London Business School

GEM

Global Entrepreneurship Monitor

United Kingdom 2004

Rebecca Harding

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Executive Summary

United Kingdom 2004

Overview

- TEA in the UK has remained very similar[1] to the 2003 level at 6.3% of the adult population of working age, and although the level is not as high as Canada or the US, it is higher than Germany, Japan or Italy. There is no statistically significant difference in 2004 between France and the UK.
- Female entrepreneurial activity has increased slightly and the pattern is similar to that of overall TEA. This is the first time during the four-years of comparative data in the UK that the gap between male and female entrepreneurial activity has narrowed significantly from 42.9% of male entrepreneurial activity in 2003 to 46% of male entrepreneurial activity in 2004.
- Necessity entrepreneurship has halved in the UK since 2001 and now represents just 0.6% of the total adult population. Opportunity entrepreneurship has increased slightly over the same period from 5.1% of the UK population to 5.5% of the UK population. Necessity entrepreneurship represents just 11% of all entrepreneurial activity in the UK compared to nearly 16% in the US.
- Informal investment activity has fallen in the UK as elsewhere. However, although the numbers of people expecting to start a business has fallen in the US, Germany and Japan, they have increased significantly from 7.8% of the population to 9.5% of the population between 2002 and 2004.

UK culture

- Cultural attitudes towards entrepreneurship are strong. More people in the UK in 2004 saw good opportunities (35.9%), knew an entrepreneur (27.6%) and thought they had the skills to start a business (51.7%). Fewer people would let fear of failure prevent them from starting a business (32.9%). Although many of these figures are not as high as in Canada or the US, the trend over a four-year period is for a general improvement.
- There has been a constant increase since 2002 of individuals expecting to start a business over the next three-years from 4.6% to 9.5% in 2004.
- However, there does still appear to be something of an issue around fear of failure which is higher in 2004 than it was in 2001 (32.9% compared to 30.1%).

Regional comparisons

- There has been a sizeable drop in TEA in London from 10% of the adult population to 7.2%, although the general trend over the three-year period is upwards (5.6% to 7.2%). There were also reductions in TEA in the South East (7.9% to 7%), Wales (6.8% to 5.8%) and Northern Ireland (5.3% to 4.5%), but again the trend is upward over the period.
- There has been a consistent increase in the East Midlands (from 4.6% to 6.7%), the North East (from 2.9% to 4.6%) and in Yorkshire and Humberside (from 3.9% to 4.4%).
- The range across the UK regions reduced between 2003 and 2004. There was a gap between the most and the least entrepreneurial regions of 3.2% in 2002, and of 6.2% in 2003. In 2004, however, the gap between Scotland and London was 3% of the total adult population.
- There have been big increases in female entrepreneurial activity in some of the regions outside of London - particularly the East Midlands, the East of England, the North East, Northern Ireland, Scotland, and the South West. This is reflected in the more positive attitudes and self perceptions that are developing amongst women across the UK towards entrepreneurship. These will be revisited in the next section, but suffice it to say here that female entrepreneurship has increased in the regions and nations where a strong emphasis has been placed on increasing levels.
- Rural entrepreneurship is higher than entrepreneurship in either suburban or urban areas at some 7.8% of the adult population (compared to 5.7% in urban areas). Rural women are more entrepreneurial than urban or suburban women.
- The East of England has the highest level of entrepreneurial activity in the most deprived wards by the Index of Multiple Deprivation of any region at some 7.4% of the adult population. In the North West TEA is highest in the most deprived wards relative to all entrepreneurship in that region at 6%, but in the West Midlands, entrepreneurial activity is skewed towards the most affluent wards at some 9.8% of the population compared to the most deprived wards where it is just 1.7% of the population.

Entrepreneurial people

Age

- Total entrepreneurial activity is highest in the 35-44 age group at 7.9% compared to 3.9% amongst 55-64 year olds. Male entrepreneurship is 10.7% of the adult male population in this age group while female entrepreneurship is 5.9% of the adult female population.
- The gap between male and female entrepreneurial activity is also narrower amongst this age group - female entrepreneurship is 60% of male entrepreneurship compared to an equivalent figure of 34% in the 55-64 year old age group.

Education

- All educational groupings (with the exception of Master's and PhD level) in the 18-24 year old age group have higher numbers of individuals answering positively to the question, "Do you expect to start a business in the next few years?". The national average for this is 7.1% of respondents, but 19% of those with no formal qualifications, 10.4% of those with vocational qualifications and 12.2% of those with 'A' levels in this age group expect to start a business in the next three-years.
- In the younger age groups, 18-24 and 25-34, it is individuals with degrees of any kind who are most likely to know an entrepreneur, see opportunities and to think they have the skills to start a business. However, in the older age grouping, people with postgraduate qualifications are far

1 There is a 0.1% difference between 2003 and 2004 but this is within sampling error.

more likely to see opportunities than those with Bachelor's degrees. Vocational qualifications are also a good predictor of whether or not people will think they have the skills to start-up in the 18-24 year old age group with some 48.6% of people in this category answering positively to this question.
- In both age groups it is those with fewer formal or no formal education (GCSEs, vocational and no qualifications) who are likely to see entrepreneurship as a good career choice, and in the older age category these educational groupings also have a more positive attitude towards the status of entrepreneurs in society. However, those with no formal qualifications are also more likely to think that media coverage of entrepreneurship is not as good.

Employment
- 3.2% of the adult population will admit to running a business as a sideline to their normal employment or to have some form of self-employment as a supplement to their paid income. Within this group, Total Entrepreneurial Activity is 38.8% amongst men and 42.5% amongst women.
- Female entrepreneurship is higher than male entrepreneurship amongst homemakers (where male entrepreneurial activity is very low but female entrepreneurship is 2.8%), and amongst students where female TEA is 2.6% and male TEA is 1.6%.
- Student entrepreneurship has increased from the 0.9% that it was in 2003 to 2.3% overall in 2004.
- GEM 2004 distinguished between those out of work and claiming benefit (unemployed in Figure 15), and those out of work and not claiming unemployment benefits (labour market inactive). This figure includes people on incapacity benefits and on no benefits at all. After full and part time employment, this category of individuals has the next highest level of entrepreneurial activity at 5% of the adult population. Male TEA is 6.5% and female TEA is 3.2%.

Income and entrepreneurship
- Entrepreneurial activity is highest in high income groups (greater than £75,000) and in middle income groups (£25,000-£29,000). It is these groups where the gap between male and female entrepreneurial activity is also the widest. TEA in the highest income group is 10.9% compared to 9.1% in the middle income group. Male TEA is 14.8 in the former and 12.4 in the latter. The respective figures for female TEA are 6% and 5.1%.
- Female TEA is highest in the income category £30,000-£39,000, but there is a much narrower range by income amongst women entrepreneurs (2.7%-6%) compared to male entrepreneurs (4.9%-14.8%).

Public sector entrepreneurship
- TEA for people working the public sector is 4.9% of the adult population while for the private sector it is 5.6%. Men in the public sector have a slightly higher level of TEA at 7.8% compared to men from the private sector where the equivalent figure is 7.4%. These figures are significant at the 1% level.
- Generally speaking public sector workers are less likely to know an entrepreneur than their private sector counterparts (19.8% compared to 28.4%) and similarly less likely to think that they have the skills (50.2% compared to 53.3%). Public sector employees have a very positive attitude towards entrepreneurial potential and are far more likely to view entrepreneurship as a good career choice (58.7% compared to 52.7%) and as a high status activity (75.9% compared to 73.3%) although attitudes to media coverage are worse (49.7% compared to 56.3%).

Female entrepreneurship
- Women are half as likely to be involved in either independent or job related start-up activity as men. Independent start-up activity amongst women is 3.1% of the female adult population, but is 6% amongst men, while the equivalent figures for job related start-ups is 1.3% and 2.6%.
- Women are half as likely to be informal investors as men (0.9% compared to 1.8%).
- 1.2% of women and 2.9% of men have closed a business in the last year.
- 6.7% of women and 15.8% of men are owners or managers of their own business.

Ethnic minorities
- People from White or Mixed ethnic backgrounds are the most likely to be involved in start-up activity using technology that was not available a year ago (22.1% and 20% respectively). All other groups score very low indeed. However, for owner-managed businesses, Indians and other Asians are the most likely groups to be providing a good or a service based on technology that was not available a year ago at 43.6% and 48.1% respectively. This compares to 14.1% of White businesses.
- Black Caribbean people are most likely of all ethnic backgrounds to be starting up a business that provides a good or service that is new to all customers at 36% of all businesses. This compares to 18.6% of white businesses, 14.8% of other Asian businesses and 5% of Mixed ethnic background businesses.
- Indian start-up businesses are the least likely to be export oriented of all ethnic groupings with some 87.5% of respondents in this category saying that they had no customers abroad. This compares to 79.9% of white owned start-ups and 40% of Mixed ethnic origin start-ups with no customers abroad.
- The predominant source of start-up finance for many ethnic groupings is friends and family. The figures are Other Asian, 53.4%, Pakistani, 93%, Black African, 52.6%, and Black Other, 52.9%. The predominant source of finance for White people is bank overdraft (29.3%) as it is for Black Caribbean people (38.3%).

Entrepreneurial businesses
High growth
- On average, a high growth entrepreneurial start-up will expect to grow by 400% in terms of sales turnover within a three-year period.
- The quartile of fastest growing owner-managed businesses have, on average, grown by 156% in terms of sales turnover over a three-year period.

- 52.5% of postgraduate owned start-ups fall in to the fastest growth potential quartile, compared to 11.9% of those start-ups from individuals with a Bachelor's level qualification.
- Wales is the region with the largest number of start-ups in the highest growth potential quartile with some 40% of all start-ups falling into this category. Yorkshire and Humberside has the smallest number of businesses falling into this category at just 11.1%.

Technology

- As a percentage of all start-up businesses, 18.6% said that they were using or supplying new technology in 2004, compared to 11.3% in 2003, while 15% of owner-managed businesses in 2004 were using or supplying new technology compared to 9.9% in 2003.
- The South West has the highest number of new technology start-ups at some 29.9% of all start-up activity, and London has the second highest number at 24.6% of all start-ups. The region with the smallest number of technology start-ups is the North East with 4.2% of all start-up activities.
- There has been a sizable increase in the numbers of technology start-ups and owner-managed businesses across all regions of the UK since 2003.
- An average of 43.8% of all start-ups in the UK are providing a good or a service that is new to some or all customers and 21.4% of owner-manager businesses have introduced in the last year a product or service that was new to the market.
- Of this latter group, there are only three regions of the UK (the North West, the West Midlands and Wales) where research and development is conducted predominantly in house. 27.9% of innovating companies conduct research in collaboration with other enterprises and 16.4% buy in new technology.
- The level of collaboration with institutions such as universities is still very low at just 4.3% of all businesses. Although there are regional variations in this statistic (for example in the North East 11.1% collaborate with universities), in some regions, such as the South East, the numbers were too small to be measurable.
- Wales has the highest number of companies introducing a technology in the last year. Here, nearly 52% of research is conducted in house, but where collaboration does take place, it is predominantly with other enterprises (18.5%). The East of England has the second highest number of companies introducing products or services to the market in the last year, but in this region, technology is either conducted in house or bought in from other enterprises (38.9% and 31.9% respectively).
- The most networked region is the North East with just 22.2% of businesses conducting their research in house. 55.6% collaborate with other enterprises, and 11.1% with universities.

Social entrepreneurship

- Overall in the UK some 4.7% of the population is setting up a socially oriented entrepreneurial activity while 6.9% are owning, running or managing a socially oriented organisation.
- Women are more likely to be involved with starting up socially oriented activities (4.9% of women compared to 4.5% of men), but are less likely to be owners or managers of a social venture (6.2% of women compared to 7.7% of men).
- There is more social entrepreneurial activity in the form of start-ups going on in London and the South East, at 6.7% and 5.5%, but there is a much narrower gap with the majority of regions outside of London where entrepreneurial activity in the form of start-ups is between 4.1% and 4.8% of the adult population. The only exceptions are the North East and the North West where start-ups are lower at 2% and 3.9% of the adult population respectively.
- In four of the UK regions women are more likely than men to be setting up a socially oriented venture or activity - the East Midlands (4.4% compared to 4.3%), London (8.5% compared to 4.9%), the North East (3% compared to 1%) and the South East (6.6% compared to 4.5%). However, although the numbers of men and women owning or managing a socially oriented activity or venture are very similar in London (8.1% of women compared to 8.8% of men), in all other regions, men are more likely to be running the more established ventures than women.
- As with mainstream activities, ethnic minority groups are more likely to be setting up or running socially oriented activities or ventures. The most entrepreneurial ethnic minority grouping is Black Caribbean. Some 14.7% of people with this background are social entrepreneurs. This is nearly three times the level of White people where social entrepreneurial start-ups are 4.9% of the population. Indians are nearly twice as likely as White people to be social entrepreneurs with 12% of the adult population involved in start-up activity. However, once the activities become more established, the distribution narrows, and although Black African people are the most likely to fall into this category (12.9% of the population), some 8.8% of Pakistani people, 8.6% of Black Caribbean and 7.2% of White people are also involved.
- The Social Entrepreneurial Activity rate is three times higher (at 3% of the adult population) in the 35-44 year old age group compared to the 18-24 year old age group. This is a similar pattern to mainstream entrepreneurial activity.

Entrepreneurial impact

- The role of the founding entrepreneur is both measurable and very important in generating higher growth and productivity in start-up businesses. This suggests that entrepreneurs themselves do have a big impact on the overall productivity and performance of an economy[2].
- The majority of entrepreneurial activity takes place in the Business Services sector that accounts for some 27.1% of all entrepreneurial activity in the UK. However,

2 This is based on econometric modelling of an orthodox Cobb-Douglas production function augmented for entrepreneurial input. See attached technical summary for more detail on the methodological approach taken.

health, education and services have a relatively high TEA rate at 14.4% of all entrepreneurial activity. The figures for retail and mining and construction are 13.8% and 12.3% respectively. Entrepreneurial activity is lowest in manufacturing at 4% of the total TEA for the UK in 2004.

- There has been a reduction in the mean number of jobs that start-up firms create now over the period, but the median number of jobs did not change between 2003 and 2004. Similarly, although there is evidence that the mean number of jobs that entrepreneurs expect to create over a five-year period has gone up (from 13.9% to 32.3% in 2004), the median number has again remained the same. There has been no change over the whole period in terms of the numbers of jobs that owner-managed businesses create or expect to create.
- Start-ups in the UK tend to be rather under-capitalised, but as they grow, they tend to increase the level of capital intensity relative to people and reach a threshold of efficiency and competitiveness quite quickly. There is an exception to this however:
- New technology firms tend to rely on more capital-intensive methods at the start-up phase.

Turnover

- The median turnover now has increased between 2003 and 2004 by £10,000.
- Start-up businesses expect their companies' turnover to grow from £40,000 to £90,000 - slightly more than double.

Exports

- On average, 66.1% of all start-ups and 80.3% of all owner-managed businesses have no export-orientation. London is the most export oriented region. 51.4% of all entrepreneurial start-up businesses and 69% of owner-managed businesses in that region have no export orientation, but some 26.8% of start-ups have between 26% and 75% of customers abroad. The North East is the least export oriented region. 29.2% of all start-ups and 90% of all owner-managed businesses have no export orientation.

Churn

- London is the region with the highest churn (10.2%) and the largest net effect on stock (6%). The South East and the South West also have high churn at 9.8% and 9.5% respectively while the South East also has the second largest net effect on business stock (5.2%). The North East has the lowest churn (5%), but it is the East of England that has the smallest net effect on business stock of its entrepreneurial activity.

Finance

- The median start-up finance required by an entrepreneur is £10,000 of which he or she will invest £7,000 of their own money to begin the process. The picture is slightly different for men and women with the median start-up finance for men being £18,000 of which they will invest £10,000 while for women the start-up finance necessary is £10,000 with an investment by the individual entrepreneur of £7,616.
- 56.4% of men and 62.7% of women say that fear of lack of finance would prevent them from starting a business and this demonstrates how important appropriate finance is, even at this relatively small scale end of the market.
- Friends and family and bank overdraft are the most likely sources of external finance used by both men and women. Failure rates for men and women in gaining funding from family and friends are not significantly different, however, the differences in accessing bank finance are significant at the 1% level.

