their own money. This leaves an initial start-up funding gap for male businesses of £6,500 and female businesses of £9,894.

Table 12: Innovativeness of male and female entrepreneurial businesses[35]

	Product newness to customers	Number of competitors	Technology not available one year ago
Start-ups			
Male	New to some: 13.9 New to all: 26.1	Many: 37.4 Some: 47.7	11.6
Female	New to some: 18.8 New to all: 27.5	Many: 27.1 Some: 53.2	12.4
Owner-manager businesses			
Male	New to some: 8.7 New to all: 21.3	Many: 53.0 Some: 41.0 None: 6.0	10.0
Female	New to some: 9.5 New to all: 22.2	Many: 41.1 Some: 30.0 None: 9.8	10.3

[35]The results on newness to customers and competition are significant at the 10% level. These differences are small and interesting, but further research would need to be conducted on these specific areas to establish the reliability of the findings.

[36]Unless otherwise stated, all results are significant at the 1% level.

[37]Median finance requirements for start-up businesses.

- 27% of women compared to 17% of men will obtain this money from their close family.
- 36% of women compared to 21% of men will obtain this finance from government sources.
- The majority of start-up finance comes from banking sources (43% for women and 46% for men), but there is no statistically significant difference between male and female usage of bank finance.
- Female Business Angels will invest a median amount of £20,000 into start-up businesses, compared to £17,142 by male Business Angels.

This only tells part of the story, however, and Table 13 examines the sources of finance that men and women try to access at the start-up phase, and looks at the rate of failure of each.

A number of points can be brought out of the data presented so far on female financing:

Table 13: Sources of Finance for Start-up Businesses: male and female business success rate compared

	Attempted Source of Finance (%)		Failure Rate (%)	
	Female	Male	Female	Male
Friends and Family [38]	19.0	19.0	10.52	15.79
Individual Investor	6.0	7.0	50.0	42.86
Unsecured Loan	12.0	19.0	25.0	31.58
Overdraft	29.0	37.0	17.24	21.62
Non-bank Unsecured Loan	4.0	6.0	50.0	33.33
Secured Loan	14.0	17.0	21.43	23.53
Equity	3.0	5.0	33.00	60.00

- Women put less into their businesses from their own resources than men.
- Women are more likely to obtain finance from friends and family and government sources.
- Women are less likely to apply for external finance, but when they do, are more likely to succeed with all funding sources, except individual investors (informal investors) and non-bank unsecured loans.

Summary and Expert views

There are a number of standard barriers to entry which are reflected in the GEM data and which experts reported on. Specifically, access to finance was reported to be a real issue, with women likely to be asked by financiers about their partner's income before they are asked about their business proposition. The nature of business support varies at a regional level and is not always geared towards women's businesses. Issues of work-life balance were cited as other major barriers, as was the transition from benefit to self employment.

[38] The differences between male and female attempts to obtain friends and family and individual investor finance are not statistically significant. Non-bank unsecured loans and equity finance are significant at the 5% level. Secured loan finance is significant at the 10% level.

All this means that women, in the words of one interviewee, still feel "unusual" if they are entrepreneurs. As a consequence they perceive "invisible barriers" that manifest themselves in attitudes towards them, and often feel less valued than their male counterparts.

Female entrepreneurs, as this research has shown, are more likely to be innovative and proportionately less likely to be necessity entrepreneurs. They are also more likely to succeed if they access external finance, including equity. This reinforces the view of experts that female entrepreneurs tend to be more cautious in growing their businesses and have more robust propositions once they approach investors. Addressing the self-perception difficulties evident from the expert and the adult population data presented here should be a policy priority, if their role as drivers of overall entrepreneurial activity in the UK is to be strengthened. Women's networks are an effective way of doing this in the view of the GEM UK 2003 experts.

Ethnic minority entrepreneurship

Table 14 shows the levels of start-up and entrepreneurial activity by ethnic grouping[39].

Two groups emerge from this table as being particularly entrepreneurial, both in terms of starting up and running businesses and in terms of supporting businesses through informal investment: individuals who are Black or whose ethnic origin is the Indian sub-continent (including Pakistan, Bangladesh and India).

This is reflected in the positive attitudes towards entrepreneurship that these groups have. Indians from the Indian sub-continent are three times as likely to expect to start a business than their White British counterparts and Black people 3 1/3 times more likely. Asian and Black people are far more likely to know an entrepreneur than White people.

This translates into Total Entrepreneurial Activity, as illustrated in Figure 14.

All ethnic minority groupings, with the exception of the mixed ethnic origin group, are significantly more entrepreneurial than their White British counterparts and, indeed, exhibit higher levels of total entrepreneurial activity than the UK average[40]. The most entrepreneurial groupings are the combined Bangladeshi, Pakistani and Indian group, other ethnic minorities and Blacks. Other White' is also extremely high and this would include those of European/Mediterranean origin

Mixed ethnic origin entrepreneurs are the most technologically oriented at the start-up stage and once they become more established, owner-manager businesses, as illustrated in Figure 15. Similarly, Black entrepreneurs are more than twice as likely to use new technology in their service or product than their White counterparts once they become owner-managers (25% use technology that was not available a year ago compared to 12% amongst the White population).

A more complete picture of the relative innovativeness of each of the ethnic minority groupings is given in Figure 16 and shows the combined percentage of respondents answering that their product or service was new to some or all customers:

- The ethnic minority groups with fewest start-ups providing new products to the market are those from the Indian sub-continent and White Irish (47.4% and 40% respectively compared to an average of 48.2%).
- Entrepreneurs from mixed ethnic backgrounds are nearly a third more likely to be involved in a business that is providing a good or a service that is new to some or all customers, as are "Other ethnic minority" entrepreneurs (66.6% and 66.7% respectively). Blacks are also 6.4% more likely to be innovative than the average.

