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GEM UK: Wales Report 2010

Mark Hart and Jonathan Levie



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The Global Entrepreneurship Monitor (GEM) is an international project involving 59 countries in 2010 which seeks to provide information on the entrepreneurial landscape of countries. Many studies have shown that that entrepreneurship is an important driver for economic growth, competitiveness and job creation. The results of the GEM data analysis are used as key benchmarking indicators by regional and national authorities around the world. The sample size in Wales was 2,995 adults aged over 16 years of age in 2010 as a result of support from the Welsh Government (WG).

Main Findings

- **As the economy in Wales continued to seek pathways out of recession in 2010 the level of early-stage entrepreneurial activity (TEA) in Wales was 5.8 per cent - similar to the 6 per cent reported 12 months earlier. The TEA rate for the UK as a whole in 2010 was 6.5 per cent which was higher than 12 months earlier (5.8%) – the rise was not significant.**
- **Looking across the UK home nations the TEA rate in Wales is not significantly different from that observed in England, Scotland and Northern Ireland.**
- **Female entrepreneurship in Wales has fallen slightly in 2010 (3.6%) and the female to male ratio has now widened by 15 percentage points from 58 per cent in 2009 to 43 per cent in 2010.**
- **One of the most striking features of the trend in entrepreneurial activity in Wales is that the level of youth entrepreneurship has doubled between 2002 and 2010. There is evidence from the GEM survey that there is strong evidence to suggest that this may be related to the approach taken to Youth Entrepreneurship by the Welsh Government in recent years.**
- **Welsh people who migrate to other home nations of the UK have higher TEA rates (9% on average) than Welsh people who live in Wales (4.3%).**
- **Entrepreneurial confidence has steadied in 2010 and has risen in some respects. The proportion of the non-entrepreneurial population in Wales reporting that there are good opportunities for start-up in their local areas in the next 6 months remains the same in 2010 as in 2009 after the sharp fall between 2007 and 2008.**
- **Future start-up expectation rates in Wales remain the same as reported 12 months ago – it is now 5.8%**
- **A higher proportion of business owners in Wales in 2010 were more positive about their prospects for growth than they were 12 months ago.**

Background

The Global Entrepreneurship Monitor (GEM) is based on the following premises. First, an economy's prosperity is highly dependent on a dynamic entrepreneurship sector. Second, an economy's entrepreneurial capacity is composed of individuals from all groups in society with the ability and motivation to start businesses, and requires positive societal perceptions about entrepreneurship. Third, high-growth entrepreneurship is a key contributor to new employment in an economy, and national competitiveness depends on innovative and cross-border entrepreneurial ventures.

The Welsh Government (WG) sponsored the Welsh component of the GEM UK research project. Stimulating entrepreneurship remains an important challenge for the region and WG has taken the lead in ensuring that it is embedded within its core activities. This is the eighth year in which the WG has participated in GEM and we are beginning to see the results of that commitment as we now have one of the largest databases on entrepreneurial intentions of any region of the UK for the period 2002-2010. Where appropriate, we draw upon this pooled dataset of ~190,000 respondents for the UK (~35,000 in Wales) to provide trend analysis. Participation in the GEM project is providing valuable evidence regarding the level of early stage entrepreneurship within Wales.

The results from 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.

It is important that we better understand the determinants of early stage entrepreneurship, because there is evidence to suggest a connection between higher rates of entrepreneurship and overall economic prosperity.

How GEM Measures Entrepreneurial Activity

GEM creates an index of early stage entrepreneurial activity (known as TEA) using the following approach:

- A telephone survey of a random sample of the adult population is conducted between May and September.
- The TEA index is the sum of those respondents classified as nascent¹ entrepreneurs and new firm entrepreneurs².
- In addition the GEM survey asks all respondents about their attitudes to entrepreneurial activity.

The TEA index does not measure all entrepreneurial activity and is not based on a survey of business entities. It measures the characteristics of entrepreneurial individuals and the types of entities they establish. As such it is a unique and internationally comparative measure of the cultural propensity of a nation, or region, to be entrepreneurial.

One way of distinguishing between different types of entrepreneurial activity is the extent to which the activity is based on necessity (i.e. there are no better alternatives for work) or opportunity (where entrepreneurs may be exploiting the potential for new market creation).

The methodology, sample sizes and weighting systems used for the GEM UK 2010 adult population survey are explained in more detail in the UK report (www.gemconsortium.org). An important change in the sample design was introduced in 2010 when 10% of respondents in each Government Office Region (GOR) were selected at random from households which had mobile phones but not fixed phone landlines. This change from a purely landline sampling methodology may be responsible for some of the apparent rise in the point estimates for many UK GEM measures in 2010³. In this report, comparisons with other nations in the UK in 2010 are made using the full sample, while time-based trends within the UK are made using the “like-for-like” landline-only respondents as well as the full sample.

¹ The active planning phase in which the entrepreneur has done something during the past 12 months to help start a new business, a new business that he/she will at least part owns.

² The second phase is the first 42 months after the new venture begins to pay wages. Entrepreneurs who at least part own and manage a new business that is between 4 and 42 months old and have not paid salaries for longer than this period are referred to as new firm entrepreneurs.

³ This is not the case for Wales with respect to the headline TEA rate as they are both rounded to 5.8%.

The following report presents a summary of the headline results, and key themes arising from the GEM survey in 2010 and the analysis of the nine years of GEM data (2002-10).