Entrepreneurial culture

- 9.5% of people will consider setting up a business over the next few years, some 7.2% have considered setting up a business recently and 7.6% will consider it in the future.
- Fear of debt is the single largest barrier to entrepreneurship for both men and women, although women are significantly more fearful of this than men. The second biggest barrier is age, and again the differences between men and women are significant with women far more likely to use this as a reason for not starting a business than men. 14.5% of the population say they have no interest in starting a business. The biggest single driver for men and women is to make more money with 44.3% of women and 48% of men answering positively to this question.

Section 1

Economic and Policy Overview

Against a background of global political uncertainty in the wake of the war in Iraq, progress towards sustained increases in economic growth across the G7 countries during 2004 has been mixed. It is of little surprise, then, that the entrepreneurial performance of the G7 and Eurozone economies has also been mixed with reductions in entrepreneurial activity in the US, Germany, Ireland, Spain and Belgium. The UK's level of entrepreneurial activity has remained roughly the same as 2003 at some 6.3% of the adult population.

The economic context

The underlying economic picture in the G7[1] economies provides us with some insights into these findings. The US, the UK and Japanese economies witnessed increases in Gross Domestic Product (GDP) during 2003, but the trend in 2004 (to the third quarter) has been downward in each of these economies. In contrast, Canada, Germany, Italy and France all saw net reductions in GDP during 2003, but to the third quarter of 2004 were all showing a generally upward trend in GDP growth[2]. 2003 forecasts of strong deflationary pressures in Germany and the US proved unfounded, but a general trend across the world has been towards rising levels of public indebtedness while the UK and the US continue to run large scale current account deficits. Although at the beginning of 2004 the job market in the US appeared to be recovering, the number of jobs being created has remained low, and wage growth soft relative to the scale of economic growth giving rise to the spectre of a "jobless recovery" that could threaten the consumer-led expansion of the last 12 months[3].

Economic growth across the Eurozone has remained sluggish. Germany and France have continued to exceed the levels of public debt permissible under the European Stability and Growth pact and the Economist Intelligence Unit predicts that public indebtedness in Italy will also be higher than the limits permitted during 2005. Consumer and business confidence indicators in Germany, combined with a persistent inability to implement the economic reforms necessary to modernise the whole economy underpin its continuing weak economic performance. Although in France the reform process has been more rapid during 2004, this has not yet translated into lower unemployment or substantially higher growth.

1 The G7 economics are studied here rather than the whole G8 since the data has not been available for Russia for the last two years.
2 HM-Treasury Weekly Economic Indicators, www.hm-treasury.gov.uk/economic_data_and_tools/latest_economic_indicators . Third quarter GDP growth in France, Germany and Italy was lower than second quarter growth, but the trend over the three quarters is upwards.
3 Financial Times Leader, "Relying on the US" December 4th 2004, although indications are that there has been net job creation over the period to the third quarter of 2004.

Within this context, the UK economy has maintained its relatively strong position. It has had stable economic conditions with strong GDP growth, the lowest unemployment of all the G7 economies, and stable inflation for some years now and although there is still an issue for business of perceived over-regulation, the OECD consistently reports that the UK is the second least regulated economy in the world. UK policy continues to focus on closing the UK's productivity gap with its G7 partners which, by 2003 was still significantly lower than in the US, Japan, Germany or France measured as output per person hour although improving by the second quarter of 2004.

The UK policy context

During 2004 a number of initiatives were launched to promote entrepreneurship and innovation in the UK:

- The launch of Enterprise Capital Funds based on the US Small Business Investment Companies model and aimed at closing an identified equity gap in the provision of start-up financing of firms between amounts £250,000 and £2million.
- Fiscal measures to improve Venture Capital Trusts and the Enterprise Investment Schemes to make them more attractive to investors.
- The Graham Review of the Small Firms' Loan Guarantee Scheme (Sept 2004) that recommended a re-orientation of the scheme with the goal of making it less bureaucratic and more strategically targeted at start-ups and young businesses in particular.
- Changes to the R&D tax credit system to encourage entrepreneurial and small firms into R&D.
- Tightening up of regulations under the Regulatory Reform Action Plan and the Hampton Review to ensure consistency and stability in regulation. This includes simplification of the calculation of VAT and a discounted rate of 1% below the normal rates for newly registered businesses.
- Under the comprehensive spending review, substantial resources were put into the Science and Innovation Investment Framework (basic research as well as commercialisation) and entrepreneurship.
- *Enterprise Insight*, a coalition of business organisations launched in 2003, was given extra resources to run 'Enterprise Week' and the 'Make Your Mark' campaign aiming to kick-start an enterprise culture among young people by giving them the opportunity and inspiration to turn their ideas into reality.
- The National Council for Graduate Entrepreneurship was set up to encourage joined up thinking between academia and business, to support graduates into business, and to foster a more entrepreneurial culture amongst the UK's graduate community and university sector.
- Increased efforts to promote entrepreneurship generally and social entrepreneurship in particular amongst excluded or deprived groups as a means of increasing labour market participation and opportunity.

Many of the policy activities during 2004 have had as their priority addressing the demand

side of entrepreneurship in the UK. Despite the UK's sophisticated venture capital system and our generally positive attitudes towards entrepreneurship, the levels of Total Entrepreneurial Activity (TEA) remains at 6.3%, a level that is not significantly different to that of 6.4% in 2003. There are, however, some encouraging signs of change that will be the focus of this report[4]:

- Female entrepreneurship has increased slightly from 3.8% of the total female population in 2003 to 3.9% in 2004.
- More people know entrepreneurs in 2004 than in 2003 (27.6% compared to 24.6%) and more people feel like they have the skills to start a business (51.7% compared to 48.4%).
- The gap between the most and least entrepreneurial regions appears to have narrowed from 6.2% in 2003 between London and Yorkshire and Humberside to 3% in 2004 between London and Scotland. Much of this change is due to a drop in entrepreneurial activity in London from 10% to 7.2% of the adult population.
- Levels of entrepreneurial activity amongst the student population in the UK have increased from 0.9% of the population in 2003 to 2.3% of the population in 2004. Female students are more likely to be engaged in entrepreneurial activity than male students (2.6% compared to 1.6%).
- As in previous years, White British people are one of the least entrepreneurial ethnic groupings at 5.8% of the population. Apart from Pakistani people, where entrepreneurial activity is much lower at 1.6% of the population, every other ethnic grouping has higher levels of entrepreneurial activity. The most entrepreneurial ethnic minority grouping are Bangladeshis (18.8%) and Other Asians (20.5%). Ethnic minority women are often more entrepreneurial than their male counterparts.
- Rural areas are more entrepreneurial than urban areas (7.8% compared to 5.7%).

What is GEM?

The Global Entrepreneurship Monitor (GEM) started in 1999. Now in its sixth year, this world-wide project involved 34 countries in 2004. This is slightly smaller than the 2002 study of 37 countries, but larger than in 2003 and 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 organisation, 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 fulfil 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[5]?

Just 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 TEA index. This random adult population survey is conducted by telephone during June and October of each year and, on the basis of interviews with 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 up to 42 months and have not paid salaries for longer than that.

There will be 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.

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

1. **Necessity entrepreneurship:** These are the people who feel 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.

4 All differences are significant at the 1% level unless otherwise stated.

5 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 this document and that has been explored 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.

In addition to this, 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 2004?

GEM UK has been building since 2002 when it became the largest ever single country study of entrepreneurship within the GEM project. The survey was expanded further in 2003 and in 2004 to include separate regional studies, 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 4,000 additional cases from the Barclays enterprise survey), the UK study has now grown to a base level of 25,000 (again with an additional 4,000 cases from the Barclays study).

The expanded sample size allows us to provide reliable and robust comparisons of entrepreneurial activity, both regionally and between specific groups of the population (for example, ethnic minorities), to have a large and representative sample of the UK's entrepreneurial businesses, including an attempt to understand entrepreneurship in the most deprived wards of the UK. 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 entrepreneurship.

The level and importance of social entrepreneurship were investigated for the first time in 2003 and continues in 2004. We took GEM's broad approach to defining entrepreneurship and adapted it to ask similar questions about social entrepreneurship. The method is based on the approach taken in the rest of GEM UK which requires individuals to respond to the following two questions:

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**?

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 separate business or household surveys since it measures entrepreneurial behaviour as well as actual businesses established[6]. 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 smaller. 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, however, as the largest sample in the whole global survey does have a substantial number of actual businesses within it[7], as well as a representative sample of the UK's adult population according to 2001 census classifications. As a result, the margins of error[8] 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[9] for ease of interpretation.

One further note of caution should be sounded in relation to the international comparisons reported in the section below. Frequently the GEM study is used as 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 differs between nations. It is not meaningful, 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.

As a result of these concerns, this report discusses broad entrepreneurial trends across a range of comparable countries rather than a direct ranking of those countries.

6 This approach is also taken by the Small Business Service's Household Survey.
7 Approximately 1,600 entrepreneurial businesses
8 Defined as one standard deviation either side of the mean
9 Defined at the 1% (***), 5% (**)or 10% level (*).

Section 2

Entrepreneurial Activity in the G7 Countries

The economic picture painted at the outset of this report is mixed and would not tell us anything that would enable us to predict entrepreneurial activity in the G7 countries. While there is some evidence of a slight upturn in economic growth, some of the underlying indicators, such as public indebtedness, unemployment or current account balances have been volatile over the year and this potentially leads to lower levels of consumer, producer, or even entrepreneurial, confidence.

It is no surprise, then, that the picture of entrepreneurial activity across the G7 countries is as mixed as their economic performance, as illustrated in Figure 1. For example, despite strong growth in GDP in the US, entrepreneurial activity declined slightly from 11.9% of the adult population in 2003 to 11.3% in 2004. The UK also saw a slight reduction, from 6.4% to 6.3%, although like the US and, indeed, Germany (5.2%-4.5%), this reduction is not statistically significant.

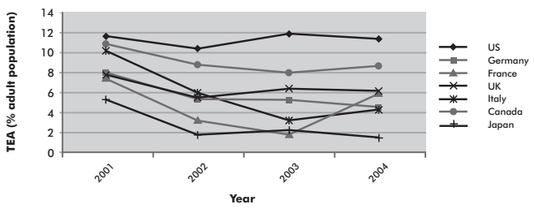

Figure 1
Total Entrepreneurial Activity (TEA) in the G7 countries

In contrast, TEA rose substantially in France from 2% to 6.1% of the adult population. While some of this increase may be due to sampling error, specifically in 2003 when the sample was very small, an increase of this magnitude does at least warrant further investigation. Given that entrepreneurial activity dropped in 2002 across the world, and then started to increase again, it is possible that it is the 2003 figure for France is an outlier.

Of major concern to many policy makers is the extent to which women engage in entrepreneurial activity compared to their male counterparts. Figure 2 shows the trend for female entrepreneurship over a four-year period in the G7 countries (2001-2004).

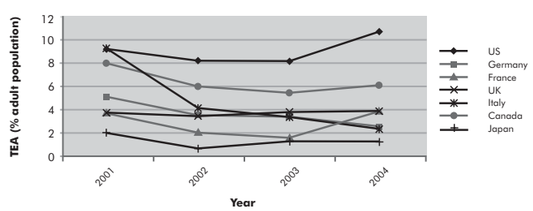

Figure 2
G7 Female entrepreneurial Activity, 2001-2004

What is immediately obvious from Figure 2 is that the increase in female entrepreneurship is very marked in Canada, the US and France with a smaller increase in the UK. Female entrepreneurial activity has been on a downward trend across the period in Germany, Italy and Japan.

The gap in male and female TEA is presented in Figure 3 for 2004 only. The US has the narrowest gap, with female entrepreneurship being 89.2% of the level of male entrepreneurship. In Japan, female entrepreneurship is some 69.5% of male entrepreneurship, and in Canada the equivalent figure is 53.3%. Similar gaps exist in France, where the gap is 46.3% of male entrepreneurship, the UK (45.7%) and Germany (41.7%) and is substantially wider in Italy where female entrepreneurship represents only 36.1% of the level of male entrepreneurship. On average for the G7 countries, female TEA is 4.4% while male TEA is 7.8%, representing 54.6% of the level of male entrepreneurship.

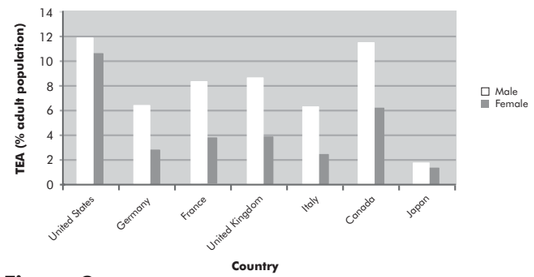

Figure 3
The gap between male and female entrepreneurial activity in the G7 countries (2004)

GEM distinguishes between necessity entrepreneurship (where respondents are engaged in entrepreneurial activity because they have no better choice of work), and opportunity entrepreneurship (where respondents are seizing a market opportunity). Necessity entrepreneurship in the G7 economies is relatively low. It is the highest in the US where 1.5% of the population are engaged in necessity entrepreneurship, compared to, say, 0.2% in Japan.

This, however, hides a broader picture of the relationship of necessity to opportunity entrepreneurship that is illustrated in Figure 4 for the G7 countries between 2001 and 2004. Figure 4 shows necessity entrepreneurship as a percentage of opportunity entrepreneurship. Where this relationship is falling, as it is in Japan, the UK, France and Italy over the whole time period, it suggests either that more people are taking market opportunities or that fewer people are having to become entrepreneurs because there are no better choices for work.

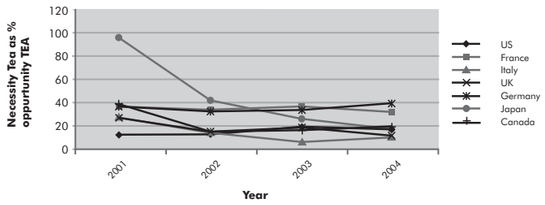

Figure 4
Necessity entrepreneurship as a percentage of opportunity entrepreneurship for G7 countries (2001-2004)

Figure 4 demonstrates that the US, the UK and Italy have the lowest level of necessity entrepreneurship as a percentage of total entrepreneurship. In the UK in 2004 necessity entrepreneurship was just 11% of opportunity entrepreneurship, compared to 27% in 2001. There was a similar change in Canada (39% in 2001 to 19% in 2004), but the most striking shift is in Japan from 95% in 2001 to 16% in 2004.

These changes are based on shifts in necessity and opportunity entrepreneurship themselves:

- Between 2001 and 2004, necessity entrepreneurship has remained the same in the US and France, but has halved in the UK and Canada (accounting for a substantial proportion of the improvement in the ratio) and fallen from 2.2% to just 0.2%.
- In Germany and the US opportunity entrepreneurship has fallen slightly and there have been big reductions in opportunity entrepreneurship in Italy and Japan. These contribute to overall reductions in TEA over the time period. In France and the UK there have been slight increases in opportunity entrepreneurship over the time period which again contribute to the improvement in the ratio.

Table 1 shows important cultural indicators of support for entrepreneurial activity - informal investment activity and intentions to start a business. Informal investment activity gives an indication of the actual cultural support networks within a country. In contrast, intentions to start a business give us an idea of both the confidence in the future economic and social conditions to support entrepreneurship and the extent to which entrepreneurship is something that people are thinking about.

	I have been an informal investor in the past three years (% answering yes)			I expect to start a business within the next three years		
	2002	**2003**	**2004**	**2002**	**2003**	**2004**
United States	5.0	4.92	4.3	-	15.5	13.7
France	1.2	0.7	4.9	-	6.3	14.4
Italy	1.4	1.5	3.0	-	8.1	11.6
United Kingdom	1.7	1.6	1.4	-	7.8	9.5
Germany	3.4	2.7	2.7	-	8.8	6.8
Japan	0.6	0.4	0.3	-	3.6	1.1
Canada	3.2	3.3	2.7	-	10.3	12.4

Table 1
Informal investment and prospects for future start-ups in the G7 economies, 2002 - 2004

Interestingly, informal investment activity has declined in the US, the UK, Germany and Canada, but has increased in France and Italy. Levels of informal investment in Japan are low compared to other G7 countries, but this is in line with overall levels of entrepreneurial activity.

