Global Entrepreneurship Monitor

United Kingdom 2005

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FOREWORD

Entrepreneurs are the life-blood of the British economy. The health and vitality of the economy depends on many factors but it is the individual's ability to establish and expand businesses that is often the key driver. Identifying the full contribution entrepreneurs make to the economy has long been an issue.

The latest Global Entrepreneurship Monitor (GEM UK) report from the London Business School brings some much needed clarity. The report asserts that this is no time to rest on our laurels. Without people who are prepared to take risks, to innovate, to develop new business ideas and to create real change in their workplaces, future economic growth would be in jeopardy.

It is encouraging that GEM UK have identified that young people are key to propelling entrepreneurship forward. There are more people between the ages of 18 and 24 who are thinking of setting up a business over the next three years than any other age group. Exposure to entrepreneurial environments at school or at university can greatly increase the chances of an individual setting up a business later in life. It is important that we build on this base and increase our efforts to establish an entrepreneurial culture and innovation amongst young people in Britain.

At Deloitte, we believe that talent is key to both our success and to the success of the wider economy. We work with the Prince's Trust to encourage young entrepreneurs and also provide opportunities for work placements for school students. The findings presented in this report strengthen that core belief of ours and we are delighted to have the opportunity to sponsor the GEM UK Report 2005 this year alongside the London Business School.

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We continue to develop our regional analysis. Craig Bickerton of the East Midlands Development Agency, Alex McWhirter of Yorkshire Forward and Greg Ward of the South East Development Agency have helped us to address and focus on some of the important questions of regional policy. For the first time this year we have also been able to develop sub-regional analysis as well through the support of Blackburn with Darwen Borough Council and Steven Cochrane and Mike Kinsella provided us with invaluable guidance.

Grant Gordon of the Institute of Family Business enabled us to ask questions about family entrepreneurship and we look forward to developing this whole area as a special topic.

We must acknowledge the invaluable input from IFF Research, and Steve Lomax in particular as well as the hard work and patience of Christian Vaughan at Intuition Design. But above all the tireless support and understanding of our colleagues at Deloitte, London Business School, the Hunter Centre for Entrepreneurship, ERINI and the universities of Glamorgan, Cardiff and Kingston is greatly appreciated.

DISCLAIMER

Although data used in this work are collected by the GEM consortium, their analysis and interpretation are the sole responsibility of the authors.

Data for this study were provided by the Global Entrepreneurship Monitor (GEM), which is a consortium that in 2005 comprised research teams from the following countries: Argentina, Austria, Australia, Belgium, Brazil, Canada, Chile, China, Croatia, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Jamaica, Japan, Latvia, Mexico, Netherlands, New Zealand, Norway, Singapore, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, UK, USA and Venezuela. Names of the members of national teams, the global coordination team, and the financial sponsors are published in the Global Entrepreneurship Monitor 2005 Report, which can be downloaded at www.gemconsortium.org. We thank all the researchers and their financial supporters who made this research possible.

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ENTREPRENEURSHIP IN 2005: OVERVIEW

EXECUTIVE SUMMARY

Entrepreneurial activity in the UK remained roughly the same in the UK between 2004 and 2005. The Total Early Stage Entrepreneurial Activity (TEA) index identifies the proportion of adults of working age who are either setting up or have been running a business for less than 42 months. In 2005 the rate stood at 6.2% of the adult working age population[1]. This is the third highest rate of the G7 economies behind the US (12.4%) and Canada (9.3%)[2]. The gap in TEA between the UK and the US has widened slightly in 2005, due to a boost in the US rates of entrepreneurship from 11.3% in 2004 to 12.4% in 2005.

Other headline GEM UK results in 2005 include:

- Male TEA has gone down slightly from 8.5% of the UK population to 8.2% of the UK population[3].
- Female TEA has remained the same at 3.9% of the population.
- Necessity entrepreneurship in the UK has fallen from 1.4% of the adult working age population to just 0.7% between 2001 and 2005. Opportunity entrepreneurship has increased marginally over the same period from 5.1% to 5.2%. The UK is the only country in the G7 to see a 50% drop in necessity entrepreneurship combined with a slight increase in opportunity entrepreneurship. In all other G7 countries, both necessity entrepreneurship and opportunity entrepreneurship have declined, with the exception of the US, where there was a small but insignificant increase from 1.3% to 1.5%, and from 10.3% to 10.4% respectively.
- Early stage entrepreneurship across all UK regions has increased over the whole period since 2002, but there has been no significant change in any region between 2004 and 2005. In the past year, there were small but insignificant reductions in entrepreneurial activity in the East Midlands, North East and Wales. Entrepreneurial activity remained the same in Northern Ireland, the South East and the South West. It increased, but not significantly, in the East of England, London, the North West, Scotland and Yorkshire and Humberside.

1. Global Entrepreneurship Monitor (GEM), one of the largest international social science research projects in the world, measured entrepreneurial attitudes and activities of individuals in 35 different countries in 2005. Its key measure of entrepreneurial activity, the TEA index, measures total early stage entrepreneurial activity, defined as the proportion of adults of working age (18-64 years old) who are engaged in setting up or running businesses either for themselves or for their employer that are less than 42 months old.
2. There are two major changes in the GEM global analysis in 2005, as documented in the 2005 GEM Global Report. First, Total Entrepreneurial Activity (TEA) is clarified as referring to early stage entrepreneurship. For the purposes of this report, we use the established term, TEA. Second, the global report is based on unweighted analysis of data available by a July 2005 cut-off date, and comparisons between countries. This yields the results for TEA that are reported in this section. In 2005, the full UK dataset, collected between May and September, comprised a survey of 32,500 adults in the UK population unevenly distributed across the UK RDA regions, with over sampling in some inter-regional areas, including certain London boroughs which had a high proportion of ethnic minorities. The full sample is therefore a stratified random sample and requires weighting if a reliable picture of entrepreneurial activity is to be painted for the UK as a whole. The weightings used produce a slightly lower but not significantly different rate of TEA at 6.0% of the adult population and this number is used in subsequent text where no international comparisons are made. Full methodological details are given in the appendix.
3. Using the whole UK weights rather than the global non-weighted dataset.

- Attitudes towards entrepreneurship are generally positive with a small but significant increase in the numbers of people seeing good business opportunities between 2004 (36%) and 2005 (38%). However, fear of failure has increased slightly but not significantly from 33% to 34% of the whole population.
- 18-24 year olds are the most likely of any age grouping to be expecting to start a business in the next three years. They are also, with the 25-34 age group, the most likely to know an entrepreneur and have the second lowest fear of failure rate after the 55-64 age group. Entrepreneurship is significantly more likely to be seen as a good career choice, and entrepreneurs are noticeably given a higher status in society by 18-24 year olds than any other age group. They are much less likely to perceive they have the skills to start a business, however.
- Ethnic minority groups are, as in previous years, substantially more entrepreneurial than their white British counterparts, although this may in part be because they tend to be younger on average. TEA rates amongst Indian origin respondents and Pakistanis are twice as high as they are in White communities and TEA in the Black African community is almost three times higher. Black African women are significantly more entrepreneurial than women from other ethnic groups.
- Social entrepreneurial activity (SEA), defined as the proportion of working age adults actively trying to start a social enterprise that they will manage alone or with others, or managing a new social enterprise that is less than 3.5 years old, was 3.2% in the UK in 2005. SEA is particularly high among those with postgraduate education experience (5.5%) and is also high among students (5.0%) and in the ethnic minority community (5.0%).
- GEM UK reports for the first time in 2005 responses to questions about enterprise education. We find that those who have taken some form of enterprise training at school, college or university are significantly more likely to be entrepreneurially active, to be expecting to start a business in the next three years or to be engaged in a nascent business (of less than three months old). The proportion of working age adults expecting to start a business in the next three years doubles, irrespective of gender or educational level, for those who have ever taken part in some form of enterprise training, government training or work experience. More generally, entrepreneurial activity is significantly higher among those with a graduate or post-graduate qualification.
- The differences in levels of entrepreneurial activity between deprived and non-deprived areas are surprisingly small and not statistically significant. Entrepreneurial activity is lowest in the 20% most affluent wards in the UK (5.6%) and highest in the second most deprived quintile of UK wards (6.6%). This is true for the whole of the UK. However this may mask differences within regions or local authority areas[4].

4. An example is provided in the GEM 2005 report for East Lancashire.
5. The central goal of the UK government's economic policy is to close the productivity gap with the US and other G7 competitor nations. It aims to do this through measures to promote macroeconomic stability and, at a microeconomic level, to correct market failures in the five productivity drivers of enterprise, innovation, investment, skills and competition (HM Treasury and Department for Trade and Industry, 2000: "Productivity in the UK: the evidence and the government's approach"). This has been followed by a series of publications examining issues around the five productivity drivers at a regional and local level.

GEM UK 2005: POLICY BACKGROUND

Promoting enterprise remains a pillar of UK government policy and one of its five key productivity drivers[5]. An important part of this is closing the gap in entrepreneurial activity between the US and the UK. Government has put in place measures to correct both the demand side (such as measures to create a step change in enterprise culture) and the supply side (for example, fiscal and regulatory measures, business support and improved access to finance). The most important measures announced in the 2005 budget include:

- Commitments to regulate only where necessary and avoid the "gold-plating" (tailoring) of regulations. Following the Hampton review published at the same time as the budget, to have targets for reductions in the regulatory burden over time. The common compliance date programme where new regulations only come into effect at certain times of the year (April and October) has also been extended.
- Targets to reduce the burden of taxation for small businesses, for example through online methods for paying VAT.
- Improving education and skills through the National Employer Training Pilots.
- Introducing the ten-year science and innovation investment framework, including a mandatory requirement that at least 2.5% of public sector extra-mural Research and

What is GEM?
GEM Global has been running since 1999, and has grown from ten countries in its first year to 34 countries and more than 150 scholars from across the globe in 2005. GEM has three main objectives:
1. To measure differences in the level of entrepreneurial activity between countries
2. To uncover factors determining the levels of entrepreneurial activity
3. To identify policies that may enhance the level of entrepreneurial activity

How does GEM measure entrepreneurship?
GEM measures entrepreneurial activity in a country through its key indicator, Total Early Stage Entrepreneurship (TEA). This indicator is calculated in an identical way in each country:

1. A telephone survey of a representative sample of the adult population in each country is conducted between May and September.
2. Respondents are asked to respond to three questions that are the basis of the TEA index: Are you, alone or with others, currently trying to start a new business independently of your work? Are you, alone or with others, currently trying to start a new business as part of your work? Are you, alone or with others, currently the owner or manager of a business?
3. Those who respond positively to these questions are also asked how long they have been paying wages to employees as well as questions about cost and time to start-up, sources of finance and numbers of jobs created. A distinction is made between two types of entrepreneurs: nascent entrepreneurs (those that have been paying salaries for less than three months) and baby business owner-managers (those that have been paying salaries for between three and 42 months).
4. The TEA index is the sum of the nascent entrepreneurs and baby business owner-managers minus any double counting (i.e. those who respond positively to both).
5. In addition the GEM survey asks all respondents about their attitudes to entrepreneurial activity.

GEM UK
GEM UK is the largest single study of entrepreneurial activity in the world. Since 1999 it has grown from a survey of 2,000 adults to a survey in 2005 of some 32,500 adults. It uses the same methodology as the GEM global project to calculate TEA, but in addition asks questions about barriers to entrepreneurship, access to finance, and, critically, social entrepreneurship that other countries generally do not. In 2005, an additional boost was made to the sample to understand better ethnic minority entrepreneurship, and further demographic questions were added to understand better graduate entrepreneurship.

The distribution of respondents is not even across the UK as some RDAs choose to boost their sample in order to have more detail about entrepreneurship in their region[6]. Results are checked against other metrics of entrepreneurial activity (including Barclays Bank surveys and VAT registrations/de-registrations). Full methodological details are appended at the end of the report.

Because of its size, GEM UK has the capacity to analyse the entrepreneurs captured in the survey and their businesses in more detail. For example, we are able to understand access to finance, reasons for failing to gain finance and types of business (for example innovative, technology-based and high expectation).

A number of government departments, and particularly the Small Business Service, use GEM to help measure progress towards their enterprise targets. Every attempt is made to ensure that the results as reported are as reliable and robust as possible. Hence the weightings used to report on UK-only results are designed to take into account the differential regional sampling. Where results are compared internationally, the same protocol is used as that of the GEM global report. The comparative results are unweighted, and the sample size is that used by GEM global (11,167). This sample size is smaller because of the sheer size of the UK sample. Only one-third of the UK data had been gathered by the cut-off date set by GEM global due to the size of the survey. Despite this, the difference between TEA calculated on the unweighted UK sample used by GEM global (6.2%) and TEA calculated on the full weighted UK sample of 27,277 working age adults (6.0%) is minimal.

Development (R&D) spend will be with Small and Medium sized Enterprises (SMEs) and the extension of the R&D tax credits to include small firms with high innovation potential.
- Local Enterprise Growth Initiative to support entrepreneurship in the most deprived areas of England.
- Many government and non-governmental organisations, including the Regional Development Agencies (RDAs), now have closing the entrepreneurial activity gap as one of their core policy goals.

SUMMARY AND OVERVIEW OF THE REPORT

The results for the UK are mixed. Overall, there are few differences in entrepreneurial activity compared to 2004, although since 2002 the trend has been slightly upwards. Similarly, although attitudes towards entrepreneurship have generally improved over the longer time period, overall, attitudes in 2005 have remained similar to 2004. Even though attitudes in the UK have not changed significantly over the last 12 months, the UK still remains the country with the third highest levels of entrepreneurial activity in the G7, and attitudes towards entrepreneurship are among the most positive in the world.

That attitudes have not changed may be due to a reduction in overall economic confidence between 2004 and 2005. Consumer spending has slowed on the back of increases in interest rates and worries about the performance of the housing market. The economy continues to show strong and stable growth and near full employment. However, the same factors that affect consumer demand may well have an impact on the tendency of UK adults to take the risk of setting up a business.

So any interpretation of the data in this report has to be seen in light of the wider economic conditions, and particularly those conditions affecting general confidence and attitudes towards risk. Since a large proportion of start-up finance comes from the individual entrepreneur, often in the form of personal overdrafts and bank loans, anything that affects the propensity to borrow could impact on overall levels of entrepreneurship.

