



Global Entrepreneurship Monitor

Scotland 2020 Report

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EXECUTIVE SUMMARY

BACKGROUND

- The Global Entrepreneurship Monitor (GEM) research consortium measured rates of entrepreneurship across multiple phases in 43 economies in 2020, making it the world's most authoritative comparative study of entrepreneurial activity in the general adult population. In the UK in 2020, 9,453 adults aged 18 to 80 participated in the GEM survey. This report mainly focuses on Scotland, comprising 2,019 participants, of which 1,648 are from the working age population (18-64 years).
- This monitoring report details GEM measures of entrepreneurial attitudes, activity and aspirations in Scotland and compares the results across the four home nations of the UK. We also explore regional differences within Scotland at the NUTS2 region level.
- As a result of the COVID-19 pandemic and the obvious disruptive impact on the lives of all of us, including the huge impact on the economy, it was decided that the GEM UK survey, in line with all GEM Global participating countries, should be pushed back until Q4 of 2020 rather than June through August. The UK team felt that this was preferable to not undertaking the survey at all as the pandemic raised many important questions about the ability of entrepreneurs, and indeed the wider population, to navigate their way through the crisis as the economy was effectively closed down and household incomes were under great stress for the majority of the population. As it turned out Q4 2020 in the UK witnessed another second and third waves of the COVID-19 virus, which led to two further lockdowns. The specific COVID-19 findings need to be understood against that context.

ENTREPRENEURIAL ACTIVITY

- Total early-stage Entrepreneurial Activity or TEA (the sum of the nascent entrepreneurship rate and the new business owner-manager rate - without double counting) in Scotland in 2020 was 7.3%.
- TEA rates in 2020 were not significantly different across the home nations: Scotland (7.3%), England (7.7%), Wales (6.5%), and Northern Ireland (5.4%). Changes in TEA rates from 2019 to 2020 in Scotland, Wales and Northern Ireland were not statistically significant. However, the rate in England in 2020 (7.7%) was statistically significantly lower than the rate in 2019 (10.5%).
- Employees can also be engaged in entrepreneurial activity on behalf of their employers; this is measured through the Entrepreneurial Employee Activity (EEA) Rate. In 2020, Scotland's rate was 3.7%, which is comparable with UK's rate of 3.2% (which was statistically significantly lower than 2019 rate (5.6%)). Considering both TEA and EEA together provides a more comprehensive picture of entrepreneurial activity in a nation.
- TEA rate within Scotland is highest in the Highland and Islands region (8.7%), followed by South Western Scotland (7.4%), Eastern Scotland (6.9%) and North Eastern Scotland (6.5%). In North Eastern Scotland, there has been a significant decline in the TEA rate from 2019 (8.7%) to 2020 (6.5%), while the rest of Scotland held steady despite the pandemic.

DEMOGRAPHICS

- In 2020, among the home nations, Scotland reports the highest difference in TEA rates by gender with males at 9.3% compared to a female TEA rate of 5.3% (a female to male ratio of 58%)
- There is a significant difference between male and female on certain motives to start a business. For instance, on the motive "to build great wealth or a very high income", only 51% of females identified this as a motive compared to 62% of males. Similarly, there is a significant difference between male and female motives with regard "to earn a living because jobs are scarce" with 76.4% female highlighting this motive compared to 57.3% males.

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- Female entrepreneurial activity in the Highlands and Islands region appears to match, and ostensibly slightly outperform male TEA in the area, while there is gender disparity with higher male TEA in other regions of Scotland.
 - In Scotland, the TEA rate for the younger 18-24 age group is the highest (13%) within the UK home nations.
 - Following previous trends, the TEA rate of the white ethnic population in the Scotland in 2020 was lower than that of the non-white population, at 7.05% compared to 12.95% respectively. However, the TEA rate for the non-white ethnic group was lower than the rate in 2019 (16.8%), while it remained comparable for the white ethnic group. This suggests that amid the higher rates of entrepreneurial activity among ethnic minorities, there is greater precarity too.
 - In Scotland, contrary to the trend in the wider UK, both the most deprived quintile and the least deprived quintile reported similarly high TEA levels, of around 9%. The type of entrepreneurial activity engaged in, and its socioeconomic outcomes, has however not been established.

ATTITUDES AND ASPIRATIONS

- In Scotland, as with the wider UK, just under half of the non-entrepreneurial population know an entrepreneur. Further, 76% indicate they have seen stories of successful entrepreneurs in the media, 80% feel successful entrepreneurs have a high status and respect in society, and about 72% believe that most people would consider starting a business a good career choice. Entrepreneurship is thus generally well regarded in Scotland.
- The consideration of entrepreneurship as a good career choice appears to have increased in 2020 as compared to 2019, across Scotland and the UK amidst the pandemic.
- Despite relatively higher regard for entrepreneurship in the North Eastern Scotland region, there appear to be a greater fear of failure among potential entrepreneurs. There are also gaps in confidence in own entrepreneurial skills in the area although this is an area of concern for Scotland as a whole relative to the wider UK.
- Within Scotland, the perception of good start-up opportunities is seemingly lowest in the North Eastern Scotland region, a significant decline from 41% in 2019 to just under 24% in 2020. Highlands and Islands saw the biggest decline in the rates of perception of good start-up opportunities almost halving from around 50% of the adult non-entrepreneurial population to just over a quarter. In contrast, South Western Scotland did not see major changes in this regard between 2019 and 2020.
- Perhaps reflecting aspects of extant policy priorities in Scotland, a slightly smaller proportion of early-stage entrepreneurs (12.6%) expect to create more than ten jobs with a growth in employment of more than 50% in the next five years. The UK average is 14.3%. In contrast, there is a greater share of established business-owners in Scotland with such growth expectations (almost 12%) compared to the UK average (around 9%)

IMPACT OF COVID-19

- Around 1 in 2 of those involved in TEA agree that there are new opportunities because of the pandemic (49.4%) in Scotland. This is lower than among established business owner-managers: only 1 in 3 would agree with this statement.
- Around 2 in 3 (65.4%) of those engaged in start-up activity in Scotland indicate that the coronavirus pandemic has led to a delay in getting the business operational.



1. BACKGROUND

The Global Entrepreneurship Monitor (GEM) research consortium has been measuring the entrepreneurial activity of working age adults across a wide range of countries in a comparable way since 1998. In 2020, the study conducted surveys in 43 sovereign nations and represents the world's most authoritative comparative study of entrepreneurial activity in the general adult population.

GEM's primary focus is on the study of three areas:

- **To measure differences in the level of entrepreneurial activity between countries**
- **To uncover factors leading to appropriate levels of entrepreneurship**
- **To suggest policies that may enhance the national level of entrepreneurial activity.**

The 2020 GEM global study was based on an analysis of adult population survey (APS) results from 43 economies, which cover around two-thirds of the world's population. The core of the APS is identical in each country and asks respondents about their *attitudes* towards entrepreneurship, whether they are involved in some form of entrepreneurial *activity* and, if so, their *aspirations* for their business. The global GEM Executive 2020/21 Report was published in May 2021¹ and can be downloaded from www.gemconsortium.org.

From the APS survey, we examine individual entrepreneurs at three key stages:

- **Nascent entrepreneurs (NAE):** The stage at which individuals begin to commit resources, such as time or money, to starting a business. To qualify as a nascent entrepreneur, the business must not have been paying wages for more than three months.
- **New business owner-managers (NBO):** Those whose business has been paying income, such as salaries or drawings, for more than three, but not more than forty-two, months.
- **Established business owner-managers (EBO):** Those whose business has been paying income, such as salaries or drawings, for more than forty-two months.

In addition, we measure general intention to start a business by asking individuals if they expect to start a business within the next three years (FUT). Finally, we ask individuals if they have sold, shut down, discontinued or quit a business, in the past year (BC). It is important to understand that the main subject of study in GEM is entrepreneurs rather than the businesses that they run. GEM measures the entrepreneurial activity of people from intention to exit. The first two stages of active business development, the nascent entrepreneur stage and the new business owner-manager stage, are combined into one index of Total early-stage Entrepreneurial Activity, or TEA², which is represented in Figure 1.1 below.

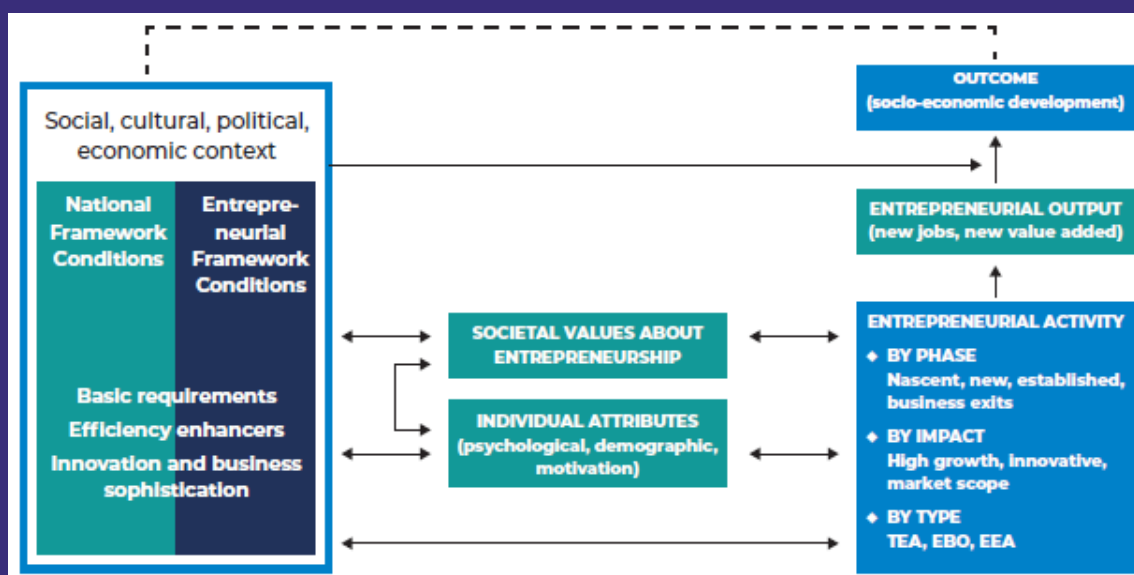


Figure 1.1: The Entrepreneurial Process and GEM Operational Definitions

(Source: Bosma, N., Hill, S., Ionescu-Somers, A., Kelley, D., Guerrero, M. and Schott, T. (2021), pg.22)

As much of this entrepreneurial activity is pre-start-up or includes very small new businesses that do not have to register for VAT, TEA rates will not necessarily match with published official statistics on business ownership and, indeed, should not be interpreted as such. Rather, GEM enables the measurement of the propensity of individuals in particular countries to be entrepreneurial given the current social, cultural and economic framework conditions that exist there. The methodology, sample sizes and weighting systems used for the GEM UK 2020 Adult Population Survey (APS) are explained in more detail in GEM UK report.