The figures on start-up intentions should not be read as an indication of actual start-ups over the next three-years but merely as a signal of people's attitudes towards the prospects for entrepreneurial activity. Between 2003 and 2004 the proportion of people answering positively to this question fell in the US, Germany and Japan but increased in France, Italy, the UK and Canada.

The rather mixed picture of economic and entrepreneurial performance across the G7 countries is reflected in the responses to attitudinal questions within the GEM survey that look at the general cultural context of entrepreneurship measured through the networks and self-perceptions of respondents. These represent good barometers of overall confidence in the climate for entrepreneurship in any one country. For example, we know that networks are important determinants of entrepreneurial activity and GEM measures this by asking people if they know an entrepreneur. General confidence in the economy can be measured through the perception of entrepreneurial opportunities, and self-confidence can be measured in two ways - perception of one's own skills to start a business and fear of failure that would prevent individuals starting a business. The results of these attitudinal statements for the G7 countries for 2003 and 2004 are presented in Table 2.

	US		F		IT		UK		D		J		C	
	'03	**'04**	**'03**	**'04**	**'03**	**'04**	**'03**	**'04**	**'03**	**'04**	**'03**	**'04**	**'03**	**'04**
Know entrepreneur	38.6	35.8	26.3	41.0	32.4	34.9	24.6	27.7	36.8	37.9	21.4	29.7	35.4	34.1
Good opportunities	30.7	33.6	9.3	21.1	34.1	25.4	35.2	35.9	13.5	13.5	7.5	14.0	32.7	44.8
Have skills to start-up	53.9	54.3	24.9	33.1	35.2	32.6	48.4	51.7	38.2	36.2	11.8	13.5	51.5	54.9
Fear failure	22.7	21.2	45.4	50.0	40.4	40.2	33.6	32.9	49.3	47.7	22.5	22.6	23.7	28.8

Table 2
Entrepreneurial attitudes and perceptions, 2003 - 2004

The following highlights can be drawn out of this table:

- In all except the fear of failure, there are marked similarities between the US and the Canadian entrepreneurial climate. In both countries there are fewer people knowing an entrepreneur, more people seeing opportunities to start a business, and more people feeling like they have the skills to start a business. However, the fear of failure has reduced in the US, suggesting that the spirit of risk taking is re-emerging after the recessionary period with potentially positive knock-on effects for overall levels of entrepreneurship in the future. In Canada, in contrast, the fear of failure has increased substantially suggesting that the slight increase in TEA in 2004 may be vulnerable over the next 12 months.
- A general measure of economic and entrepreneurial optimism is found in the responses to the question, "in the next six months, will there be good opportunities for starting a business in the area where you live?" The picture across the G7 countries is generally robust with increased numbers responding positively to this question in the US, France, Japan and Canada and

marginally higher numbers in the UK. Only in Italy has there been a net decline in perceptions of opportunity. The statistic for Germany is interesting, however, in that it has stayed at the same exceptionally low level over the two-years, which suggests that the general pessimism about the German economy within that country persists.

- Similarly, the picture for entrepreneurial skills is also positive for most of the G7 with all countries except Italy and Germany seeing increases in the numbers of individuals feeling like they have the skills to start a business.
- Despite the fact that people in Germany are less likely to think that they have the skills to start a businesses than they were a year ago, there is evidence to suggest that there was a more positive attitude to risk in 2004 with a decrease of 1.6% of the population answering that they would let fear of failure prevent them from starting a business from 49.3% to 47.7%. Fewer people fear failure in the US and the UK, but there was a big increase in fear of failure in France from 45.4% to 50%.

Finally, GEM creates a cultural support index out of responses to a set of questions that look at people's perception of entrepreneurs and entrepreneurship, including questions about the status of entrepreneurship, its suitability as a career choice and the coverage of entrepreneurship in the media. This yields a possible total index score of 3.0. The results for 2003 and 2004 are presented in Table 3 for the G7 countries.

	2003	2004
United States	1.99	1.94
France	1.29	1.67
Italy	1.95	1.84
United Kingdom	1.79	1.90
Germany	1.80	1.76
Japan	1.41	1.41
Canada	2.02	2.33

Table 3
Culture support index for the G7 countries, 2003-2004

The index is calculating the cultural support for entrepreneurship and, hence, a year on year improvement may suggest that attitudes towards entrepreneurship and entrepreneurs, as well as media coverage, have improved. Between 2003 and 2004 there were increases in the index in France, the UK and Canada and net reductions in the US, Italy, Germany and Japan.

Section 3

UK Entrepreneurship in 2004

The international context provided here suggests that the UK government's focus on strong and stable macroeconomic performance is to be welcomed as a solid background to entrepreneurial policy. A large number of experts interviewed as part of the survey commented that it "lessened the uncertainty" that entrepreneurs, or potential entrepreneurs, face when making business decisions and this was seen as a pre-requisite to building an entrepreneurial climate in the UK.

The evidence presented in this section suggests that the impact of this stability is being felt in overall attitudes towards entrepreneurship. In a comparative context the UK presents the most consistent entrepreneurial picture of all the G7 economies:

- TEA in the UK has remained very similar[10] to the 2003 level and although the level is not as high as Canada or the US, it is higher than Germany, Japan or Italy and these results are statistically significant. There is no statistically significant difference in 2004 between France and the UK and TEA has fallen in both the US and Germany.
- Female entrepreneurial activity has increased slightly and the pattern is similar to that of overall TEA. This is the first time during the four-years of comparative data in the UK that the gap between male and female entrepreneurial activity has narrowed significantly from 42.9% of the level of male entrepreneurial activity in 2003 to 46% in 2004.
- Necessity entrepreneurship has halved in the UK since 2001 and now represents just 0.6% of the total adult population. Opportunity entrepreneurship has increased slightly over the same period from 5.1% to 5.5%. Thus the drop in TEA since 2001 can be accounted for substantially by a reduction in necessity entrepreneurship, where people fear they have no better choice for work. Necessity entrepreneurship represents just 11% of all entrepreneurial activity in the UK compared to nearly 16% in the US.
- Informal investment activity has fallen in the UK as elsewhere. However, although the numbers of people expecting to start a business has fallen in the US, Germany and Japan, in the UK they have increased significantly from 7.8% of the population to 9.5% between 2002 and 2004.
- Beyond this, the cultural attitudes towards entrepreneurship in the UK are positive. The cultural support index increased between 2003 and 2004, while more people in the UK see good opportunities (35.9%), know

10 There is a 0.1% difference between 2003 and 2004, but this is within sampling error.

an entrepreneur (27.6%) and think that they have the skills to start a business (51.7%). Fewer people would let fear of failure prevent them from starting a business (32.9%). Although many of these figures are not as high as in Canada or the US, the trend over a four-year period is for a general improvement.

The government has been driving forward a programme both to promote entrepreneurship and culture change by concentrating on the demand side over the longer term specifically through:

- Increased regional autonomy over target setting and delivery within the framework of the Public Service Agreement system.
- Increased female entrepreneurial activity through the 2002 "Strategic Framework - sharing the Vision" document.
- Addressing the needs of ethnic minority entrepreneurs through the ethnic minority business forum.
- Increased rural regeneration through entrepreneurship following the recommendations of the 2001 Curry Report.
- Focus on young people and culture change through Enterprise Insight.
- Focus on finance through Venture Capital Trusts and Enterprise Capital Funds to change behaviours on the supply side.
- Focus on technology and innovation through the Science and Innovation Investment Framework and the DTI's Technology Priorities document.
- Emphasis on social enterprise, especially as a mechanism for creating entrepreneurial engagement in deprived areas through the 2002 document "Social Enterprise - a strategy for success".
- Davis Review focusing on entreprenurel enducation.

It would be misleading to suggest that policy can have an impact on attitudes towards entrepreneurship in the short term, if at all. However, policy initiatives are important across the world as a mechanism for generating "noise" and excitement about entrepreneurship in markets where it is not financially viable for the private sector to be involved and similarly in sustaining the momentum behind entrepreneurial activity once it is established. Much of government activity should be directed at the demand side as it is here that the real impacts on attitudes towards entrepreneurship can be felt.

Table 4 presents a picture of changing attitudes over the four-years of comparable data in the UK.

	2001	2002	2003	2004
I expect to start a business in the next three years	-	4.6	6.2	9.5
I personally know an entrepreneur	27.0	23.0	24.6	27.7
There are good start-up opportunities	18.2	22.3	35.2	35.9
I have the skills to start a business	40.2	42.9	48.4	51.7
Fear of failure prevents me from starting a business	30.1	34.0	33.6	32.9
Starting a business is a good career choice	-	-	51.2	54.1
Entrepreneurs have a high status in society	-	-	71.0	71.7
Media coverage of entrepreneurship is good	-	-	56.2	55.7

Table 4
Perceptions of and attitudes towards entrepreneurial activity in the UK (2001-2004) (%) of respondents answering "yes"

Table 4 is divided into two sections: The top section, dealing with self-perceptions of entrepreneurial potential suggests that:

- There has been a constant increase in the proportion of individuals expecting to start a business over the next three-years from 4.6% in 2002 to 9.5% in 2004.
- There was a decline in the proportion of individuals who personally know an entrepreneur in 2002 and 2003, but the 2004 figure is higher than the level in 2001.
- Individuals appear to have become much more confident about the opportunities available to start-up a business between 2001 and 2004 as the number of people answering "yes" to this question has more than doubled over the period. Similarly, throughout the time period here, individuals have become more confident about their skills to start a business with over half of the population responding positively to this question in 2004 compared to 40% in 2001.
- Fear of failure has increased slightly between 2001 and 2004 from 30.1% to 32.9% in 2004 with a substantial increase in 2002 to 34%.
- The lower section of Table 4 looks at individual attitudes towards entrepreneurs and entrepreneurship. Entrepreneurs interviewed as experts in the GEM UK survey consistently argue that there is little understanding amongst the broader UK population about what entrepreneurship is and even less respect for entrepreneurs themselves. These GEM questions tend to imply that the opposite is the case, however. 54% of the population in 2004 thought that entrepreneurship would be a good career choice (a significant increase on 2003) and there has been a slight increase in the number of people who think that entrepreneurs have a high status in society.

Policy summary and expert views

These generally positive perception and attitudinal responses are reflected in the interviews we held as part of the GEM 2004 cycle. Experts acknowledge an increase in the numbers of people who think positively about entrepreneurship, but still believe that there is a deep-seated cultural resistance to entrepreneurship, particularly amongst young people, and that there is scope for the government to do more to improve the climate and the culture for entrepreneurship in the UK. One argued that, "the UK government does not regard entrepreneurship as a high priority," and although the raft of policy measures outlined already in this report would imply that the opposite is the case, there was a prevalent view that it is towards improving culture that real effort must be directed over the long term.

More specifically, the evidence thus far illustrates clearly an improving and a consistent picture of entrepreneurial activity and entrepreneurial culture in the UK compared to our G7 counterparts. However, there are two key policy issues that would warrant further consideration:

1. The level of entrepreneurial activity remains resistant to change despite improvements in

the entrepreneurial climate generally. It would be disingenuous to suggest that increasing entrepreneurial activity of whatever type is a panacea for creating higher productivity or even of closing the incomes gaps between UK regions, but there is evidence that the level of opportunity entrepreneurship has increased in the UK over the past four-years while the level of necessity entrepreneurship has fallen. Similarly, increased optimism in the UK may lead to higher TEA in the future.

2. Fear of failure has increased slightly over the past four-years, but clearly peaked in 2002 after 9/11 and is returning back to former levels now. It nevertheless remains an issue for policy makers since it may be evidence of a cultural bias towards low or no-risk labour market activity. As such it is a brake on the innovation and entrepreneurial policies of the government that are so vital to productivity policy and needs to be addressed with some urgency. One of our experts commented, "Honest failures, such as going bust because of supply problems or issues beyond the control of the business are still classed in the same way as fraud by UK financial institutions." A major contrast between the UK and the US economy lies in the cultural acceptance of failure and renewed efforts should be put into addressing this.

Section 4

Geography of Entrepreneurship

The UK government, through the Office of the Deputy Prime Minister, the Treasury and the Department for Trade and Industry has put considerable emphasis on closing the income and productivity gaps between the UK regions. Following budgetary changes in the 2004 Comprehensive Spending Review[11], the delivery of the Business Link services and corresponding enterprise agenda will rest with the Regional Development Agencies (RDAs) from April 2005. Further, RDAs now also have new responsibilities to manage regional research collaboration and grant awarding processes (including the Phoenix Fund), promote entrepreneurship in deprived areas and focus on rural development.

Focus on regions

The comparison of regional entrepreneurship takes on renewed relevance given the weight that is now placed on it by the government. The picture of Total Entrepreneurial Activity across the UK regions in 2004 is illustrated in Figure 5.

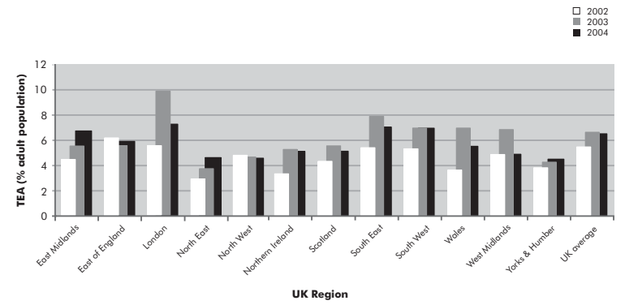

Figure 5
Total Entrepreneurial Activity in the UK regions[12]

11 Available at www.hm-treasury.gov.uk/spending_review Chapter 23: Regions and Devolved Administrations (pp173-180).

12 The regional comparisons of total entrepreneurial activity are based on different sample sizes in each region since there is no uniform participation by the Regional Development Agencies in the GEM survey. The minimum sample size in 2004 was 1,000 adults (in London, the East of England, the North East, South East, South West and the West Midlands). The sample size in the East Midlands, Yorkshire and Humberside and the North West was 3,000, in Northern Ireland it was 5,000 and in Scotland and Wales it was 2,000. Samples were stratified by age, gender and ethnicity to ensure a representative picture of the population in the UK. However, because the sample was thus stratified, weightings have had to be applied to derive a comparative regional picture. Where TEA rates and the components of TEA are compared, identical weightings to the global project, by age and gender, are used. However, where intra-UK comparisons are made of attitudes, finance, technology, social entrepreneurship etc., UK weightings on the basis of the 2001 census for age and gender are used. These provide the best year on year comparisons between regions for these variables. All differences reported are significant at the 1% level unless otherwise stated.

Immediately obvious from Figure 5 are several things:

- There has been a sizeable drop in TEA in London from 10% of the adult population to 7.2%, although the general trend over the three-year period is upwards (5.6% to 7.2%). Similarly, in the South East there was a reduction in TEA between 2003 and 2004 from 7.9% o 7% and in Wales form 6.8% to 5.8%, although again the trend is upward over the period.
- There has been a consistent increase in the East Midlands (from 4.6% to 6.7%), the North East (from 2.9% to 4.6%) and in Yorkshire and Humberside (from 3.9% to 4.4%).
- The range across the UK regions reduced between 2003 and 2004. There was a gap between the most and the least entrepreneurial regions of 3.2% in 2002, and of 6.2% in 2003. In 2004, however, the gap between Scotland and London was 3% of the total adult population.

It is more enlightening to examine the components of entrepreneurial activity (independent and job-related start-ups and owner-managers of businesses) since this yields a better picture of breakdown between start-up activity and the more established owner-manager businesses. This data is presented in Table 5 for 2003 and 2004.