This report examines entrepreneurial activity in the UK during 2005 in some detail. It looks first at the UK and compares it to other G7 economies. Within the G7, the UK's performance remains average: strong in comparison to Japan, weak in comparison to Canada and the US. There is little difference between the UK and other G7 European countries. It goes on to examine the entrepreneurial attitudes in the UK as a whole and the geographical distribution of entrepreneurship. It shows that attitudes towards entrepreneurship have improved substantially since 2002 in every area except fear of failure. It then compares regions, urban and rural locations and locations by degree of affluence, as measured through the Index of Multiple Deprivation (IMD).

The regional gap has widened slightly over the year, due largely to an increase in entrepreneurial activity in London (up from 7.5% to 8.3%) and a reduction in the North East (from 4.5% to 3.8%). Regional differences and relative positions of the regions remain similar to previous years. Rural locations have higher levels of entrepreneurial activity than urban ones (8.2% and 6.0% respectively) and there are surprisingly few differences between levels of entrepreneurial activity in the most affluent and least affluent wards in the UK.

The consistent finding of the report is that very little has changed in the last 12 months. There are, however, many reasons to be positive about the cultural change that is happening in the UK. Since 2002, there does appear to be a step change in attitudes towards entrepreneurship and a more diverse group of people is involved in entrepreneurial activity.

Fear of failure however remains a challenge since, over the period as a whole, there has been little change in this attitudinal indicator. It is significantly and negatively correlated with TEA[7]. In other words, those who are involved in entrepreneurial activity are significantly less likely to fear failure than those who are not. Where fear of failure is increasing, this points to a general risk aversion that could potentially undermine progress towards increasing rates of entrepreneurial activity in the UK. If the government is to close the gap between the US and the UK in entrepreneurial activity, then this is a feature of the UK's cultural landscape that should be addressed with some urgency.

6. The distribution of the sample in 2005 was as follows: East Midlands: 3,000, East of England: 1,000, London: 1,500, North East: 1,000, North West: 3,000, Northern Ireland: 5,000, Scotland: 2,000, South East: 3,000, South West: 1,000; Wales: 8,000, West Midlands: 1,000, Yorkshire and Humberside: 3,000.
7. -0.115 significant at the 5% level.

2.0

ENTREPRENEURIAL ACTIVITY IN THE G7 COUNTRIES

The 2005 pre-budget report suggested that overall growth rates globally had declined due to cyclical and exogenous shocks[8]. This has affected developed economies in particular. Yet towards the end of 2005 there was evidence that confidence, particularly in the US, Japan and Germany may be returning and third quarter growth rates are higher[9].

Emerging confidence is reflected in higher entrepreneurial activity compared with 2004 in most of the G7 economies, as illustrated in Figure 1[10]. The main features of Figure 1 are as follows:

- Entrepreneurial activity in all G7 countries dipped after 2001, but recovered rapidly in the US, which is the only country to have exceeded 2001 entrepreneurial activity levels by 2005. Since 2003, entrepreneurial activity has been steady in the UK and Japan, and rising in Canada and Italy. The trend is more uncertain in France and Germany.
- Five of the seven G7 countries saw slight increases in TEA figures in the past 12 months: US (from 11.3% in 2004 to 12.4% in 2005), Germany (from 4.5% in 2004 to 5.4% in 2005), Italy (from 4.3% in 2004 to 4.9% in 2005), Canada (from 8.9% in 2004 to 9.3% in 2005), and Japan (from 1.5% in 2004 to 2.2% in 2005).
- Two of the seven G7 countries saw slight falls in the past 12 months: UK (from 6.3% in 2004 to 6.2% in 2005) and France (from 6.0% in 2004 to 5.4% in 2005).

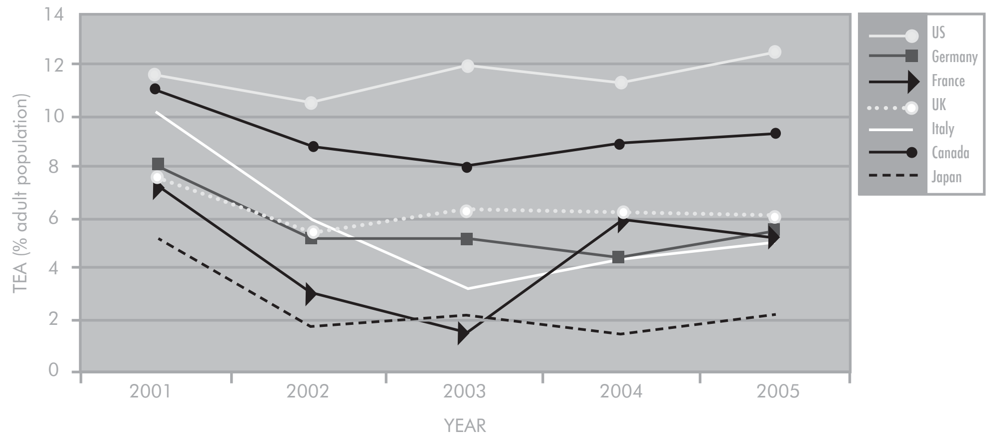


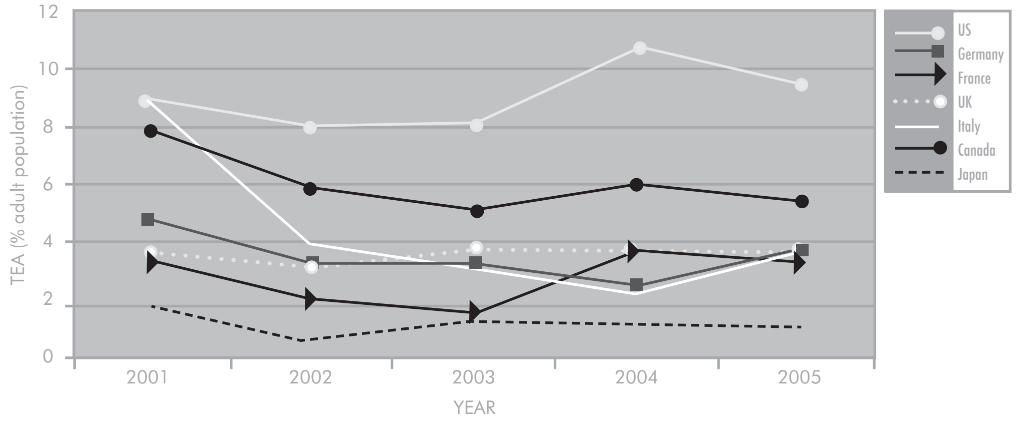
Figure 1
Early stage entrepreneurial activity (TEA) in the G7 countries 2001 - 2005

Source: GEM Global Adult Population Surveys 2001 - 2005

8. www.hm-treasury.gov.uk: 2005 Pre-Budget report.
9. Financial Times, 7th December 2005.
10. Figure 1 uses the unweighted global dataset to compare rates of early stage entrepreneurial activity (TEA). The results presented here are identical to those reported in the main 2005 GEM global report. This approach is taken because the government requires a figure for TEA that is based on the same calculation as that used in other countries for comparative purposes.

Figure 2
G7 Female Entrepreneurial Activity 2001 - 2005

Source: GEM Global Adult Population Surveys 2001 - 2005



Entrepreneurial activity by gender

The US and Canada, who out-perform the other G7 economies in terms of entrepreneurial activity generally, have both seen slight drops in entrepreneurial activity amongst women, as illustrated in Figure 2. Levels of female entrepreneurship in Italy, France, Germany and the UK were very similar in 2005.

Figure 2 demonstrates remarkable stability over the last three years:

- Female TEA has decreased slightly in three of the seven G7 countries: US (from 10.7% in 2004 to 9.7% in 2005), France (from 3.8% in 2004 to 3.3% in 2005) and Canada (from 6.1% in 2004 to 5.6% in 2005).
- Female TEA has increased slightly in two of the seven G7 countries: Germany (from 2.6% in 2004 to 3.8% in 2005) and Italy (from 2.3% in 2004 to 3.7% in 2005).
- Female TEA for Japan has remained constant between 2004 and 2005 (1.2%). It has also stayed the same for the UK (at 3.9%).

The gap in levels of male and female TEA is presented in Figure 3 for 2005 only. There is a clear gender gap in all G7 countries, with figures for males consistently higher than those for females.

The US has the narrowest gap, with female entrepreneurship being 63% of the level of male entrepreneurship compared with 89% in 2004. Japan has the widest gap. Here, female entrepreneurship is just 38% of the level of male entrepreneurship.

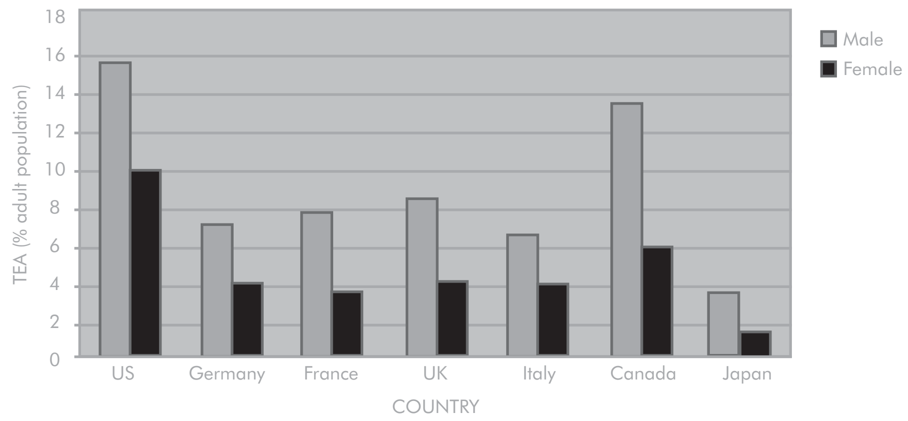


Figure 3
The gap between male and female entrepreneurial activity in the G7 countries 2005

Source: GEM Global Adult Population Survey 2005

The UK has a gender gap that is now around the average for the G7 economies at 47%. Comparable figures are: Italy (60%), Germany (55%), France (45%) and Canada (42%). Male entrepreneurship on average in the G7 is 8.6% of the adult population of working age, while female entrepreneurship is, on average, 4.4% of the adult population of working age. Female entrepreneurship is 51.7% of male entrepreneurship.

Necessity and opportunity entrepreneurship

GEM distinguishes between necessity entrepreneurship (where respondents are engaged in entrepreneurial activity because they have no better choice for work) and opportunity entrepreneurship (where respondents are seizing a market opportunity). Necessity entrepreneurship overall in the G7 economies is relatively low compared with that in less developed nations. Japan has the lowest level of necessity entrepreneurship at just 0.4% of the adult working age population.

This, however, hides a broader picture of the relationship between necessity and opportunity entrepreneurship over time in the G7 economies. This is illustrated in Figure 4, which shows necessity entrepreneurship as a percentage of opportunity entrepreneurship. Where this relationship is falling over time, as it is in Italy, the UK, Japan or Canada, 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 - 2005

Source: GEM Global Adult Population Surveys 2001 - 2005

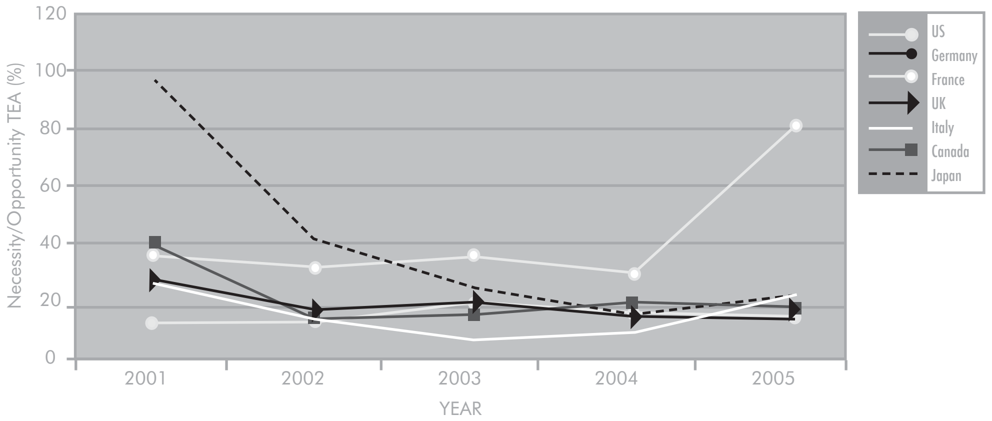


Figure 4 demonstrates that the US and the UK have the lowest level of necessity entrepreneurship as a percentage of opportunity entrepreneurship, with Canada, Italy and Japan just behind.

- Japan and Canada have both seen considerable decreases in necessity entrepreneurship as a percentage of opportunity entrepreneurship since 2001 (95% to 22% and 39% to 17% respectively), largely due to decreases in the levels in necessity entrepreneurship.
- 2005 saw an increase in the necessity to opportunity ratio on 2004 for a number of the countries, most obviously, France[11], but sizable increases were also seen for Italy and Japan. This was largely due to increases in the levels of necessity entrepreneurship.
- In Canada and the US changes in the ratio were due to increases in numbers of opportunity driven entrepreneurs rather than a decline in necessity entrepreneurs.

Overall, for G7 countries with lower levels of entrepreneurial activity, 2005 has seen an increase in the number of necessity driven entrepreneurs without a corresponding increase in opportunity entrepreneurship. This may have happened because of changes in labour market policy changing benefit entitlements attached to unemployment by incentivising start-ups. By contrast, countries with high entrepreneurial activity produced even more opportunity entrepreneurs.

11. The 2005 data for France is out of line with the long term trend and warrants further investigation.

Table 1
Informal investment and future start-up intentions in the G7 economies 2003 - 2005

Source: GEM Global Adult Population Surveys 2003 - 2005

	I have been an informal investor in the past three years (% answering yes)			I expect to start a business within the next three years (% answering yes)		
	2003	2004	2005	2003	2004	2005
United States	4.92	4.3	4.0	15.5	13.7	16.4
France	0.7	4.9	3.6	6.3	14.4	13.0
Italy	1.5	3	2.3	8.1	11.6	11.1
United Kingdom	1.6	1.4	1.4	7.8	9.5	8.6
Germany	2.7	2.7	2.1	8.8	6.8	7.3
Japan	0.4	0.3	0.8	3.6	1.1	1.6
Canada	3.3	2.7	4.2	10.3	12.4	14.6

Perceptional, attitudinal and cultural indicators

Table 1 shows important indicators of support for entrepreneurial activity: informal investment activity and intentions to start a business. Informal investment activity gives an indication of the actual inter-personal entrepreneurial 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.