[39] For the purposes of this report, "Black" includes Black Africans and Black Caribbeans. The limitations of this approach are clear, but was necessary for statistical purposes to guarantee the reliability of the findings.

[40] The GEM UK sample of 22,000 adults was stratified to be representative of the ethnic make up of the whole UK economy. As the sample is so large, the results here can be taken to be a robust representation of levels of ethnic minority entrepreneurship with a low margin of error.

Table 14: Levels of start-up activity by ethnic grouping

	Autonomous Start-up (%)	Job-related start-up (%)	Owner-manager (%)	Business Angel (%)
White British	4.0	2.0	11.0	1.0
White Irish	4.0	2.0	12.0	1.0
Other White	6.0	3.0	14.0	2.0
Mixed	7.0	4.0	12.0	3.0
Indian sub continent	8.0	3.0	11.0	3.0
Other Asian	6.0	2.0	12.0	3.0
Black	9.0	4.0	9.0	5.0
Other	7.0	4.0	13.0	6.0
Average	4.0	2.0	11.0	1.6

Table 15: Attitudes towards entrepreneurship by ethnic grouping

	Expect to start (%)	See good opportunity (%)	Have skills (%)	Know entre-preneur (%)	Fear failure (%)
White British	6	36	51	25	30
White Irish	5	35	47	30	37
Other White	1	38	56	33	28
Mixed	17	36	66	39	27
Indian sub continent	18	37	54	33	39
Other Asian	14	39	52	39	36
Black	20	41	55	41	28
Other	9	39	51	30	27
Average	8.0	39.0	54.2	29.1	31.7

Figure 14: Total entrepreneurial activity by ethnic grouping

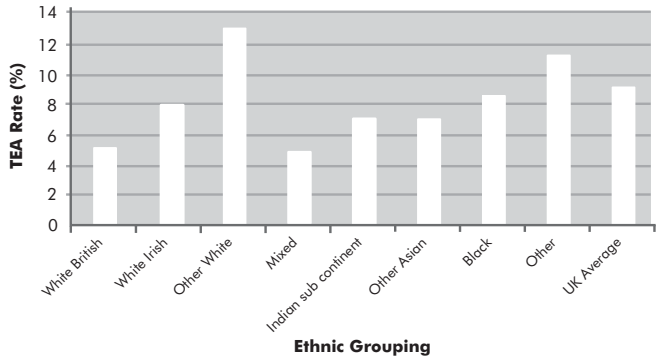


Figure 15: Newness of technology by ethnic grouping

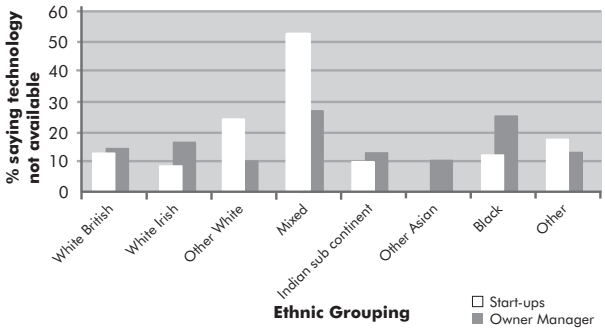
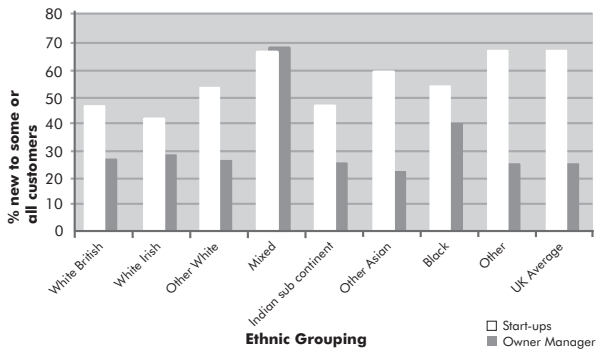


Figure 16: Newness of product or service to some or all customers



Finally, it is worth looking at attitudes to finance amongst ethnic minority respondents to the question: "Would lack of finance prevent you from starting a business?" The frequencies are given in Table16.

Table 16: Lack of finance would prevent me starting a business

Ethnic Grouping	Lack of finance would prevent start-up
White British	75
White Irish	69
Other White	79
Mixed	74
Indian sub continent	85
Other Asian	91
Black	64
Other	75
Average	74

The ethnic groupings that are most likely to be prevented from starting a business because of a lack of finance are those from the Indian Sub-Continent and the Other Asian grouping. Black people appear less likely to let lack of finance work as a barrier to start up.

Summary and expert views

Indian, Asian and Black communities are more entrepreneurial than any other ethnic group in the UK[41]. They are three times more likely to be involved with some form of informal investment activity than their White counterparts, and their levels of Total Entrepreneurial Activity are nearly twice as high. They are more likely to know entrepreneurs and to see good opportunities for business start-ups. However, the Asian entrepreneurs are particularly likely to be prevented from starting a business because of lack of finance, but will tend to seek help from their families and friends in the first instance.

This corroborates the analysis of some of our experts who argued that ethnic minority entrepreneurs have strong support networks that are instrumental in providing both finance and mentoring support within their respective communities. Indeed, this limits the growth potential of ethnic minority businesses since many are, in the view of experts, likely to restrict their businesses to their community, rather than attempt to grow it beyond that base. These networks are vital for largely community based businesses, and, as a result, it was argued, moves by support structures to develop these are to be encouraged, but should also look at mechanisms for widening the networks to allow ethnic minority businesses to grow. Experts felt that they needed to promote success and have more role models to enhance the already strong community base.