Of the over 333,000 usable responses from the annual GEM UK surveys for the period 2002-2020, around 38,000 have been from Scotland. This large pooled database on entrepreneurial attitudes, activity and aspirations is particularly useful in conducting trend analysis for important sub-populations in Scotland, such as females and young people, and enables comparisons to the other UK home nations.

The results from the GEM data analysis are used as key benchmarking indicators by regional and national authorities around the world. They also enable comparisons to be made with the other regions of the UK and other countries participating in GEM. Overall, GEM's unique ability to provide information on the entrepreneurial landscape of countries in a global context makes its data a necessary resource for any serious attempt to study and track entrepreneurial behaviour.

¹ Bosma, N., Hill, S., Ionescu-Somers, A., Kelley, D., Guerrero, M. and Schott, T. (2021) Global Entrepreneurship Monitor 2020/21 Global Report. London: Global Entrepreneurship Research Association.

² TEA is calculated in an identical way in each country. A telephone and/or face-to-face survey of a representative sample of the adult population in each country is conducted between May and September. Respondents are asked to respond to three questions that are the basis of the TEA index: 1) "are you, alone or with others, currently trying to start a new business independently of your work?", 2) "are you, alone or with others, currently trying to start a new business as part of your work?", and 3) "are you, alone or with others, currently the owner or manager of a business?" Those who respond positively to these questions are also asked filter questions to ensure they are actively engaged in business creation as owners and managers, how long they have been paying wages to employees, and other 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 whose businesses have been paying wages for not more than three months) and new business owner-managers (those whose businesses have been paying salaries for more than three months but not more than 42 months). The TEA index is the proportion of nascent entrepreneurs and new business owner/managers (minus any double counting, i.e. those who respond positively to both are counted once) in the working age population.



2. TOTAL EARLY-STAGE ENTREPRENEURIAL ACTIVITY

The rate of early-stage entrepreneurship in Scotland in 2020 was 7.3%. This compares to 7.5% in the UK overall, 7.7% in England, 5.4% in Northern Ireland and 6.5% in Wales (Figure 2.1). Pooling the data over the most recent three years (2018-20), to remove annual fluctuations, gives a TEA rate of 6.9% for Scotland. This rate, along with that in Northern Ireland (6.1%) and Wales (6.8%) is lower than the rate of 8.8% in England and 8.4% in the UK.

Overall, the TEA rate of 7.3% in Scotland in 2020 suggests that almost 247,000 people (around one in every fourteen adults aged 18-64) were engaged in early-stage entrepreneurial activity. Within that, around 5.1% of the 18-64 population (around 173,000 adults) were involved in the very early stages of starting a business (i.e. nascent entrepreneurs that have not hired employees or paid wages for three or more months) (Figure 2.2).

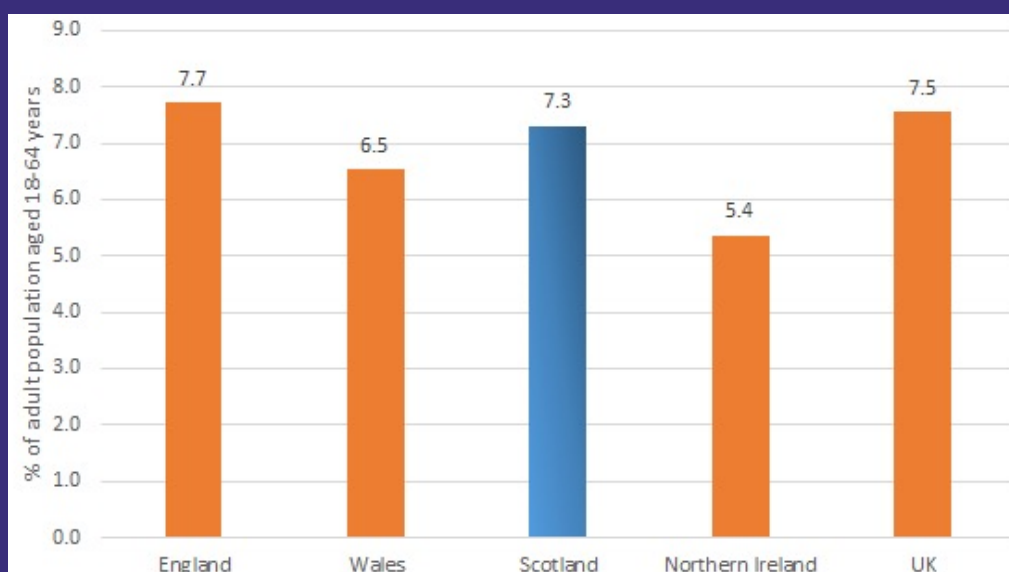


Figure 2.1: Total early-stage Entrepreneurial Activity (TEA) in the UK Home Nations 2020 (Source: GEM APS)

Figure 2.2 further breaks down entrepreneurial activity into a more refined categorisation which includes entrepreneurial employees (sometimes referred to as “intrapreneurs”), whose entrepreneurial activity is sponsored by their employer and established business-owners (people that own businesses that are 42 months or older). We find that of the 18-64 population in Scotland, 3.7% were intrapreneurs in 2020 and 5.7% were established business owners.

As above, Total Early-stage Entrepreneurial Activity (TEA) is also broken down into nascent entrepreneurship (5.1%) and new business ownership (2.4%)³. This pattern is similar to the UK. Altogether, these figures suggest that almost one in five 18-64 adults in Scotland (over 737,000 people) are engaged in some form of entrepreneurial activity with over 612,000 of these carrying out such entrepreneurial activity in their own independent nascent/ new/ established businesses.

³ Note that due to weighting and rounding, new business ownership rates (2.4%) and nascent entrepreneurship (5.1%) do not exactly add up to the 7.3% TEA rate.

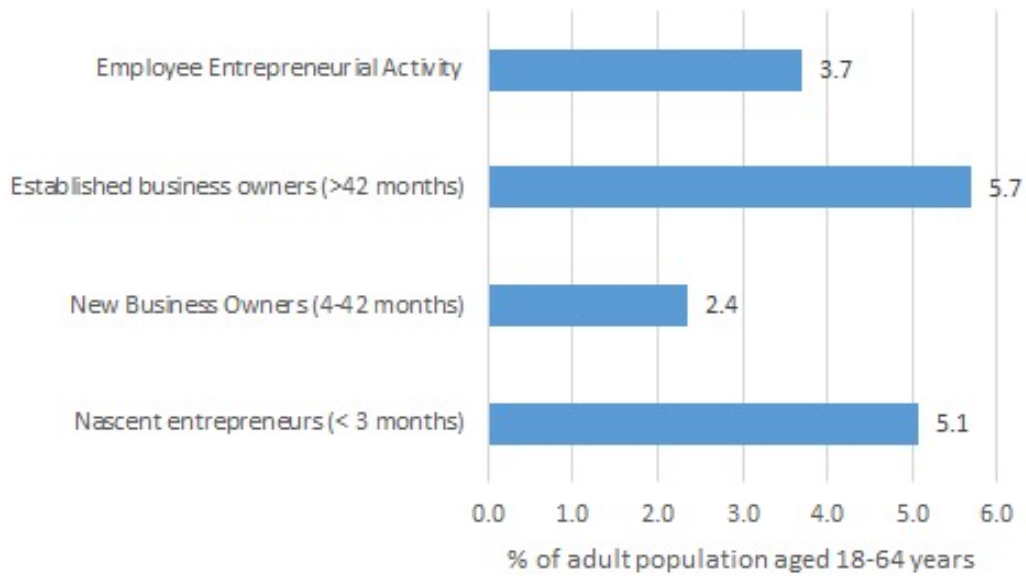


Figure 2.2: Modes of Entrepreneurial Activity in Early-stage and Established Businesses (Source: GEM APS 2020)

Entrepreneurial activity in both the UK and Scotland has generally been on an upward trend over the 2002 to 2020 period (Figure 3.3). Although there has been a gap of around 2-3 percentage points between Scotland and UK rates during this period, in 2020, the gap narrowed down to less than a percentage point. This is mainly due to a relatively sharp decrease in entrepreneurial activity in the rest of the UK, especially in England, while Scotland experienced a nominal uptick.

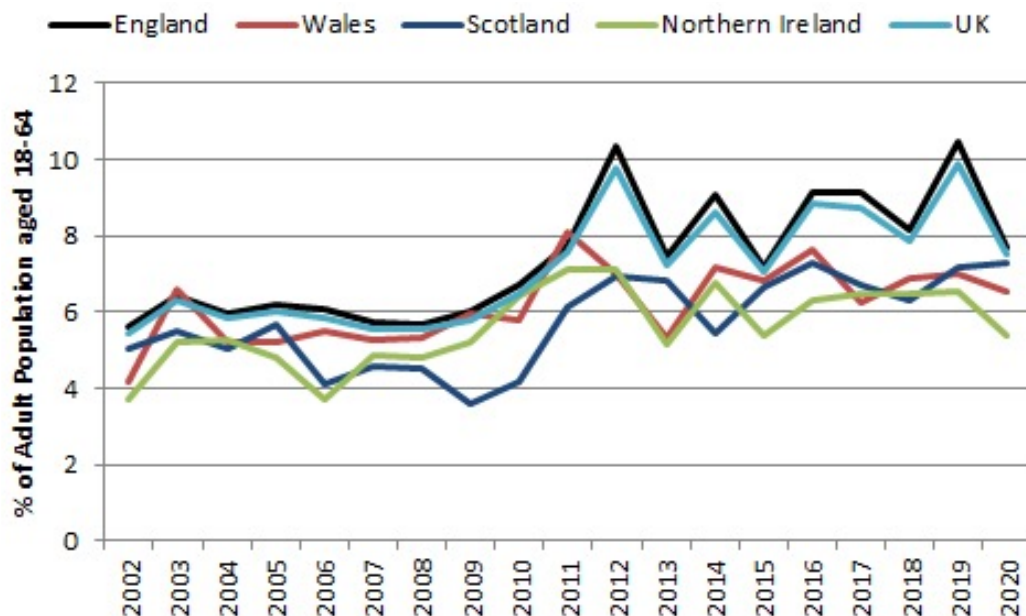


Figure 2.3: Total early-stage Entrepreneurial Activity in Scotland and the UK home nations 2002-2020 (Source: GEM APS 2002-2020)



Analysing annual TEA rates in Scotland's Council areas can be problematic due to small sample sizes in many of these local authority areas. For this reason, we aggregated the analysis to the 4 NUTS2 regions in Scotland, namely: Eastern Scotland, Highlands and Islands, North Eastern Scotland, and South Western Scotland. **Figure 2.4** presents TEA rates for these regions in 2019 and 2020. It indicates that the TEA rate within Scotland is highest in the Highland and Islands region. In North Eastern Scotland, there has been a marked decline in the TEA rate from 2019 (8.7%) to 2020 (6.5%). Overall, despite the pandemic, we observe that the Scotland's TEA rate has remained more or less the same as 2019.