The start-up intention rate in Table 1 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.

Table 1 can be summarised as follows:

- The UK has consistently had the second-lowest informal investment rate and the third-lowest start-up intentions rate of the G7 countries from 2003 to 2005.
- Informal investment activity continued to decline in Germany and the US, but Canada and the UK which had seen a downward pattern between 2002 and 2003 experienced an increase in activity in 2005.
- Japan also experienced an increase in informal investment activity, albeit from a low starting point relative to other G7 countries.

- G7 countries within Europe saw a general decline in the percentage of respondents who expected to start a business in the next three years.
- Canada, however, saw a strong increase in the percentage of people expecting to start a business in the next three years.
- Intentions have grown in France and Italy over the period to exceed UK and German levels.

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. These 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. 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. 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.

Table 2 presents these attitudinal differences, the main features of which are as follows:

- Attitudes in the US appear to have become more negative between 2004 and 2005, with perceptions of entrepreneurial opportunities and attitudes towards skills falling slightly between the two years. Fear of failure also increased.
- The UK and Canada are the only two countries in the G7 where perceptions have improved throughout the whole period. In both countries fear of failure has increased slightly: a change which is statistically significant for the UK.
- Germany exhibited a more positive outlook in 2005 after a period of generally very negative perceptions of entrepreneurship.
- In Italy perceptions of entrepreneurial opportunities decreased considerably between 2004 and 2005. This is part of a wider pattern since 2003 of more negative attitudes towards entrepreneurship.
- Fewer people in the UK say they know someone who has started a business in the last two years than in any other G7 country.
- Opportunity perception is more positive in the UK than in any other G7 country except Canada.
- Entrepreneurial skills perception in the UK is very close to US and Canadian levels, which are the highest in the G7.
- Fear of failure is lower in the UK than among other European G7 countries, but much higher than the US.

Table 2[12]
Entrepreneurial attitudes and perceptions 2004 - 2005

Source: GEM Global Adult Population Surveys 2004 - 2005

	US		F		IT		UK		D		J		C	
	'04	'05	'04	'05	'04	'05	'04	'05	'04	'05	'04	'05	'04	'05
I know someone who started a business in the last two years	35.8	41.4	41.0	45.3	34.9	30.8	27.7	27.7	37.9	38.5	29.7	29.3	34.1	36.0
There will be good opportunities to start a business in my area in the next six months	33.6	32.3	21.1	21.7	25.4	14.9	35.9	38.5	13.5	17.5	14.0	16.6	44.8	47.8
I have the skills, knowledge and experience to start a business	54.3	52.1	33.1	36.0	32.6	32.1	51.7	50.7	36.2	41.0	13.5	13.4	54.9	53.8
Fear of failure would prevent me from starting a business	21.2	22.9	50.0	51.5	40.2	24.7	32.9	34.2	47.7	51.3	22.6	18.6	28.8	28.7

12. Some of the 2004 and 2005 data may vary slightly from those presented for the UK in Table 2. This is because the Table 2 data is based on unweighted data whereas Table 3 data is based on weighted data. See footnote 1.

GEM

Entrepreneurial attitudes in the UK from 2001 to 2005

Since a core goal of UK government policy is to make a step change in the entrepreneurial culture, recording the pattern of entrepreneurial perceptions and attitudes in the UK over the past five years is important in assessing the impact of policy. The pattern of GEM attitudinal measures is illustrated in Table 3 overleaf.

Rather than examining the year on year changes, it is instructive to look at the whole time period between 2001 and 2005. This demonstrates that in the UK since 2001:

- The proportion of the working age population who are expecting to start a business has nearly doubled.
- The proportion who know an entrepreneur has stayed roughly the same.
- The proportion who perceive good business opportunities has more than doubled.
- The proportion who think they have the skills to start a business has increased from 40% to more than 50%.
- Attitudes towards entrepreneurship as a career and its status in society are steady.

In the light of this, there is every reason to suggest that a cultural change is beginning to happen, but that this has yet to have an impact on entrepreneurial activity which has remained stable over the period. However, compared with the G7 countries with high levels of entrepreneurial activity, the attitude that is most out of line in the UK is fear of failure. This suggests that policy should focus on alleviating fear of failure if it is to be effective in creating a comprehensive step change in activity.

	2001	2002	2003	2004	2005
I expect to start a business in the next three years	-	4.6	6.2	9.5	8.7
I know someone who started a business in the last two years	27.0	23.0	24.6	27.7	27.7
There will be good opportunities to start a business in my area in the next six months	18.2	22.3	35.2	35.9	38.5
I have the skills, knowledge and experience to start a business	40.2	42.9	48.4	51.7	50.7
Fear of failure would prevent me from starting a business	30.1	34.0	33.6	32.9	34.2
Starting a business is a good career choice	-	-	51.2	54.1	54.3
Entrepreneurs have a high status in society	-	-	71.0	71.7	71.7
Media coverage of entrepreneurship is good	-	-	56.2	55.7	54.4

Table 3
Perceptions of and attitudes towards entrepreneurial activity in the UK 2001 - 2005

Source: GEM Global Adult Population Surveys 2001 - 2005

3.0

GEOGRAPHY OF ENTREPRENEURSHIP

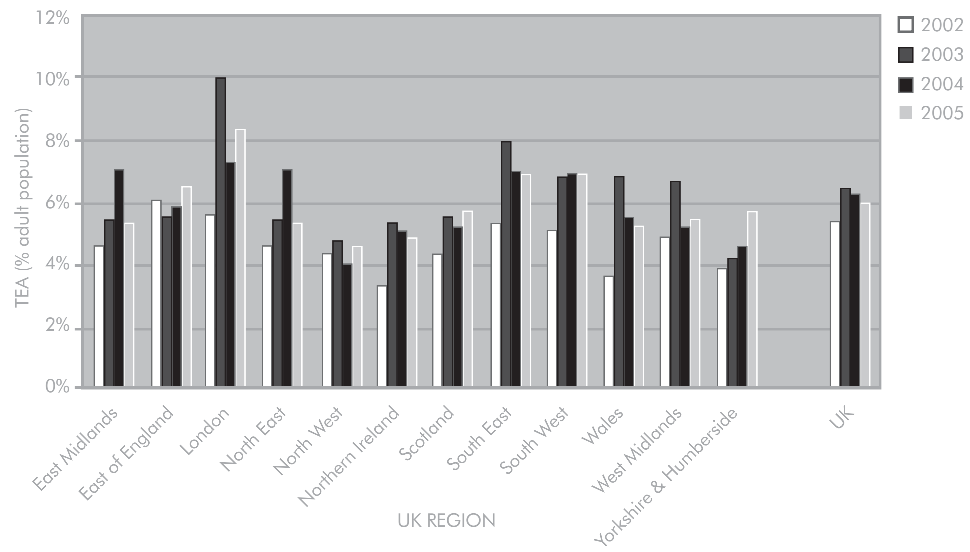


Figure 5
TEA in the UK regions 2002 - 2005
Source: GEM Global Adult Population Surveys 2002 - 2005

Entrepreneurship in the regions

As part of the Comprehensive Spending Review, and the subsequent ten-year science strategy, the UK government has given the Regional Development Agencies (RDAs) considerable autonomy over the direction of innovation and entrepreneurship at a regional level. The overall goal of national policy is to close the productivity (or wealth creation) gap between the poorest regions of the UK and the wealthiest through policies that are tailored to the needs of regional labour markets.

A key part of this is the role of the RDAs, who now have public service agreements (PSAs) that target increasing levels of entrepreneurship. The figures reported here are, therefore, useful measures for policy development and assessment.

The picture of TEA across the UK regions between 2002 and 2005 is presented in Figure 5.

Figure 5 illustrates that entrepreneurial activity over the period since 2002, when regional comparisons were first made within GEM UK, has increased. However, the pattern has been mixed with no region, except the South West and Yorkshire and Humberside, seeing consistent increases over the whole period. For example, the East Midlands saw substantial increases

Table 4
Underlying entrepreneurial trends by region 2003 – 2005

Source: GEM UK Adult Population Surveys 2003 -2005

	I am trying to start a new business			I am trying to start a new business for my employer			I am currently the owner of a business I help manage			I have closed down a business in the last 12 months		
	'03	**'04**	**'05**	**'03**	**'04**	**'05**	**'03**	**'04**	**'05**	**'03**	**'04**	**'05**
E. Midlands	3.4	4.3	**3.5**	2.1	2.4	**1.8**	12.5	12.2	**9.7**	3.5	1.8	**2.0**
E. of England	5.2	2.8	**3.4**	2.1	1.4	**1.6**	13.4	13.7	**11.6**	2.6	2.0	**1.5**
London	8.3	6.2	**5.1**	2.4	1.9	**1.6**	14.1	11	**11.8**	2.1	2.1	**2.9**
N. East	3.3	2.4	**2.5**	2.0	1.8	**0.5**	9.4	7.5	**6.6**	0.5	0.8	**1.9**
N. West	4.3	3.1	**3.0**	1.6	1.9	**0.9**	10.0	10.0	**8.0**	2.1	1.1	**1.4**
N. Ireland	4.6	4.4	**3.4**	2.0	2.2	**0.9**	11.7	9.1	**8.7**	1.3	2.2	**1.5**
Scotland	4.1	4.0	**3.6**	1.9	2.0	**1.0**	10.6	10.2	**9.2**	1.3	1.6	**1.6**
S. East	5.4	5.4	**3.9**	2.4	2.1	**1.4**	15.3	11.3	**11.8**	2.4	2.3	**2.1**
S. West	5.0	4.5	**3.9**	2.6	2.5	**0.9**	14.7	13.2	**14.0**	2.4	2.5	**2.1**
Wales	5.1	4.4	**3.6**	2.5	1.8	**1.3**	13.1	8.6	**9.9**	2.5	1.5	**1.8**
W. Midlands	4.7	3.0	**3.4**	2.8	2.1	**0.9**	13.4	11.2	**11.2**	1.7	2.4	**1.6**
Yorkshire & Humberside	3.7	3.5	**3.7**	2.2	1.2	**1.3**	10.3	8.5	**10.1**	1.9	1.7	**1.6**

up as far as 2004 when TEA was 7.0%, but this has tailed off and now stands at 5.3%. London saw a big increase in 2003, but most of this increase was lost in 2004, followed by a slight rise to 8.3% in 2005.

The gap between the most and the least entrepreneurial regions was 3.2% in 2002, rising to 6.2% in 2003, falling again to 3.3% in 2004, and finally 4.5% in 2005. However, relative positions and rates of entrepreneurial activity at a regional level have not changed over the last year.

The components of entrepreneurial activity by region over the past three years yield some interesting results, and these are illustrated in Table 4.

13. TEA measures new business activity by individual people.

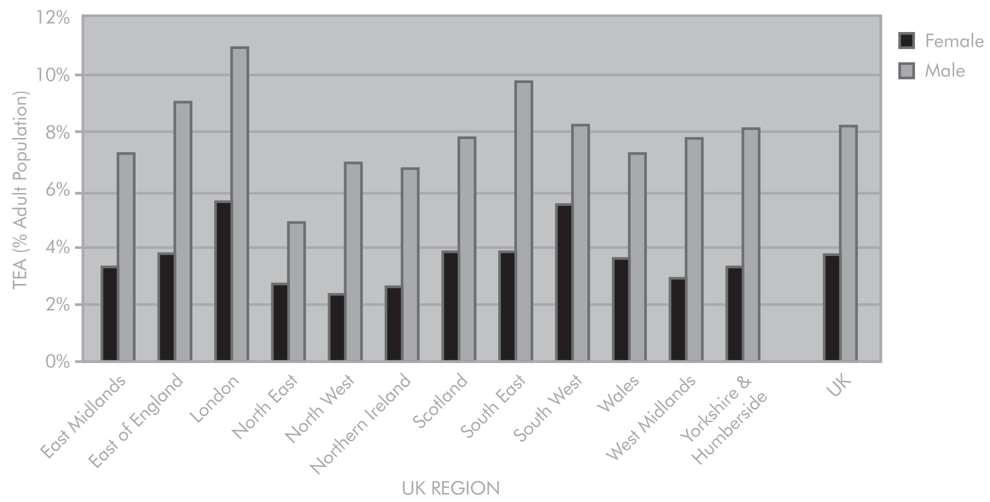


Figure 6
Male and female TEA by region 2005

Source: GEM UK Adult Population Surveys 2005

Table 4 illustrates trends in the components of TEA: independent and job related start-ups and owner-manager businesses[13]. In addition, Table 4 shows the proportion of working age adults who had shut down, discontinued or quit (but not sold) a business in the last year. Two features can be extracted from the table:

- The proportion of individuals reporting they were either trying to start a new business, to start a new business for their employer, or were owner-managers of their own business has declined in most regions between 2003 and 2005. In many cases these changes were not significant.
- Business closure rates have declined slightly but again not significantly in most UK regions over the period. The exceptions are London, the North East, Northern Ireland, Scotland and Wales.