Entrepreneurship amongst low income groups

Table 17 presents levels of entrepreneurial activity generally amongst the lowest decile in the income distribution and compares it with the levels of activity in the remaining 90% of the distribution. Levels of significance of these results are given in the right hand column of the table.

Table 17 suggests that, individuals on low incomes are less likely to be involved in start-up activity than their counterparts on higher incomes and that their self-perceptions are more negative. Although their fear of failure is no different to their wealthier counterparts, they are more likely to perceive barriers to finance that undermine their attempts to set up a business.

What is interesting about this group of individuals is that they are significantly more likely than those with higher incomes to see entreperneurship as a good career choice and as a high status activity. In other words, the data suggests that low income individuals would like to become entrepreneurs, but are currently prevented from this by self-perception constraints.

[41] The ethnic grouping 'other White' is also high but here there may be less of a perception of 'exclusion' or 'disadvantage'.

Table 17: Levels of entrepreneurship and attitudes by income grouping (%)

	Income Status		
	Rest	**Lowest Decile**	**Significance**
Start-up	4.0	2.8	***
Job start	2.0	1.0	***
Owner-manager	11.9	3.9	***
Business Angel	1.4	0.7	***
Future start-up	6.4	4.3	***
Closed business	2.1	1.5	*
Know entrepreneur	27.3	13.0	***
Good opportunities	37.1	21.4	***
Skills to start	52.5	33.7	***
Fear of failure	30.8	30.3	n.s
Lack of funding	54.8	57.4	**
Uniform living standard	74.9	80.8	***
Start-up good career	51.2	60.2	***
Start-up gives high status	72.0	75.5	**
Media coverage high	57.7	54.5	**

*** = result significant at 1% level.
** = result significant at 5% level.
* = result significant at 10% level.

focus on finance[42]

Much of the government's enabling policy for entrepreneurship centres around the issues concerned with access to finance.

Much of the government's enabling policy for entrepreneurship centres around the issues concerned with access to finance. Appropriate funding escalators[43] from the seed to formal equity investment are currently being developed by the Small Business Service and Regional Development Agencies, since this type of progressive funding approach is seen as fundamental to facilitating entrepreneurship by closing a perceived "equity gap" for funding. Similarly, the government has announced its intention to establish Small Business Investment Companies (SBICs), as a tool for encouraging formal private sector investment into riskier investments above £250,000.

For the first time in 2003, GEM UK asked questions about the sources of finance that entrepreneurs had sought, the success in gaining finance and the reasons for their success or failure. Nearly 4% of the companies identified within the GEM UK survey were successful in obtaining equity finance. Two thirds of businesses who applied for equity finance were successful, with one third unsuccessful for a variety of reasons.
The reasons for failure are given in Table 18.

Table 18: Reasons for failing to gain equity finance

	% of those refused equity finance
My business was not investor ready	20%
The nature of my business was not suitable for equity finance	43%
My business plan was inadequate	27%
My business was too small	30%
I was frightened of getting into debt	32%
I was unwilling to share ownership of the business	11%
The costs of the business were too high	36%
The business had a weak management team	23%

The largest single reason for not acquiring equity finance was that the nature of the business was inappropriate for equity type investments. This response would include aspects such as lack of growth aspirations or inappropriate sector. Costs and size of the business were also significant in determining whether or not a company gained equity finance.

Interestingly, though, there appears to be a set of grouped characteristics that are particularly important in being unable to access equity finance. These are illustrated in Table 19. For example, if a business has a weak management team, then there is a strong likelihood that it will also be inappropriate by nature for equity finance, that it will be too small and that the entrepreneur will fear debt. The correlation results with an asterisk are significant at the 5% level.

[42] The author is indebted to Dr. Marc Cowling (Senior Economist, The Work Foundation) and Professor Gordon Murray (University of Exeter) for comments on earlier drafts of this section.
[43] In other words, leverage mechanisms for funding from seed corn through to formal equity finance.

Table 19: Characteristic groupings of firms unable to access equity finance

	1	2	3	4	5	6	7	8
1	1.0							
2	0.9	1.0						
3	0.36	0.19	1.0					
4	-0.05	0.24	0.61**	1.0				
5	0.22	0.19	0.35**	0.20	1.0			
6	0.46**	-0.02	0.26	-0.07	0.06	1.0		
7	0.26	-0.09	0.49**	0.24	0.40	0.32	1.0	
8	0.15	0.40**	0.52**	0.48**	0.21	-0.02	-0.27	1.0

** results significant at 5% level

1= Not investor ready
2= Nature of business unsuitable for equity finance
3= Inadequate business plan
4= Business too small
5= Fear of debt
6= Unwilling to share ownership
7= Costs too high
8= Weak Management team

Table 19 illustrates a further grouping of characteristics: Where a business's costs are too high, that firm is also likely to have an inadequate business plan, to fear debt and to be unwilling to share equity. GEM UK data appears to support the assertion from the demand side that the businesses coming to them are not suitable for equity and that it is inadequacy of investment propositions that is causing the equity gap, rather than their unwillingness to invest in the lower end of the market.

GEM UK also allows us to look at the patterns of funding amongst entrepreneurial businesses and to see where the likelihood of success and failure is the greatest. Table 20 looks at those who failed to gain suitable growth finance generally, against the source of finance that they sought. What is interesting here is that the failure rates are highest amongst those seeking equity type finance from either individual investors (31.7%) or from equity investors (34.9%). The level of unsecured non-bank lending is also relatively high at 27.5%.