Total Early-Stage Entrepreneurial Activity (the TEA Index)

The rate of early-stage entrepreneurship in Wales for 2010 (landline and mobile households) was 5.8 per cent compared to 6.5 per cent in the UK overall and 6.7 per cent for the English regions. There is no significant difference between Wales and the UK in 2010 (Figure 1). Further, the TEA rate in Scotland at 4.2 per cent is significantly lower than England's rate of 6.7% (but not than in Wales and Northern Ireland).

Overall, a TEA rate of 5.8 per cent in Wales equates to around one in every seventeen adults or just over 110,000 individuals equally divided between those individuals in the very early stages of starting a business (nascent entrepreneurs 3.0%) and those who had a new business which was between 3 and 42 months old (2.7%).

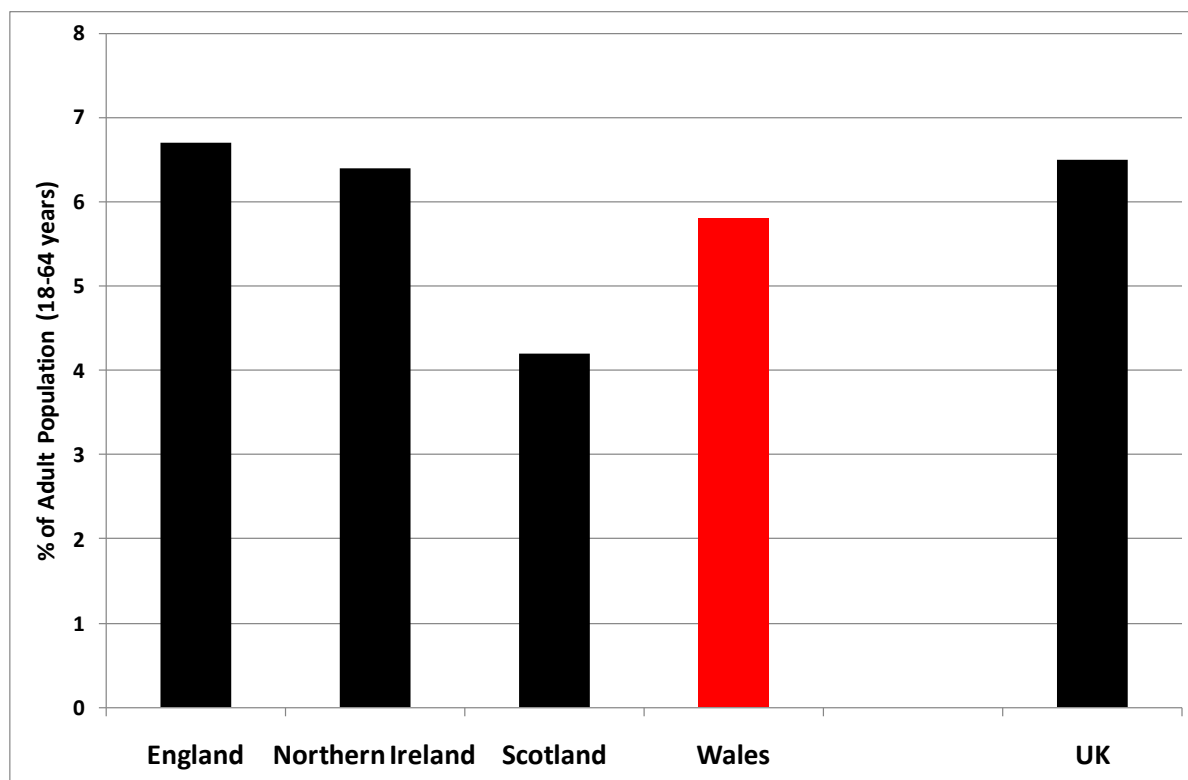


Figure 1: Total early-stage entrepreneurial activity (TEA) in the UK Home Nations 2010 (Source: GEM APS)

Looking at the 2002-2010 period⁴ we observe that the rate of early-stage entrepreneurial activity in Wales, as the economy continued to suffer from the economic downturn, is just above what it was in 2002 (Figure 2a). The level of early-stage entrepreneurial activity in Wales has tracked the UK trend very closely in recent years and in terms of landline only responses is actually marginally higher in 2010 – 5.8 per cent compared to 5.6 per cent in the UK but this gap is not statistically significant.