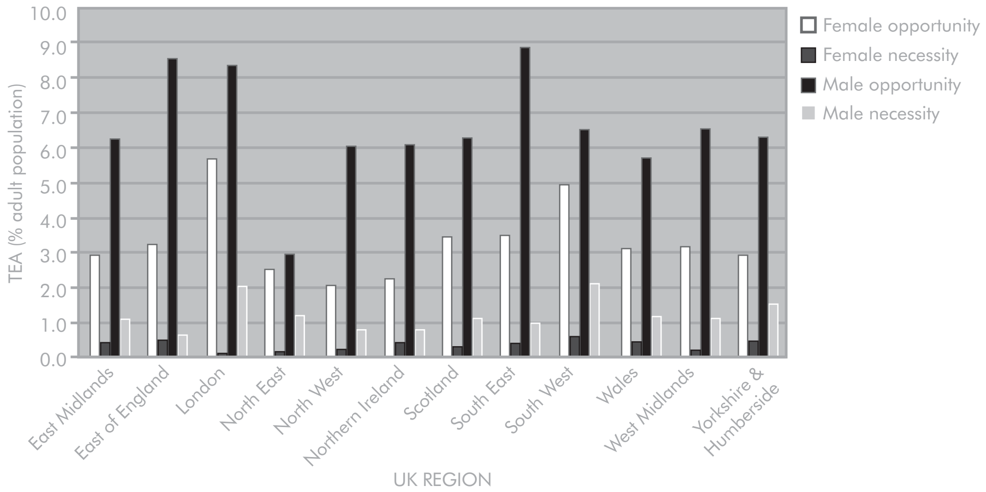
Figure 6 shows the difference in male and female TEA rates by region. Male TEA rates are significantly different between London, which has the highest TEA rate, and the North East, North West, Northern Ireland and Wales. Male TEA rates are also significantly different between the South East and the North East, Northern Ireland and Wales. Among females, the only significant differences in TEA rates were between London and the North West and Northern Ireland. Male TEA rates were significantly higher than female TEA rates in all regions except the North East and South West.

As with previous interpretation of the data, some care is necessary here. Over the period as a whole (2002-

Figure 7

Male and female opportunity and necessity entrepreneurship by UK region 2005

Source: GEM UK Adult Population Surveys 2005



2005) there have been increases in female entrepreneurial activity, but these must be seen in the context of the changes between 2004 and 2005. For six out of the 12 regions there were insignificant drops in female entrepreneurial activity (East Midlands: 4.5 to 3.4%; North East: 3.7 to 2.7%; North West: 2.6 to 2.2%; South East: 4.5 to 3.9%; South West: 5.6 to 5.5% and Wales: 4.6 to 3.6%). Otherwise, female entrepreneurial activity increased or stayed the same: (East of England, 3.4% to 3.9%; London, 4.2% to 5.8%; Northern Ireland: 2.3 to 2.8%; West Midlands: 3.0 to 3.3%; Scotland, where the level has remained the same at 3.8% and Yorkshire and Humberside, 3.1% to 3.4%).

Figure 7 presents a fascinating insight into the patterns of necessity and opportunity entrepreneurship in the UK regions. Across the board, female necessity TEA is lower than male necessity TEA, both in absolute and relative terms. For example:

- In the North East, male necessity entrepreneurship is 1.2%. This is 40% of the level for opportunity entrepreneurship. In contrast, female necessity entrepreneurship is just 8% of female opportunity entrepreneurship (0.2% and 2.5% respectively).
- In London, male necessity entrepreneurship is the second highest in the UK at 2.1%. This is one quarter the rate of opportunity entrepreneurship (8.4%). By contrast, opportunity entrepreneurship is 5.7% for women in London, while necessity entrepreneurship is just 0.1%.

Responses to perceptional and attitudinal questions are given in Table 5.

Table 5

Perceptional and attitudinal responses at a regional level 2005

Source: GEM UK Adult Population Survey 2005

	I know someone who started a business in the last two years		There will be good opportunities to start a business in my area in the next six month		I have the skills, knowledge and experience to start a business		Fear of failure would prevent me starting a business	
	'04	'05	'04	'05	'04	'05	'04	'05
E. Midlands	27.9	**26.0**	37.4	**38.8**	49.9	**52.2**	34.4	**36.3**
E. of England	29.9	**26.9**	37.1	**41.5**	52.4	**52.4**	34.4	**37.5**
London	29.3	**32.1**	35.3	**44.5**	56.7	**52.6**	33.6	**35.7**
N. East	21.3	**25.1**	29.0	**35.2**	43.1	**49.5**	35.2	**31.2**
N. West	20.8	**25.2**	36.5	**31.1**	47.5	**49.6**	36.1	**31.9**
N. Ireland	25.3	**27.9**	34.5	**36.0**	43.7	**44.4**	43.0	**41.5**
Scotland	29.0	**26.3**	36.5	**31.5**	49.7	**45.9**	37.1	**33.8**
S. East	28.3	**28.8**	38.5	**40.5**	49.7	**51.1**	31.7	**35.5**
S. West	27.3	**25.8**	33.9	**41.0**	48.7	**55.1**	30.0	**32.5**
Wales	24.5	**25.7**	35.6	**34.6**	49.6	**49.6**	35.7	**32.4**
W. Midlands	28.6	**30.4**	34.9	**40.4**	51.9	**53.5**	33.4	**32.2**
Yorkshire & Humberside	21.9	**27.4**	35.9	**36.2**	46.9	**50.3**	33.6	**34.5**
UK	27.6	**27.7**	35.9	**38.5**	51.7	**50.7**	32.9	**34.2**

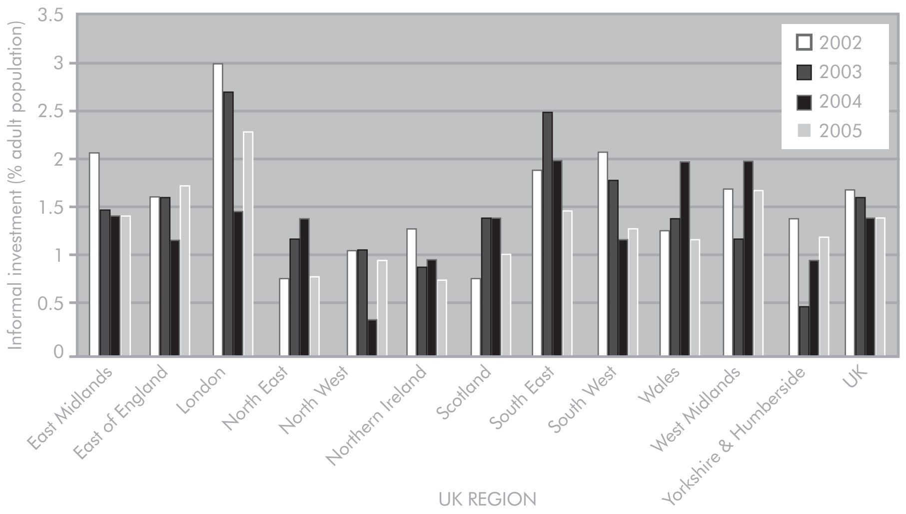
Table 5 demonstrates that although attitudes appear to have become more positive between 2004 and 2005, these changes are small. However:

- There have been significant increases in the proportion of people who say they know someone who started a business in the last two years in the 3 regions in the North of England: the North East, North West, and Yorkshire and Humberside, bringing these regions much closer to the national average.

Figure 8

Informal investment activity by UK region 2002 - 2005

Source: GEM UK Adult Population Surveys 2002 - 2005



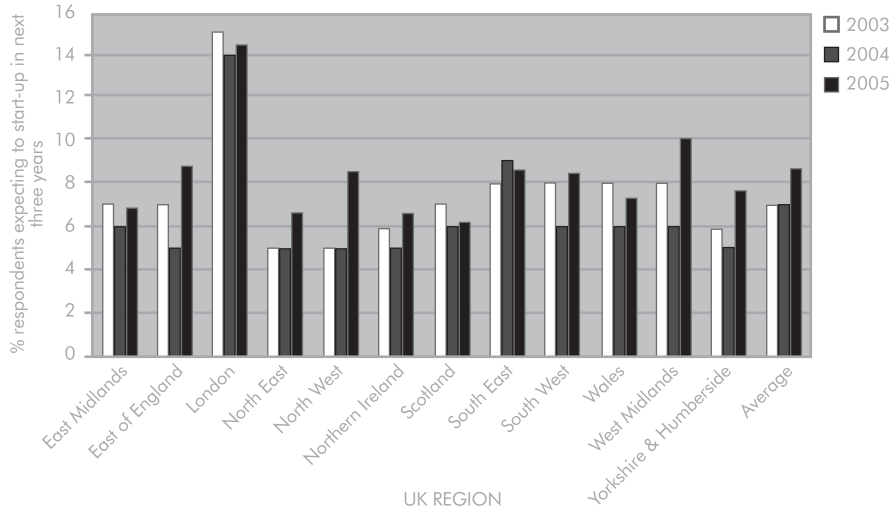


Figure 9

Responses to the question, "I expect to start-up a business in the next three years" by UK region 2003 - 2005.

Source: GEM Global Adult Population Surveys 2003 - 2005

- Opportunity perception is generally higher in London and the southern regions than in the northern and western regions.
- Skills self-perception also varies geographically, with southern regions and the Midlands having higher skills perception than the north and west of the UK.
- Northern Ireland stands out as having a particularly high fear of failure rate at 42% (43% for 2004).

Informal investment activity, either in the form of small scale investments by individuals in someone else's start-up, or in the form of "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. In the UK as a whole, informal investment activity has fallen slightly since 2002, but has not changed since 2004, as shown in Figure 8.

None of the regional year-on-year differences shown in Figure 8 are significant. This is not surprising, for two reasons. First, informal investment activity in the UK is very low overall. Second, because informal investment activity is so rare, it has to be measured for the preceding three-year period. Thus any year-on-year change will be diluted.

Despite the drop in overall entrepreneurial activity within some UK regions, there is some increase in the numbers of people expecting to start a business in the next three years in almost all regions, as illustrated in Figure 9. This suggests a more positive outlook for overall levels of entrepreneurial activity in the next few years.

Figure 9 shows some regions portraying an apparent increase in the proportion of individuals expecting to start up a business in the next three years, with other regions showing apparent decreases. In fact, none of these differences is significant.

Summary of urban-rural differences

- In England, levels of entrepreneurial activity are significantly higher in rural locations compared with those of urban locations (urban/rural measures are available for England only).
- Women in rural areas are nearly twice as likely to be entrepreneurial than those living in urban areas. The rural female TEA rate is 6.5% compared with 3.6% for urban women.
- Men living in rural areas are only slightly more entrepreneurially active than men in urban areas. TEA amongst rural men is 10.1%, while amongst urban men it is 8.5%.
- Perceptions of entrepreneurial opportunities in rural areas are generally more positive than in urban areas, as illustrated in Table 6 on page 28.

Table 6

Urban-rural attitudes to entrepreneurship compared (England only) 2005

Source: GEM Global Adult Population Surveys 2001 - 2005

	Urban	Rural
I know someone who started a business in the last two years	27.6	30.6
There will be good opportunities to start a business in my area in the next six months	39.3	42.5
I have the skills, knowledge and experience to start a business	51.4	60.0
Fear of failure would prevent me from starting a business	35.6	28.6
I expect to start a business in the next three years	8.9	8.6
Starting a business is a good career choice	55.1	44.7
Entrepreneurs have a high status in society	71.5	71.4
Media coverage of entrepreneurship is good	53.7	54.0

Differences by Index of Multiple Deprivation in England[14]

Table 7 presents the differences in entrepreneurial activity and in perceptional and cultural responses by the Index of Multiple Deprivation. This index is grouped into quintiles, each representing 20% of wards in the country from the most deprived to the least deprived.

As reported in 2004, the levels of entrepreneurial activity do not differ significantly by Index of Multiple Deprivation. There are, however, some interesting differences in attitudes:

- Those in the most deprived wards are more likely to say they know an entrepreneur, more likely to say they have the skills and more likely to see good start-up opportunities. Interestingly, they are also more likely to say that fear of failure would prevent them from starting a business.
- Those in the most affluent wards are more likely to agree that entrepreneurship is a good career choice and a high status activity than those in the least affluent wards.
- Necessity entrepreneurship in all five quintiles is in line with UK averages for both women and men. It cannot be stated with any statistical significance that necessity entrepreneurship is higher in more deprived wards.

Summary

The picture painted here confirms the regional patterns revealed in the GEM UK 2004 report. Although the overall level of early stage entrepreneurship remains broadly unchanged at the UK level there are some optimistic trends emerging from the 2005 survey:

- The trend in early stage entrepreneurial activity and for attitudes towards entrepreneurship since 2002 provides some evidence of an improvement in the environment for entrepreneurship in the regions of the UK, although the changes are not significant.
- London and the southern regions have higher levels of entrepreneurial activity and more favourable attitudes than northern and western regions.
- Of particular interest is the number of people who are expecting to start a business over the next three years, which has increased over the proportion recorded in 2004.
- Most deprived wards are neither more nor less likely to be entrepreneurial than the most affluent wards, nor are levels of necessity entrepreneurship higher in the most deprived wards. However, respondents from the most affluent wards are more likely to see entrepreneurship as a good career choice and a high status activity, while those from the most deprived wards are most likely to have positive self-perceptions about their skills and the opportunities.

Table 7

TEA and entrepreneurial attitudes by Index of Multiple Deprivation 2005

Source: GEM UK Adult Population Survey 2005, based on a weighted sample of 21,901

	20% most deprived wards	20% quite deprived wards	20% average affluence wards	20% quite affluent wards	20% most affluent wards
TEA	6.1	6.8	6.4	6.3	5.8
Female TEA	4.1	4.8	2.5	5.1	3.3
Nec TEA (F)	0.2	0.5	0.2	0.4	0.4
Opp TEA (F)	3.2	3.6	2.2	4.1	2.6
Male TEA	8.1	8.9	10.3	7.5	8.3
Nec TEA (M)	0.8	0.7	1.1	0.9	1.5
Opp TEA (M)	6.3	7.0	8.2	4.8	5.6
Personally know entrepreneur	29.9	28.5	28.4	27.7	24.8
Good opportunities	45.5	41.6	39.3	37.8	33.9
Fear failure	38.0	33.9	33.6	33.4	35.4
Have skills	55.5	54.3	53.1	51.0	47.4
Good career	46.3	51.7	52.6	57.1	63.9
High status	68.8	71.3	71.3	73.0	73.8
Positive media	52.4	54.2	54.3	57.1	50.6

14. The Index of Multiple Deprivation 2004 measures deprivation for every Super Output Area and local authority area in England. It combines indicators across seven domains into a single deprivation score and rank. The domains are: income deprivation, employment deprivation, health deprivation and disability, education, skills and training deprivation, barriers to housing and services, living environment deprivation and crime.
More details from www.alg.gov.uk

4.0
ENTREPRENEURIAL PEOPLE

People are at the heart of entrepreneurial activity. After all, it is people who set up businesses, people who fund businesses and people who grow businesses. Much of entrepreneurial policy centres around changing the "demand" side, in other words, altering people's behaviours to increase the numbers who set up, fund and grow businesses. There are two reasons why the government has this as a policy focus:

- It increases the numbers of people who are engaged in labour market activity and therefore increases the wealth creation potential (or productivity) of the economy.
- It gives individuals a means of participating in the labour market through their own creativity, their own desire to help regenerate a community or, of course, their own drive to create wealth.