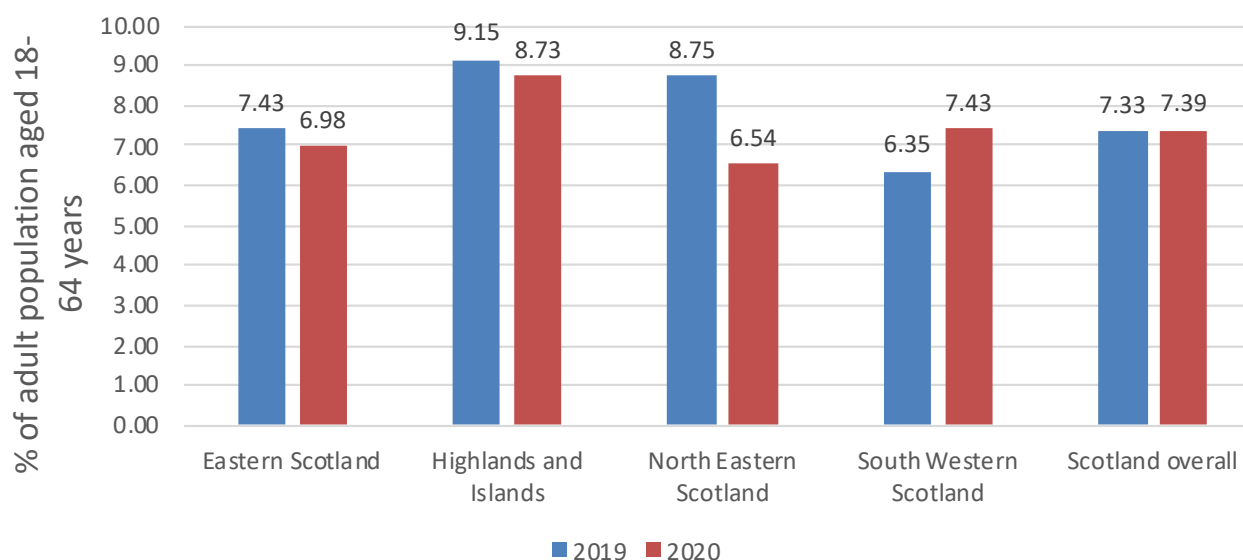


Figure 2.4: Total early-stage Entrepreneurial Activity in Scotland in 2019 and 2020 by NUTS2 region (Source: GEM APS 2019-20)

Motivations to start a business are varied and more multi-faceted than what the binary opportunity and necessity measures used in previous GEM studies revealed. As a result, GEM now measures motivation to start a business across four main categories: to make a difference in the world; to build great wealth or a very high income; to continue a family tradition; or to earn a living because jobs are scarce. It is important to note that these options are now not mutually exclusive and entrepreneurs can report more than one motivation and the degree to which they identify with them.

Figure 2.5 reports breakdown of these motives by gender as a percentage of early-stage entrepreneurs. There is a significant difference between male and female on the motive “to build great wealth or a very high income”, with 51% of females identifying this as a motive compared to 62% of males. Similarly, there is a significant difference between male and female motives with regard “to earn a living because jobs are scarce” with 76.4% female highlighting this motive compared to 57.3% males.

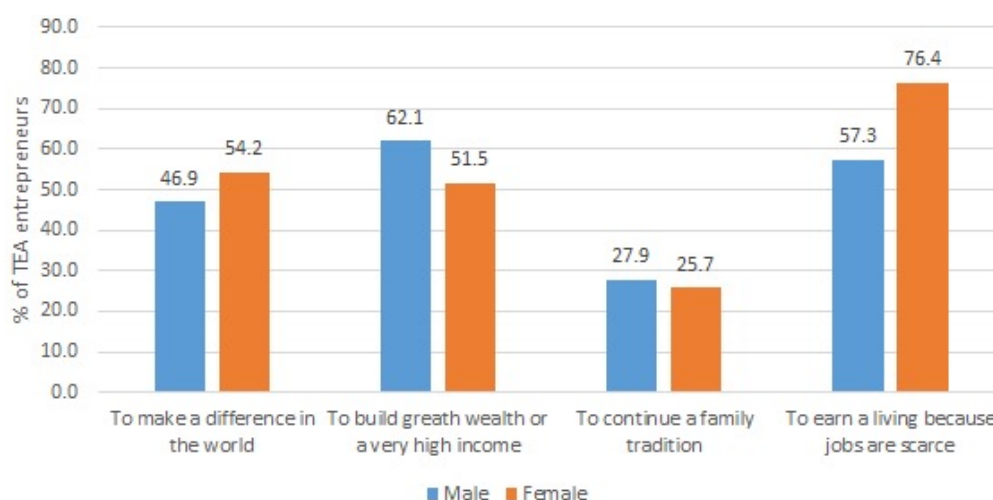


Figure 2.5: Motivation for Early-stage Entrepreneurship in Scotland gender wise for 2020 (Source: GEM APS)

3. WHO ARE THE ENTREPRENEURS IN SCOTLAND?

3.1 Gender

In 2020 males in the UK had a significantly higher TEA rate than females, at 9.0% compared to 6.1%, equivalent to a female to male early-stage entrepreneurship ratio of 63%. Notably, as Figure 3.1 shows, among the home nations, Scotland reports the highest difference in TEA rates by gender with males at 9.3% compared to a female TEA rate of 5.3% (a female to male ratio of 58%). In 2019, the estimated rates were 9.1% for males and 5.6% for females with the ostensible change between 2019 and 2020 within the margin of error (Figure 3.2).

The greater difference in male to female TEA rates in Scotland is therefore more attributable to the fact that male TEA experienced a significant decline in the rest of the UK compared to a small uptick in male TEA in Scotland. Female TEA rates declined to a lesser extent across the UK, holding steady in Scotland. Remarkably, Northern Ireland actually experienced an increase in female TEA of almost 1.5 percentage points between 2019 and 2020. With male TEA declining from 10.1% to 6.2%, the female to male ratio changed 31% to 73%.

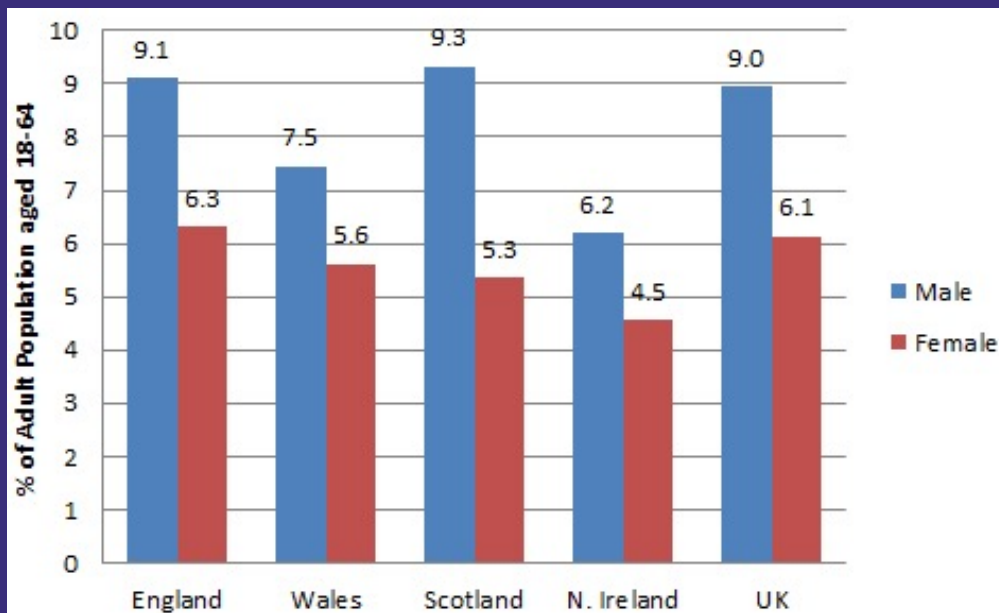


Figure 3.1: Total early-stage Entrepreneurial Activity in the UK Home Nations in 2020 (Source: GEM APS)

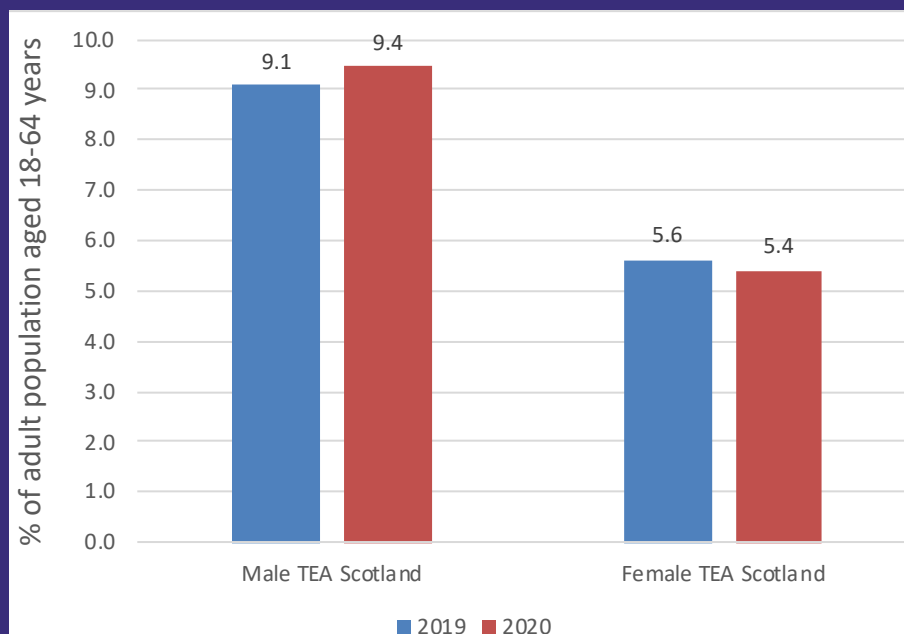


Figure 3.2: Total Early-stage Male and Female Entrepreneurial Activity in Scotland in 2019 and 2020 (Source: GEM APS)



Comparing female TEA rates in Scotland with other home nations over the long term shows that while there is a positive general trend, Scotland has mostly lagged behind England and sometimes also Wales. As **Figure 3.3** further shows, the female TEA rate in the home nations has been fairly fluctuant over the years. However, Scotland's female TEA sometimes experiences slightly different outcomes to the rest of the UK. For example, there was a relatively major decline in female TEA in 2013, then a significant contrasting increase in 2014. In 2020, Scotland's female TEA had a significantly lesser decline compared to England and Wales, although Northern Ireland experienced a big uptick in 2020.