Table 20: Rate of failure amongst different financial sources

Source of finance	% failures
Friends and family	11.4
Individual investor	31.7
Unsecured loan (bank)	21.7
Bank overdraft	16.1
Unsecured loan (non bank)	27.5
Other secured loan	17.1
Equity	34.9

Unsurprisingly, the levels of failure are lower amongst "usual" funding routes, such as friends and family, bank overdraft or secured loan. Amongst the riskier sources of finance, where some evaluation of the credibility of the business proposition must be made, the rate of failure is higher.

Is there an equity gap?

Table 21 presents evidence from GEM UK 2003 and previous GEM UK surveys on the amount of funding required for start-ups in the UK between 2001 and 2003. It looks at both the mean level of funding and the median level; the gap in between those two figures represents the highest level of financing and the middle of the funding distribution. As such, it is a reasonable indicator of the scale of the equity gap in the UK.

Table 21: Start-up funding and Business Angel Finance, 2001-2003

GEM UK 2003		
Mean start up funding = £1,175,990.43	Distribution (%)	
Median start up funding = £10,000	<£5k	23.2
	£5-10k	33.9
	£50-100k	11.6
	£100-200k	5.3
	>£200k	10.3

GEM UK 2001-2003 Business angel finance			
	Mean	Median	Maximum
2003	£21,225	£6,000	£200,000
2002	£28,758	£8,000	£600,000
2001	£21,138	£4,500	£500,000

[44] This large figure is accounted for by a few extremely large investments – hence the distributional skew that allows us to estimate the equity gap.

Summary and Expert Views

The material presented thus far paints a picture of a buoyant demand side with 2/3rds of all entrepreneurial businesses wanted to gain equity finance actually also being successful. However, where businesses are not successful, their characteristics from the GEM survey appear to corroborate the view held by many experts that all too frequently propositions are intrinsically unsuitable for equity finance. The characteristics of businesses that are unsuccessful in accessing equity finance appear to be bundled together – thus for example, a company that has a weak management team will also be unsuitable, have an inadequate business plan and be too small.

However, large amounts of equity finance are sought across all the sectors in the GEM study and, since around 12% of all entrepreneurial businesses do have high growth potential in that they are based on innovative ideas, there would still appear to be an issue around the supply of finance, since only 4% of all businesses are actually accessing equity. This would suggest that around 8% of firms could, with appropriate mentoring and coaching, become suitable for equity finance. Although these businesses may currently be under-developed, there is clearly scope through expanding the market (using an appropriate funding escalator).

An interesting picture emerges from the experts. First, attitudes towards government financial support are generally positive. It was felt by the interviewees that the Regional Venture Capital funds and the measures to widen access to the Small Firms Loan Guarantee Scheme were having the desired effect on making seed corn and early stage finance available to firms of all types. There was a general perception that attitudes towards entrepreneurship and commercialisation of research was resulting in better propositions to potential investors as well as a willingness to cede equity in a business. Similarly, investors were increasingly looking to universities in particular, for potential investments. In the words of one investor: "We have been a bit slow on the uptake, but we now realise that we can make a small investment in a technology project and potentially get a lot of out of it if we take our time to learn how to do this sort of investment." Government policy to provide financial support, for example, through specific programmes like SMART, was regarded as positive in addressing the "knowledge gap" aspects of the equity gap by many respondents.

Second, attitudes towards IPOs varied according to the background of the respondent, but there was general agreement that the importance of the IPO for providing growth finance was unimportant for many businesses seeking growth finance, particularly in the current climate. Further, the near collapse of the market was restricting the extent to which Venture Capitalists were making investments at all since no exit could be guaranteed. As a result, private equity was increasingly going into safe propositions, rather than riskier, high potential propositions with companies citing the transactions costs of smaller scale investments (due diligence and management costs) as undermining their willingness to invest in these relative to larger propositions.

Third, as would be expected, venture capitalists were seen by most respondents as the primary source of private equity finance for growth businesses. However, the mere fact that some interviewees disagreed with this statement warrants further exploration. At the lower end of the market, specifically the seed corn and early stages of development, interviewees expressed the view that equity finance was either unsuitable or too remote. Venture Capitalists were regarded as unwilling to engage in the earliest stages of development by business support providers. They themselves viewed the transactions costs and risks as high, relative to the potential returns. Business Angel networks were viewed as either too fragmented or too specialised to provide any substantial boost to funding, especially for technology firms that required larger scale equity. The proposition to establish SBICs to address this issue by changing behaviours and investments patterns was regarded as positive.

Fourth, the attitudinal survey suggested neutral to positive views on the functioning of the Business Angel/informal investment market in the UK. Business Angel syndicates were viewed as essential in addressing the finance needs of businesses up to around £200,000, although their links with the formal investment community were not always strong enough to guarantee follow-on growth finance. Further, in interviews, respondents noted that Business Angels were becoming more selective in their investments – in some ways reflecting the overall tightness in the UK equity market – and suggested that Business Angels were increasingly filling a gap left by the venture capital sector as investment sizes increased. For example, one network was operating a syndicated investment system around a specific technology focus and had developed specialist legal and technical expertise to scrutinise potential investments closely. This network was making investments of up to £500,000. The result was a grouping of Business Angels behaving more like venture capitalists than informal investors.