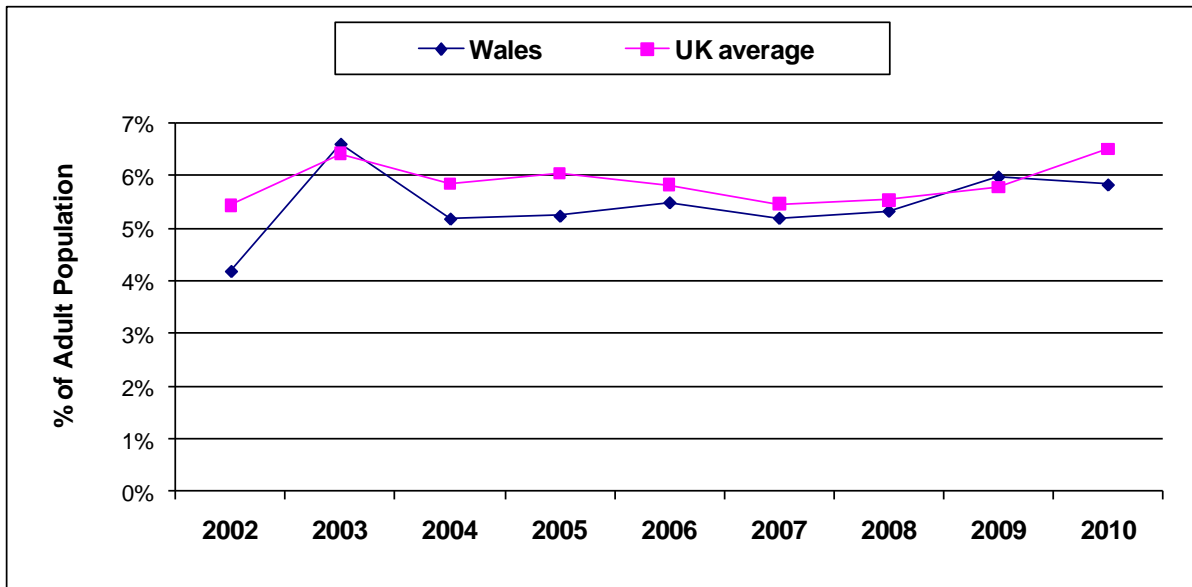


Figure 2a: Total Early-Stage Entrepreneurial Activity in Wales and the UK (2002-10). (Source: GEM APS)

Figure 2b shows that in 2010 the level of early-stage entrepreneurial activity in the two NUTS 2 regions in Wales (East Wales and West Wales & Valleys) was identical to that in Wales overall – 5.8%⁵. This analysis is constrained to landline only respondents to ensure a like-for-like comparison over time. It would appear, therefore, that the rise in TEA rate observed in East Wales in 2009 was a peak in recent entrepreneurial activity and it has returned to previous levels. By contrast, the graph does show a steady rise in early-stage entrepreneurial activity in West Wales & the Valleys since 2004 and it now stands slightly above its pre-recession level of 5.3 per cent. This rise is not statistically significant.

⁴ That is, using the landline only respondents in 2010 for this trend analysis. The TEA rate for Wales with this restricted sample is 5.83% compared to 5.77% for landline and mobile only households.

⁵ The TEA rate for the whole sample in the NUTS 2 regions (i.e., landline and mobile only households) was 5.9% and 5.7% for East Wales and West Wales & the Valleys respectively. The TEA rate for Wales remains unchanged at 5.8%.

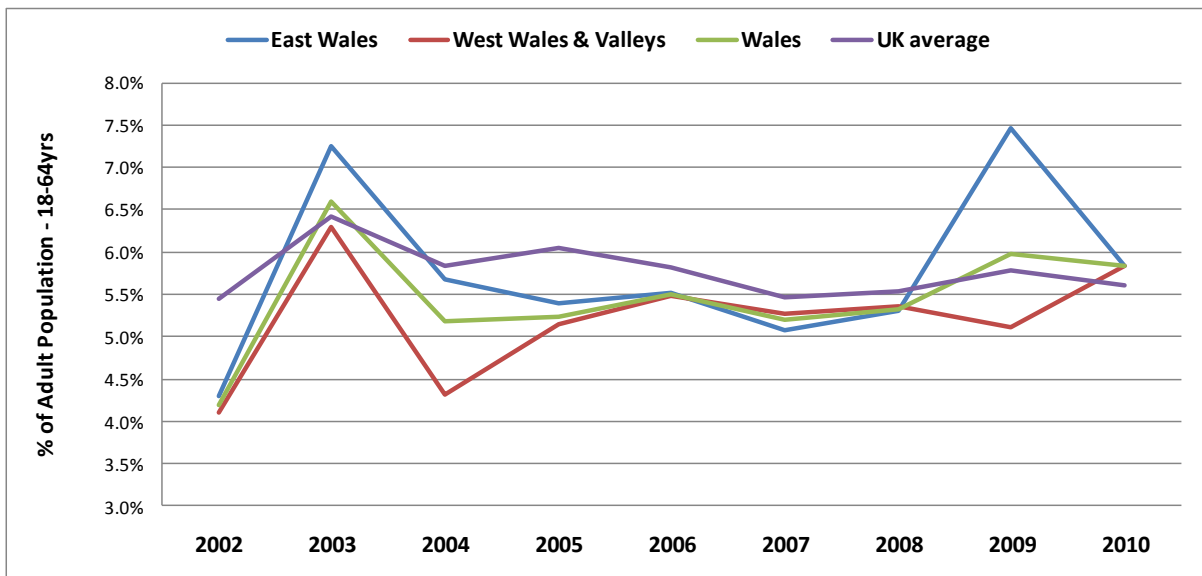


Figure 2b: Total Early-Stage Entrepreneurial Activity in East Wales, West Wales & Valleys, Wales and the UK (2002-10). (Source: GEM APS)

In 2010, as the economic downturn continued in Wales and the level of early-stage entrepreneurial activity (nascent and new businesses) were maintained the level of ‘necessity’ entrepreneurship was broadly the same as in 2009. This now stands at 18.6 per cent which was slightly lower than that reported in 2009⁶. Wales has the highest level of necessity entrepreneurship in 2010 of all the home nations – just under 1 in 5 new ventures are being created out of necessity (Figure 3). Scotland has the lowest but also a significantly lower level of early-stage entrepreneurial activity in 2010.

⁶ That is, 18.3% compared to 19.7% in a like-for-like comparison of landline only respondents.