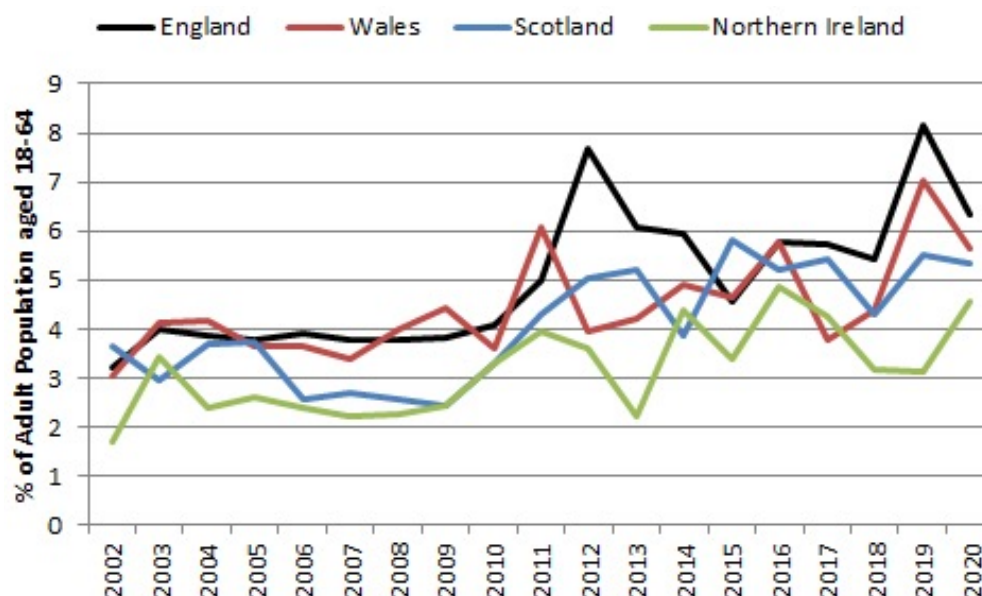


Figure 3.3: Total Early-stage Female Entrepreneurial Activity in Scotland and the other UK home nations, 2002-2020 (Source: GEM APS)

Figure 3.4 shows TEA rates for males and females by Scottish NUTS2 areas in 2020. Different regions appear to have divergent patterns of opportunities for entrepreneurship by gender. The South Western Scotland, comprising major population centres in the Glasgow City Region, as well as Ayrshire and Dumfries and Galloway, has the greatest gender disparity. North Eastern Scotland, comprising Aberdeen and Aberdeenshire also reports high gender disparity in TEA rates with the Eastern Scotland region approaching greater gender parity. Remarkably, female entrepreneurial activity in the Highlands and Islands region appears to match, and ostensibly slightly outperform male TEA in the area. Recall from Figure 2.4 above, that the Highlands and Islands region had the highest TEA rates overall in Scotland which suggests that greater female entrepreneurial activity helps drive overall entrepreneurial activity in the region.

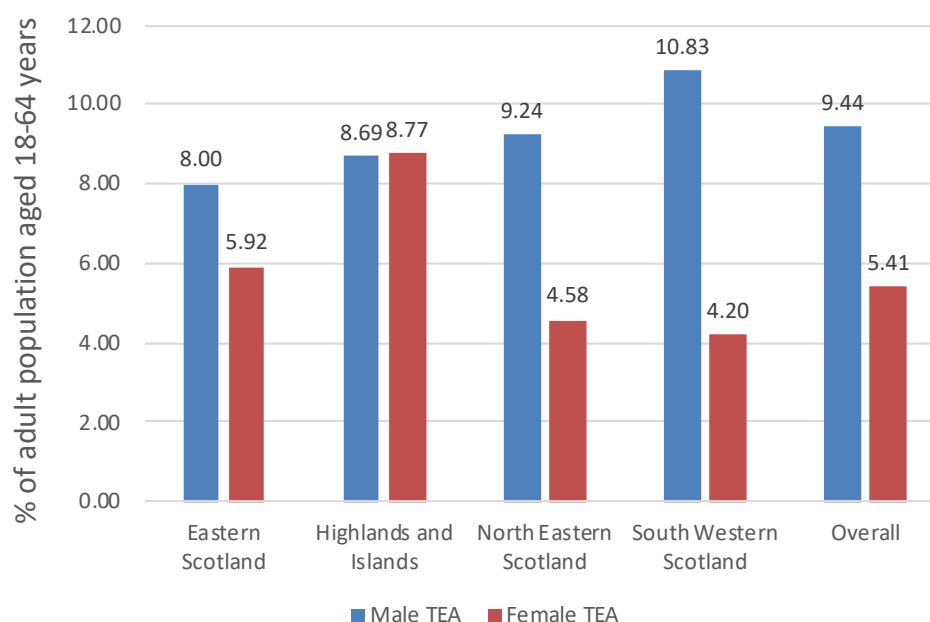


Figure 3.4: Total Early-stage Male and Female Entrepreneurial Activity in Scotland by NUTS2 region in 2020 (Source: GEM APS)

3.2 Age

Figure 3.5 shows TEA rates by different age groups across the home nations in 2020. In the UK, entrepreneurial activity rates of those aged 45-54 years old and older were significantly lower than those in younger age groups, with TEA levels among those aged 55-64 yet statistically significantly lower than the 45-54 group. In England, TEA rates for those aged 45+ were significantly lower than those aged between 25-44 while in Scotland TEA rates 55-64 year olds were significantly lower than TEA rates for those below the age of 35 years. There were no significant differences in age in Wales and Northern Ireland. In Scotland, the TEA rate for the younger 18-24 age group is the highest (13%) within the UK home nations.

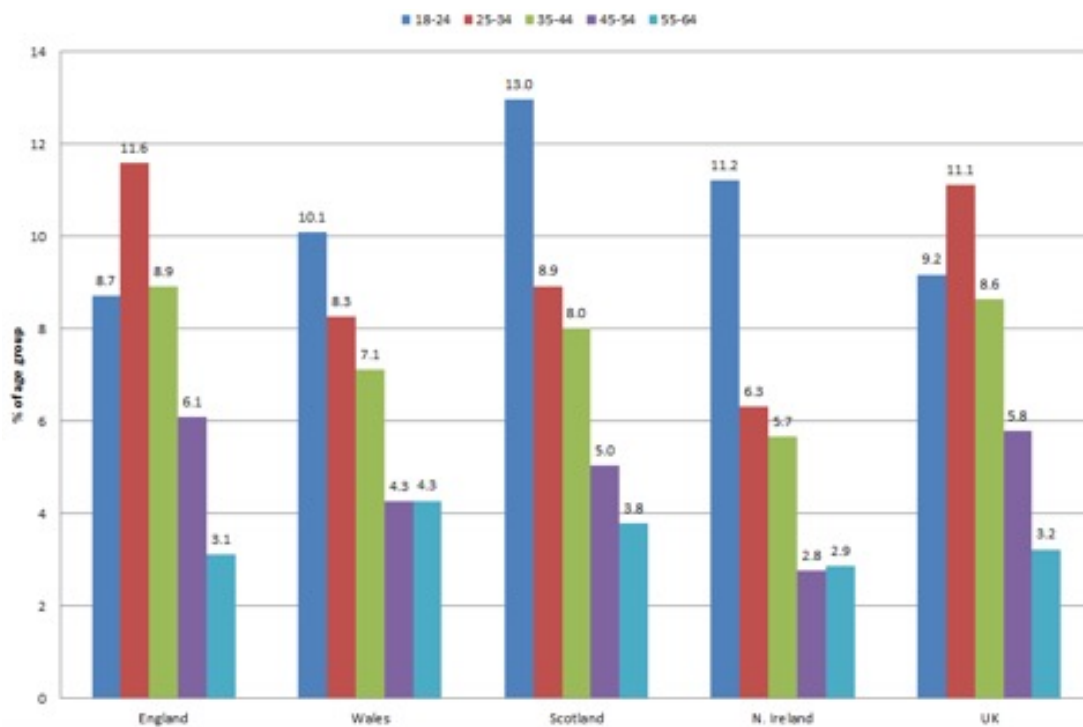


Figure 3.5: Total Entrepreneurial Activity in the UK Home Nations by age categories, 2020 (Source: GEM APS)

Figure 3.6 shows the trend in TEA rates for 18-29 year olds⁴, via rolling averages, over 2002-04 to 2018-20. The chart shows a clear increase in entrepreneurial activity by this age group, with the rates for England, Scotland and Wales converging towards 10% over 2018-20, around double that of 2002-04. In particular, Scotland appears to have rebuilt quite strongly to take the lead in the UK in 2020, following a period of a sustained against the tide decline in entrepreneurial activity by young people in 2003/05 to 2007/09.

⁴ Note that the age band is expanded here to help increase sample sizes.