	I am independently engaged in start-up activity		I am engaged in start-up activity as part of my job		I am the owner manager of a business		I have closed down a business in the last six months	
	'03	'04	'03	'04	'03	'04	'03	'04
East Midlands	3.4	4.3	2.1	2.4	12.5	12.2	3.5	1.8
East of England	5.2	2.8	2.1	1.4	13.4	13.7	2.6	2
London	8.3	6.2	2.4	1.9	4.1	11	2.1	2.1
North East	3.3	2.4	2	1.8	9.4	7.5	0.5	0.8
North West	4.3	3.1	1.6	1.9	10	10	2.1	1.1
Northern Ireland	4.6	4.4	2	2.2	11.7	9.1	1.3	2.2
Scotland	4.1	4	1.9	2	10.6	10.2	1.3	1.6
South East	5.4	5.4	2.4	2.1	15.3	11.3	2.4	2.3
South West	5	4.5	2.6	2.5	14.7	13.2	2.4	2.5
Wales	5.1	4.4	2.5	1.8	13.1	8.6	2.5	1.5
West Midlands	4.7	3	2.8	2.1	13.4	11.2	1.7	2.4
Yorks & Humber	3.7	3.5	2.2	1.2	10.3	8.5	1.9	1.7

Table 5
Components of TEA, UK regions, 2003-2004

Behind the picture of a relatively static rate of TEA, Table 5 illustrates a decline in start-up activity in every UK region except the East Midlands, alongside general reductions in job-related start-ups, owner-managed businesses and closing businesses too. There is, however, one interesting fact to pull out - the number of owner-managed businesses in London has more than doubled suggesting that although there are fewer start-ups, those that survive to maturity stand a better chance of survival. This is also the case in the East of England.

The picture is less gloomy, however, when the entrepreneurial statistics are examined by gender at a regional level. All regional policy makers have put substantial efforts into encouraging more women into entrepreneurial activity and there exists a raft of different networks, initiatives, tools and programmes that are available within regions and at a national level under the "Strategic Framework" document[13].

13 See for example SBS/DTI (2003): "A Strategic Framework for Women's Entrepreneurship: Sharing the Vision - a Collaborative Approach to Increasing Female Entrepreneurship." www.sbs.gov.uk

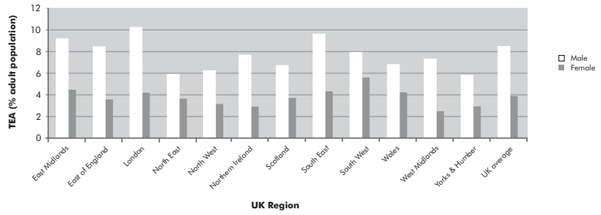

Figure 6
Male and female entrepreneurship in the UK regions (2004)

Figure 6 shows the relationship between male and female entrepreneurship in 2004 across the UK regions. Two key points can be brought out of this chart:

- First, the gap between male and female entrepreneurship has narrowed in the UK in 2004 as a result of a small increase in female entrepreneurial activity (from 3.8% to 3.9%) and a small decrease in male entrepreneurial activity (from 8.9% to 8.5%). For the UK as a whole, female entrepreneurship is some 47% the level of male entrepreneurship. There are six regions where the proportion of female entrepreneurs is higher than the UK average: the East Midlands (48%), the North East (58%), Scotland (54%) and the South West (where female entrepreneurship is 70% of male entrepreneurship). The largest gap is in the West Midlands where female entrepreneurship is just 34% of male entrepreneurship.
- There is a much narrower range between levels of female entrepreneurship in the most and least entrepreneurial regions than there is between levels of male entrepreneurship. London is the region with the highest level of male entrepreneurial activity at 10.1% of the adult population while Yorkshire and Humberside is the region with the least male entrepreneurial activity at some 5.7% of the male population. It is the South West that has the highest level of female entrepreneurship at 5.6% of the adult female population and the West Midlands that has the lowest at 2.5%.

Underneath the general levels of entrepreneurial activity is an interesting and emerging divide between men and women in terms of the overall patterns of entrepreneurial activity. This is illustrated in Figures 7 (male entrepreneurship over time) and 8a (female entrepreneurship over time).

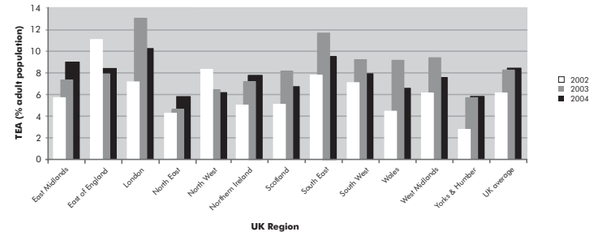

Figure 7
Trends in male TEA by UK region, 2002-2004

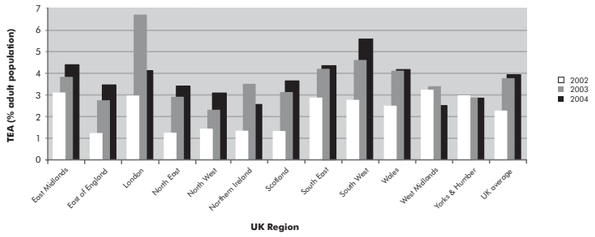

Figure 8a
Trends in female TEA in UK regions, 2002-2004

Figures 7 and 8a show a much more volatile picture of male entrepreneurial activity compared to female activity. Although for both men and women the trend over the three-year period is generally upward, there has been a considerable retrenchment in male entrepreneurship between 2003 and 2004 that arguably accounts for the overall reduction in Total Entrepreneurial Activity. However, for female entrepreneurship, all regions except Northern Ireland, the West Midlands and Yorkshire and Humberside demonstrate increases in activity and, while there is a distinct downward trend in the West Midlands and Northern Ireland, in Yorkshire and Humberside, over three-years the picture has remained static.

It is helpful, therefore, to look at some of the cultural background to the picture of entrepreneurial activity that is being painted at a regional level in the UK.

	I know an entrepreneur (%)	Good start-up opportunities (%)	I have the skills to start a business (%)	Fear of Failure would prevent starting up (%)
	2004	2004	2004	2004
East Midlands	30	42	56	31
East of England	33	41	57	31
London	32	39	61	32
North East	26	33	47	32
North West	26	38	56	32
Northern Ireland	28	39	49	42
Scotland	32	38	54	34
South East	34	45	56	31
South West	28	38	56	29
Wales	27	39	53	34
West Midlands	31	37	56	32
Yorks & Humber	25	39	52	32
Average	31	40	57	31

Table 6
Cultural responses at a regional level (2004)

There are a number of highlights to be drawn from Table 6:

- The East of England, Scotland, London and the South East all have higher than UK average numbers of people who know an entrepreneur.
- The East Midlands, East of England, and the South East are the three regions where perceptions of good start-up opportunities are the highest. The South East is significantly higher, with 45% of the population in that region seeing good start-up opportunities in the area where they live.
- London is the only region where people's perception of their skills is the highest at some 61% of the population.
- Fear of failure is lowest in the South West of England. It is highest in Northern Ireland at 42% of the population.

Informal investment activity, either in the form of small-scale investments by individuals in someone else's start-up activity or in the form of "proper" business angel activity is another important indicator of the actual cultural support for entrepreneurship since it tells us about the extent to which people are willing to invest in the ventures of other people. Informal investment activity across the UK has generally fallen, and Figure 8b presents a more detailed regional picture.

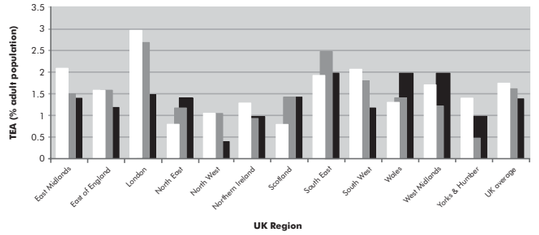

Figure 8b
Informal investment activity by UK region, 2002-2004

As in the whole of the UK, the picture for informal investment activity over a three-year period is generally downward with a constant downward trend in the East Midlands, the East of England, London, the North West and the South West. In Northern Ireland, there has been a reduction in informal investment activity over the three-years, but there was no change between 2003 and 2004, while in the South East there was a sharp increase in activity in 2003 followed by a reduction in 2004. The only two regions where informal investment activity has increased between 2003 and 2004 are the West Midlands and Yorkshire and Humberside.

A less formal indication of the cultural enthusiasm for entrepreneurship is measured through the responses to the question, "Do you expect to start a business in the next three-years?" Although this cannot be seen as a measure of likely actual start-up activity, it does yield interesting insights into the extent to which people are contemplating entrepreneurship. The results at a regional level are presented in Figure 9 for 2003 and 2004.

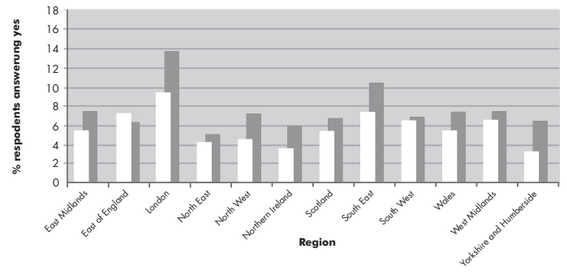

Figure 9
% respondents expecting to start-up a business in the next three-years by UK region, 2003, 2004

Immediately obvious from Figure 9 is the positive outlook for entrepreneurship over the next few years that has emerged from the survey in 2004. There have been marked increases in the numbers of people answering positively to this question in all regions of the UK except the East of England, with the number rising from 9.7% in 2003 to 15.3% in 2004 in London, and rising significantly in the North West (4.5-7.0) and in the South East (7.5-10.2). London had nearly three times as many people answering positively to this question as the North East where the response was just 5.2%. This is a similar ratio to 2003 when the

comparative figures were 9.7% for London and 3.4% for Yorkshire and Humberside.

Focus on urban-rural differences

One priority area for the government has been to facilitate development in rural areas through economic regeneration and enterprise. The Rural Strategy 2004 follows on the back of White Papers and consultations dating back to the 2001 Curry Report on the Future of Countryside and places an emphasis on supporting enterprise across all rural areas, but, in line with recommendations from the Haskins Report on rural delivery, specifically targeted at particularly those with the greatest need[14].

Defining "rural" is difficult and is the subject of work currently within the Countryside Agency, DEFRA, the Office of the Deputy Prime Minister, the Office of National Statistics and the Welsh Assembly[15]. For the purposes of GEM UK 2004 we have coded "urban" and "rural" according to the Countryside Agency system using postcodes rather than allowing respondents to say whether they are in an urban or a rural area. This yields a proportion of responses that fall out of urban or rural categories, and these are recorded as "sub-urban".

Figure 10 presents the results for TEA in 2004 for urban, rural and sub-urban postcodes.

Figure 10
TEA by location of Entrepreneur, 2004

Figure 10 shows that rural entrepreneurship is higher at 7.8% of the adult population than it is in either urban (5.7%) or sub-urban (5%) areas. This result is consistent with the "State of the Countryside 2004" report, which suggested that there were higher levels of VAT registrations in rural areas. Interestingly, there are no significant differences in the numbers of people involved in start-up activity either independently or as part of their job between rural (4.8% and 1.7% respectively), urban (4.5% and 2.1% respectively) and sub-urban (3.9 and 1.9% respectively) locations. However, there are differences in the levels of owner managed businesses, significant at the 1% level with rural areas having a much higher proportion of these businesses (13.5%) than either urban or suburban (at 10.5% and 9.6% respectively). The conclusion to draw from this is that the difference in Total Entrepreneurial Activity between different locations is because of the higher sustainability of start-ups in rural compared to urban or sub-urban areas.

Figure 11 looks at the differences in rural/urban TEA by gender.

Figure 11
TEA in different locations by gender

As with aggregate levels of entrepreneurship, there is higher female entrepreneurial activity by women in rural areas than in either urban or suburban areas. The gap between male and female entrepreneurship is narrowest in suburban locations, however, where female entrepreneurship is 60% of male entrepreneurship where it is 48% in rural and 43% in urban locations.

Differences in attitudes may help us to explain these differences in levels of entrepreneurial activity, and these are presented in Table 7.

	Urban (% answering yes)	Rural (% answering yes)	Suburban (% answering yes)
Personally know an entrepreneur	30.7	32.5	30.3
Good start-up opportunities	40.5	40.6	38.4
I have the skills to start a business	56.5	57.5	53.2
Fear of failure would prevent start-up	31.9	29.5	34.1
I expect to start a business	7.2	10.9	6.3
Entrepreneurship is a good career choice	56.1	53.0	52.5
Entrepreneurs have a high status	71.4	71.0	75.2
Good media coverage	55.9	57.9	58.9

Table 7
Attitudes towards entrepreneurship by location

As with some of the results on entrepreneurship, there are no significant differences in the numbers of people who know entrepreneurs or who see good start-up opportunities. The differences between rural, urban and suburban areas are significant at the 10% level for perceptions of skills, the status of entrepreneurs and coverage in the media. All other results are significant at the 5% level. It is interesting, therefore, given that entrepreneurship itself is higher in rural areas that more people from urban areas are expecting to start a business over the next three-years than in rural areas, despite the fact that fear of failure in rural areas is significantly lower.

14 See www.defra.gov.uk/rural/strategy.overview.htm and www.defra.gov.uk/rural/ruraldelivery/report/default.htm for further information.
15 See Countryside Agency, May 2003, The State of the Countryside

Focus on Areas of Social Deprivation

Table 8 presents levels of total entrepreneurial activity by the Index of Multiple Deprivation. This index has been grouped into four quartiles ranging from the most affluent (1) to the most deprived (4).

	TEA	Male	Female
Most affluent wards	6.7	9.8	3.3
More affluent wards	6.7	9.4	3.7
More deprived wards	5.8	8.1	3.7
Most deprived wards	5.6	6.8	4.5

Table 8
TEA by index of multiple deprivation

There is very little difference in entrepreneurial activity in the most affluent and more affluent wards of the UK, with female entrepreneurial activity almost one third of male entrepreneurial activity in these two categories. However, female TEA increases relative to male TEA as the wards become more deprived, and in the most deprived wards it is some 66% of male entrepreneurial activity.

A first attempt has been made to look at the wards categorised by the Index of Multiple Deprivation (IMD) on a regional basis across the UK. Care should be taken in interpreting these results since the IMD is calculated differently in Wales, Scotland and Northern Ireland compared to the rest of the UK. However, as many of the RDAs are concerned with regeneration through enterprise, it is useful to gain an initial picture of how much activity there is in some of the most deprived wards of the UK. The results are presented in Table 9.

	Most affluent	Most affluent	Most affluent	Most affluent
East Midlands	7.8	7.4	8.3	7.0
East of England	8.5	4.4	5.5	7.4
London	6.6	9.0	8.0	6.9
North East	6.6	3.8	5.7	6.3
North West	3.3	5.3	3.7	6.0
Northern Ireland	5.5	5.1	5.7	5.2
Scotland	5.4	5.1	4.5	4.4
South East	5.9	8.3	5.9	6.1
South West	7.3	6.0	7.7	4.3
Wales	6.0	7.4	6.7	5.3
West Midlands	9.8	4.4	2.5	1.7
Yorkshire and Humberside	4.2	3.7	4.8	4.3

Table 9
Regional analysis of TEA by index of multiple deprivation

There are several features of Table 9 that warrant comment:

1. In some regions, such as Yorkshire and Humberside, Scotland and Northern Ireland entrepreneurial activity is relatively evenly spread across the four quartiles of the index.
2. In the East of England and the North East the distribution of entrepreneurship is relatively polarised with the highest levels of entrepreneurship being either in the most affluent or the most deprived wards of the region. Indeed, the highest level of entrepreneurial activity in the most deprived wards across the UK is in the East of England at some 7.4% of the adult population in those areas.
3. Entrepreneurial activity in London is focused in the middle of the index - it is 9% in the more affluent wards and 8% in the more deprived wards.
4. In the South West, entrepreneurial activity is highest in the more deprived wards, however, there is a noticeable gap between the poorest wards of the South West, where TEA is 4.3% compared to the most affluent wards where it is 7.3%.
5. In the West Midlands entrepreneurial activity is significantly skewed towards the most affluent end of the distribution. In the most affluent wards TEA is 9.8% compared to just 1.7% in the most deprived wards.