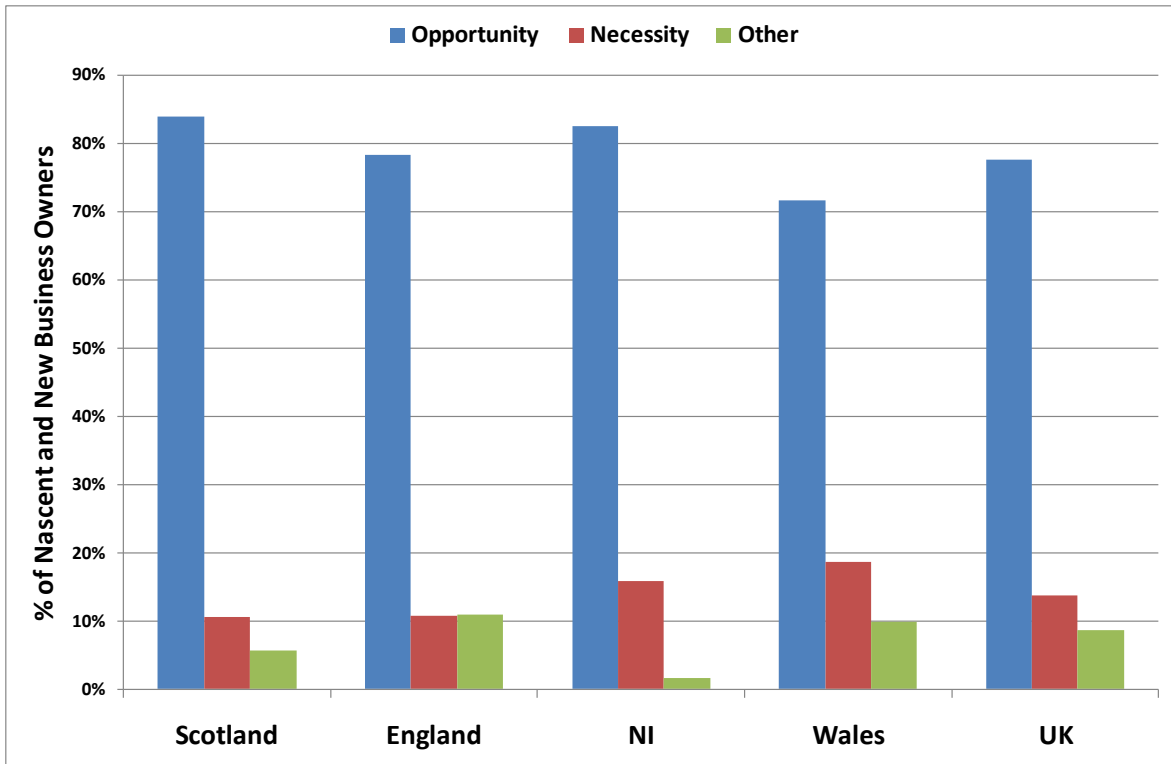


Figure 3: Opportunity and Necessity Entrepreneurship in the UK Home Nations in 2010. (Source: GEM APS 2010)

Who are the Entrepreneurs in Wales?

Gender: While female early-stage entrepreneurial activity in the UK in 2010 was 4 per cent⁷. The comparable figure for Wales was 3.6 per cent which was not statistically different from that observed in the UK. Figure 4 shows that there are small variations across the four home nations, though none of these differences are statistically significant.

However, it is the ratio of female to male early-stage entrepreneurial activity which varies markedly across the four home nations. The ratio in Wales (45%; or 43% if we focus on landline only respondents to aid comparison with previous years) is almost identical to the UK and England average. This is a significant fall since 2009 when it was reported to be 58 per cent.

⁷ Note: this is for the combined sample of mobile and landline only households. If we restrict the sample to landline only the female UK TEA rate was 3.4% and the male UK TEA rate was 7.8%. The comparable figures for Wales were 3.5% and 8.2% respectively.

Northern Ireland, as in previous years, has the lowest ratio of female to male TEA rate (34%) which was 10 percentage points lower than in the UK as a whole. Females in Northern Ireland are significantly less likely than males to be involved in early-stage entrepreneurial activity.