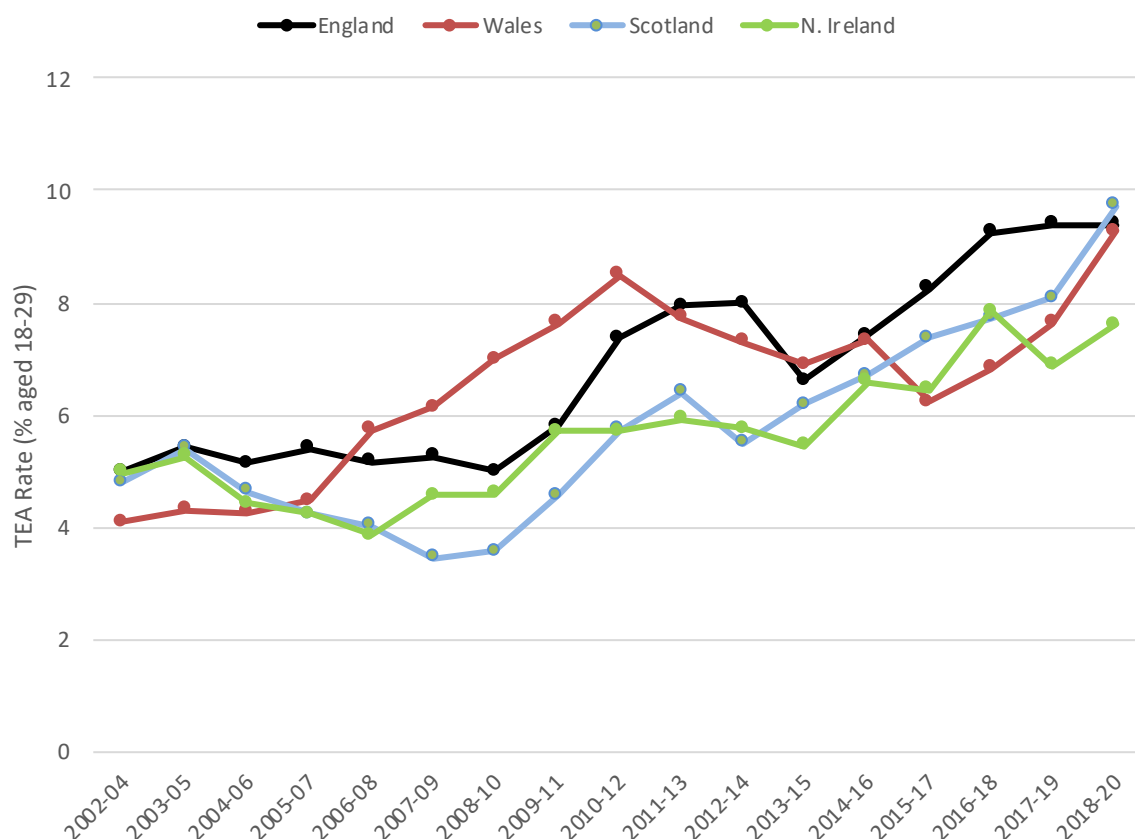


Figure 3.6: Trend in Total early-stage Entrepreneurial Activity in the UK Home Nations for 18-29 year olds, rolling averages 2002-4 to 2018-20 (Source: GEM APS)

3.3 Ethnicity

Following previous trends, the TEA rate for the white ethnic population in the Scotland in 2020 was significantly lower than that of the non-white population, at 7% compared to 13% respectively (Figure 3.7). The TEA rate for the white ethnic group was comparable with the rate in 2019. In contrast, there was a nontrivial decrease within the non-white ethnic group.

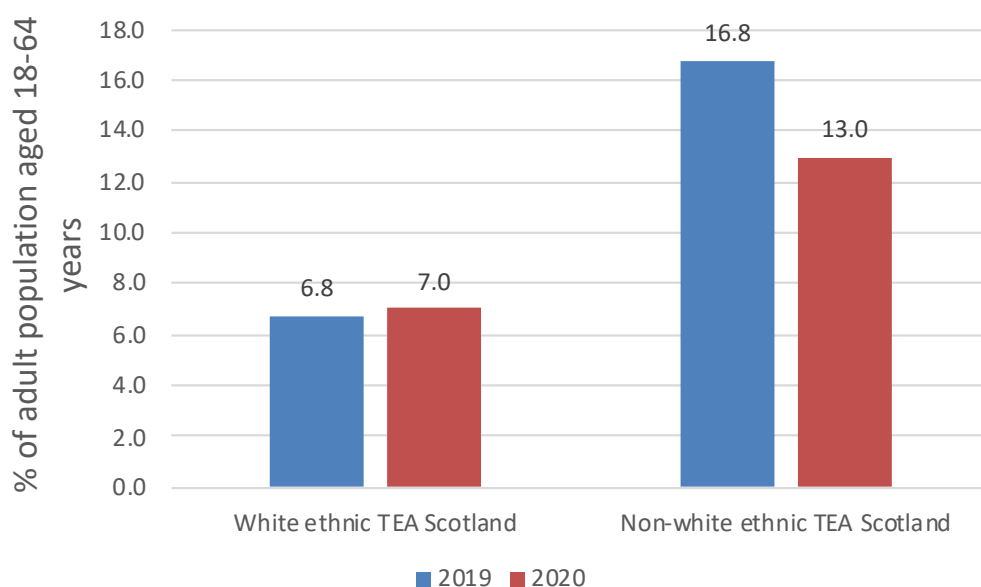


Figure 3.7: Total early-stage Entrepreneurial Activity in Scotland by ethnicity in 2019 and 2020 (Source: GEM APS 2019 and 2020)

3.4 Deprivation

TEA rates may be expected to vary based on the extent of deprivation in an area and the differing start-up opportunities available⁵. **Figure 3.8** displays TEA rates by Index of Multiple Deprivation (IMD) quintiles, where the first quintile refers to the most deprived area, and the fifth quintile the least deprived for 2020⁶. The highest TEA rate was observed in the second most deprived quintile in England at the rate of 9.7%, which was significantly higher than the same quintile in Wales and Scotland. In Wales, the most deprived areas experienced the lowest TEA levels with the least deprived quintile returning the highest TEA rate in Wales. In contrast, in Scotland it was the most deprived quintile that reported the highest TEA levels at 9.1% but this was not statistically different from the 8.7% TEA rate observed for the least deprived quintile. In Northern Ireland, the second most deprived areas returned the highest TEA rate but again differences were not statistically significant.

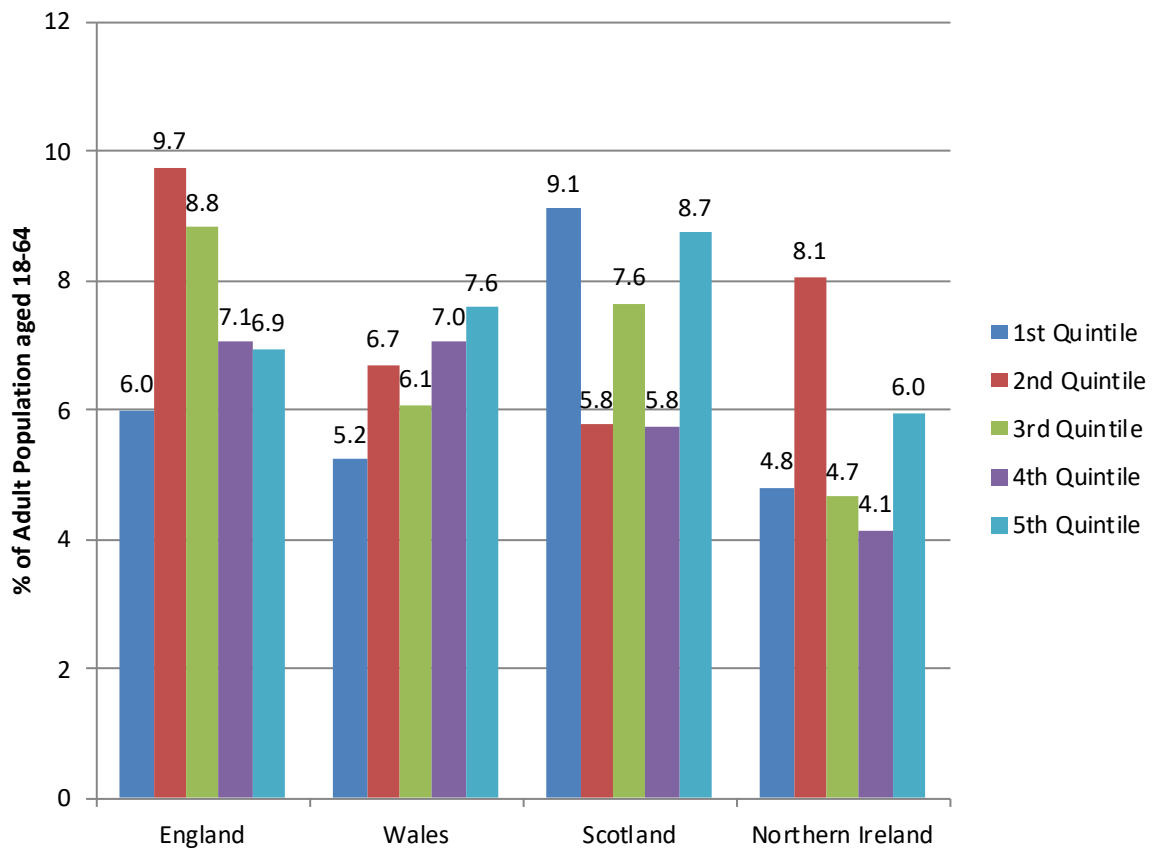


Figure 3.8: Total Entrepreneurial Activity in the UK Home Nations by Index of Multiple Deprivation 2020 (Source: GEM UK APS 2020)

⁵ See Sahasranamam, S., Murzacheva, E. & Levie, J. (2019) Doubly Disadvantaged: Gender, Spatially Concentrated Deprivation and Nascent Entrepreneurial Activity. European Management Review Published online December, doi.org/10.1111/emre.12370

⁶ Due to low sample size, 2018, 2019 and 2020 GEM data were amalgamated for some of the TEA figures.

4. ENTREPRENEURIAL ATTITUDES AND INTENTIONS

GEM has developed a number of attitudinal statements that provide a proxy for entrepreneurial potential in a country/region. They include personally knowing a person that has started a business in the last 2 years, perception of good opportunities for start-up, self-belief in possessing the relevant skills to set up in business and the prevalence of fear of failure as a deterrent to setting up a business. Individuals who are entrepreneurs may feel compelled to provide positive answers in the Adult Population Survey (APS). Hence, as in the last number of years, GEM reports attitudinal data only for the portion of the population who are not already entrepreneurs.

In Scotland, as with the wider UK, just under half of the non-entrepreneurial population know an entrepreneur (Figure 4.1), although the rate is slightly lower in Eastern Scotland at 43% (Figure 4.2). Further, 76% indicate they have seen stories of successful entrepreneurs in the media, 80% feel successful entrepreneurs have a high status and respect in society, 80% feel successful entrepreneurs have a high status and respect in society, and about 72% believe that most people would consider starting a business a good career choice. Entrepreneurship is thus generally well regarded in Scotland.