Bank finance is still the primary form of expansion finance for growth firms and this is illustrated in both the responses to the attitudinal survey in Figure 1 and the semi-structured interview data. Banks were keen to point out that they wanted to work with entrepreneurial businesses, but like their equity finance counterparts, found that the businesses were themselves not always prepared sufficiently for loan finance. From the demand side, entrepreneurs and business support agents alike reported a general reluctance still for banks to provide loans to support programmes like SMART and the Small Firms Loan Guarantee Scheme and were, hence acting as inhibitors rather than facilitators of growth. One interviewee pointed out that the problem was particularly acute for technology-based firms and that, for values between £10,000 and £100,000, bank finance was neither available nor suitable. It was suggested that banks should be encouraged to take an equity stake in their businesses, as one bank had done, to widen the appeal of equity finance and to broaden access to finance at this level.

Finally, and again as would be expected, there were highly polarised views on the availability of equity finance and the adequacy of that equity finance to service the needs of high growth businesses. At one end, venture capitalists and some business support agents and consultants were of the view that any form of finance, but particularly equity finance could be obtained if the proposal was good enough. Amongst venture capitalists there was common consent that, "there is not a supply of equity problem as such, but there is a problem in the supply of decent investor-ready propositions." Venture capital companies were keen to give examples of companies seeking relatively low levels of investment that had successfully obtained that finance because of the strength of their proposal, but pointed out that the good investments were still too few and far between to warrant them refocusing on this area of the market.

Business support providers, RDAs and Business Angel networks are coaching, mentoring and training individual entrepreneurs to become investor ready and, accordingly, there is an increased perception on the ground that there are more companies ready for formal equity investment. There is, in the words of one Business Links Chair, no shortage of equity finance. However, as she went on to point out, there is a real shortage of growth finance to allow companies to get to the stage where they can put themselves forward for equity finance. When asked why this was the case she replied, "because the market for venture capital starts at £2million, not at £200,000. And there is nothing to grow companies beyond an initial seed or start-up investment to the stage where they are truly investor ready for the rigours of the private equity market." This view was not unique and the problems of financing are particularly severe for technology businesses who are under-represented in venture capital portfolios.

focus on technology

Owner-manager businesses are of particular interest in the technology sector because they are the ones that have gone through the earliest stages of development to become established.

Much of the government's effort to stimulate fast growing and innovative entrepreneurial businesses has focused on stimulating technology businesses, for example through programmes like SMART, University Challenge and the Higher Education Innovation Programme (HEIF). These initiatives focus largely on facilitating appropriate access to seed finance for innovative firms and have been successful, in the views of many experts, in altering the language around entrepreneurship on university campuses.

The breakdown of technology businesses at a regional level is illustrated in Figure 17 and shows the percentage of start-up and owner-manager businesses that are using technology that was not available one year ago in the product or service they are delivering.

The South West has the most consistent number of technology businesses across owner-manager and start-ups businesses and, although it does not have the highest number of technology start-ups, does have the highest number of technology owner-manager businesses. Northern Ireland also has a high and consistent level of technology owner-manager businesses.

Owner-manager businesses are of particular interest in the technology sector because they are the ones that have gone through the earliest stages of development to become established. It is well known that entrepreneurial businesses find it hard and expensive in the UK to conduct their own research and development, and therefore may have a higher propensity to work with other organisations at a regional or national level.

For the first time in 2003, GEM UK asked questions of these owner-manager businesses about the technological collaborations of their owner-manager businesses. The results are presented in Table 22.

Table 22: Breakdown of technology entrepreneurs' collaborative research and development

	% of technology business
Technology developed in house	43.3
Technology developed with other enterprises in same or related sector	12.0
Technolgy developed in collaboration with other institutions (eg universities or government labs)	7.1
Technology developed with other enterprises (suppliers or outside of sector)	8.0
Technology developed with specialist contractor	2.1
Technology developed with competitor companies	4.2
Other collaborations	4.7

The majority of companies conduct their research and development (R&D) in house, but some 38.1% of new technology businesses do use collaborative partnerships, as this table shows. The largest grouping of collaborative partnerships is through networks with other enterprises in the same sector. Just 7% of all R&D is conducted by entrepreneurial owner-manager businesses in collaboration with other institutions such as universities or government laboratories.

As noted above, many of the initiatives at a national and regional level have focused on providing appropriate finance (often equity biased) into the seed corn end of the development stage of technology businesses. Figure 18 illustrates the breakdown of sources of finance for both start-up and owner-manager technology businesses.

The majority of technology start-ups obtain their finance from banks. Government funding and family and friends finance are the second and third largest sources, with 25% and 19.7% respectively.

The financing profile of owner-manager businesses is slightly different, and this is reflected in Figure 19 this compares high technology and low technology owner-manager businesses in terms of their sources of finance. There are descriptive differences between technology oriented businesses and their non technology counterparts in their sources of finance. However, these results are not significant at the 1%, 5% or 10% level indicated, the funding profile of businesses, irrespective of technology focus is very similar.