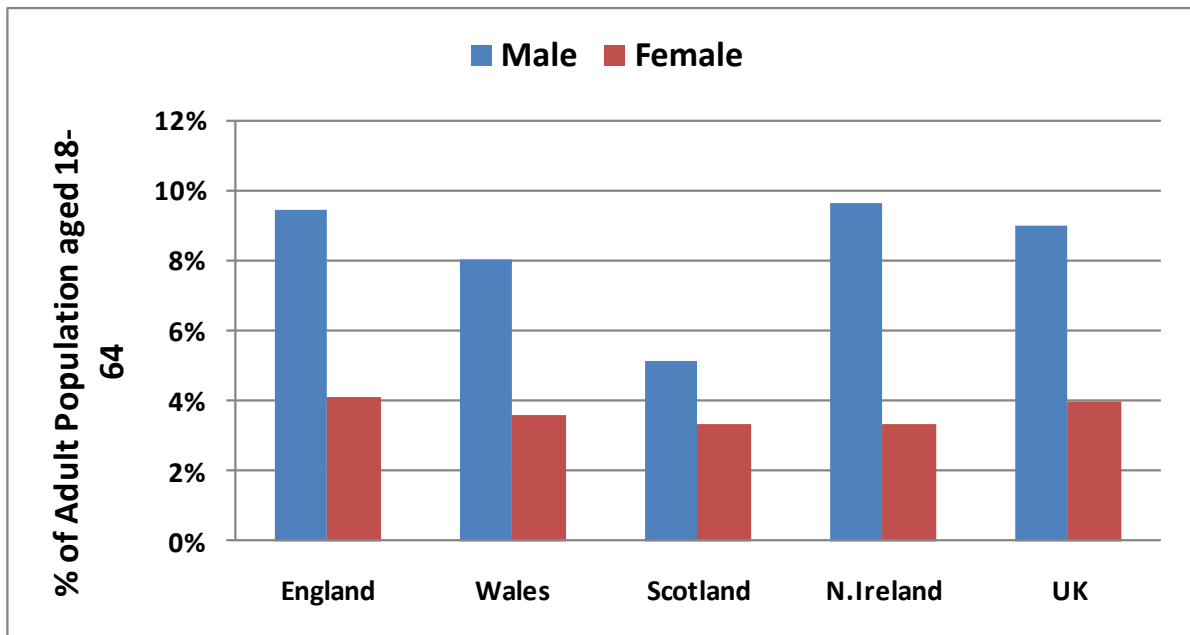


Figure 4: Total Early-Stage Entrepreneurial Activity in the UK Home Nations in 2010. (Source: GEM APS 2010)

Scotland records the highest female to male TEA ratio at 65 per cent but this is a result of a lower male TEA rate compared to the other home nations. Male TEA rates in Scotland (5.1%) were significantly below those of England (9.4%) but not when compared to Wales (8%) and Northern Ireland (9.6%).

We can see from Figure 5 that the fall in the ratio of female to male nascent and new business owners in Wales is due to a fall in female TEA rates in 2010. This has reversed the upward trend we observed as the economy moved through the recession.

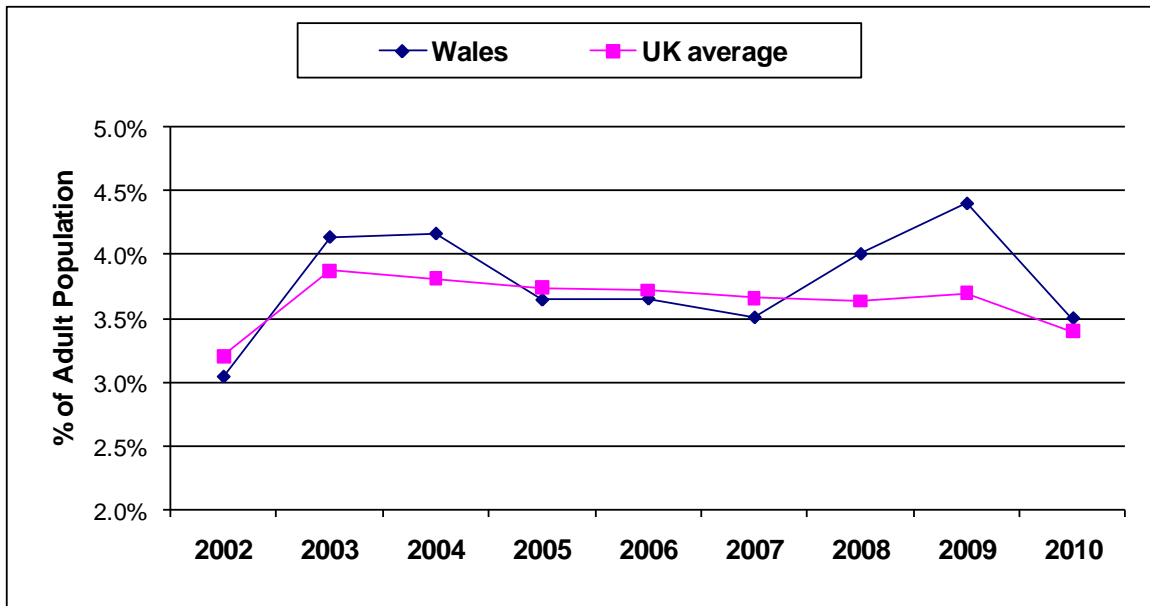


Figure 5: Total Early-Stage Female Entrepreneurial Activity in Wales and the UK, 2002-2010. (Source: GEM APS)

Age: Individuals aged between 25-34 years display the highest rate of early-stage entrepreneurial activity in the UK and this holds for all the home nations, albeit at different levels, except Scotland. The average TEA rate for this age group in the UK is 10.3 per cent whereas in Scotland it is almost four times lower at 2.7 per cent, a difference which is statistically significant. In Wales the TEA rate for this age group is 7.7 per cent in 2010. We will take a closer look at the trends in youth entrepreneurship later in the report.

In the UK, 3.3 per cent of young adults aged 18-24 years are engaged in early-stage entrepreneurial activity and although Wales and Scotland record higher rates (6.7%⁸ and 6.1% respectively) there are no statistically significant differences across the home nations. This represents a rise of over 2 percentage points since 2009 for this age group but it is not statistically significant.

Nascent and new business activity (TEA rate) declines with age and for those aged 55-64 years the UK average is 3.7 per cent. There is some variation across the home nations with Northern Ireland displaying the highest rate (5.3%) and Scotland (2.7%) the lowest but these differences are not statistically significant.

⁸ The landline only TEA rate for this age group was also 6.7% in 2010.