However, as Figure 4.2 shows, these perceptions are not even across Scotland. While around 85% of non-entrepreneurial adults in North Eastern Scotland report positive media coverage of entrepreneurship, the rate in Eastern Scotland is a lot lower at 72.3%. Similarly, in the Highlands and Islands region, entrepreneurship is more highly regarded as a career choice than in Eastern Scotland. Surprisingly, as Figure 4.3 shows, the consideration of entrepreneurship as a good career choice appears to have increased in 2020 as compared to 2019, across Scotland and the UK amidst the pandemic.

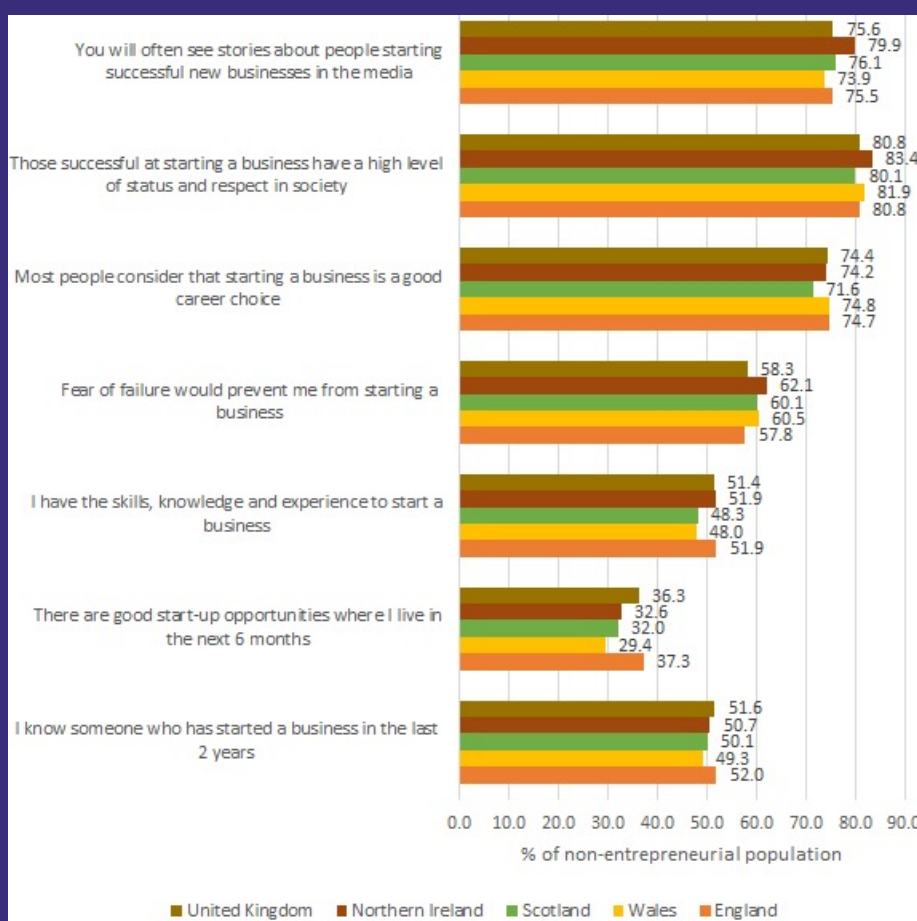


Figure 4.1: Entrepreneurial Attitudes and Perceptions in UK home nations 2020 (Source: GEM APS)

In Scotland, just under half of the non-entrepreneurial population feel they have the skills, knowledge and experience to start a business. This is a notch lower than the UK average and again, there is notable regional disparity within Scotland. Despite relatively higher regard for entrepreneurship in the North Eastern region, there appear to be gaps in confidence in own entrepreneurial skills in the area relative to the rest of Scotland. As **Figure 4.4** further shows, most regions in Scotland and the UK as a whole experienced a decline in entrepreneurial self-efficacy between 2019 and 2020. However, within Scotland, North Eastern and Highlands and Islands regions appear to have suffered a substantially greater decline.

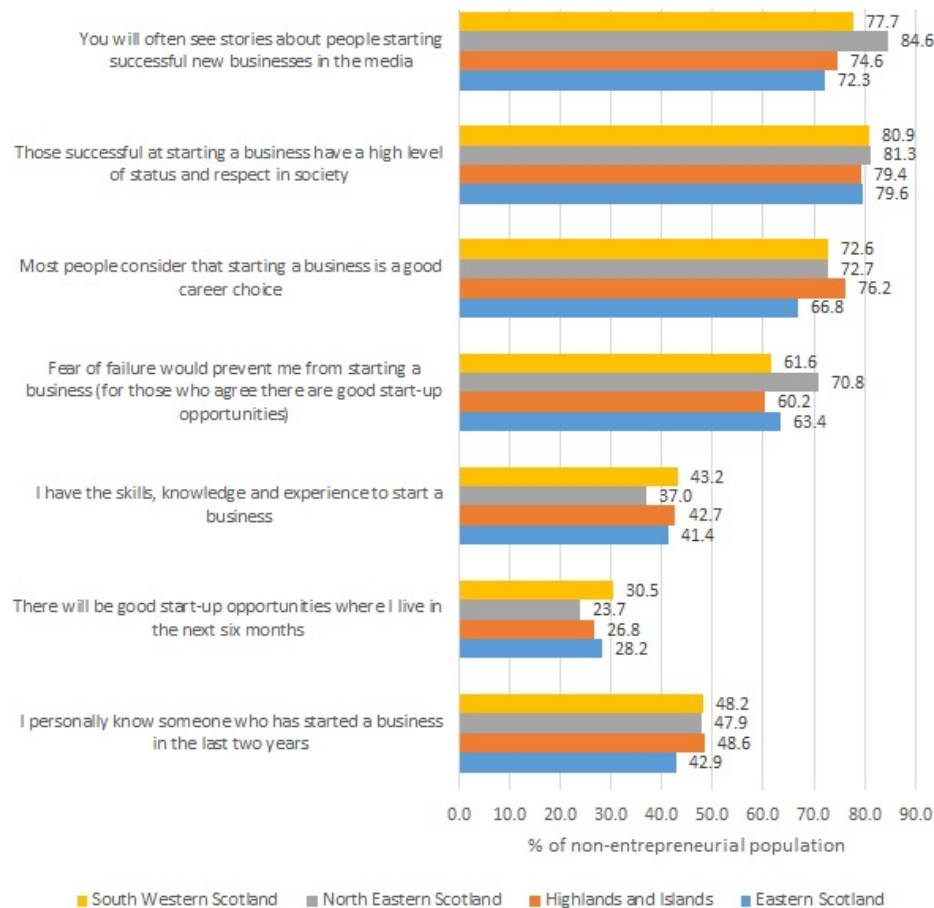


Figure 4.2: Entrepreneurial Attitudes and Perceptions in Scotland by NUTS2 regions 2020 (Source: GEM APS)

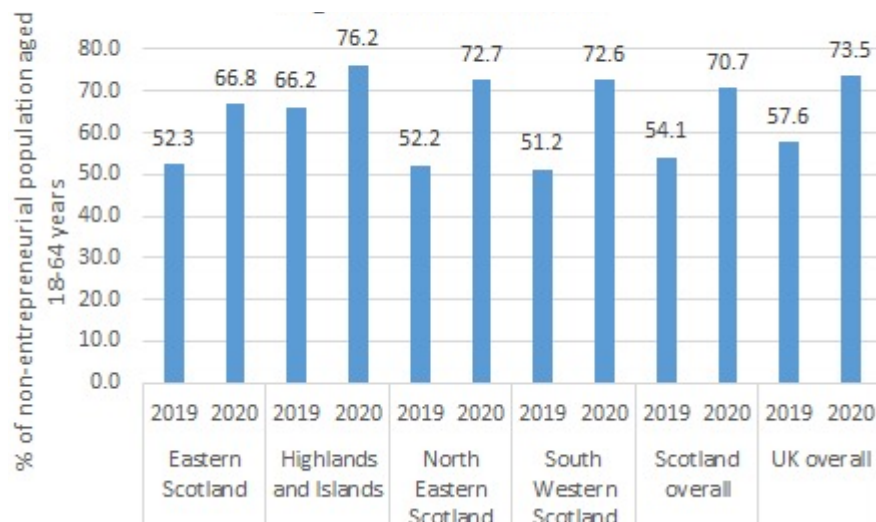


Figure 4.3: Consideration of entrepreneurship as a good career choice in Scotland's NUTS2 regions 2019 - 2020 (Source: GEM APS)



Figure 4.4: Entrepreneurial self-efficacy in Scotland's NUTS2 regions 2019 - 2020 (Source: GEM APS)

In 2020, only about 30% of Scots not already engaged in entrepreneurial activity see good start-up opportunities in their area in the next six months. This is lower than the 36.3% observed in the UK as a whole, which is seemingly largely driven by the rate in England (37.3%). Within Scotland, the perception of good start-up opportunities is ostensibly lowest in the North Eastern region, chiefly due to a significant decline from 41% in 2019 to just under 24% in 2020. However, Highlands and Islands saw the biggest decline in the rates of perception of good start-up opportunities almost halving from around 50% of the adult non-entrepreneurial population to just over a quarter. In contrast, South Western Scotland did not see major changes in this regard between 2019 and 2020 (Figure 4.5).

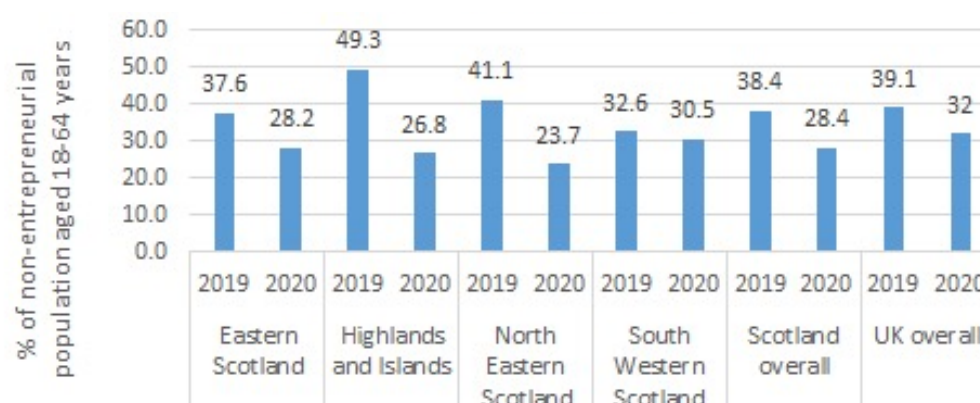


Figure 4.5: Perception of good start-up opportunities in the next 6 months in Scotland's NUTS2 regions 2019-2020 (Source: GEM APS)

Despite the positive attitudes towards entrepreneurship in general, around 60% of Scots that have perceived good start-up opportunities indicate that the fear of failure would prevent them from actually starting a business. North Eastern Scotland again stands out in this regard with 70% of people that agree that there are good start-up opportunities in the area perceiving fear of failure as a significant stumbling block. The fear of failure is lowest in the Highlands and Islands.