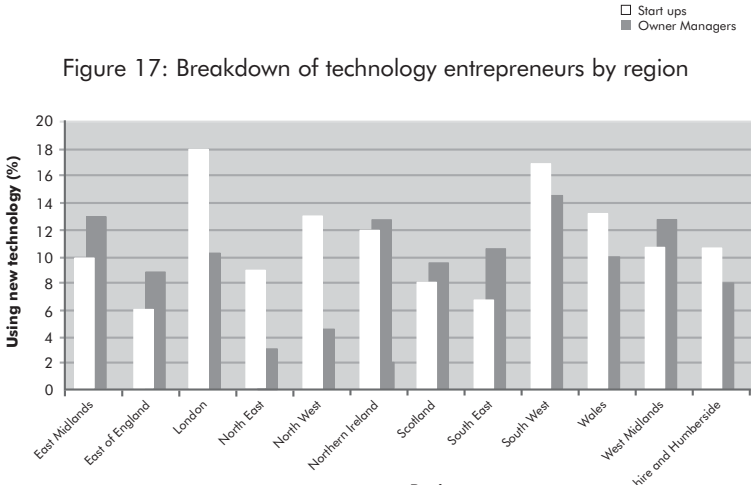


Figure 17: Breakdown of technology entrepreneurs by region

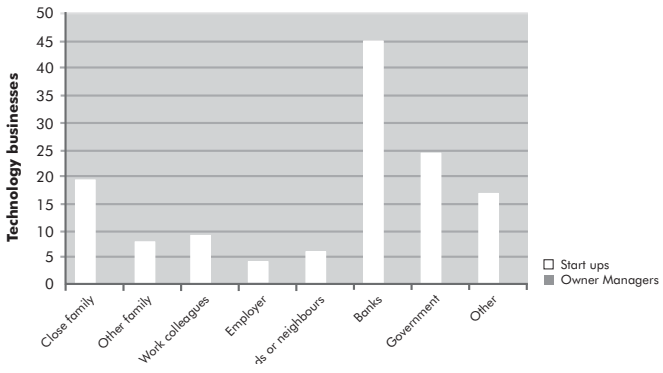


Figure 18: Breakdown of funding for technology start-ups

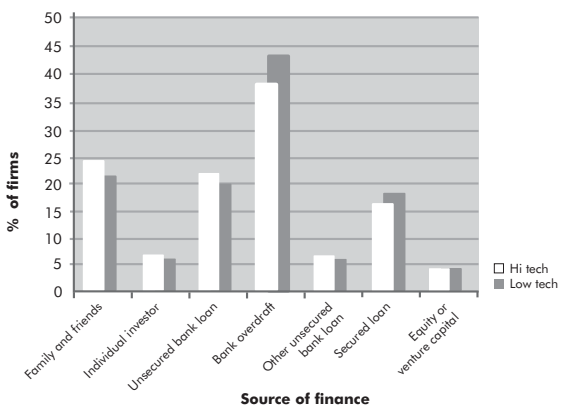


Figure 19: Sources of finance for technology and non-technology owner-manager businesses.

Summary and Expert Views

There are a number of points that can be summarised from the material above:

- London, Northern Ireland and the South West have a strong technology profile amongst start-up and owner-manager businesses. Interestingly, the East of England, despite the Cambridge phenomenon, does not have an especially strong technology focus amongst its entrepreneurial businesses.
- Technology companies tend to conduct their R&D in house, although 38% of them are using collaborative partnerships for R&D. The majority of these are with other enterprises, and university/institutional partnerships still represent the minority of all R&D collaborations.
- There are no statistical differences in the funding of technology businesses when compared to their "low tech" counterparts. Thus, for example, technology businesses are equally as likely to obtain equity finance as their low-tech counterparts, and this casts some doubt on the idea that Venture Capitalists are not investing in any technology businesses at all.

Experts from both the finance and the innovation communities corroborated these findings. There are still problems in obtaining equity finance, as noted in the section above, and many venture capitalists were keen to point out that although they increasingly want to look at universities as sources of deal flow, they do find this difficult because of intellectual property arrangements, and because many science-based propositions are simply not investor ready.

Further, the outreach function of many universities is not working well to support the need that many entrepreneurial businesses have for R&D collaborations. In the words of one expert, "links with universities are still woeful." There are notable exceptions to this across the country, but, in the words of one Director of a university technology transfer centre: "You simply can't put academics in charge of this type of activity if you want to get anything going at all." Clearly there is still some way to go!

focus on social entrepreneurs

We use a very broad approach to measuring social entrepreneurship so that it captures everything from small-scale community activities, to large, revenue generating social enterprises.

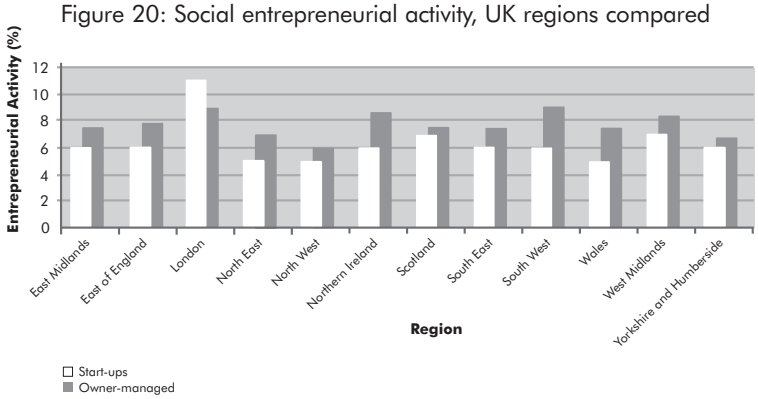
It would be possible to view Social Entrepreneurship as just the latest fad – something emerging from the collapse of Enron and WorldCom to appease the collective conscience of the capitalist system. Nevertheless, there is anecdotal evidence that businesses with a real community (as opposed to profit) drive, do have a profound impact on the economic and social welfare of disadvantaged or excluded groups in society. This impression has led to major initiatives, such as the Phoenix Fund, to support social enterprise.

GEM UK 2003 included questions that attempt to measure social entrepreneurship activity. As for the whole of the GEM Global study, we use a very broad approach to measuring social entrepreneurship so that it captures everything from small-scale community activities, to large, revenue generating social enterprises, whose goals have both an economic and a social (or community) focus (double bottom line businesses). These questions were asked of the whole UK population of 22,000 and, hence are as robust as the general findings of TEA.