At the other end of the age spectrum there were no significant differences in TEA rates between Wales and the UK for those individuals aged between 55 and 64 years: 3.9 and 3.7 per cent respectively. The TEA rate for older individuals in Wales rose by just over one percentage point since 2009 (from 2.8% to 4.0% on a like-for-like comparison with landline only respondents).

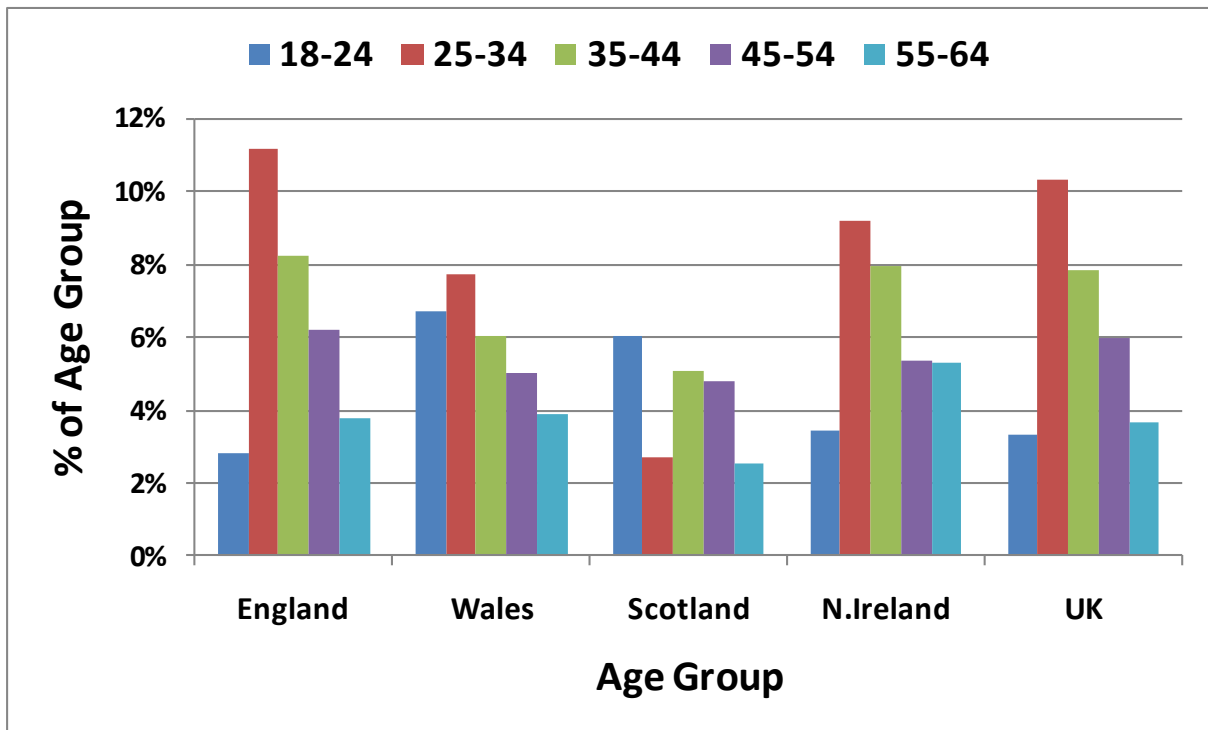


Figure 6: Total Early-Stage Entrepreneurial Activity in the UK Home Nations, 2010. (Source: GEM APS, 2010)

Education: The average level of total early-stage entrepreneurial activity for graduates in the UK in 2010 is 7.7 per cent. The comparable figure for graduates currently residing in Wales 6.2 per cent and this is not statistically different from the UK level (Figure 7). Wales occupies a position above Scotland and below England and Northern Ireland in terms of a graduate TEA rate but these differences are not statistically significant.

How do the 2010 rates compare with the previous year? Again we need to make a like-for-like comparison and use landline only respondents. The graduate TEA rate for Wales in 2010 using this constrained sample is 5.2 per cent compared to 5.8 per cent for the UK overall. This means that there was a fall in graduate TEA rates in both Wales and the UK since 2009 (although not significant): the comparable figures were 8.5 and 7.7 per cent respectively.