The government has targeted a number of groups where entrepreneurial activity is believed to be below its full potential. These include women, ethnic minorities young people and graduates in particular. This section focuses on these groups in order to understand where some of the gaps in activity might be and, hence, to make recommendations for policy. GEM UK evidence presented here suggests that ethnic minorities as a group and graduates have relatively high levels of entrepreneurial activity.

Entrepreneurial demographics

Figure 10 suggests that male and female entrepreneurship had a similar pattern by age in 2005.

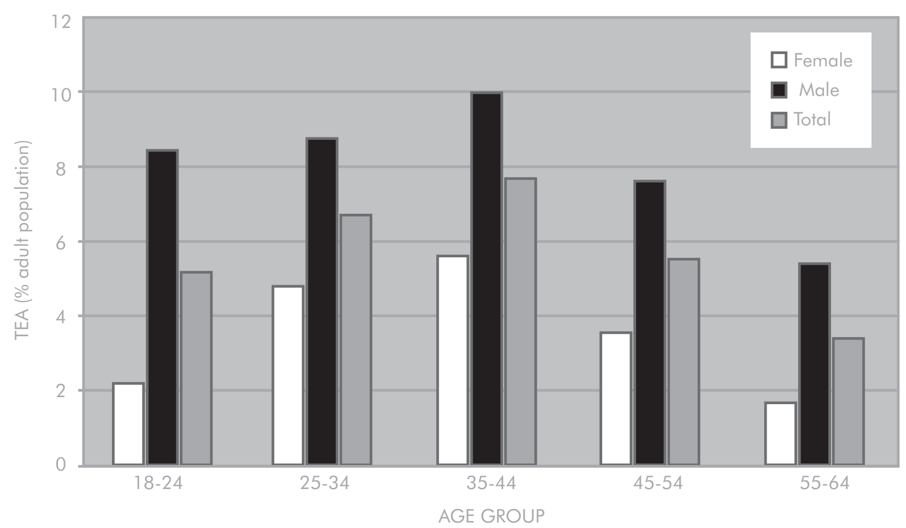


Figure 10
TEA by age grouping and gender 2005
Source: GEM UK Adult Population Survey 2005

Table 8
Attitudes towards entrepreneurship by age 2005

Source: GEM UK Adult Population Data 2005

Age group	18-24	25-34	35-44	45-54	55-64
I expect to start a business in the next three years	13.4	10.7	9.3	6.8	4.0
I know someone who started a business in the last two years	32.8	32.5	29.2	24.3	19.2
There will be good opportunities to start a business in my area in the next six months	35.9	41.6	43.3	36.2	32.8
I have the skills, knowledge and experience to start a business	38.7	51.2	53.7	55.0	50.9
Fear of failure would prevent me from starting a business	33.5	36.5	36.9	34.4	28.0
Entrepreneurship is a good career choice	69.7	58.8	52.2	46.6	45.7
Entrepreneurs have a high status in society	81.5	71.6	70.3	69.9	67.2
Entrepreneurship has good media coverage	48.0	53.2	56.1	55.7	57.6

The 35-44 year old age group has the highest level of entrepreneurship at 10.0% for men and 5.5% for women. The gender gap seems to be widest among the 18-24 year old age group and narrowest among those aged 45 plus.

Table 8 looks at the attitudes towards entrepreneurship by age:

- 18-24 year olds are the most likely of any age grouping to be expecting to start a business in the next three years as they have been in 2003 and 2004. The fact that entrepreneurial intention declines with age but action peaks in the middle working age group is interesting, and merits further investigation.
- 18-24 year olds are also, with the 25-34 age group, more likely to know an entrepreneur than older age groups yet all groups have similar levels of fear of failure, with the exception of the 55-64 year old age group which has lower fear of failure than any other age group. Entrepreneurship is significantly more likely to be seen as a good career choice by 18-24 year olds, and entrepreneurs noticeably given a higher status in society by these young adults than by any other age group. They are much less likely to say they have the skills to start a business, however.
- The most positive combination of perceived skills and opportunities is to be found in the 35-44 year old age group, although the adjacent age groups have very similar combinations. This is not surprising since it is these groups that are the most entrepreneurially active.

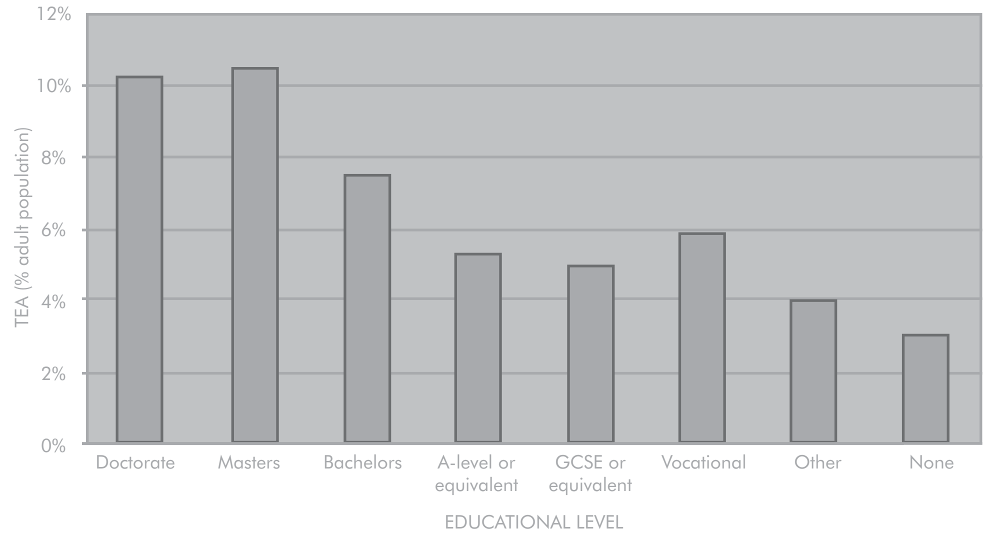


Figure 11
TEA by educational attainment 2005

Source: GEM UK Adult Population Survey 2005

Figure 11 shows the levels of TEA as a percentage of the adult population within each educational category. Level of education, on its own, appears to be a strong predictor of whether or not an individual will be an entrepreneur. For example, TEA is highest amongst those with a Master's level qualification (10.5%) or a doctorate (10.2%). 7.6% of those with an undergraduate qualification are engaged in some form of entrepreneurial activity.

This result holds for both men and women: for both genders TEA rates are significantly higher (significant at the 1% level) amongst those who hold a university qualification compared with those who do not.

The TEA rate for women with a degree is 5.6% compared with 3.1% for women who do not have a degree. For men, the comparable figures are 11.0% for those with a university qualification and 6.8% for those without.

Table 9
TEA rates by age and educational attainment 2005

Source: GEM UK Adult Population Survey 2005

	18-24	25-34	35-44	45-54	55-64
Doctorate (TEA total: 10.2)	0	7.7	12.7	9.7	11.1
Masters (TEA total: 10.5)	14.9	6.5	10.3	13.1	13.8
Bachelors (TEA total: 7.6)	7.2	7.7	10.2	5.9	5.1
'A' level or equivalent (TEA total: 5.3)	4.6	5.5	6.4	6.8	3.0
GCSE or equivalent (TEA total: 5.0)	1.7	6.5	6.5	4.8	2.9
Vocational (TEA total: 5.9)	6.0	9.8	7.6	3.6	3.0
No formal (TEA total: 3.0)	7.9	7.6	4.9	1.8	1.3

There appears to be a quite remarkable impact of education on entrepreneurial activity when we examine the data by age grouping. Probably because those in higher education simply take longer to reach the labour market and assimilate market and industry experience, those with higher levels of education tend to start businesses later in life:

- For those with post-graduate qualifications, older people (above 35) are generally more likely to be entrepreneurial than their younger counterparts. A noted exception is those aged 18 to 24 with a Masters qualification.
- For those with undergraduate qualifications it is the 35-44 year old age group that is noticeably more entrepreneurial. There are similar patterns for 'A' level and GCSE level qualifications.
- For those with vocational qualifications, entrepreneurial activity peaks in the 25-34 year age group.
- For those with no formal qualifications, entrepreneurial activity declines with age.

Educational impact

As shown in Figure 12, TEA amongst those who are in full time education at 2.8% is markedly lower than for the population as a whole. For those in university education, the TEA rate is 4.0%: for men, 4.7% and for women, 3.4%.

The picture changes if we look at those in full time academic education who expect to start a business within the next three years. This is illustrated in Figure 12.

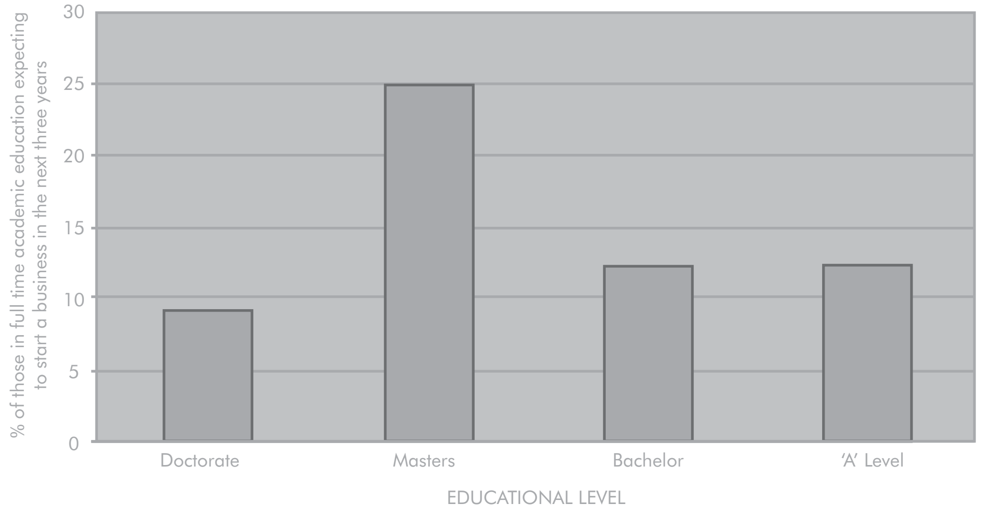


Figure 12
Expect to start a business by course of academic study 2005

Source: GEM UK Adult Population Survey 2005

Those studying for Masters level qualifications are more likely to be planning to start a business in the next three years than any of the other groups in full time academic education. Overall, 14.2% of the 18-64 year old population in full time education is thinking of starting a business and this compares favourably with the UK average of 8.7%. Of course, this could simply be because adults in full time education are more likely to be thinking of employment options, including self-employment, than those who are in full-time employment. It could also be because most of these adults are in the youngest age group, and are "entrepreneurially naïve". Thus their intentions may not be as likely to translate into entrepreneurial action as older individuals, unless their naïveté can be addressed.

Entrepreneurial activity for those in the full time education is lower than for the population as a whole, but there appears to be a greater desire amongst those in full time education to start a business in the future. To this end, the government, prompted by the Davies Review, has put in place enterprise training schemes to work alongside primary, secondary and tertiary educational programmes as a mechanism for increasing the awareness of and engagement in entrepreneurship.

For the first time in this annual series, GEM UK reports the responses to key GEM survey questions in relation to whether or not an individual has taken enterprise training.

At all levels of education we find that there is an association between enterprise training and entrepreneurial activity[15]. While this may to some extent be the result of self-selection on to training courses, the results do suggest an association between entrepreneurship training and propensity to be entrepreneurial:

- **School enterprise training:** 16% of those who had taken enterprise training in school expected to start a businesses within the next three years compared with 7.7% of those who had had no training. The association between taking enterprise training at school and subsequent entrepreneurial activity is strong for women. Women who have taken enterprise training are twice as likely to be expecting to start a business (5.6% without training and 12.3% with training). They also have nearly double the TEA rate (3.6% without and 6.3% with) and are more than twice as likely to be involved with a nascent business (1.8% compared with 4.6%). Again, there may be some self-selection on to training courses that explains this differential.

- **College or university enterprise training:** The gender impact is less marked for those with a college or university training, but overall enterprise training at college or university nearly doubles the likelihood that an individual will be involved in entrepreneurial activity. If an individual has received enterprise training at a university, their TEA rate is higher than that of a university-educated individual of the same gender, age and ethnicity. This is illustrated in Table 10.

- **Work experience with SMEs at school or college:** Work experience while in education similarly doubles the likelihood of an individual, irrespective of gender, being entrepreneurially active. This suggests an association between work experience in an SME at school or college and subsequent entrepreneurial activity that warrants further multivariate testing. Generally the apparent impact of work experience is greater on start-up expectations and nascent entrepreneurial activity than on TEA. Start-up expectations increase from 6.4% to 13.0%, nascent entrepreneurship increases from 3.3% to 5.6% and TEA increases from 5.3% to 7.3% following work experience with SMEs.