Across Scotland and the UK, there was a significant increase in rates of fear of failure in 2020 (Figure 4.6). However, it was the North Eastern and Highland and Islands regions that saw the biggest changes, with percentage points increases of 18% and 16% respectively. The fear of failure among potential entrepreneurs saw a more modest growth in Eastern Scotland (8%) and South Western Scotland (5%). This again demonstrates regional disparities in entrepreneurial perceptions and their stability in the face of a crisis.

That the fear of failure among people that already see good start-up opportunities in their area can change so variably by region suggests that there are important underlying regional idiosyncrasies in Scotland that need to be better understood and dealt with in their contexts; for example, the industrial structure of North Eastern Scotland and the Highlands and Islands may not be diversified and balanced enough to withstand global shocks that disproportionately affect sectors that are highly significant in these regions, i.e., oil and gas in the

North East and tourism in the Highlands and Islands. Addressing these structural regional issues that appear to impact the fear of entrepreneurial failure at the individual level is especially important as Scotland appears to lag behind other home nations in terms of the rate at which adults not presently engaged in entrepreneurship expect to actually start a new business within the next three years (Figure 4.7).

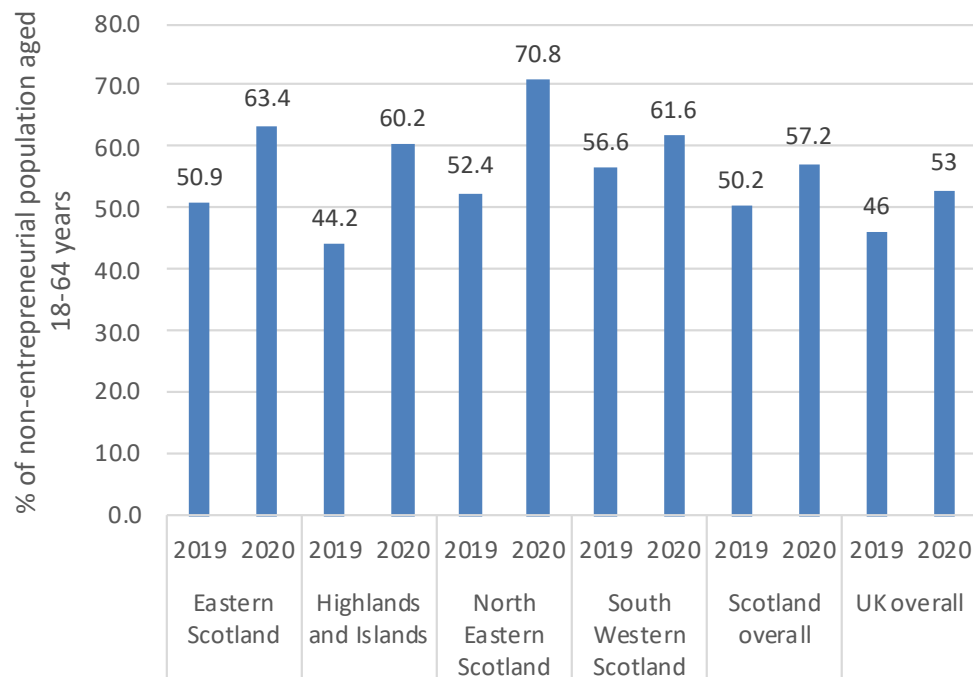


Figure 4.6: Fear of failure among non-entrepreneurial population in Scotland's NUTS2 regions 2019 -2020 (Source: GEM APS)

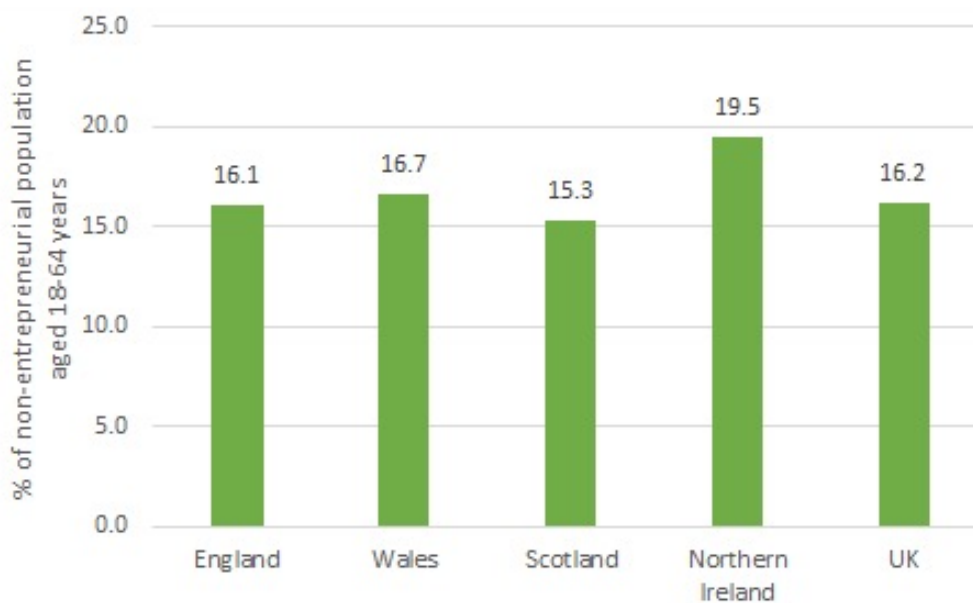


Figure 4.7: Future Start-up Expectations (within 3 years) in the UK Home Nations 2020 (Source: GEM APS)



Recent research has suggested that a relatively small number of firms can create a disproportionate number of jobs⁷. If an entrepreneur expects to create a large number of jobs then his or her potential contribution to growth and regeneration through entrepreneurship may be greater. To identify such individuals, GEM employs a variable that measures the percentage of all early-stage entrepreneurs (and separately established business owners) who expect to create more than ten jobs with a growth in employment of more than 50% in the next five years.

Figure 4.8 displays the levels of these high growth expectation entrepreneurs for Scotland and UK in 2020. High growth expectation rates amongst TEA entrepreneurs in the UK are higher than those for established business owners with a five-percentage points difference. In contrast, the gap in Scotland is only a percentage point owing to two dynamics: (1) the proportion of established business owners with high job expectations in Scotland is higher than that found in England and the wider UK; and (2) the proportion of TEA entrepreneurs with high job expectations in Scotland is lower than that found in England and the wider UK.

This suggests that there could be a perception in Scotland that it is established business, not early-stage enterprise, that is expected to drive employment and economic growth. This may be driven, at least in part, by elements of extant policy in Scotland such as that Scottish Enterprise, with substantial resources and national remit, focusses its account-managed support on existing high-growth businesses while Business Gateway provides more localised support for startups within their council areas.



Figure 4.8: Relative Frequency of High Job Expectation among Early-stage Entrepreneurs and established business owner in Scotland and UK 2020 (Source: GEM APS)

⁷ Hart, M. and Anyadike-Danes, M. (2014) "Moving on from the vital 6%"; Enterprise Research Centre Insight Report, February

5. FUNDING

Raising startup financing is one of the key issues many entrepreneurs have to contend with. In Scotland, and across the UK, as documented in the UK report, data from both GEM and the SME Finance Monitor survey suggests that around 45% of nascent entrepreneurs typically expected to wholly finance their startup in 2020. A further 3% of nascent entrepreneurs in Scotland expected to not have any startup costs at all.

Of those expecting (a mix of) funding from elsewhere, **Table 5.1** shows the prevalence of the anticipated sources. In Scotland, 28% of nascent entrepreneurs expecting to draw on external financing will look to close family, making this the most favoured source. Government programmes come a distant second followed closely by banks, other relatives and private investors. While raising funds from online crowdfunding has become more prevalent in recent years, only about 8% of nascent entrepreneurs in Scotland in need of external financing cite it as an expected source, compared to 13.3% in the wider UK. There is a notable role, further, for friends and neighbours, and employers and colleagues as sources of startup financing in Scotland as compared to the UK.

| Type of funding expected | Scotland 2020 | Scotland rank | UK 2020 | UK rank |
|---|------------------|------------------|------------|------------|
| Close family member (spouse, parent, sibling) | 28.3 | 1 | 27.3 | 1 |
| Government programmes, donations or grants | 16.4 | 2 | 17.5 | 3 |
| Banks or other financial institutions | 14.4 | 3 | 17.8 | 2 |
| Other relatives, kin or blood relations | 14.1 | 4 | 11.3 | 6 |
| Private investor or venture capital | 13.9 | 5 | 14.6 | 4 |
| Friends or neighbours | 13.1 | 6 | 9.1 | 8 |
| Employer or work colleagues | 12.4 | 7 | 7.7 | 9 |
| Any other source | 10.2 | 8 | 10.2 | 7 |
| Online crowdfunding | 7.8 | 9 | 13.3 | 5 |

Table 5.1: Percentage of nascent entrepreneurs expecting funding from different sources 2020 (Source: GEM UK APS 2020)



6. IMPACT OF COVID-19 PANDEMIC ON ENTREPRENEURS IN SCOTLAND

The impact of the Covid-19 pandemic on entrepreneurial activity in Scotland has been alluded to in the findings discussed above showing changes between 2019 and 2020 to the extent that the pandemic was the single most important factor influencing changes in most aspects of social and economic life in 2020 globally. Due to low response rates, we are only able to highlight three coronavirus-related effects at the home nations level – the full UK report provides more detailed findings at the UK level.

Despite the many ills of the coronavirus pandemic, there is a sense that the crisis did also provide some unique opportunities that alert and equipped entrepreneurs could capitalise on. As **Figure 6.1** shows, across the UK, around half of all entrepreneurs engaged in early stage entrepreneurial activity were of the opinion that the pandemic had provided new plausible opportunities. In contrast, only around 38% of established business-owners had similar sentiments. Among the home nations, Scotland and England had more or less similar responses to the UK average. Wales reported the inverse of this with about half of established business owner-managers reporting that the pandemic had provided new opportunities compared to 38% of nascent entrepreneurs and new business owner-managers. Notably, however, the perception of new opportunities in the wake of the pandemic was relatively higher among both early-stage and established entrepreneurs in Northern Ireland.