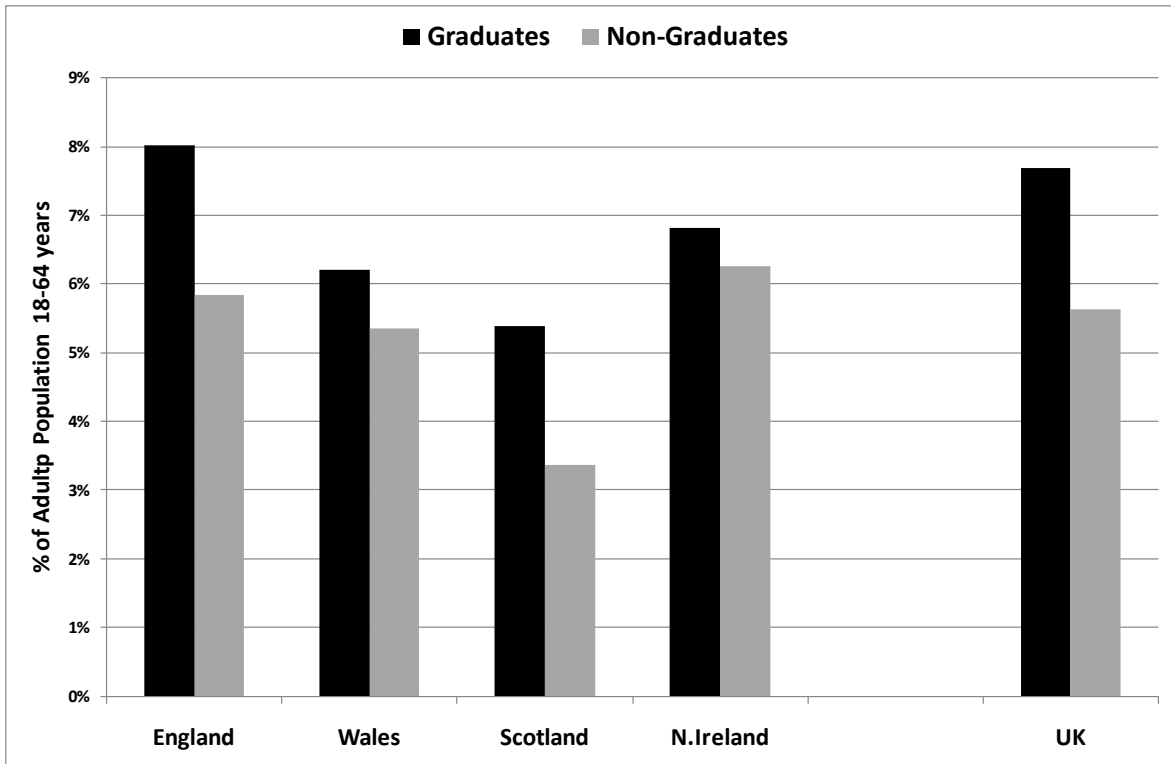


Figure 7: Total Early-Stage Entrepreneurial Activity in the UK Home Nations by Graduate Status, 2010. (Source: GEM APS, 2010)

Mobility: Table 1 shows the distribution of TEA rates in the UK population by nation of origin and nation of current residence. A similar pattern holds in every nation: those born and resident in the same nation (the shaded cells in Table 1) have the lowest TEA rates in their row (nation of residence) or column (nation of origin). Welsh people who migrate to other home nations of the UK have higher TEA rates (9% on average) than Welsh people who live in Wales (4.3%). The same pattern holds for the English, Scots and Northern Irish, although it is notable that Scots born and resident in Scotland appear to have the lowest TEA rate of any group in the table.

| Born in | England | Wales | Scotland | Northern Ireland | Outside UK |
|-------------|---------|-------|----------|------------------|------------|
| Resident in | | | | | |
| England | 5.6 | 7.6 | 5.8 | 7.2 | 7.8 |
| Wales | 7.6 | 4.3 | 9.2 | 12.4 | 7.4 |
| Scotland | 8.0 | 11.5 | 3.9 | 6.1 | 8.9 |
| NI | 5.9 | n.a. | 6.2 | 4.7 | 5.0 |

Table 1: TEA Rates by Nation of Origin and Nation of Residence (Source: GEM APS Combined Data, 2002-10)

Entrepreneurial Attitudes and Intentions

GEM has developed a number of attitudinal statements which provide a proxy for entrepreneurial potential in a country/region. They include knowing a person starting 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 importance of fear of failure as a deterrent to setting up in business.

GEM attitudinal data is best treated at the group rather than individual level, because individuals who are already entrepreneurs may feel compelled to provide positive answers in the Adult Population Survey (APS). Here, as in the last two years, we report attitudinal data only for that portion of the population who are not already entrepreneurs.

In Wales, one in four (25.9%) of individuals state that they know an entrepreneur compared to just under a third (31.1%) in the UK as a whole (Figure 8). In Wales two-fifths (44.5%) of non-entrepreneurs believe they have the skills to set up in business compared – again similar – to the UK average.