Expert views and summary

The overall picture painted here of entrepreneurial activity in different locations across the UK can be summarised as follows:

1. There was a big drop in entrepreneurial activity in London in 2004 (from 10% to 7.2%), but sizeable increases in the East Midlands (4.6% to 6.7%) and the North East (2.9% to 4.6%). The drop in London may be explicable in terms of the changed economic conditions during 2004 that have resulted in fewer people leaving City jobs and this would be corroborated by the fact that entrepreneurial activity in the most affluent wards in London is lower than it is in the most deprived wards. But similarly, policy makers have put substantial efforts into increasing entrepreneurial activity from the bottom up in regions outside of London over the past few years and this may have contributed to the increases elsewhere.
2. There have been big increases in female entrepreneurial activity in some of the regions outside of London - particularly the East Midlands, the East of England, the North East, Northern Ireland, Scotland, and the South West. This is reflected in the more positive attitudes and self perceptions that are developing amongst women across the UK towards entrepreneurship. These will be revisited in the next section, but suffice it to say here that female entrepreneurship has increased in the regions and nations where a strong emphasis has been placed on increasing levels.
3. Rural entrepreneurship is higher than entrepreneurship in either suburban or urban areas at some 7.8% of the adult population (compared to 5.7% in urban areas). Rural women are more entrepreneurial than urban or suburban women.
4. The East of England has the highest level of entrepreneurial activity in the most deprived wards by the Index of Multiple Deprivation of any region at some 7.4% of the adult population. In the North West TEA is highest in the most deprived wards relative to all entrepreneurship in that region at 6%, but in the West Midlands, entrepreneurial activity is skewed towards the most affluent wards at some 9.8% of the population compared to the most deprived wards where it is just 1.7% of the population.

The picture painted above corroborates the view of many experts that there is no “one-size-fits-all” regional policy that can be applied across all regions and nations. Where there are already devolved administrations, and in the pilot regions for decentralised Business Links, such as the East Midlands and the North West, there has been policy focused on the specific needs of the regional labour market. As the RDAs acquire more autonomy, the move away from nationally set targets will enable them to examine facts such as those presented above and formulate policy on the basis of regional priorities.

Section 5

Entrepreneurial People

This section focuses on entrepreneurial activity by various demographic groupings to enable us better to understand the strengths and weaknesses of specific groups and, hence, to make recommendations about where to target resources. The government and regional policy makers are already working along targeted lines, but is helpful nevertheless to understand where some of the actual or emerging gaps are in order to be able to plug them.

Entrepreneurial demographics

Age and education

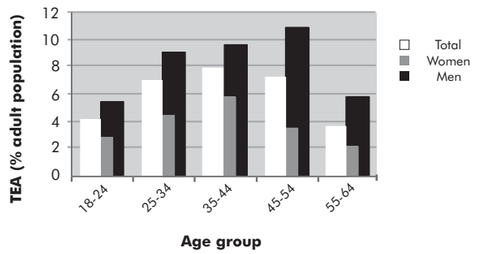

Figure 12
Total Entrepreneurial Activity by age grouping (2004): men and women compared

Figure 12 suggests that male and female entrepreneurship are slightly differently distributed across age groups - women between the ages of 35 and 44 are the most likely to become entrepreneurs while men are more likely to be entrepreneurs in the age category 45-54. Total entrepreneurial activity overall however is highest in the 35-44 year old age group.

This is an older age distribution than in 2003 where there were substantially more entrepreneurs in the 25-34 year old age group but it is a similar pattern to 2002. The gap between male and female entrepreneurial activity is also narrower amongst this age group - female entrepreneurship is 60% of male entrepreneurship compared to an equivalent figure of 34% in the 55-64 year old age group - women.

Table 10 looks at the attitudes behind the entrepreneurial statistics by age.

	18-24	25-34	35-44	45-54	55-64
Expect to start-up	10.7	13.8	10.4	8.1	4.2
Know an entrepreneur	35.6	37.0	35.0	26.7	19.0
Good opportunities	35.2	44.4	44.5	40.9	33.0
Have skills to start-up	41.1	57.3	62.1	59.2	57.0
Fear of failure	30.3	36.2	33.2	30.8	23.6
Good career choice	69.0	58.9	53.3	48.3	48.3
High status in society	84.0	75.0	69.3	65.1	67.4
Good media	52.4	55.6	57.0	59.3	58.1

Table 10
Entrepreneurial attitudes by age (2004)[16]

Several points can be highlighted from Table 10:

- Perception of opportunity and confidence in personal skills is highest amongst the 25-34, 35-44 and 45-54 age groups with levels highest in the 35-44 year old age group.
- People between the ages of 25 and 34 are the most likely to know an entrepreneur (37%) with the percentages answering positively to this question in older age groups (over the age of 45) much lower at 26.7% and 19% respectively.
- Younger people in the age category 25-34 are more likely to be thinking of starting a business. However, 18-24 year olds are almost as likely to be considering this as 35-44 year olds.
- Fear of failure is lowest in the 18-24 year old category and it is here that individuals are most likely to think that entrepreneurship is a good career choice and that it has a high status in society (84% compared to 75% in the next age grouping).

Figure 13 illustrates the breakdown of TEA by education for 2004 across all ages.

16 All results significant at the 1% level

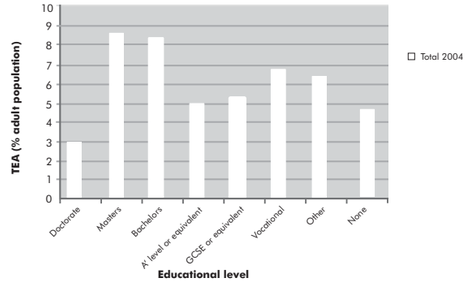

Figure 13
TEA by educational level, 2004-12-10

Individuals with Master and Bachelor level degrees are the most likely to be entrepreneurially active compared to all other groupings at 8.6% and 8.2% of the adult populations in those categories. However, vocational qualifications are also a good predictor of entrepreneurial activity at some 6.8% of the adult population. Individuals with Doctorate level qualifications are the least likely to be involved in Total Entrepreneurial Activity at 3.1% of the population, followed by those with no formal qualifications where TEA is 4.6%.

Similarly, the attitudes towards entrepreneurship are most positive amongst those with graduate or all postgraduate qualifications:

- 14.2% of those with a Master's level degree, 13.4% of those with a Doctoral qualification and 11% of those with a degree expect to start a business over the next three-years. This compares to 7% of those with GCSE qualifications and 5.4% of

those with no formal qualifications.

- Those with Master or Bachelor level degree qualifications are far more likely to know an entrepreneur than any other group at 41.1% and 36.5% respectively. This compares with 30.8% of those with doctoral level qualifications, 24.5% of those with GCSE qualifications and 18.4% of those with no formal qualifications.
- It is individuals with Doctoral level qualifications who are most likely to see opportunities to start a business with some 58.2% of this category responding positively to this question. Those with Masters and Bachelors degree level qualifications are less likely to see opportunities, at 47.7% and 47% respectively, but this is still significantly higher than those with other forms of education. The grouping least likely to see good opportunities are those with no formal education where only 28.3% felt that there were good opportunities for starting a business.
- 67.6% of those with a Doctoral qualification and 70% of those with a Masters degree feel that they have the skills to start a business. This compares to 62.2% of those with a Bachelors degree, 57.3% of those with 'A' levels, 50.1% of those with GCSE's and 41.8% of those with no formal qualifications.
- Fear of failure is lowest amongst two groups: those with a Doctoral level qualification (27.6%) and those with no formal qualification (29.6%). Fear of failure is highest amongst those with a Bachelors degree (33.6%)

This does not tell us much about the people who are leaving school and universities now, however, and, given the current focus of government activity on increasing entrepreneurship amongst young people, it is worth dwelling a while on the levels of entrepreneurial activity by education and age. The results are presented in Table 11.

	18-24	25-34	35-44	45-54	55-64
Doctorate	0	1.1	6.2	5.6	1.8
Master's degree	0	7.8	6.9	16.7	6.4
Bachelor's degree	5.5	6.8	11.3	8.7	7.5
'A' level or equivalent	1.4	6.2	8.8	6.3	1.9
GCSE or equivalent	3.9	8.9	6.2	3.9	2.8
Vocational	7.0	4.7	9.7	6.4	5.6
No formal	14.2	4.1	1.7	6.6	2.7

Table 11
TEA by education and age, 2004

Table 11 tells us two main things. First, entrepreneurial activity in four out of seven educational categories is highest in the 35-44 year old age group. Three of these are "majority" qualifications - Bachelor's degrees, 'A' levels and vocational qualifications. This is generally in line with the distribution of TEA by age described above. Second, however, entrepreneurial activity amongst people with no formal education is very high in the 18-24 year old age group. Indeed, for the 18-24 year old age group, entrepreneurial activity is twice as high in this category as it is for any other qualification level[17].

Although entrepreneurial activity in 2004 was higher in the 35-44 age grouping, the attitudes of the two younger age groups (18-24 and 25-34) present a really positive picture of how entrepreneurial activity might develop in the future however. This is illustrated in Table 12.

18-24	PhD	Masters	BA/BSc	A	GCSE	Voc	None
Expect to start-up	0	0	8.9	12.2	7.5	10.4	19.0
Know an entrepreneur	0	23.5	37.4	37.4	30.9	36.9	42.5
Good opportunities	0	36.7	42.8	32.8	32.6	18.1	36.8
Have skills to start-up	0	45.2	48.3	35.3	40.9	48.6	38.9
Fear of failure	0	62.9	33.9	29.0	29.7	14.2	39.8
Good career choice	0	61.4	53.3	63.1	80.7	87.7	65.6
High status in society	0	98.0	88.0	81.7	78.1	93.3	89.4
Good media	0	52.1	50.4	52.7	55.5	52.6	36.6
25-34	**PhD**	**Masters**	**BA/BSc**	**A**	**GCSE**	**Voc**	**None**
Expect to start-up	21.5	21.0	13.2	14.7	9.6	13.2	8.6
Know an entrepreneur	39.3	49.1	40.8	36.3	25.6	34.8	26.3
Good opportunities	73.9	51.4	46.4	44.9	40.4	35.8	26.4
Have skills to start-up	67.7	69.9	61.4	56.4	44.5	55.9	43.3
Fear of failure	31.9	34.7	35.3	36.7	36.2	44.5	33.3
Good career choice	55.8	54.1	55.0	52.1	67.2	67.9	84.5
High status in society	64.8	69.2	75.6	74.2	78.5	80.1	73.7
Good media	63.6	59.9	59.5	55.9	46.2	57.8	41.8

Table 12
Attitudes towards entrepreneurship by education and age

Table 12 tells us a number of things about age, education and propensity to be entrepreneurial:

- All educational groupings (with the exception of Master's and PhD level) in the 18-24 year old age group have higher numbers of individuals answering positively to the question, "Do you expect to start a business in the next few years?". The national average for this is 7.1% of respondents, but 19% of those with no formal qualifications, 10.4% of those with vocational qualifications and 12.2% of those with 'A' levels in this age group expect to start a business in the next three-years. Interestingly, for the older age group, the 25-34 year olds, just over one fifth of people with postgraduate qualifications answered positively to this question. The average for this age group across all educational groupings was again much higher than the UK average at 13.8%. 13.2% of people with degrees and 14.7% of people with 'A' levels expect to start a business in the next three-years in the 25-34 age group.
- In both age groups, 18-24 and 25-34, it is individuals with degrees of any kind who are most likely to know an entrepreneur, see opportunities and to think they have the skills to start a business. However, in the older age grouping, people with postgraduate qualifications are far more likely to see opportunities than those with Bachelor's degrees. Vocational qualifications are also a good predictor of whether or not people will think they have the skills to start-up in the 18-24 year old age group with some 48.6% of people in this category answering positively to this question.
- Individuals with postgraduate qualifications are far more likely than any other group in the 18-24 year old age category to fear failure (62.9%), although fear of failure is also relatively high amongst those with no formal qualifications at (39.8%) in this age group. It is lowest amongst those with vocational qualifications (14.2%). For the older age group (25-34) the fear of failure generally increases as qualification levels fall.
- In both age groups it is those with less formal or no formal education (GCSEs, vocational and no qualifications) who are likely to see entrepreneurship as a good

17 It would not be expected that there would be much entrepreneurial activity amongst postgraduates at this level since numbers who had gone through postgraduate education at that age would be very small indeed.

career choice, and in the older age category these educational groupings also have a more positive attitude towards the status of entrepreneurs in society. However, those with no formal qualifications are also more likely to think that media coverage of entrepreneurship is not as good.

Age and education: summary and expert views

All of this suggests that the scope and climate for promoting entrepreneurial behaviours is very good indeed. Young people regard entrepreneurship as something that would be a good career choice, and as a high status activity and are almost as likely as their older counterparts to be considering starting a business. However, education, experience and confidence are equally important drivers of entrepreneurial activity, as the higher numbers of people responding to questions about confidence and skills in older age and higher educational groups shows, and hence, it is to be expected that levels of actual entrepreneurial activity will be higher in this age group.

This is not to suggest that entrepreneurship is for older people alone and many of our experts were keen to welcome initiatives instigated under the Davies Review entitling all Key Stage 3 pupils to a week's enterprise learning in schools from September 2005 as a means of driving culture change from the bottom up. Many of our experts commented that the education system's approach to teaching business used old-fashioned approaches that would benefit from closer collaboration with local businesses. As one remarked, "entrepreneurship has to be seen as a valid mainstream option for students and school pupils and not as a last resort. Its image is in need of a serious makeover. At present it is seen as a sin. It is not. It is business!"

There is one other interesting point to be made here about the high percentages of the youngest age group of people with no formal qualifications who are involved with some form of entrepreneurship, or who regard it as a good career choice. Very high numbers of 18-24 year olds who fall into this category are entrepreneurial (TEA is 14.2%) and 19% of them were expecting to start a business over the next few years. They do however feel that they lack skills in comparison with other educational groupings by age. Policy should focus on those who are not succeeding in the "formal" education system as teaching through something specific like business planning and business building may be a fruitful way of overcoming learning barriers amongst this group of people.

Employment

Some 3.2% of the adult population are involved in running a business as a sideline to their normal employment or have some form of self-employment as a supplement to their paid income.

This picture of entrepreneurship as an "extra" activity that people engage in on top of their paid employment is corroborated when patterns of entrepreneurial activity are examined by employment grouping. This is illustrated in Figure 14.

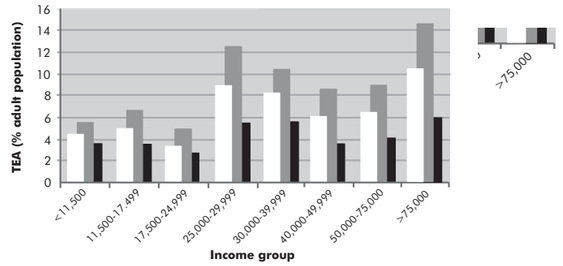

Figure 14
TEA by employment grouping (men and women compared), 2004

As in previous years, it is the full time and part-time employees who have the highest rate of entrepreneurial activity at some 7.1% of the adult population in each category. The gap between male and female entrepreneurship is widest amongst part-time workers (36% of male entrepreneurship) and retired people (28%). There are three interesting features of Figure 14, however:

- Female entrepreneurship is higher than male entrepreneurship amongst homemakers (where male entrepreneurial activity is very low but female entrepreneurship is 2.8%), and amongst students where female TEA is 2.6% and male TEA is 1.6%.
- Student entrepreneurship has increased from 0.9% in 2003 to 2.3% overall in 2004.
- GEM 2004 distinguished between those out of work and claiming benefit (unemployed in Figure 14), and those out of work and not claiming unemployment benefits (labour market inactive). This figure includes people on incapacity benefits and on no benefits at all. After full and part-time employment, this category of individuals has the next highest level of entrepreneurial activity at 5% of the adult population. Male TEA is 6.5% and female TEA is 3.2%.

Income

Figure 15 presents the TEA rates by income distribution.

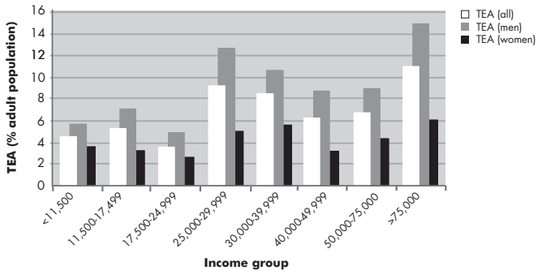

Figure 15
TEA by income grouping (men and women compared)

Figure 15 demonstrates clearly that entrepreneurial activity is highest in high income groups (greater than £75,000) and in middle income groups (£25,000-£29,000). It is these groups where the gap between male and female entrepreneurial activity is also the widest. TEA in the highest income group is 10.9% compared to 9.1% in the middle income group. Male TEA is 14.8% in the former and 12.4% in the latter. The respective figures for female TEA are 6% and 5.1%.