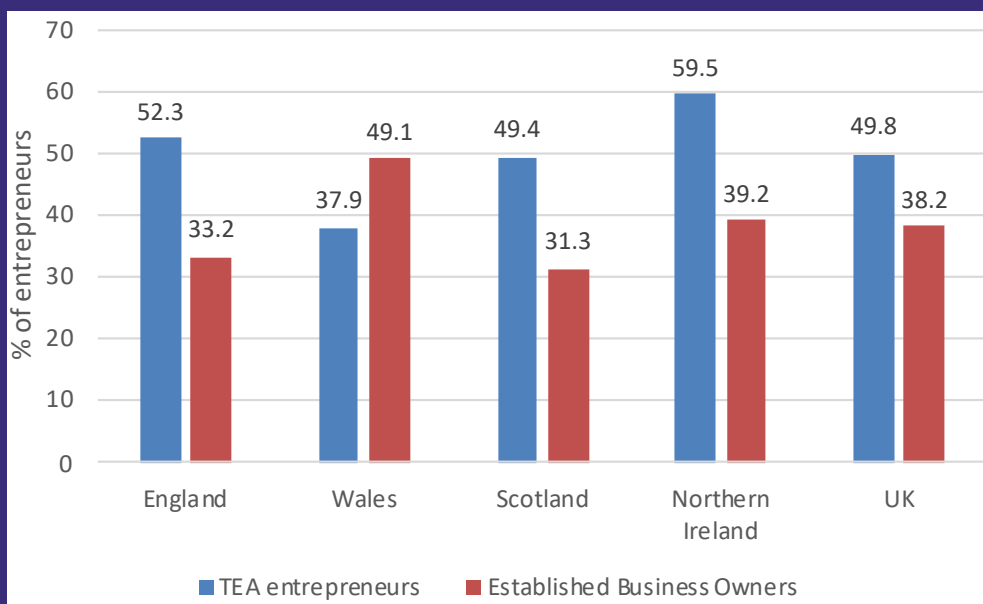


Figure 6.1: Incidence of perception of plausible new opportunities due to the coronavirus pandemic among TEA entrepreneurs (nascent and startup entrepreneurs) and established business owners (Source: GEM UK APS 2020)

During the crisis period, much focus, and support, was directed towards mitigating the impact of the pandemic on existing business activity. Perhaps one of the groups that would have found themselves in a very problematic position were nascent entrepreneurs that were actively trying to set up a business in 2020. In Scotland, just over two thirds of such nascent entrepreneurs (65.4%) indicated that they delayed getting business operational because of the coronavirus pandemic (**Figure 6.2**). This was slightly higher than the UK average (61%) but lower than the rate in Wales (68.1%) and Northern Ireland (77.1%).

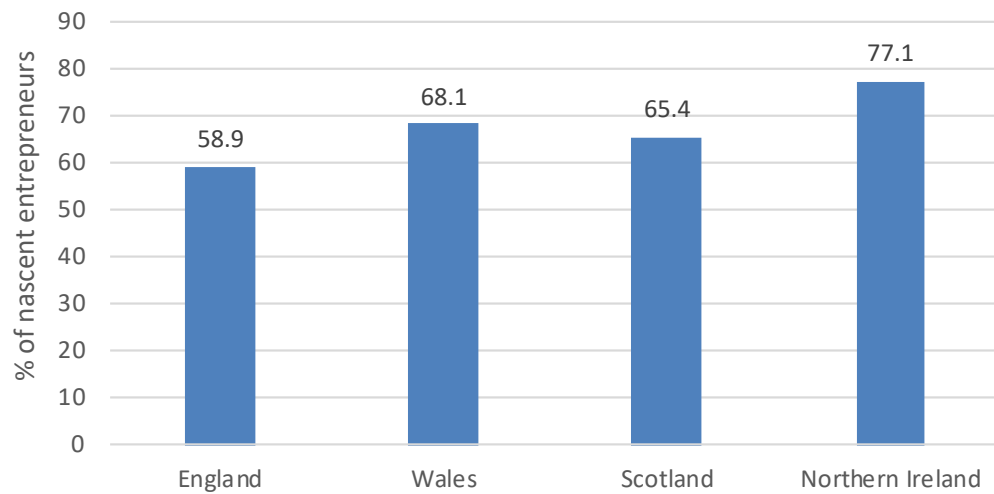


Figure 6.2: Incidence of delays in getting a new start-up operational due to the coronavirus pandemic (Source: GEM UK APS 2020)

These rates suggest that despite the encouragingly high rates of perception of new opportunities amid the pandemic as discussed above, many nascent entrepreneurs have delayed the operationalisation of such new opportunities. With much established business activity having died or facing prolonged hysteresis, despite the significant lifting of pandemic-related restrictions, there is much scope for policy in Scotland and the wider UK to revitalise the economy by helping reboot entrepreneurial activity at both early-stage and established business levels.



7. CONCLUSIONS

Levels of entrepreneurial activity are a vital sign of any economy as the creation of new ventures is positively connected to economic performance through increased competition, innovation, productivity and job creation. Historically, Scotland has often lagged behind England in terms of early-stage entrepreneurial activity. However, in 2020, we observe a narrowing down of this gap to less than a percentage point. We also note that despite the pandemic, the TEA rate for Scotland (7.3%) has remained comparable to 2019, highlighting a relatively strong degree of resilience and entrepreneurial adaption to the crisis. Indeed, around 1 in 2 of those involved in TEA agree that there are new opportunities in Scotland because of the pandemic (49.4%). These trends are promising, as we know from previous crisis periods (e.g., the Global Financial Crisis of 2007-8) that new small firms are crucial to the recovery process.

However, we found that almost two thirds of nascent entrepreneurs in Scotland have delayed the full operationalisation of their startup due to the coronavirus crisis. Further, it would appear that, more of established business-owners in Scotland have higher expectations for jobs-growth than their counterparts in the wider UK. In contrast, the share of early-stage entrepreneurs in Scotland with high jobs-growth expectations is lower than the UK average. Thus, while much of policy in Scotland, during and before the pandemic period, has tended to focus on supporting existing growth-oriented businesses, it is important that the estimated about 250,000 early-stage entrepreneurs are not neglected as we transition to the recovery effort.

Our results also suggest that while Scotland as a whole appeared to have held its own in terms of early-stage entrepreneurial activity and motivations in 2020 despite the pandemic, disparities by region, gender, age, ethnicity, socioeconomic status, and various intersections of these, yet remain with mixed implications. Among adults not presently engaged in entrepreneurial activity, there are clear regional differences in entrepreneurial attitudes and perceptions. For example, the fear of failure is seemingly a significantly high barrier amongst non-entrepreneurial adults that think there are good startup opportunities in their area in North Eastern Scotland relative to the rest of the country, despite the region also reporting that stories of successful entrepreneurs are widely covered in the media.

In the Highlands and Islands, the fear of failure is lowest in Scotland and entrepreneurial activity is highly regarded. Yet the perception of good opportunities halved and the fear of failure rose sharply between 2019 and 2020. It is likely thus that, despite the different entrepreneurial cultures, the economies in these regions may yet be structured in a way that makes them relatively more prone to adverse external shocks, such as the pandemic, that appear to be able to overwhelm even otherwise stoic entrepreneurial attitudes.

The role of industrial structure is also invoked by findings from the East of Scotland where significantly fewer people see starting a business as a good career choice perhaps because of there is a greater role for the public sector and large corporations in the region. This report also finds that while early-stage entrepreneurial activity in Scotland held steady between 2019 and 2020, there was a notable drop in early-stage entrepreneurial activity in the North Eastern region which was seemingly offset by an uptick in TEA in the South Western region. Policy in Scotland thus needs to critically consider the structure of regional and local economies and how it impacts entrepreneurial attitudes and activity.

Regional disparities in rates of entrepreneurial activity within Scotland and among the home nations also interact with other crucial socioeconomic factors in important ways that require careful consideration. Despite the arguably differences in the way TEA changed between 2019 and 2020, arguably attributable to industrial structure and the coronavirus pandemic, both the South Western and North Eastern regions yet reported the biggest gaps between male and female TEA rates. In contrast, Eastern Scotland had a non-significant difference with TEA rates between males and females in the Highlands and Islands on a par. Further, while Scotland's female TEA held steady, with England's and Wales' rates dropping and Northern Ireland's growing, we saw a relative convergence in home nation's female TEA at 4-6%. Amid all these dynamics, the gender gap in Scotland's TEA rates was the largest in the UK in 2020. These and other gender-related issues in entrepreneurship will need to be addressed carefully.

Looking at TEA rates by age group, Scotland leads the way in the UK when it comes to early-stage entrepreneurial activity by 18-29 year olds. This is testament perhaps to unique initiatives supporting entrepreneurial learning and startup activity among young people in Scotland such as Young Enterprise Scotland (Bridge to Business), Scottish Institute for Enterprise, Converge Challenge, Scottish EDGE (Young Edge), Entrepreneurial Scotland, and the Prince's Trust. However, other age groups do not do as well relative to other home nations. As such, Scotland could draw on the success seen with the 18-29 year olds group to help develop support a portfolio of suitable initiatives to be advanced to older age groups too. The support infrastructure for younger entrepreneurs in Scotland has also been changing with some institutions closing and much focus now trained at growth. Amid such developments, it is necessary that the success of the last decade or so with young entrepreneurs is enhanced and not undone.

Similar to the outcomes in the wider UK, early-stage entrepreneurial activity by ethnic minorities in Scotland suffered greater reductions in 2020 compared to 2019 but remained higher than the TEA observed among the native White population. This suggests that while ethnic minorities continue to significantly contribute to entrepreneurial activity in Scotland, they are seemingly disproportionately more likely to be adversely impacted by external shocks and crises such as the Coronavirus pandemic. Policy in Scotland thus needs to continue to consider suitable ways of accommodating their unique needs to fully harness the substantial potential of ethnic minority entrepreneurship in Scotland.

Likewise, this report finds that contrary to trends in other home nations, the most deprived quintile in Scotland has a significantly higher rate of early-stage entrepreneurial activity. This rate is not dissimilar to that observed among the least deprived quintile in Scotland. It is unclear whether this is driven by the same underlying factors; for example, if entrepreneurial activity among the most deprived is driven by a lack of suitable employment opportunities. The pertinent theme overall, however, is that the seemingly better performance of early-stage entrepreneurial activity in Scotland in 2020 across the various social groups must be appreciated more nuancedly and tailored support continues to be required for the various regions and diverse sections of the society in Scotland.



DISCLAIMER

This report is based on data collected by the GEM consortium and the GEM UK team; responsibility for analysis and interpretation of the data is the sole responsibility of the authors.

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