15. All results are significant at the 1% level.

	Enterprise training taken	No enterprise training
Women		
Expect to start-up	13.7	5.1
TEA 05	6.9	3.3
Nascent entrepreneur	4.3	1.8
Men		
Expect to start-up	17.8	9.1
TEA 05	11.2	7.3
Nascent entrepreneur	6.1	3.6
Total		
Expect to start-up	16.1	7.0
TEA 05	9.4	5.2
Nascent entrepreneur	5.4	2.6

Table 10
College/University enterprise training and early stage entrepreneurial behaviours 2005
Source: GEM UK Adult Population Survey 2005

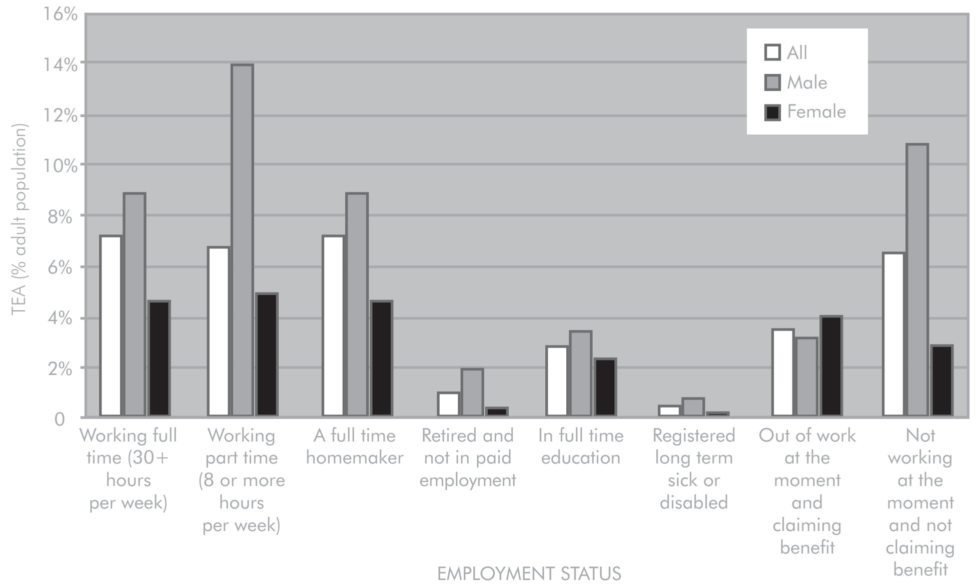


Figure 13
TEA by employment grouping (men and women compared) 2005
Source: GEM UK Adult Population Survey 2005

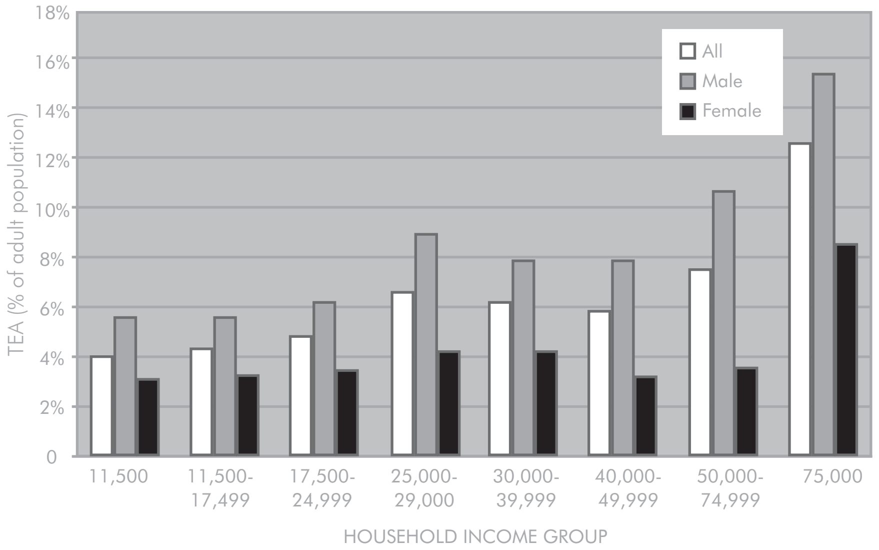


Figure 14
TEA by income grouping, men and women compared 2005

Source: GEM UK Adult Population Survey 2005

Employment status and income grouping

The government has placed considerable emphasis on increasing entrepreneurial activity to decrease labour market inactivity, which remains high despite positive employment figures. Figure 13 shows entrepreneurial activity rates by employment status and includes those who are labour market inactive (i.e. out of work but not claiming benefit).

The groups with the highest levels of early stage entrepreneurial activity are those who are in full-time or part-time work, 7.3% and 6.7% respectively. For those in full-time employment the rate is 8.9% for men and 4.6% for women, or 7.3% overall. The TEA rate for male part-time workers is significantly higher at 13.9% and the female rate is marginally but not significantly higher at 4.9%, but because only 20% of the part-time workers in the sample were male, the overall rate for part-time workers is slightly but not significantly lower at 6.7%. Interestingly, TEA rates are second highest amongst men who are not working and not claiming benefit at 10.9% and fourth highest amongst women at 2.8% suggesting that some entrepreneurial activity could indeed be a route through to greater labour market participation. Students have the same rate of early stage entrepreneurial activity as they had in 2004. TEA amongst this group was 2.9%, an identical rate to 2004.

	Men			Women		
	03	04	05	03	04	05
I expect to start a business in the next three years	10.3	9.0	11.0	5.1	5.4	6.4
I know someone who started a business in the last two years	33.6	31.1	32.9	23.9	22.4	22.3
There will be good opportunities to start a business in my area in the next six months	44.0	42.4	43.7	33.1	32.5	33.0
I have the skills, knowledge and experience to start a business	63.2	62.0	60.9	42.9	41.5	40.3
Fear of failure would prevent me from starting a business	29.8	28.1	31.9	33.9	34.0	36.7
Entrepreneurship is a good career choice	51.3	53.4	54.0	51.1	54.0	54.5
Entrepreneurs have a high status in society	71.2	71.5	71.3	70.7	72.4	72.1
Entrepreneurship has good media coverage	57.7	57.4	55.7	54.4	56.1	53.0

Table 11
Attitudes by gender 2003 - 2005

Source: GEM UK Adult Population Surveys 2003 - 2005

Despite the higher rates amongst those who are technically labour market inactive, however, it is those with the highest incomes who are most likely to be engaged in entrepreneurial activity, as illustrated in Figure 14. This holds for both men and women.

Men and women compared

In spite of all the efforts to increase female entrepreneurship, levels of entrepreneurial activity remain at just half that of the male rates. There are, of course, differences, in TEA rates between women of different backgrounds, for example, rural women are more entrepreneurial than their urban counterparts, whereas rural men are no more entrepreneurial than urban men. Even so, the differences are marked. Much of this can be explained in terms of attitudes towards entrepreneurship and Table 11 breaks those attitudes down by gender.

The following highlights can be extracted from Table 11:

- Generally men were much more positive about their skills, more

Table 12
Turnover by gender, three years ago, now and three years time 2005 (Median values)

Source: GEM UK Adult Population Survey 2005

	Start-up Entrepreneurs		Owner-Managers	
	Turnover Now (£)	Project Turnover in three years (£)	Turnover Now (£)	Turnover three years ago (£)
Female	20,000	40,000	30,000	45,000
Male	50,000	130000	60,000	55,000
Total	50,000	100,000	55,000	50,000

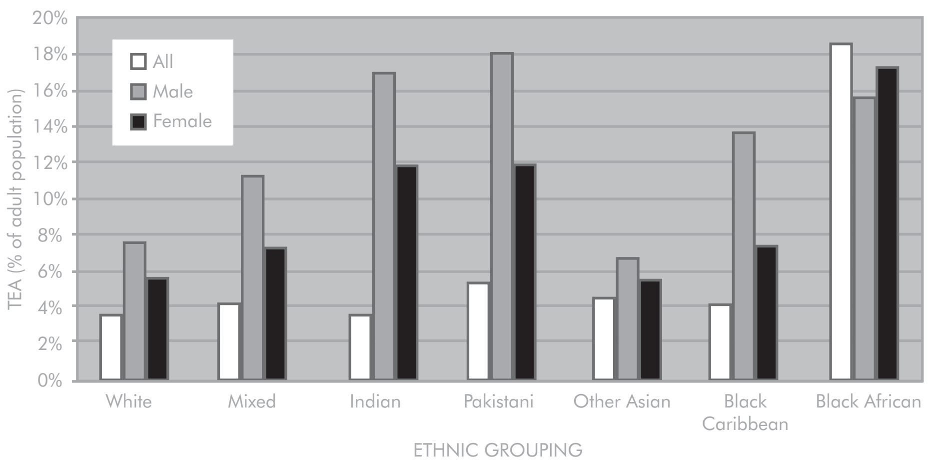
likely to perceive opportunities and to say they knew someone who had started a business in the last two years, and were almost twice as likely to expect to start up a business than women in each of the past three years. Men are also less likely to fear failure than women.

- Women are slightly more likely to think entrepreneurship is a good career choice in 2005 than in 2003 and to see it as a high status activity, although the latter is not significant.
- Over the period as a whole, while attitudes have not changed for women or men, the numbers expecting to start a business in the next three years has increased slightly for women but not for men.

Women entrepreneurs have lower start-up turnovers from the first year of trading, and project significantly lower growth over a three year period than men, as shown in Table 12. In terms of more established businesses, current turnover is actually lower for women owner-managers compared to three years ago and is only marginally higher for men. It may be that men have more positive, or perhaps more unrealistic, expectations than women at start-up.

Figure 15
TEA by ethnic grouping, men and women compared 2005 [16]

Source: GEM UK Adult Population Survey 2005



16. Because of small numbers, Chinese, Bangladeshi and Other Black ethnic groups are not shown.

Table 13
Attitudes by ethnicity 2005

Source: GEM UK Adult Population Survey 2005

	I expect to start a business in the next three years	I know someone who started a business in the last two years	There will be good opportunities to start a business in my area in the next six months	I have the skills, knowledge and experience to start a business	Fear of failure would prevent me from starting a business
White	7.4	27.2	38.1	50.0	34.6
Mixed	20.6	34.0	52.8	64.2	28.5
Indian	15.8	37.9	37.3	58.8	26.0
Pakistani	21.8	39.4	50.2	53.1	33.7
Bangladeshi	25.4	21.2	20.3	27.5	47.9
Chinese	18.6	24.7	31.3	47.6	59.2
Other Asian	25.3	24.0	32.5	51.5	33.0
Black Caribbean	17.7	23.2	34.7	65.5	35.9
Black African	36.1	34.5	44.7	46.6	27.9
Other Black	18.0	47.1	56.3	87.0	32.1

Entrepreneurship by ethnicity[17]

In the UK, non-white ethnic minorities as a group continue to be more entrepreneurial, with a TEA rate of 9.3%, than their white counterparts (5.6%). For example, entrepreneurial activity is nearly twice as high in Indian (11.9%) and Pakistani (12.0%) communities as rates in the white community (5.6%). As Figure 15 shows, the most entrepreneurial group is Black Africans, where TEA is 17.3%, nearly three times the rate of white TEA. Those with mixed ethnicity have TEA rates mid-way between those with white and non-white, non-mixed ethnicity.

Some 18.7% of Black African women are entrepreneurially active compared with 15.6% of men. Although this difference is not significant, interestingly Black African women are significantly more entrepreneurial than any other female ethnic group. For example, the TEA rate for Black African women is at least five times higher than for white women (3.6%).

Much of the higher levels of entrepreneurial activity amongst some non-white communities can be explained in terms of more positive attitudes, although this may be influenced by the younger average age of ethnic minority individuals in the sample, which reflects the UK population at large. Although these attitudes are not uniform, non-white people of every category are more likely to be expecting to start a business in the next three years. Attitudinal responses are given in Table 13 and are broadly consistent with results from previous years that also suggest that ethnic minority groupings have noticeably more positive attitudes towards entrepreneurship[18].

- Black Africans are the most likely ethnic grouping to be expecting to start a business, and this is reflected in higher TEA rates in these communities. Otherwise, Black Africans do not have the most positive attitudes towards entrepreneurship, although they do have the second lowest fear of failure (27.9% compared with 34.6% of whites).
- The most positive ethnic groups are those of mixed ethnic origin, who see good start-up opportunities and have a positive attitude towards their own skills.

Summary

This section has given us a great deal of detail behind the overall entrepreneurial picture painted in the first two sections which can be summarised as follows:

- Educational attainment appears to have a strong association with the propensity of individuals to be engaged in entrepreneurial activity. Rates are higher for those with graduate and post-graduate qualifications than for other educational groupings.
- Rates of entrepreneurial activity among those with no formal educational qualifications decline with age, unlike those with formal education, where activity peaks in middle age groups.
- All forms of enterprise training, irrespective of gender or stage of schooling, have a strong and positive association with entrepreneurial activity rates.
- Entrepreneurship training has a higher association with female entrepreneurial activity and intentions than with male entrepreneurial activity, although more testing would be necessary to explore the reasons for this association. Possibly, more of this type of training at an early age would increase the likelihood of women becoming entrepreneurs in later life. This would help to address the issue of negative attitudes towards entrepreneurship and self perceptions of entrepreneurial potential amongst women compared to men. More in-depth research is required on this topic.
- Ethnic minority groups, as in previous years, remain more entrepreneurial compared with their white counterparts. In general terms, attitudes, perceptions and awareness of entrepreneurship are more positive among most ethnic minority groups.

17. As in previous years, the ethnic minority results should be seen as indicative only. This is because of small numbers in some ethnic minority groupings.
18. The ethnic sample in the survey was boosted by over-sampling London boroughs with high ethnic minority populations in the 2005 survey. This supplements the ethnic minority results and provides a larger sample than in previous years. The number of respondents (aged 18-64) who identified with the following ethnic groupings was: White: 25,642; Mixed: 270; Indian: 369; Pakistani: 244; Bangladeshi: 41; Chinese: 67; Other Asian: 184; Black Caribbean: 149; Black African: 162; Black other: 14.

5.0

ACCESS TO FINANCE AND CULTURAL BARRIERS TO ENTREPRENEURSHIP

The finance gap

The supply side approach to entrepreneurial policy has been characterised by measures to address a perceived "equity gap" in start-up and growth funding. Measures include regional venture capital funds, venture capital trusts, support for the national business angel network, enterprise capital schemes (akin to the SBIC schemes that exist in the US) and, most recently, extending the small firms loan guarantee scheme.

Of TEA active respondents, an individual entrepreneur requires on average (median) £13,000 in start-up finance at the very earliest stages of the business's development, and is prepared to put in around £9,000 of his or her own money to begin the process.

The picture across the UK is not uniform however, as is illustrated in Table 14[19]. In Northern Ireland, for example, the typical individual entrepreneur is prepared to put in nearly all of the start-up finance themselves, while in London the typical individual puts in just over two fifths of the total amount required.

The reported start-up financing required is greatest in the West Midlands (£25,000) and Scotland (£20,000), although interestingly it is still London where the gap between the entrepreneur's investment and the required start-up finance is greatest.