Female TEA is highest in the income category £30,000-£39,000 but there is a much narrower range by income amongst women

entrepreneurs (2.7%-6%) compared to male entrepreneurs (4.9%-14.8%).

The narrowest gap between male and female entrepreneurship is in the lowest income group of less than £11,500. Here TEA is 4.5% overall. Male entrepreneurship is 5.7% and female TEA is 3.7%.

Public and private sector employees compared

TEA for people working the public sector is 4.9% of the adult population while for the private sector it is 5.6%. Men in the public sector have a slightly higher level of TEA at 7.8% compared to men from the private sector where the equivalent figure is 7.4%. These figures are significant at the 1% level.

Although generally speaking public sector workers are less likely to know an entrepreneur than their private sector counterparts (19.8% compared to 28.4%) and similarly less likely to think that they have the skills (50.2% compared to 53.3%), public sector employees have a very positive attitude towards entrepreneurial potential:

- They are more likely to think that there are good start-up opportunities (36.8% compared to 34.6%).
- There is no significant difference in the extent to which public and private sector employees see fear of failure as a barrier to self-employment, although the figure is slightly higher for public sector workers (33.9% compared to 33.2%).
- Public sector workers are more likely to view entrepreneurship as a good career choice (58.7% compared to 52.7%) and as a high status activity (75.9% compared to 73.3%) although attitudes to media coverage are worse (49.7% compared to 56.3%).

Focus on women

As noted at the outset, female entrepreneurial activity is lower than male entrepreneurial activity and this is generally true across the regions and nations of the UK. There have been steady increases in female entrepreneurial activity in some regions of the UK, such as the East Midlands, and female entrepreneurial activity in the UK has risen slightly (from 3.8% in 2003 to 3.9% in 2004) while male entrepreneurial activity has fallen (from 8.9% in 2003 to 8.5% in 2004). Further, as Figure 13 showed, even amongst the younger age groups, 18-24 and 25-34, female entrepreneurship is still half the level of male entrepreneurship and this has to be a concern since, in the words of one expert we interviewed, "this represents a chronic waste of talent and resources in the economy as a whole."

We know that attitudes towards entrepreneurship and perception of one's own capacity to become an entrepreneur are important drivers of entrepreneurial activity and it is informative, therefore, to compare the attitudes and perceptions of men and women. The results are presented in Table 13.

	Men		Women	
	2003	2004	2003	2004
I expect to start a business in the next three years	10.3	11.8	5.1	7.2
Personally know an entrepreneur	33.6	35.5	23.9	26.0
There are good start-up opportunities where I live	44.0	44.1	33.1	35.9
I have the skills to start a business	63.2	65.0	42.9	46.6
Fear of failure would prevent start-up	29.8	28.7	33.9	34.5
Entrepreneurship is a good career choice	51.3	54.3	51.1	55.8
Entrepreneurs have a high status	71.2	71.0	70.7	72.0
Good media coverage of entrepreneurship	57.7	57.4	54.4	55.8

Table 13
Male and female attitudinal differences, 2004

Table 13 presents a picture that is consistent with previous years. Even though the attitudes have generally improved, women are still substantially less likely to be expecting to start a business, to know an entrepreneur, to see good business opportunities, or to think that they have the skills to start a business than men. However, there are no statistically significant differences between men and women in terms of their attitudes towards entrepreneurship as a career choice, entrepreneurial status or coverage of entrepreneurship in the media.

There are some other interesting highlights to draw from the 2004 data:

- Women are half as likely to be involved in either independent or job related start-up activity as men. Independent start-up activity amongst women is 3.1% of the female adult population but is 6% amongst men, while the equivalent figures for job related start-ups are 1.3% and 2.6%.
- Women are half as likely to be informal investors as men (0.9% compared to 1.8%).
- 1.2% of women and 2.9% of men have closed a business in the last year.
- 6.7% of women and 15.8% of men are owners or managers of their own business.

GEM 2004 asked respondents who were starting up or running an entrepreneurial business about their current turnover, and about their expected turnover in three-years time, or for owner managed businesses, their turnover three-years ago to establish the extent to which the predicted growth had actually materialised. The results are presented in Table 14.

The results, which are significant at the 1% level, suggest:

1. That female entrepreneurs have a much lower expectation of the extent to which their companies are likely to grow over a three-year period from start-up. They expect their business have a turnover approximately two fifths higher than its starting turnover in three-years time. However men expect their businesses to be more than double the size that they are now in three-years time.
2. Interestingly though, even these expectations do not materialise when we examine the actual growth of the owner-managed businesses of 36 months or older. Female-owned businesses have not grown at all on average, while male-owned businesses grew slightly on average (£69,481-£75,000) over a three-year period.

	Start-ups		Owner-managers	
	Turnover now (£)	Projected three year turnover (£)	Turnover now (£)	Turnover three years ago (£)
Female	25,000	35,000	36,000	36,000
Male	50,000	116,597	75,000	69,481

Table 14
Average turnover predictions and actual turnover, start-up and owner-managed businesses, by gender (2004)

Further, there are no significant differences by gender when respondents were asked to say how many jobs they were creating now, either as start-up or more established owner-managed businesses. For both men and women the median number of jobs created now was the same at just one. However, over a five-year period, men starting up a business predict that they will create five jobs, while women predict that they will create two, while for owner-managed businesses, the equivalent figures are two for men and one for women.

This is not to suggest that female businesses do not have growth potential, however. As Figure 16 shows, women are more likely than men to be owning or managing a business that is using technology that was not available a year ago.

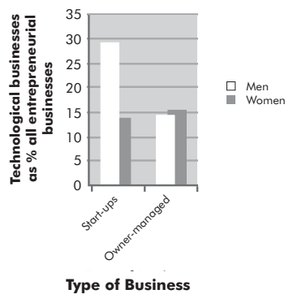

Figure 16
Technology entrepreneurship by gender

Summary and expert views

One of the (male) experts interviewed as part of this survey argued that women had a "hard time" when it came to starting a business. Although there is no explicit gender bias against female businesses, several experts argued that women are disadvantaged by the cultural background that results in them lacking confidence, feeling like they have not got the skills and simply not knowing where to start to get a business idea off the ground. Another expert argued that she herself had been surprised when her business grew more quickly than she was expecting and had felt quite frightened as it started to grow.

The data presented here suggest that women have lower expectations of what they can achieve and this translates into lower expectations of job creation and lower expectations of turnover growth. The solution to this rests in the attitudinal and perceptional data presented in this section. Although attitudes are improving, there is still a substantial and significant gap between men and women in terms of their perception of their skills and the opportunities for business start-ups out there.

Focus on ethnic minorities

Figure 17 shows levels of TEA broken down by gender amongst different ethnic groupings in the UK[18]. It shows just how much more entrepreneurial ethnic minority groups are compared to their white counterparts, a picture that is consistent with that painted in previous GEM UK reports

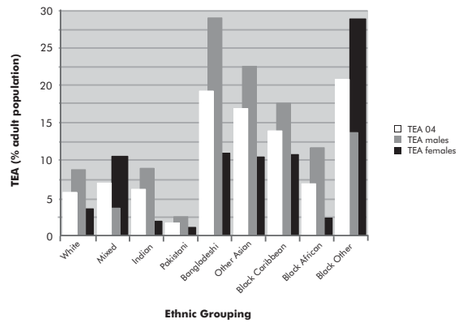

Figure 17
TEA by ethnic grouping, 2004, men and women compared

The lowest level of entrepreneurial activity is amongst Pakistani people where TEA is just 1.6% of the adult population, or 2.4% of the male population and 1% of the female population. White people have the next lowest level of entrepreneurial activity, at 5.9% of the adult population although men in this group have a much higher rate of TEA at 8.2% compared to those in either the Mixed ethnic background group where male TEA is 3.9% or Pakistani men.

TEA amongst ethnic minority groups, with the notable exception of Pakistani people, is substantially higher than for White people. For example, TEA is three times higher for Bangladeshi and other Asian people, twice as high for Black Caribbeans and three and a half times higher amongst the "other Black" category.

With the exception of women from Indian, Pakistani and Black African backgrounds, women from ethnic minorities are substantially more entrepreneurial than their white female counterparts. For example, female TEA amongst white people is 3.6%, but is two and a half times higher amongst women from mixed backgrounds (10.2%), Bangladeshis (10.9%), Other Asians (10.3%) and Black Caribbeans (10.5%). The most entrepreneurial female grouping is that of "Other Black" at some 29.2% of all women.

Given these overall differences, it is interesting to look at the attitudes of ethnic minority groupings. Table 15 illustrates the responses to the GEM core attitudinal and perceptional questions.

18 Ethnic groupings have been combined to ensure that numbers are large enough for the conclusions drawn in the section to be robust. Each grouping from the Indian sub-continent was sufficiently large to allow for separate analysis, but Chinese respondents were grouped into "other Asian". It should be stressed that the groupings are on grounds of ethnicity and not religion.

	Expect start-up	Know entrepreneur	Good opportunities	Have skills	Fear of failure	Fear lack of finance
White	8.1	30.6	40.3	56.3	31.2	59.3
Mixed	21.4	35.8	45.3	51.9	36.4	64.8
Indian	20.4	32.8	45.1	62.4	36.6	60.7
Pakistani	31.4	40.5	41.7	55.2	19.3	54.1
Bangladeshi	29.4	38.3	58.1	58.7	14.9	73.9
Other Asian	17.4	38.1	36.1	58.9	35.8	56.0
Black Caribbean	25.7	37.5	25.0	59.0	31.7	67.6
Black African	27.1	34.7	41.2	65.8	28.7	63.7
Black Other	27.6	33.3	55.6	69.6	37.5	41.9

Table 15
Responses to attitudinal questions by ethnic grouping, 2004

TEA is highest amongst Bangladeshi and "Black Other" groups of people. But although entrepreneurial activity is not quite as high amongst Bangladeshi people (18.8% compared to 21%), it is this group of people that exhibits the most positive attitudes and perceptions of entrepreneurship. For example, Bangladeshi people are the most likely of all ethnic groupings to see an opportunity (58.1%) and the least likely to fear failure (14.9%). Compared to all other groups except Pakistani people they were the most likely to know an entrepreneur, and the most likely to see good start-up opportunities as well. Interestingly, they are also the ethnic grouping who are most likely to let lack of finance prevent them from starting a business.

The results for the Pakistani community are also worth dwelling on. Pakistani people are the least entrepreneurial of any ethnic grouping. However, they are the group most likely to expect to start a business over the next three-years, the group most likely to see opportunities and similarly as a group of people have a very low fear of failure rate at just 19.3% of the adult population.

There are a few other highlights from the data that should be highlighted here:

- People from White or Mixed ethnic backgrounds are the most likely to be involved in start-up activity using technology that was not available a year ago (22.1% and 20% respectively). All other groups score very low indeed. However, for owner-managed businesses, Indians and other Asians are the most likely groups to be providing a good or a service based on technology that was not available a year ago at 43.6% and 48.1% respectively. This compares to 14.1% of White businesses.
- Black Caribbean people are most likely of all ethnic backgrounds to be starting up a business that provides a good or service that is new to all customers at 36% of all businesses. This compares to 18.6% of White businesses, 14.8% of other Asian businesses and 5% of Mixed ethnic background businesses.
- Indian start-up businesses are the least likely to be export oriented of all ethnic groupings with some 87.5% of respondents in this category saying that they had no customers abroad. This compares to 79.9% of White owned start-ups and 40% of Mixed ethnic origin start-ups with no customers abroad.
- The predominant source of start-up finance for many ethnic groupings is friends and family. The figures are Other Asian, 53.4%, Pakistani, 93%, Black African, 52.6%, and Black Other, 52.9%. The predominant source of finance for White people is bank overdraft (29.3%) as it is for Black Caribbean people (38.3%).

Expert views and summary

From the data presented here, there is every reason to provide ethnic minority businesses with more support to start-up and grow since most ethnic minority groups are far more entrepreneurial than their White counterparts. The pattern is similar by gender - there are more entrepreneurially active ethnic minority women, but, as one expert told us, there are still large gaps in these communities.

Ethnic minority people tend to have more positive attitudes towards entrepreneurship and better self-perceptions of their capacity to establish a business. However, they are proportionately more likely to let fear of a lack of finance prevent them from starting a business and, similarly, to use family and friends as the key source for start-up finance.

According to our experts, the key areas of weakness for ethnic minority business are finance, business support and ICT take-up rates. These are areas which, with careful targeted support at ethnic minority businesses are relatively easy to address and, given that ethnic minority people tend to be more entrepreneurial and have positive attitudes towards entrepreneurship, there is scope for increasing entrepreneurial activity in the UK as a whole by promoting it further and providing support amongst our ethnic minority communities.

Section 6

Types of Entrepreneurial Businesses

There is no one type of "entrepreneur" nor, indeed, one type of "entrepreneurial business." Policy makers, commentators and academics often make assumptions about the word "entrepreneur" as being an individual in charge of a high growth business with accumulation of money as the only motivator of their activity. GEM UK can distinguish between types of entrepreneur, but it can also distinguish between types of entrepreneurial business and in this section focuses on three types - high growth, new technology and social - since these represent a broad spectrum of different types of entrepreneurial activity.

Focus on high growth

- On average, a high growth entrepreneurial start-up will expect to grow by 400% in terms of sales turnover within a three-year period. An entrepreneurial start-up in the least growth-oriented quartile will anticipate growth of 16.7%, in the second quartile by 77.8% and in the third quartile 200%.
- The quartile of fastest growing owner-managed businesses have, on average, grown by 156% in terms of sales turnover over a three-year period. Those in the lowest quartile have not grown at all, those in the second quartile by 17.7% and those in the third by 42.9%.
- 52.5% of postgraduate owned start-ups fall into the fastest growth potential quartile, compared to 11.9% of those start-ups from individuals with a Bachelor's level qualification.
- Wales is the region with the largest number of start-ups in the highest growth potential quartile with some 40% of all start-ups falling into this category. Yorkshire and Humberside has the smallest number of businesses falling into this category at just 11.1%.

Focus on high tech

As outlined at the outset of this report, the UK government has placed substantial emphasis on the need to drive its productivity agenda through innovation and entrepreneurship. Underpinning this policy initiative is a body of research that suggests that the UK is relatively weak in translating scientific research into commercial application and entrepreneurially-based new technology businesses. A range of programmes exist to develop collaboration run through the DTI and the SBS, mostly as competitions for seed or growth finance for individual entrepreneurs or competitive awards through national programmes for regional or national networks that bring together scientists, entrepreneurs, business people and financiers.

Some measure of success of these programmes may be found in the extent to which entrepreneurs are starting up businesses using technology that was not available a year ago, and this information, for start-ups and owner managed businesses, is presented in Figure 18.

Figure 18
New technology start-ups and owner-managed businesses by UK region 2004

Figure 18 illustrates a broad increase since 2003 in entrepreneurial businesses saying that they were providing a good or service using technology that was not available a year ago. As a percentage of all start-up businesses, 18.6% said that they were using or supplying new technology in 2004, compared to 11.3% in 2003, while 15% of owner-managed businesses in 2004 were using or supplying new technology compared to 9.9% in 2003.

At a regional level, the South West has the highest number of new technology start-ups at some 29.9% of all start-up activity, and London has the second highest number at 24.6% of all start-ups. These figures compare to 17% in the South West and 18% in London in 2003. The region with the smallest number of technology start-ups is the North East with 4.2% of all start-up activities (compared to 9% in 2003), but interestingly, the number of new technology businesses in the North East has risen substantially since 2003 from 3.2% to 13.7%.

Innovation in its broadest sense is measured through the numbers of businesses that provide products or services that are new to the customers or markets that they supply. Figure 19 looks at innovative start-ups and owner-managed businesses by UK region for 2004.