Using this analogous approach to social entrepreneurship detailed at the outset, we derive a figure for the Social Entrepreneurial Activity (SEA) index level of 6.6%. In other words, 6.6% of the UK population are engaged in some form of activity that has community or social goals at its heart, either as a start-up venture, or as owner-managers of that venture. This rate is slightly higher than the overall level of total entrepreneurial activity.

Total social entrepreneurial activity in the UK comprises of autonomous start-up activity and owner-manager activity, as does the main TEA index. Figure 20 shows levels of entrepreneurial activity in these two categories, in regions of the UK.

Figure 20: Social entrepreneurial activity, UK regions compared



London has the highest level of social enterprise start-ups (11%) and London and the South West have the highest level of owner-managed social enterprises (8.9% each). Northern Ireland also has high levels of owner-manager businesses (8.2%) and the West Midlands has the second highest level of start-ups (7%). Social entrepreneurial activity in the form of start-ups is lowest in the North East and the North West (5% each).

However this only gives us an aggregated picture of social entrepreneurial activity, and it is interesting to look at who the social entrepreneurs are. The gender breakdown makes interesting reading. Men are slightly more likely to be involved in a social enterprise start-up than women (5.5% compared to 4.7%) and are also more likely to be owner-managers of social enterprises (8.7% compared to 6.9%). However, the gap between male and female entrepreneurship amongst social enterprises is much narrower than for orthodox entrepreneurship.

At a regional level, the gender breakdown is even more interesting in that some regions, notably the East Midlands, London, the North East, Scotland, the South East, the West Midlands and Yorkshire and Humberside, there are higher levels of female social entrepreneurship than male. This is presented in Table 23.

Table 23: Comparison of male and female social entrepreneurship at a regional level

	Social entrepreneurial start-ups		Social entrepreneurial owner-managers	
	Male	Female	Male	Female
East Midlands	5	6	9	7
East of England	9	4	11	5
London	10	12	7	9
North East	4	6	6	7
North West	6	3	6	6
Northern Ireland	8	5	10	7
Scotland	4	10	8	7
South East	5	7	6	8
South West	7	6	10	8
Wales	6	8	8	7
West Midlands	5	8	10	7
Yorkshire and Humberside	4	8	8	5
Average	**5.5**	**4.7**	**8.7**	**6.9**

From this, men appear to be more likely to be owning and managing a social enterprise in all UK regions except London and the South East.

The comparisons are just as interesting by employment status and by education, as illustrated in Figures 21 and 22. Like their "orthodox" entrepreneurial counterparts, it is the case that people with higher levels of education in full time or part time work are more likely to set up and run a social activity or venture. Indeed, when the data are examined by income level, individuals in the top income decile are twice as likely to set up entrepreneurial businesses as their low income counterparts (9% compared to 5.4% amongst start-ups and 10.3% compared to 5.1% amongst owner-managers).

Interestingly, ethnic minorities are far more likely to be social entrepreneurs than their White counterparts. This is illustrated in Figure 23 and shows the rates of start-up social entrepreneurship by ethnic grouping.

Social Entrepreneurs are far more likely to be from ethnic minority groupings than from the majority of the White British population, as Figure 23 shows. Compared to levels in the White British population, social enterprise start-up activity is four times higher in the Black population, three times higher amongst mixed ethnic origin individuals and more than twice as high amongst Bangladeshi, Pakistani and Indian people. Interestingly too, the data show that 44% of all these businesses fund more than half of their activities from sales revenue.

Summary and Expert Views

There is a general recognition that social enterprise is a growing phenomenon, both in terms of the numbers involved in it, and in terms of its potential to regenerate deprived and disadvantaged communities. The evidence presented here corroborates that view:

- The level of social entrepreneurial activity (SEA) is slightly higher than total entrepreneurial activity (TEA).
- Women are nearly as likely to be social entrepreneurs as men, and in some regions more likely to be social entrepreneurs.
- Education, income, employment and ethnicity are important predictors of whether or not individuals will be social entrepreneurs.

The fact that it is ethnic minority businesses that are so predominantly involved with social entrepreneurship, however, reinforces the perception that ethnic minority entrepreneurs work predominantly within their communities and hence, may have a disposition towards this type of business engagement.

Our experts were generally positive about the prospects for social entrepreneurs and argued that the climate, especially for finance and mentoring support, is changing. But, argued one banker: "Very often these entrepreneurs do not present themselves when they are investor ready and do not get finance as a result. This can put them off and prevent them from trying again." Initiatives to support mentoring for investor-readiness as well as increased availability of finance, for example, through the community development fund initiative, were seen as positive by experts.