	Total start-up finance required (£000s)	Total invested by entrepreneur (£000s)
East Midlands	10,000	6,000
East of England	15,000	11,000
London	20,000	8,000
North East	15,000	15,000
North West	15,000	6,000
Northern Ireland	11,000	10,000
Scotland	21,000	10,000
South East	9,000	5,000
South West	8,000	5,000
Wales	10,000	7,000
West Midlands	25,000	15,000
Yorkshire & Humberside	15,000	10,000
UK Average	13,000	9,000

Table 14
Start-up money required and invested by entrepreneur by UK region 2005

19. These data need to be treated with caution because the numbers of respondents to these questions at a regional level are small.

Table 15
Sources of finance for men and women in the UK 2005

Source: GEM UK Adult Population Survey (weighted sample of approximately 3764 individuals)

	Source of finance used (percentages)		Source of finance sought but attempt unsuccessful (percentages)	
	Men	Women	Men	Women
Friends and family	23.0	17.8	2.2	2.4
Individual investors	9.1	6.6	2.8	2.1
Unsecured bank loan	18.0	10.3	4.6	1.7
Bank overdraft	32.5	23.5	5.4	3.0
Secured non-bank loan	5.7	3.5	1.8	1.2
Secured bank loan	12.8	14.0	2.8	1.6
Equity	4.9	3.5	1.9	0.8
Government grants	8.0	9.5	4.6	3.6
Credit cards	17.4	15.9	-	-

Table 15 reports on the sources of external business finance used by male and female nascent and new entrepreneurs and owner-managers of established businesses and the percentage of those who were unsuccessful in attempting to obtain each type of external finance.

- The most popular source of external finance for both men and women is a bank overdraft. Men are significantly more likely to use bank overdrafts, unsecured bank loans, friends and family, and individual investors than women. Women were not significantly likely to use any source of external finance more than men. Interestingly, although not significant, 9.5% of women report the use of government grants compared to 8% of men.
- 15.9% of women and 17.4% men use credit cards to finance their business. It was the third most popular financing route for female entrepreneurs and the fourth most popular for men.
- Women have lower failure rates than men in accessing bank overdrafts and unsecured loans, although reported failure rates were very low among both men and women for all finance sources.

The cultural gap

Table 16 shows that financial barriers remain the greatest obstacles to male and female entrepreneurship, as reported by individuals who were not planning or engaged in any form of business start-up or owner/management activity. For interest, Table 16 reports differences between men and women in the barriers they face, but most of these differences are slight or not statistically significant. Men and women alike perceive getting finance for their business as the single most important obstacle to their entrepreneurial activity. For men, the next biggest fear is that of debt, and while almost as many women (13.8% versus 15.0%) blame fear of debt, they are more likely to cite lack of interest (14.6% versus 12.2%) as a reason than men.

“Softer” factors, like age or lack of time or lack of confidence are more important for women than for men. These differences are statistically significant, although the actual differences between genders are small. Interestingly, however, chance of failure is a minor reason for both men (6.5%) and women (5.5%), as is lack of skills (11.0% versus 10.4%). On the face of it, this contradicts the earlier results reported here and in previous reports suggesting that women are more likely to let fear of failure or lack of skills stop them from starting a business. An explanation may be that women are more likely to use fear of failure or lack of skills as an excuse for not starting up a business, but are not actually afraid of the chance that their business might fail or that their skills might not be adequate.

Table 16
Barriers to entrepreneurship by gender 2005

Source: GEM UK Adult Population Survey 2005

	Male	Female	Total UK
Fear of debt	15.0	13.8	14.3
Getting finance for business	50.3	52.1	51.3
Lack of interest	12.2	14.6	13.5
Not having an idea	8.7	7.4	8.0
Lack of skills/knowledge	11.0	10.4	10.7
Time commitment	7.2	11.9	9.8
Chance of failure	6.5	5.5	5.9
Age	7.3	9.4	8.5
Health	3.0	2.9	3.0
Lack of confidence	0.8	1.2	1.0
Lack of promotion skills	0.8	0.4	0.6

Summary

It would appear that the government’s focus on correcting market failures in access to growth finance addresses both the supply side and the cultural, or demand, side. There are a number of softer factors, including lack of interest, which are barriers to women which could be a focus for training or support programmes.

The fact that for most forms of external finance, a lower proportion of women than men reported they failed to access funding is encouraging. It should not be taken as an indicator of policy success, however, since far fewer women attempt to access formal external finance than men.

6.0
SOCIAL ENTREPRENEURSHIP

GEM UK has developed a mechanism for measuring social entrepreneurial activity, the Social Entrepreneurial Activity Index (SEA). Social entrepreneurship captures much of the individual level activity to create change in specific communities and is important as a potential driver of regeneration and welfare improvement amongst these groups.

Like TEA, the SEA index does not measure all socially motivated enterprise activity but is instead designed to give an indication of the propensity of particular groups to become entrepreneurial for social rather than economic means. We calculate SEA from the responses to the following questions:

- Are you, alone or with others, currently trying to start any kind of social, voluntary or community service, activity or initiative?
- Are you, alone or with others, currently managing any such social, voluntary or community service, activity or initiative?

Also like TEA, those answering yes to these questions are asked follow-on or "filter" questions to ensure that those who are trying to start a social enterprise are actively doing so, and that the individual is or will be a manager of the enterprise. We capture the age of the enterprise by asking for the date the enterprise first provided services to the community or received external funding. Equivalent to TEA, SEA is a measure of the proportion of working age adults who are actively trying to start a new social enterprise (less than 3 months old) and those who are running a new enterprise that is more than 3 months and less than 42 months old.

The summary results are as follows:

- Overall SEA is 3.2% of the adult population. This result is directly comparable with the TEA rate of 6.2% reported above.
- Younger people are the most likely to be involved in social entrepreneurial activity. The SEA rate amongst young people aged 18-24 is 3.9% compared with 2.7% in the 25-34 year old age group, 3.4% in 35-44 year olds, 3.3% in 45-54 year olds and 2.7% in 55-64 year olds. SEA is significantly different between the youngest and oldest age groups and between the youngest and second youngest age groups.
- Education is also a good predictor of propensity to be a social entrepreneur with 5.5% of people with post-graduate qualifications SEA active compared with 2.4% of those with a BA, 2.3% of those of 'A' level or equivalent and just 1.3% of those with GCSE or equivalent.
- Students are substantially more likely to be engaged with social entrepreneurial activity than other labour market groups. Some 5% of the student population are social entrepreneurs compared with 3.5% of those in full time employment, 3.2% of those in part time employment, 2.0% of those who are out of the labour market because they are retired or claiming incapacity benefit, 1.7% of homemakers and 2.3% of those who are out of work.
- As with mainstream entrepreneurship, non-white ethnic groups are more likely to be active as social entrepreneurs than their white counterparts. 5% of the non-white population are social entrepreneurs compared with 3% of the white population.
- Income and deprivation do not appear to be good predictors of social entrepreneurial activity. The differences between the most deprived and the least deprived wards are not statistically significant; nor are the results by income.

7.0

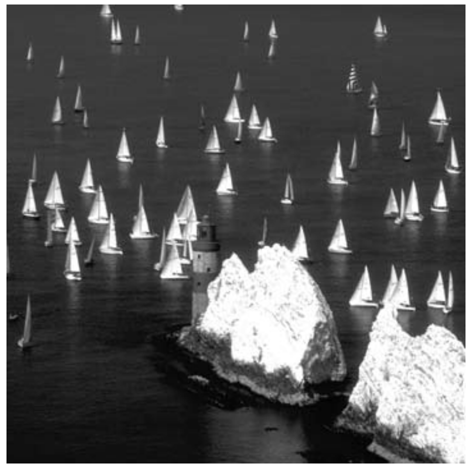
POLICY CONCLUSIONS

Entrepreneurial policy has progressed during 2005 with the principal measures on the supply side (such as those incorporated under the ten-year science strategy and the 2005 budget) being driven by the Treasury. Important changes to streamline regulation and the burden of taxation began to gather momentum and the impact of these may be seen during 2006. Market correcting measures in the Enterprise Areas, England's most deprived wards, such as community development funds and community investment tax relief were widened during 2005. A number of reviews and demand side policy updates, such as the review of social enterprise policy, were conducted.

Statistically there has been no change in entrepreneurial activity between 2004 and 2005 with the unweighted UK TEA rate at 6.3% and 6.2% respectively. Yet there is evidence that there has been an improvement in overall attitudes over the last five years. This suggests that the time-lag between creating an enterprise culture and increases in TEA may be substantial. This reinforces the need to keep entrepreneurship policy on both the demand and the supply side at the forefront of overall government productivity policy.

The GEM 2005 report contains some encouraging results, such as the association between entrepreneurial activity and prior participation in enterprise training programmes in schools and universities, government programmes to support enterprise and work placements with SMEs for students. As such programmes grow in scale, they are likely to bear fruit over the next few years. The results are statistically significant and warrant further investigation in future research to provide more robust evidence on this relationship.

Most interesting of all is the strong association between participation in these programmes and entrepreneurial activity for women. There is a particularly strong association between enterprise training schemes for school students and subsequent start-up expectations, entrepreneurial activity and involvement in nascent businesses among women. While there may be an element of self-selection on to training courses that influences this result, it nevertheless suggests that some of the attitudinal and



perceptional problems that arguably emanate from the education system may be addressed by teaching women about entrepreneurship from an early age.

Another interesting result of the GEM UK 2005 survey is the apparently buoyant attitudes towards entrepreneurship amongst the youngest age category and students. Young people are more likely to be thinking about setting up a business over the next few years and more likely to be social entrepreneurs than any other age group. Student entrepreneurship generally has increased and social entrepreneurship is again higher amongst students than amongst any other employment status category. This suggests that policy has correctly identified younger people as core drivers of entrepreneurship in the UK, but also that social entrepreneurship may appeal to more young people than business entrepreneurship. Further research is warranted to see why the relatively high rate of interest and intention is not translated into high rates of new business creation among young adults.

This report shows that entrepreneurial activity among ethnic minorities as a group is higher than among the white ethnic majority, although this does not imply that there is no need for government policy towards this vital group. The literature on ethnic minority entrepreneurship suggests that labour market discrimination is a major reason for ethnic minority entrepreneurship, and recent research suggests that many ethnic minority entrepreneurs believe they face discrimination for resources. Entrepreneurial activity is therefore an important alternative pathway to the labour market for the ethnic minority community, a group that as a whole has a higher unemployment rate than the ethnic majority. While ethnic minority entrepreneurs may face the same challenges as ethnic majority entrepreneurs, the intensity of these challenges tends to be greater[20].

There is one other cultural area that still remains a barrier to entrepreneurship generally across the UK: fear of failure. Fear of failure rates have remained static over a four year period, having fallen between 2002 and 2003, despite efforts to streamline the laws on bankruptcy and measures to support businesses that close. It may be that addressing fear of failure involves a sea change in culture. But such changes necessarily take a long time to effect. This is the type of thing at a cultural level that can be dealt with through the enterprise training schemes from school age onwards.

Finally, there is a big gap in entrepreneurial activity between the UK and other Anglo-Saxon nations such as the US (12.4%), Canada (9.3), New Zealand (17.6%) and Australia (10.9%). There are policy lessons to be learned from Canada, New Zealand and Australia, and perhaps we should be broadening our policy learning to include these countries as well as the US.

20. See Centre for Enterprise and Economic Development Research, "Young Entrepreneurs, Women Entrepreneurs, Ethnic Minority Entrepreneurs and Co-entrepreneurs in the EU and Central and East European Countries," Report to DG Enterprise, European Commission, 2000.

8.0

APPENDIX: GEM METHODOLOGY INTERPRETING GEM DATA

INTERPRETING GEM DATA

GEM captures a larger proportion of entrepreneurial activity than separate business or household surveys since it measures individual entrepreneurial behaviour as well as business owner-management rates[21]. This is particularly useful for understanding entrepreneurial potential (for example, in different demographic groupings, such as ethnic minorities), as well as total entrepreneurial activity. 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 proportion of the working age population that are likely to behave entrepreneurially (and by extrapolation, the number of new businesses created) if appropriate drivers are in place.

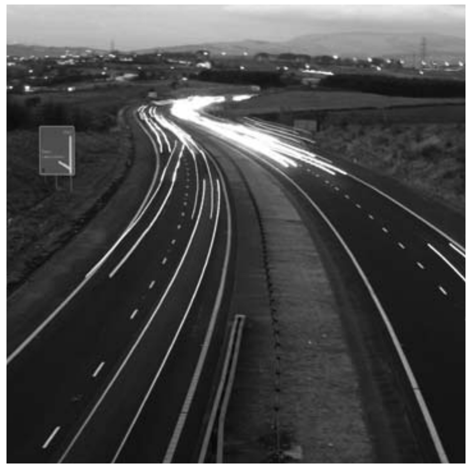
UK WEIGHTINGS PROTOCOL

Eight weights were created for the GEM UK 2005 database. Four of these weights were for the 18-64 age group, and a second set of four were for the 18 and over age group. The former set was used for TEA-related analysis, and the latter set was used to calculate informal investment activity.