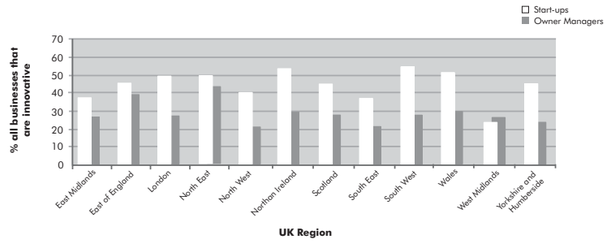

Figure 19
Innovative entrepreneurial businesses (% of all businesses), UK regions compared

Figure 19 shows the percentage of all businesses in each category (start-up or owner-managed) that said they were supplying a good or service that was new to some or all customers. The numbers are much larger than for technology-based businesses since an innovation does not need to be based

necessarily on a new technology. Northern Ireland and the South West are the two regions with the highest number of innovative start-ups, while the East of England and the North East have the highest number of innovative owner-managed businesses.

The picture painted thus far suggests that there is a strong innovation and new technology base to entrepreneurial businesses in the UK. A major concern, however, is the extent to which these businesses are working in isolation or within networks. Where networking activity is higher (for example, more collaborative Research and Development (R&D) with other businesses or with universities) the potential for knowledge transfer is also higher and this increases the innovation base of the economy.

Table 16, then looks at the way in which owner-managed businesses across the UK conduct their research and development. Questions about R&D are asked to all businesses who say that they have introduced a new product or service to the market in the last year[19]. The responses to this question are given in the first column, and R&D patterns are given subsequently.

	Innovation introduced in last year	Turnover spent on R&D (mean %)	R&D developed in house	R&D with other enterprises	R&D with universities	R&D bought in
East Midlands	17.0	4.6	44.4	18.5	3.7	18.5
East of England	31.8	8.8	38.9	19.4	6.9	31.9
London	23.3	3.0	32.1	30.4	10.7	17.9
North East	17.6	19.1	22.2	55.6	11.1	0
North West	16.9	8.4	51.7	20.7	3.4	13.8
Northern Ireland	19.6	9.0	40.0	20.0	0	30.0
Scotland	17.1	8.0	29.0	29.0	3.2	16.1
South East	22.2	12.7	44.8	35.8	0	9.0
South West	19.8	5.7	41.7	29.2	4.2	12.5
Wales	32.4	9.3	51.9	18.5	3.7	14.8
West Midlands	19.4	14.5	56.1	29.8	0	4.9
Yorkshire and Humberside	19.5	7.5	29.6	40.7	3.7	18.5

Table 16
Innovation networks across UK regions (2004)

Table 16 suggests the following:

- Wales has the highest number of companies introducing a technology in the last year. Here, nearly 52% of research is conducted in house, but where collaboration does take place, it is predominantly with other enterprises (18.5%). The East of England has the second highest number of companies introducing products or services to the market in the last year, but in this region, technology is either conducted in house or bought in from other enterprises (38.9% and 31.9% respectively).
- The most networked region is the North East with just 22.2% of businesses conducting their research in house. 55.6% collaborate with other enterprises, and 11.1% with universities.
- Collaboration with universities is relatively low in most regions except London (10.7%) and the North East (11.1%).

19 This is a slightly different question to the one reported in Figure 20 and hence the totals are different.

Summary and expert views

The data presented above suggest that there are many reasons to be positive about the technology and innovation base of entrepreneurial activity in the UK:

- There has been a sizeable increase in the numbers of technology start-ups and owner-managed businesses across all regions of the UK since 2003.
- An average of 43.8% of all start-ups in the UK are providing a good or a service that is new to some or all customers and 21.4% of owner-manager businesses have introduced in the last year a product or service that was new to the market.
- Of this latter group, there are only three regions of the UK (the North West, the West Midlands and Wales) where research and development is conducted predominantly in house. 27.9% of innovating companies conduct research in collaboration with other enterprises and 16.4% buy in new technology.
- The level of collaboration with institutions such as universities is still very low at just 4.3% of all businesses. Although there are regional variations in this statistic (for example in the North East 11.1% collaborate with universities), in some regions, such as the South East, the numbers were too small to be measurable.

This last point illustrates a well-documented and acknowledged problem in the UK's technology transfer system that experts were keen to stress. Many complained that the attitude of universities towards entrepreneurship was not uniform and that there is still a focus in many universities on extracting value from innovation in the form of complex intellectual property and spin-out structures that militate against further collaborations with industry.

Focus on social entrepreneurs

Social entrepreneurship is a relatively new area of investigation within the entrepreneurship discipline, and within policy circles as well. There is little systematic data on the numbers and scale of socially oriented entrepreneurship and, although it has been a policy priority in the UK for several years now as a means of regenerating deprived wards, of delivering public service reform and of offering a new business model that is appropriate to a broader cross-section of the community, there is still relatively little known about this specific group of entrepreneurs.

GEM UK introduced questions that sought to address this gap in our knowledge in 2003, and the results were produced in the *UK Social Entrepreneurship Monitor 2003*[20]. In 2004 we have modified the approach somewhat to make it more directly comparable to the methodology in the rest of the GEM survey. This yields a figure for Social Entrepreneurial Activity of 2% using just those businesses that have been up and running for up to 42 months. However, a further 2% of businesses in 2004 had been running socially oriented activities or ventures for more than 42 months.

It is important to distinguish between Social Entrepreneurial Activity, which is what GEM is measuring here, and the narrower definition of social enterprise which is used by practitioners.

20 Harding and Cowling 2003, Social Entrepreneurship Monitor, London Business School

Social Entrepreneurs conduct social entrepreneurial activity - they are motivated by the desire to create a social change, not by the desire to make money or, necessarily, to have an economic impact. Social Enterprises, that reinvest their revenues into the activity or venture to enable it to continue its activities are mostly run by social entrepreneurs. GEM UK distinguishes between social entrepreneurial start-ups and social entrepreneurial managed activities. Like the analysis for the mainstream businesses, the start-ups are less than three months old while the social entrepreneurial managed organisations are the more established activities or ventures.

The levels of social entrepreneurial activity, either at start-up or at managed stage, across the UK regions are presented in Figure 20.

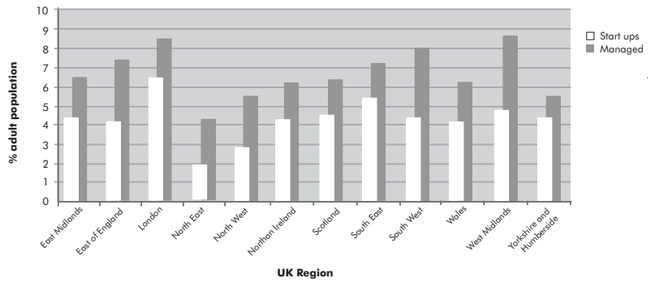

Figure 20
Social entrepreneurial start-ups and managed activity across UK regions, 2004

Overall in the UK some 4.7% of the population is setting up a socially oriented entrepreneurial activity while 6.9% are owning, running or managing a socially oriented organisation.

Women are more likely to be involved with starting up socially oriented activities (4.9% of women compared to 4.5% of men) but are less likely to be owners or managers of a social venture (6.2% of women compared to 7.7% of men).

Comparing the UK regions demonstrates that social entrepreneurial activity is more widespread across the UK regions compared to mainstream entrepreneurial activity. Although there is more social entrepreneurial activity in the form of start-ups going on in London and the South East, at 6.7% and 5.5%, there is a much narrower gap with the majority of regions outside of London where entrepreneurial activity in the form of start-ups is between 4.1% and 4.8% of the adult population. The only exceptions are the North East and the North West where start-ups are lower at 2% and 3.9% of the adult population respectively.

The West Midlands has the highest number of more established socially oriented ventures at 8.7%. 8.4% of the adult population in London and 8% in the South West own or manage a socially oriented venture or activity.

One further regional comparison is interesting - that of gender. In four of the UK regions women are more likely than men to be setting up a socially oriented venture or activity - the East Midlands (4.4% compared to 4.3%), London (8.5% compared to 4.9%), the North East (3% compared to 1%) and the South East (6.6% compared to 4.5%). However, although the numbers of men and women owning or managing a socially oriented activity or venture are very similar in London (8.1% of women compared to 8.8% of men), in all other regions, men are more likely to be running the more established ventures than women.

Social entrepreneurs are generally thought to be driven, motivated and focused individuals who are motivated by a desire to make a real social change[21]. The comparison of attitudes with mainstream entrepreneurs and with the general population therefore makes interesting reading. This is presented in Table 17.

	Social entrepreneurs	Mainstream entrepreneurs	Whole UK population
Expect to start a business in three years	27.2	59.0	9.5
Personally know an entrepreneur	53.6	50.1	27.7
Good start-up opportunities	59.5	68.6	35.9
Have the skills to start a business	67.7	82.3	51.7
Fear of failure would prevent me	27.9	22.0	32.9
Fear of lack of finance would prevent me	60.3	55.7	59.0

Table 17
Attitudes and perceptions of entrepreneurship: social, mainstream and UK population compared

Table 17 demonstrates that social entrepreneurs are more focused and positive than the whole UK population by a long way, but are not as confident as their mainstream counterparts. For example, both social and mainstream entrepreneurs are, respectively, three and six times as likely as the rest of the UK population to be thinking of starting a business in the next three-years, and twice as likely to know an entrepreneur. They are nearly twice as likely to see good business opportunities and although social entrepreneurs are more likely to fear failure than mainstream entrepreneurs (27.9% and 22%) they are less likely to fear failure than the whole population.

Social entrepreneurial practitioners and experts argued that nothing would get in the way of social entrepreneurs and their activity. However, 60.3% of social entrepreneurs in the GEM survey said that lack of finance stop them, which this is higher than for the UK population as a whole.

There are two more points worth mentioning here:

- As with mainstream activities, ethnic minority groups are more likely to be setting up or running socially oriented activities or ventures. The most entrepreneurial ethnic minority grouping is Black Caribbean, where some 14.7% are social entrepreneurs. This is nearly three times the level of White people where social entrepreneurial start-ups are 4.9% of the population. Indian people are nearly twice as likely as White people to be social entrepreneurs with 12% of the adult population involved in start-up activity. However, once the activities become more established, the distribution narrows, and although Black African people are the most likely to fall into this category (12.9% of the population), some 8.8% of Pakistani people, 8.6% of Black Caribbean and 7.2% of White people are also involved.
- The Social Entrepreneurial Activity rate is three times higher (at 3% of the adult population) in the 35-44 year old age group compared to the 18-24 year old age group. This is a similar pattern to mainstream entrepreneurial activity.

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Summary and expert views
This section illustrates the importance of social entrepreneurship as a mechanism for creating an entrepreneurial business model that is inclusive of all types of people. Women in particular are more likely to be involved in this type of entrepreneurship than in mainstream entrepreneurial activity and it is noticeable that in some regions of the UK they are more likely than men to be involved with this type of venture. Social entrepreneurs, although not quite as confident maybe as their mainstream counterparts still have a strong image of their own skills and of the potential for start-up activity.

Our experts were keen to stress that social entrepreneurship has a different position in the economy compared to mainstream activity. One commented that it is a measure of the health of civil society and hence needs to be valued and promoted as much as possible. Experts in this area were agreed that there is too little data and information out there about motivations and stimulants to social entrepreneurship, or, indeed, its role in generating wealth for the communities in which it operates.

This section of the report has illustrated that, although maybe not as widespread this year as mainstream entrepreneurial activity, the social entrepreneurs have strong and specific characteristics that are very similar to those of mainstream entrepreneurs. With appropriate support and guidance, there is no reason why this cannot develop into a movement in the UK that promotes economic regeneration through social goals.

Section 7

Entrepreneurial Impact

Around the world, but particularly in the UK, much of the policy debate on the importance of entrepreneurship is predicated upon a belief that entrepreneurship leads to higher productivity and income growth. GEM UK in 2004 asked questions to examine the issues around productivity. One of the most interesting findings is the fact that the role of the founding entrepreneur is both measurable and very important in generating higher growth and productivity in start-up businesses. This suggests that entrepreneurs themselves do have a big impact on the overall productivity and performance of an economy.

First, however, it is instructive to look at how entrepreneurial activity is distributed across the sectors of the UK economy. This is presented in Figure 21.

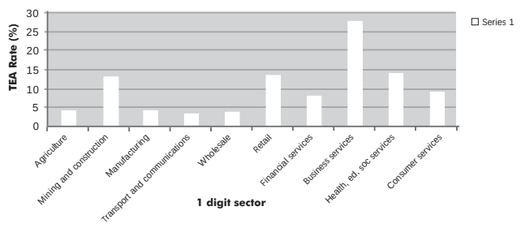

Figure 21
Distribution of TEA across SIC 1-digit sectors of the UK (2004)

Figure 21 illustrates that the majority of entrepreneurial activity takes place in the Business Services sector, which accounts for 27.1% of all entrepreneurial activity in the UK. However, health, education and services have a relatively high TEA rate at 14.4% of all entrepreneurial activity. The figures for retail and mining and construction are 13.8% and 12.3% respectively. Entrepreneurial activity is lowest in manufacturing at 4% of the total TEA for the UK in 2004.

Job creation
Table 18 illustrates the job creation potential of entrepreneurial businesses in the UK between 2002 and 2004.

	Start-up jobs now			Start-up jobs in five years		
	2002	2003	2004	2002	2003	2003
Mean	6.3	4.2	3.4	24.3	13.9	32.3
Median	2.0	1.0	1.0	5.0	4.0	4.0
	Owner-manager jobs now			**Owner-manager jobs in 5 years**		
	2002	2003	2004	2002	2003	2003
Mean	77.0	9.8	32.6	217.1	16.0	54.3
Median	1.0	1.0	1.0	2.0	2.0	2.0

Table 18
Mean and median job creation potential of start-up and owner-managed businesses

Table 18 presents a stable picture across the three-years of the GEM UK survey covered here. There has been something of a reduction in the mean number of jobs that start-up firms create now over the period, but the median number of jobs did not change between 2003 and 2004. Similarly, although there is evidence that the mean number of jobs that entrepreneurs expect to create over a five-year period has gone up (from 13.9% to 32.3% in 2004), the median number has again remained the same. There has been no change over the whole period in terms of the median numbers of jobs that owner-managed businesses create or expect to create, although the mean has altered substantially.

Turnover

GEM UK asked questions about turnover in 2003 for the first time. It was found that the median turnover for start-up businesses was £30,000 while for owner-managed businesses is was £39,319. This tells us little about the potential that entrepreneurial businesses offer, however, in terms of wealth creation potential over a longer period of time and it tells us little of the aspirations of the entrepreneurs themselves in terms of wealth creation. In 2004 we have also asked start-up businesses about what they predict their turnover will be in three-years time, and we have similarly asked the older, more established firms about how their turnover has changed in the last three-years.

Table 19 presents the results.

Start-ups	**Now**	**In three years**
Median Turnover (£)	40,000	90,000
Owner managed	**Now**	**Three years ago**
Median Turnover (£)	60,000	60,000

Table 19
Start-up and owner-managers - median turnover compared

Table 19 suggests several things:

- The median turnover now has increased between 2003 and 2004 by £10,000.
- Start-up businesses expect their companies' turnover to grow from £40,000 to £90,000 - slightly more than double.
- On average, the owner-managed business have not experienced any growth in the three-year period.

Export orientation

Figure 22 shows the proportion of all entrepreneurial activity in each of the UK regions with no export orientation at all. This yields an indication of both the strength of the regional base of the businesses in that region, but also suggests how much scope for expansion there may be into international markets.

On average, 66.1% of all start-ups and 80.3% of all owner-managed businesses have no export-orientation:

- London is the most export oriented region. 48.6% of all entrepreneurial start-up businesses and 31% of owner-managed businesses in that region have some export orientation, with some 26.8% of start-ups have between 26% and 75% of customers abroad.
- The North East is the least export oriented region. 29.2% of all start-ups and 90% of all owner-managed businesses have no export orientation.

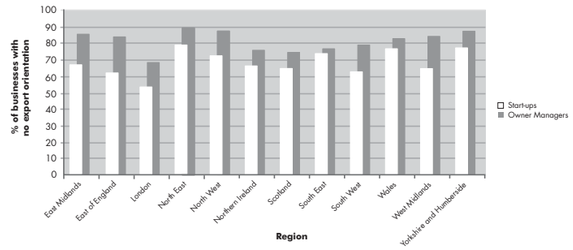

Figure 22
Companies with no export orientation by UK region, 2004

Churn

Given that so few firms are apparently export-oriented, it is important to look at the impact that entrepreneurial activity has on regional market dynamics. The churn rates (all start-ups plus all closures) and the net effect on business stocks (all start-ups minus all closures) are presented in Figure 23.