Figure 21: Social entrepreneurial activity by employment status

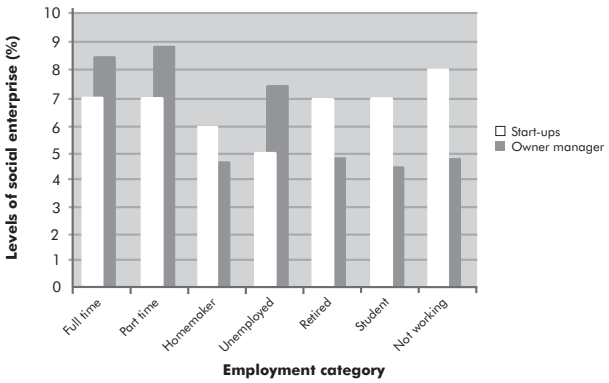


Figure 22: Social entrepreneurial activity by educational background

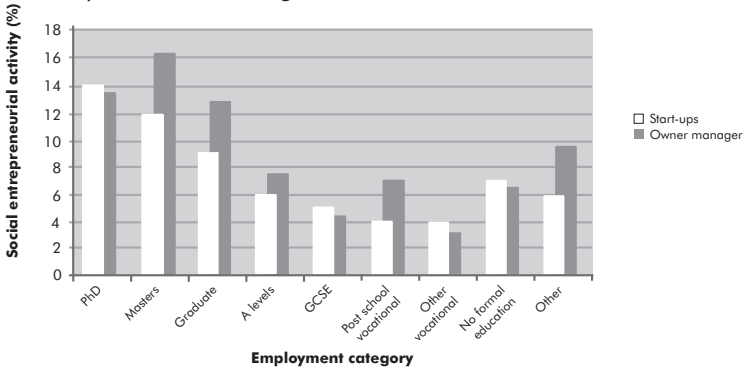
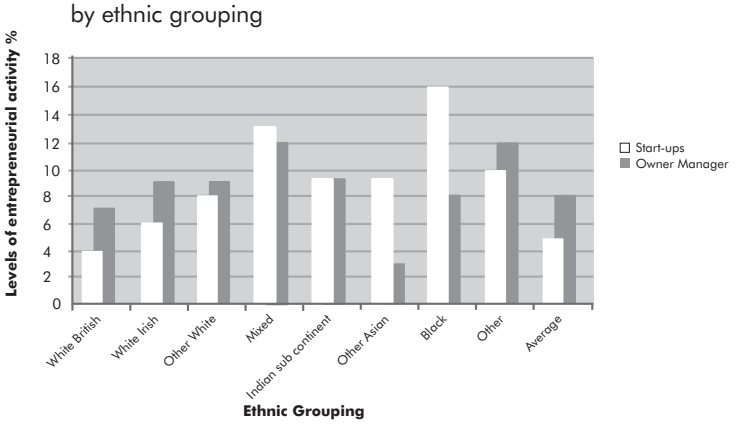


Figure 23: Social entrepreneurial activity by ethnic grouping



policy conclusions

In the end, many of these specific suggestions boil down to one thing – the importance of education from an early age in entrepreneurship as a viable alternative to paid employment

GEM UK 2003 has demonstrated that levels of entrepreneurship in the country are recovering from its low last year. This does not mean, however, that there is no room for improvement:

- Entrepreneurship in the UK has increased in all regions except the East of England. There are no significant differences at a regional level, in terms of the numbers of jobs created through entrepreneurial businesses, suggesting that it is equally important as a driver of regeneration and employment, irrespective of location in the UK. Levels of social enterprise differ between regions, with London and the South East having higher levels than other regions, although Scotland and the West Midlands also have high levels of social enterprise start-ups. Entrepreneurship of any kind is important as a driver for employment and regeneration, and policy should focus on addressing the confidence of lower income groups at a regional level, through support networks and cluster development if overall levels are to be improved.
- There are still big gaps between male and female entrepreneurship that, if narrowed, would increase overall levels of entrepreneurship in the country. Interestingly, female entrepreneurs are more likely to be successful in accessing external finance than men, so policies to address the gender gap should focus on the social and self-perception barriers to entrepreneurship that women face.
- Ethnic minority businesses are more likely to be entrepreneurial than their White British counterparts. However, although they are entrepreneurial, Asian communities tend to find it harder to access finance and are not as innovative as their White or mixed ethnic origin counterparts. This suggests that policy should focus on stimulating innovation, and, of course, overcoming the well-documented barriers to finance amongst these groupings.
- Low-income groups are under-represented amongst all entrepreneurs. Appropriate forms of finance and, above all, initiatives to address the low self-perceptions amongst this group of individuals would be key mechanisms for addressing this gap.
- Finance remains an issue, although experts suggested that this was often because of a lack of investor readiness, rather than a lack of finance. Some behaviour change on the supply side is important – for example through the proposed Small Business Investment Companies, which will encourage investors into riskier propositions. But the issue nevertheless remains one of education, training and mentoring and efforts in these areas should continue.
- Technology businesses are important drivers of entrepreneurial activity. However, experts suggested that technology is still not transferring adequately from universities to small and entrepreneurial businesses. The data presented here corroborate that assertion. There is evidence that behaviours are changing, but perceptions take longer to change and initiatives to encourage universities to collaborate with entrepreneurial businesses should be pursued as a matter of priority. Introduction agencies promoting specific research networks, would be a useful way ahead in the view of

the experts, but above all the process has to be clear, consistent and simple.

- Social enterprise is an important phenomenon in the UK and, as female entrepreneurship in this category is higher, the characteristics of female entrepreneurs in this group should be examined and emulated in the interests of raising overall levels of female entrepreneurship.

In the end, many of these specific suggestions boil down to one thing – the importance of education from an early age in entrepreneurship as a viable alternative to paid employment and, of course, as a means of allowing people to be creative and empowered within their work. The data presented here show that many of the groupings that exhibit lower levels of entrepreneurial activity also have poor perceptions of their own skills and start-up opportunities, and will let the fear of failure prevent them from starting a business. Addressing these through teaching of "softer" business skills, like presentation skills, working in teams, leadership and communication, is just as important as the "harder" aspects of management like cash-flow management and building effective teams.

Our experts were united in thinking that this was a key area for government focus. Students of all ages need more business focus and exposure throughout, they argued: "Entrepreneurship is still a dirty word and in order for us to progress, we must build up the view from an early age that entrepreneurship is NOT a second rate career choice."

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