Each set of four comprised two UK-wide weights and two regional-level weights:

- The former were used to calculate UK-level data, and the latter were used to estimate regional level data.
- Within each of these, two types of weight were calculated:
  - The first type corrected for sample to population differences in age, gender and region, including allowances for sub-regional boosts in London, North West and Northern Ireland which makes them more precise reflections of the whole UK adult population distribution.
  - The second type includes age, gender, region and regional white/non-white ethnic balance. In addition to these eight weights, additional weights were

21. This approach is also taken by the Small Business Service's Household Survey.



calculated for comparison with previous years' weights. The effect of these different weights on TEA for 2005 is shown below:

1. UKWGT1 5.975%
no allowance for ethnicity but corrected for sub-regional boosts

2. EUKWGT1 5.985%
this is the UK 2005 TEA - i.e., corrected for ethnicity and sub-regional boosts

3. OUKWGT1 6.067%
this is the directly comparable figure with previous years (no allowance for ethnicity and no allowance for the sub-regional boosts)

4. OEUKWGT1 6.073%
ethnic corrected but no allowance for the sub-regional boosts

GEM 2005 Adult Population Survey Methodological Summary:

1. Telephone numbers were drawn through Random Digit Dialling (RDD). By this method a random sample of numbers is generated by computer according to pre-determined STDs . These can be matched, to the areas that constitute Government Office Regions (GORs) and, with less accuracy, to sub-districts such as postcodes at the outward level (e.g. N1, SE24).
2. Because a great deal of random number generation produces unallocated numbers, the next step is to employ "pinging", whereby a computer auto-dials the sample numbers to establish whether there is a connection or not. This removes unallocated telephone numbers although, unfortunately, the technique cannot distinguish between lines used for phones, and lines used for fax or internet-only.
3. Because of the rapid frequency of telephone number turnover, i.e. new numbers being allocated and old ones retired, we still encountered a great deal of "unobtainable" numbers whilst attempting to get interviews, despite pinging and interviewing within four weeks of receiving each sample batch.
4. Normally, the resulting numbers are then run against a database of business telephone numbers to exclude these. For GEM we did not exclude these business numbers. This is because some of the smaller business owners and self-employed people may advertise in business directories using their home telephone numbers, or indeed work from or below their homes. For this reason it is important to include a screening question at the beginning of the questionnaire to check that the sample number is the main residence of the intended respondent, regardless of whether it may also be used for business purposes.
5. Each telephone number was tried up to eight times before retirement of the piece of sample.
6. The technique gives a random sample of households, but not of individuals. Within a household there is a probability that the telephone will be answered by particular people – usually the so-called Head of Household or Housewife. This means that a response bias against younger adults living with parents may occur. In order to alleviate this and minimise response bias, we used the "next birthday technique", which simply involves asking to speak to the person in the household with the next birthday coming up.
7. An interview was only attempted with respondents aged 16-80 (16-64 for most of the Welsh interviews). Every respondent needed to be mainly resident at the sampled address.
8. A code was assigned to all pieces of sample where an outcome was achieved. Codes were allocated for completed interviews, refusal to be interviewed, quit interviews, business numbers, unobtainable numbers, ineligibility on grounds of age and not being a resident of the household, and inability to speak English.
9. The number of interviews attempted for each region varied due to differential levels of funding, but a minimum of 1000 interviews was sought within each GOR. There were also boosts within regions: East Lancashire, the 13 London Boroughs with the highest proportion of ethnic minorities, and Belfast.
10. Postcodes were verified during the CATI data collection, the programme linking with a database containing all valid UK postcodes, and the interviewer instructed to ask the postcode again if not instantly recognised. The reason for this is that many key measurements: e.g. the urban/rural index and IMD need to be drawn from a full postcode. Even so, several thousand postcodes were not gathered or entered incorrectly because of refusals, uncertainty, phonetic misunderstandings and interviewer error. Thus, all the incorrect or blank postcodes in the data set were hand edited at the analysis stage.
11. The collection and editing of postcodes is also particularly important for the allocation of ward, local authority and GOR. Whilst the sampling method can only predict the correct region because it is based on area codes which might straddle the border of two or more regions, full postcodes will accurately categorise the data into region. For this reason, the attempted number of interviews (target) for each region differ from the actual number gained, as the table below shows:
12. At the analysis stage the data were weighted back to the correct population profile within the UK.

GEM 2005: Number of Interviews	Target	Actual
North East	1000	994
East Lancashire Boost	2000	2022
North West	1000	922
Yorkshire & Humberside	3000	2985
East Midlands	3000	2994
West Midlands	1000	1039
Eastern	1000	1009
"Ethnic" London	500	547
Other London	1000	973
South East (not London)	3000	2984
South West	1000	1033
TOTAL ENGLAND	**17500**	**17502**
TOTAL SCOTLAND	**2000**	**1998**
TOTAL WALES	**8000**	**8088**
Belfast Boost	1350	1354
Other Northern Ireland	3650	3647
TOTAL NORTHERN IRELAND	**5000**	**5001**
TOTAL UNITED KINGDOM	**32,500**	**32589**

DATA FOR FIGURES IN TEXT

Figure 1: TEA in the G7 countries (% adult population)

	2001	2002	2003	2004	2005
US	11.6	10.5	11.9	11.3	12.4
Germany	8.0	5.2	5.2	4.5	5.4
France	7.4	3.2	1.7	6.0	5.4
UK	7.7	5.4	6.4	6.3	6.2
Italy	10.2	5.9	3.2	4.3	4.9
Canada	11.0	8.8	8.0	8.9	9.3
Japan	5.2	1.8	2.2	1.5	2.2

Figure 2: Female TEA in the G7 countries (% adult population)

	2001	2002	2003	2004	2005
US	9.0	8.2	8.2	10.7	9.7
Germany	4.9	3.4	3.3	2.6	3.8
France	3.6	2.1	1.6	3.8	3.3
UK	3.7	3.3	3.8	3.9	3.8
Italy	9.0	4.1	3.2	2.3	3.7
Canada	8.0	6.0	5.2	6.1	5.6
Japan	2.0	0.6	1.3	1.2	1.2

Figure 3: Female TEA as a proportion of Male TEA (% adult population)

	Male	Female	Proportion of female
US	15.2	9.7	63.3
Germany	6.9	3.8	55.2
France	7.4	3.3	45.0
UK	8.2	3.8	47.1
Italy	6.2	3.7	60.0
Canada	13.1	5.6	42.4
Japan	3.2	1.2	37.5
G7 average	8.6	4.4	51.7

G7 necessity entrepreneurship (%)

	2001	2002	2003	2004	2005
US	1.3	1.2	1.7	1.5	1.5
F	1.4	0.9	0.4	1.4	2.1
I	2.1	0.5	0.2	0.3	0.8
UK	1.4	0.7	1.0	0.6	0.7
D	2.0	1.2	1.2	1.2	1.5
J	2.2	0.5	0.5	0.2	0.4
C	3.0	1.1	1.0	1.4	1.3

G7 opportunity entrepreneurship (%)

	2001	2002	2003	2004	2005
US	10.3	9.1	9.1	9.5	10.4
F	3.8	2.8	1.1	4.6	2.6
I	7.8	3.3	2.9	3.1	4.0
UK	5.1	4.4	5.3	5.5	5.2
D	5.6	3.9	3.7	3.1	3.8
J	2.3	1.2	2.0	1.1	1.8
C	7.6	7.4	6.5	7.3	7.5

Figure 4: G7 ratio necessity to opportunity (%)

	2001	2002	2003	2004	2005
US	12.6	13.2	18.7	15.8	14.4
F	36.8	32.1	36.4	30.4	80.8
I	26.9	15.2	6.9	9.7	20.0
UK	27.5	15.9	18.9	10.9	14.2
D	35.7	30.8	32.4	38.7	39.5
J	95.7	41.7	25.0	16.4	22.2
C	39.5	14.9	15.4	19.2	17.3

Figure 5: TEA in the UK regions (% adult population)

	2005	2004	2003	2002
EAST MIDLANDS	5.35	6.99	5.40	4.60
EAST OF ENGLAND	6.53	5.85	5.50	6.10
LONDON	8.34	7.25	10.00	5.60
NORTH EAST	3.84	4.99	3.80	2.90
NORTH WEST	4.56	4.00	4.70	4.30
NORTHERN IRELAND	4.81	5.01	5.30	3.30
SCOTLAND	5.75	5.22	5.50	4.30
SOUTH EAST	6.87	6.98	7.90	5.30
SOUTH WEST	6.87	6.84	6.80	5.10
WALES	5.25	5.51	6.80	3.60
WEST MIDLANDS	5.43	5.22	6.60	4.90
YORKSHIRE & HUMBERSIDE	5.71	4.53	4.20	3.90
UK	6.00	6.25	6.40	5.40

Figure 6: TEA by gender in the UK regions (%)

	Female	Male
EAST MIDLANDS	3.4	7.3
EAST OF ENGLAND	3.9	9.1
LONDON	5.8	10.9
NORTH EAST	2.7	5.0
NORTH WEST	2.2	6.9
NORTHERN IRELAND	2.8	6.9
SCOTLAND	3.8	7.7
SOUTH EAST	3.9	9.8
SOUTH WEST	5.5	8.2
WALES	3.6	6.9
WEST MIDLANDS	3.3	7.5
YORKSHIRE & HUMBERSIDE	3.4	8.0
Total	**3.8**	**8.2**

Figure 7: Necessity and opportunity entrepreneurship by UK region (%)

	Female		Male			
	Opportunity	Necessity	Opportunity	Necessity	nec:opp fem	nec:oppmale
EAST MIDLANDS	3	0.3	6.3	1	10.0	15.9
EAST OF ENGLAND	3.2	0.5	8.5	0.6	15.6	7.1
LONDON	5.7	0.1	8.4	2.1	1.8	25.0
NORTH EAST	2.5	0.2	3	1.2	8.0	40.0
NORTH WEST	2.1	0.1	6.1	0.8	4.8	13.1
NORTHERN IRELAND	2.2	0.5	6.1	0.8	22.7	13.1
SCOTLAND	3.5	0.3	6.3	1.2	8.6	19.0
SOUTH EAST	3.5	0.3	8.9	1	8.6	11.2
SOUTH WEST	5	0.6	6.5	1.7	12.0	26.2
WALES	3.1	0.5	5.7	1.1	16.1	19.3
WEST MIDLANDS	3.1	0.2	6.5	1	6.5	15.4
YORKSHIRE & HUMBERSIDE	3	0.4	6.4	1.5	13.3	23.4

Figure 8: informal investment activity by region (%)

	2002	2003	2004	2005
East Midlands	2.1	1.5	1.4	1.4
East of England	1.6	1.6	1.2	1.7
London	3	2.7	1.5	2.2
North East	0.8	1.2	1.4	0.8
North West	1.1	1.1	0.4	1
Northern Ireland	1.3	0.9	1	0.8
Scotland	0.8	1.4	1.4	1.1
South East	1.9	2.5	2	1.5
South West	2.1	1.8	1.2	1.3
Wales	1.3	1.4	2	1.1
West Midlands	1.7	1.2	2	1.7
Yorkshire & Humberside	1.4	0.5	1	1.2
Average	1.7	1.6	1.4	1.4

Figure 9: Those expecting to start a business in next three years by region (%)

	2003	2004	2005
East Midlands	7	7	6.9
East of England	7	6.5	8.9
London	15	15.8	14.6
North East	5	5.6	6.6
North West	5	6.7	8.3
Northern Ireland	6	6.1	6.5
Scotland	7	6.7	6.2
South East	8	10.4	8.7
South West	8	7	8.4
Wales	8	7.1	7.4
West Midlands	8	7.6	10
Yorkshire & Humberside	6	6.3	7.7
Average	7	9.5	8.7

Figure 10: TEA by age and gender (%)

Gender	Age	TEA
Female	18-24	2.2
	25-34	5.0
	35-44	5.5
	45-54	3.6
	55-64	1.8
Male	18-24	8.3
	25-34	9.0
	35-44	10.0
	45-54	7.5
	55-64	5.2
Total	18-24	5.4
	25-34	7.0
	35-44	7.7
	45-54	5.5
	55-64	3.5
	Total	**6.0**

Figure 11: TEA by educational attainment (%)

Educational attainment	TEA
A Doctorate or equivalent	10.2
Masters Degree or equivalent	10.5
Bachelor Degree or equivalent	7.6
A-level or equivalent	5.3
GCSE/O-level or CSE	5.0
Vocational qualifications	5.9
Other qualifications	4.0
No formal qualifications	3.0
Refusal	10.3
Don't know	2.6
Total	**6.0**

Figure 12: % of those in full time academic education expecting to start a business in the next three years

	Total
Doctorate	**9.1**
Masters	**25.1**
Bachelor	**12.3**
A Level	**12.3**
GCSE	**57.1**

Figure 13 TEA by Occupation and Gender (%)

OCCUPATION	Gender	TEA
Working full time (30 + hours per week)	Female	4.6
	Male	8.9
	Total	**7.3**
Working part time (8 or more hours per week)	Female	4.9
	Male	13.9
	Total	**6.7**
A full time homemaker	Female	2.2
	Male	3.2
	Total	**2.3**
Retired and not in paid employment	Female	0.3
	Male	1.8
	Total	**1.0**
In full time education	Female	2.3
	Male	3.4
	Total	**2.9**
Registered long term sick or disabled	Female	0.0
	Male	0.7
	Total	**0.4**
Out of work at the moment, and claiming benefit	Female	4.0
	Male	3.1
	Total	**3.6**
Not working at the moment and not claiming benefit	Female	2.8
	Male	10.9
	Total	6.6
Total	**Female**	**3.8**
	Male	**8.2**
	Total	**6.0**

Figure 14 TEA by Income (%)

household income (£)	Gender	TEA
<11,500	Female	3.0
	Male	5.7
	Total	**4.1**
11,500-17,499	Female	3.3
	Male	5.8
	Total	**4.4**
17,500-24,999	Female	3.5
	Male	6.2
	Total	**4.9**
25,000-29,999	Female	4.2
	Male	8.9
	Total	**6.7**
30,000-39,999	Female	4.2
	Male	7.8
	Total	**6.2**
40,000-49,999	Female	3.3
	Male	8.0
	Total	**5.9**
50,000-74,999	Female	3.7
	Male	10.6
	Total	**7.7**
>=75,000	Female	8.4
	Male	15.5
	Total	12.6
Total	**Female**	**3.8**
	Male	**8.2**
	Total	**6.1**

Figure 15 TEA by Ethnicity (%)

Ethnic Group	Gender	TEA
White	Female	3.6
	Male	7.7
	Total	**5.6**
Mixed	Female	4.2
	Male	11.3
	Total	**7.3**
Indian	Female	3.6
	Male	16.9
	Total	**11.9**
Pakistani	Female	5.3
	Male	18.1
	Total	**12.0**
Bangladeshi	Female	5.2
	Male	4.1
	Total	**4.4**
Chinese	Female	0.0
	Male	1.0
	Total	**0.4**
Other Asian	Female	4.3
	Male	6.6
	Total	**5.5**
Black Caribbean	Female	4.1
	Male	13.6
	Total	**7.5**
Black African	Female	18.7
	Male	15.6
	Total	**17.2**
Black other	Female	5.4
	Male	11.0
	Total	**8.1**
Total	**Female**	**3.8**
	Male	**8.2**
	Total	**6.0**

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