London is the region with the highest churn (10.2%) and the largest net effect on stock (6%). The South East and the South West also have high churn at 9.8% and 9.5% respectively while the South East also has the second largest net effect on business stock (5.2%). The North East has the lowest churn (5%), but it is the East of England that has the smallest net effect on business stock of its entrepreneurial activity.

The figures for business churn and net effect on stock have fallen slightly over the last three-years, as shown in Table 20.

	Total churn			Net effect on stock		
	2002	2003	2004	2002	2003	2004
Whole UK	5.3	9.3	7.8	2.0	5.1	4.1

Table 20
Whole UK churn and net effect on business stock

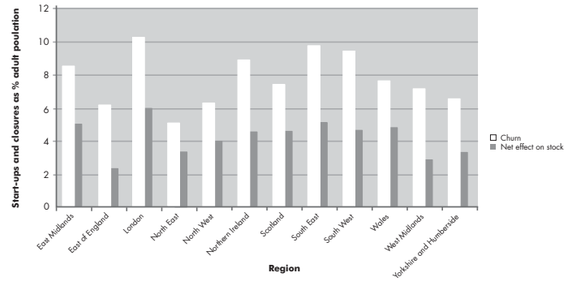

Figure 23
Churn and net effect on business stock by UK region

In building an enterprise culture, the effort that businesses make to network with local schools and colleges, both in terms of recruitment and in terms of awareness-raising cannot be understated. It acts as a mechanism for

building linkages between companies and their supporting environment, but also provides young people with contact with entrepreneurial businesses.

The extent to which businesses in the GEM UK 2004 sample network outside of their business and participate in schemes to raise awareness within schools, colleges and universities is given in Figure 24.

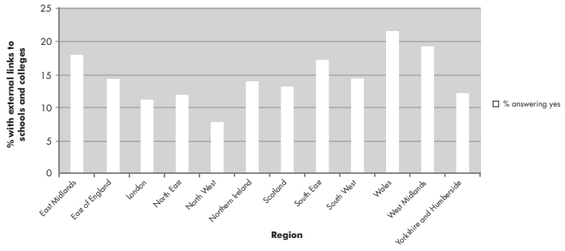

Figure 24
Participation in enterprise awareness raising programmes in schools and colleges by businesses across UK regions (% answering yes)

The region that has the highest level of participation by businesses in enterprise awareness raising programmes is Wales where some 21.8% of companies are involved with such schemes. 19% of companies in the West Midlands participate compared to a UK average of 14.5%.

The lowest level of engagement by firms is in the North West where 8.1% participate. The second lowest is London with 10.6% of all firms involved with awareness raising.

Summary and expert views
Entrepreneurial firms do create jobs and in 2004 had higher median turnovers at £40,000 for start-ups and £60,000 for owner-managed businesses compared to 2003. This is still relatively small and under-capitalised for companies with strong growth aspirations. Many UK firms are not especially oriented towards export markets, but nevertheless will impact on their regional economies in terms of the dynamic environment that they help to create. Business churn in 2004 has fallen slightly since 2003, but it was still higher than the 2002 level suggesting that the regional entrepreneurial markets are becoming more dynamic.

It is in the area of outreach that most of our experts were keen to express an opinion, however. Many argued that young people do not have sufficient contact with the business world for them to understand the work that is involved with starting up a business, or to have realistic and achievable role models. The British Chambers of Commerce has put substantial effort into involving local businesses with awareness raising programmes, and the result is that there is activity here across all regions of the UK.

Section 8

Access to Finance

Governments across the world, seeing the potential of entrepreneurial businesses, put substantial policy effort into stimulating the demand side of the entrepreneurial market through business support measures, and stimulating the supply side through access to finance programmes. In the UK, these have centred around competitions and equity capital with the goal of plugging a perceived equity gap in the market for start-up finance.

On average (median), an individual entrepreneur requires £15,000 in start-up finance at the very earliest stages of their business's development, and is prepared to put in £10,000 of their own money to begin the process. The picture is slightly different for men and women with the median start-up finance for men being £18,000 of which they will invest £10,000 while for women the start-up finance necessary is £10,000 with an investment by the individual entrepreneur of £7,616.

There is not a uniform picture across the UK however, as is illustrated in Table 21.

	Total Start-up finance required (£)	Total invested by entrepreneur (£)
East Midlands	9,290.40	5,000.00
East of England	20,000.00	25,000.00
London	10,000.00	9,172.12
North East	20,000.00	5,000.00
North West	9,960.25	5,000.00
Northern Ireland	14,285.49	8,551.89
Scotland	7,000.00	5,000.00
South East	20,000.00	10,000.00
South West	11,582.81	5,000.00
Wales	20,000.00	18,016.31
West Midlands	6,967.26	2,000.00
Yorkshire and Humberside	15,000.00	7,214.14
Average	**10,000.00**	**7,000.00**

Table 21
start-up money required and invested by entrepreneur by UK region, 2004

Two things are worthy of particular comment from Table 21. First, there is an average "finance gap" that needs to be filled by external finance across the UK of some £3,000. However, this is not a homogeneous picture across all parts of the UK and in some regions, such as the North East, where the gap is £15,000 and the South East, where the gap is £10,000 there is likely to be more pressure for finance at this relatively small end of the finance market.

Second, there are two regions where the individual entrepreneur is prepared to invest either all or nearly all of the money themselves - London and the East of England. Indeed, in the East of England, an individual entrepreneur on average will invest more of their money than is required to start the business in the first instance.

The funding gap, howsoever small it may be, has to be filled by external financing if an individual entrepreneur's ambitions of setting up their own business are to be fulfilled. Some 56.4% of men and 62.7% of women say that fear of lack of finance would prevent them from starting a business and this demonstrates how important appropriate finance is, even at this relatively small scale end of the market.

	Source of finance used		Source of finance sought but attempt unsuccessful	
	Men	Women	Men	Women
Friends and Family	23.9	22.9	4.6	3.9
Individual Investor	9.7	6.9	3.9	2.7
Unsecured Loan	19.1	9.7	6.1	4.0
Overdraft	31.3	22.0	7.2	4.5
Non-bank Unsecured Loan	7.6	4.6	2.7	1.8
Secured Loan	15.5	15.9	3.7	4.4
Equity	5.0	3.6	2.2	0.6
Government grants	8.5	8.1	4.2	4.0

Table 22
Sources of finance for men and women in the UK

Table 22 suggests that for both men and women, friends and family and bank overdraft are the most likely sources of external finance used. Failure rates for men and women in gaining funding from family and friends are not significantly different, however, the differences in accessing bank finance are significant at the 1% level. The difference in the percentage of individuals using equity capital is only significant at the 10% level, however it is significant at the 1% level that fewer women who attempt to access equity capital fail. The differences in access to government grants by men and women is not significant.

Failure to gain start-up finance can prevent someone from ever starting a business so it is important, not just to understand where businesses succeed, but also why they fail. The figures for the UK are given in Table 23.

	Men	Women	Total UK
Fear of debt	48.1	44.4	46.5
Not got a good idea	8.2	9.7	8.8
Lack of skills	11.5	10.0	10.8
Too much time involved	12.4	6.8	9.9
There's a chance I may fail	5.8	6.1	6.0
Wrong age	18.2	15.8	17.1
No interest	14.3	14.8	14.5
Health	2.7	2.9	2.8
Lack of confidence in unknown	1.3	1.3	1.3
Wouldn't be able to promote idea	0.3	0.5	0.3
Happy in my paid employment	1.6	2.4	2.0

Table 23
Reasons for failing to access finance

What is remarkable about Table 23 is its homogeneity. Although there appear to be big differences between men and women in terms of the reasons why they failed to gain finance, three of these are not significant (business too small, fear of debt and costs of finance too high). Only the nature of the business is significant at the 5% level, and all the other reasons are significant at the 10% level.

This is corroborated somewhat by correlating the reasons for failure with one another. Irrespective of gender, as in 2003, all factors are closely and significantly correlated at the 1% level. This suggests that when a business fails to gain finance, it is weak across the whole range of areas and not just one.

Summary and expert views

46.7% of the UK's population think there is adequate start-up finance at a regional level in the UK. There is a significant difference between men and women, however, with some 49.5% of men and 38.9% of women responding positively to this question. There are very few differences between the reasons why male and female businesses fail to gain finance and, indeed, women are less likely to attempt to gain equity finance and fail than men.

This suggests that intrinsically there should not be a difference between male and female access to finance, and yet our experts suggested that there was still a problem for women in gaining access to finance for the initial start-up stage. Women they argued, had less of their own personal cash to invest, were more nervous about talking up their business and hence often appeared less certain about the growth prospects of their business than their male counterparts.

The analysis of this section suggests that the nature of the business does significantly affect women more than men in accessing finance and this is something that experts felt women could be mentored through. Women are less likely to think that they will create large numbers of jobs and less likely to think that their business has much growth potential. This is something that is relatively easy to address from the demand side and should be a key part of access to finance programmes.

Section 9

Entrepreneurial Culture

The demand side of any initiative to increase levels of entrepreneurial activity requires an attempt over the long term to change entrepreneurial culture. This can often take a generation. We asked two questions in addition to that around expectations of starting a business over the next three-years to establish how many people were "considering" entrepreneurship in the UK population - have you recently considered setting up a business, and, is setting up a business something you might consider doing in the future. The results are presented in Figure 25.

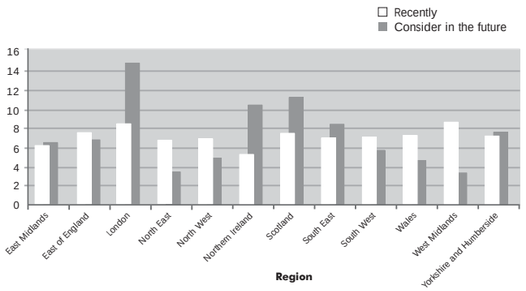

Figure 25
UK entrepreneurial potential across the UK regions

This figure suggests that as well as the 9.5% of people who will consider setting up a business over the next few years, some 7.2% have considered setting up a business recently and 7.6% will consider it in the future. In the more entrepreneurial regions, such as London, there are more individuals who are thinkers, although interestingly, the West Midlands has a high number of people who have thought about setting up a business recently (8.8%) and Northern Ireland and Scotland a large number (10.3 and 10.7% respectively) who will consider it in the future.

Given that there appears to be a buoyant entrepreneureal potential, it is useful to know what the barriers are to setting up a business from the perspective of those who answer "no" to any question about starting a business. The results are given in Table 24.

	Men	Women	Total UK
Fear of debt	48.1	44.4	46.5
Not got a good idea	8.2	9.7	8.8
Lack of skills	11.5	10.0	10.8
Too much time involved	12.4	6.8	9.9
There's a chance I may fail	5.8	6.1	6.0
Wrong age	18.2	15.8	17.1
No interest	14.3	14.8	14.5
Health	2.7	2.9	2.8
Lack of confidence in unknown	1.3	1.3	1.3
Wouldn't be able to promote idea	0.3	0.5	0.3
Happy in my paid employment	1.6	2.4	2.0

Table 24
Perceived barriers to entrepreneurship

Fear of debt is the single largest barrier to entrepreneurship for both men and women, although women are significantly more fearful of this than men. The second biggest barrier is age, and again the differences between men and women are significant with women more likely to use this as a reason for not starting a business than men. 14.5% of the population say they have no interest in starting a business, and this statistic does not differ significantly between men and women.

But it is the motivations of the individual that drive the the entrpreneurs of the UK and Table 25 looks at these people (everyone who said they were starting a business, running a business or involved in business activity as a sideline to their paid employment).

	Men	Women	Total
To earn more money	44.3	48.0	46.6
For independence	42.1	39.0	40.1
For the challenge/to be my own boss	41.4	42.2	41.9
To pursue an idea	10.4	8.7	9.3
Dissatisfaction in current job	4.7	3.9	4.2
Hard to find paid work	1.6	2.5	2.2
Better to provide for my family	4.5	1.8	2.8
For prestige and esteem	2.7	3.5	3.2
To provide a service or help to others	3.7	2.5	2.9

Table 25
Entrepreneurial motivations

As might be expected, the single biggest driver for men and women is to make more money with 44.3% of women and 48% of men answering positively to this question (significant at the 5% level). The second most important factor is to face a challenge and be one's own boss; independence is also important but there is no significant difference between genders to either of these questions.

Summary and expert views

A negative culture for entrepreneurship in the UK was the single most commonly cited weakness for developing more entrepreneurship by the experts interviewed. They argued that much of this came from the education system which was not sufficiently oriented towards the needs of business. Entrepreneurs, it was argued, need basic skills training, not just in maths, but in "life skills" such as presentation and communication as well.
Programmes to encourage businesses to work with schools on developing these "life skills" are, according to the results above, yielding a positive impact on this type of activity. However the results of this section suggest that many of the predictable entrepreneurial weaknesses still exist - fear of getting into debt and no interest being the major factors. The government has had programmes to increase the amount of enterprise education, but:

- Just 10.9% of those surveyed within GEM UK this year had had any form of business training at school.
- A higher number, 16.6% had had some form of business training at college or university.
- 29.8% had some form of work experience in a small or medium sized business.
- 12.5% had used government or public sector business training schemes.

Building an enterprise culture in the UK, argued our experts, also relies on entrepreneurial role models and good media coverage. These role models must be realistic and achievable - indeed often it is within families that role models are developed and, in the words of one expert, parents themselves have a large responsibility in carrying an enterprise agenda forward.

Section 10

Policy Conclusions

Entrepreneurial activity in the UK has remained very similar to 2003 at 6.3% of the adult population. In comparison to the G7 countries this relative stability is positive and there are encouraging signs across the regions and nations of the UK that entrepreneurial activity, particularly amongst women, is increasing. The overall increase in female entrepreneurial activity, albeit very small, has to be put in the context of a reduction in male entrepreneurship, and hence seen as something to be celebrated. Attitudes towards entrepreneurship and individual confidence and perception of opportunity has similarly improved - all this is to be welcomed.

Nevertheless, the research for this year's GEM study has highlighted a number of areas that warrant closer policy attention in the future. If we are to see increases in TEA, then specific focus needs to be placed on building the areas that we know from research within GEM affect entrepreneurial activity:

1. Networks: irrespective of type of business (social or mainstream) entrepreneurs are more likely to know other entrepreneurs than their mainstream counterparts. Building role models and familiarity with entrepreneurs, as well as experience sharing networks would assist in the process of linking entrepreneurs together.
2. Technology linkages: the level of technology transfer between universities and entrepreneurs is visibly low from this year's study, and this is borne out by our experts who argued that universities are often too slow and laboured in developing an intellectual property and spin-out culture that reflects business realities. This has not been helped by the tax regime around academic spin outs and it will be interesting to see if changes announced in December's pre-budget report will have an impact on university entrepreneurship. Extending the R&D tax credit to smaller firms should also help, although in the end, there is no substitute for "person-to-person" contact between universities and start-up businesses.
3. Aspirations: entrepreneurs in the UK are modest about the extent to which they expect to create jobs and the extent to which they expect their turnover to grow, particularly if they are female or ethnic minority owned. This restricts the growth profile of firms generally since investors will be more willing to invest in something that looks like it has a high growth potential. However, there had been no three-year growth in turnover in the more established owner-managed businesses and this has to be of concern to policy makers and business advisors since it suggests a relatively static and unentrepreneurial base, even in our entrepreneurial businesses!
4. Access to finance is still an issue, although again more so for women than it is for men. If an individual fails to gain access to finance for one reason, for example a weak management team, then it is likely that that individual will also be weak in other areas as well. This suggests that there is still a need for more mentoring and support around investor-readiness preparation.
5. Finally, the predictable reasons why people are not engaging in entrepreneurial activity emerged as excuses for avoiding entrepreneurship, with fear of debt and fear of failure at the top of the list. In the words of one expert, the UK is "obsessed" with failure, and this is not healthy. Building an entrepreneurial culture rests on a positive attitude towards business life-cycles that encourages learning from business closures rather than exclusion.