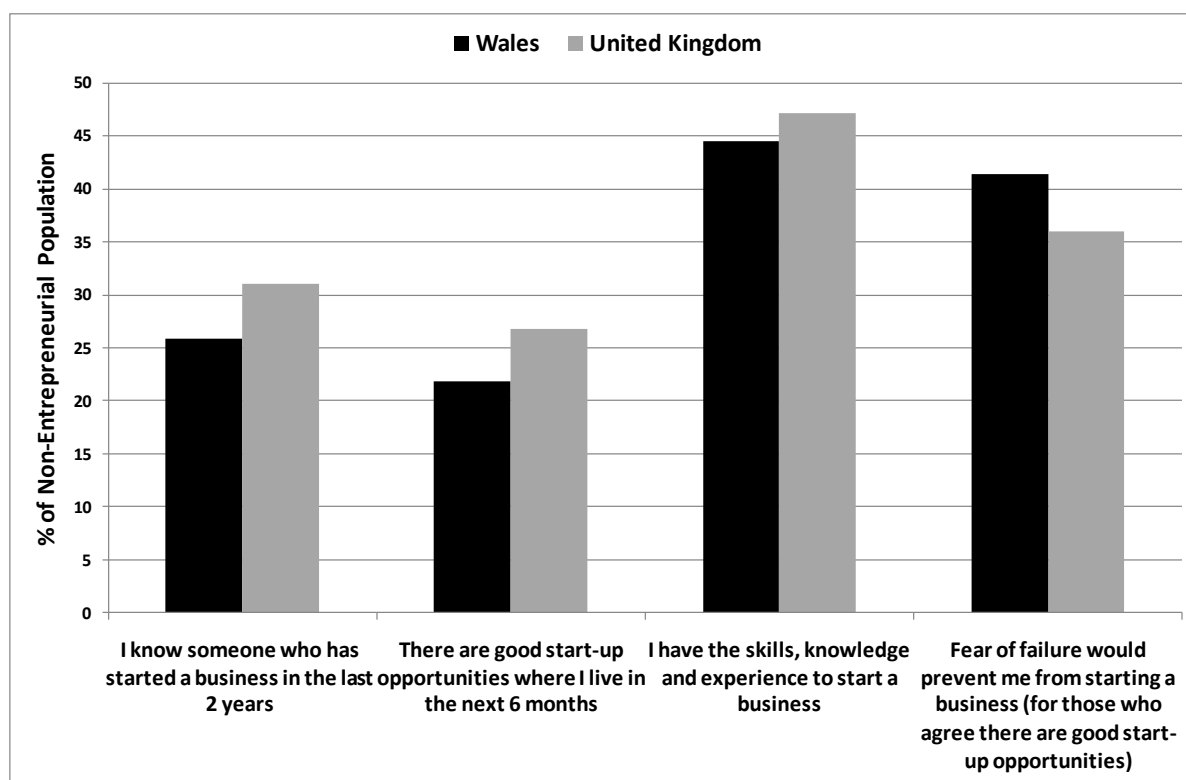


Figure 8: Entrepreneurial Attitudes and Perceptions in Wales and the UK (2010). (Source: GEM APS, 2010)

The proportion of the population reporting that the fear of failure would prevent them starting a business is slightly higher in (41.4%) than in the UK overall – just over a third (36%). This is a proportion that has not changed significantly throughout the economic downturn and not since 2009 even if we removed the mobile only households from the sample. The recent year-on-year rise in fear of failure is not statistically significant, but fear of failure in Wales (as in Scotland) has risen significantly since its lowest point in 2007, unlike in the UK. Figure 9 shows a common trend of rising fear of failure in the past few years in the peripheral home nations but not in England.

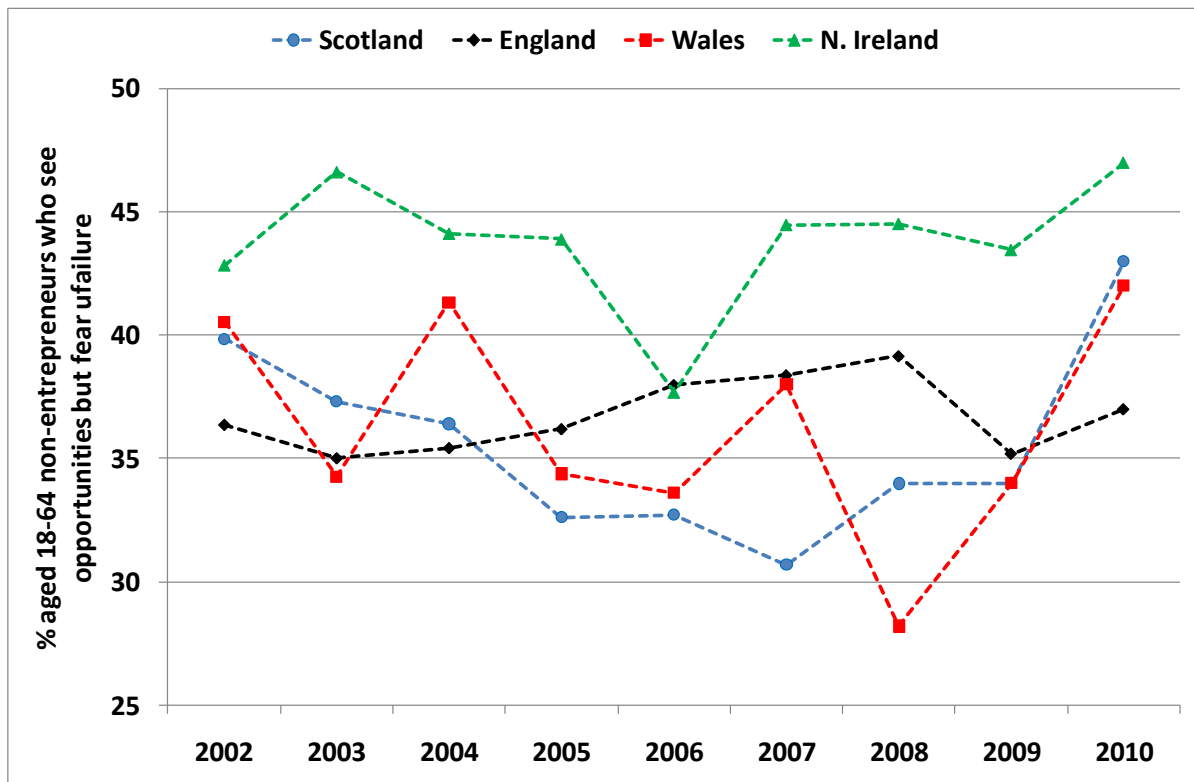


Figure 9: Fear of Failure among those who see Opportunities in the UK Home Nations, 2002-10. (Source: GEM APS)

The perception of start-up opportunities in Wales is slightly lower than the UK average (21.8% and 26.8% respectively) and still significantly lower than the level reported by respondents in Wales in 2007 (i.e., 30%).

Confidence has perhaps stabilised at around a fifth of the non-entrepreneurial population compared to around a third pre-recession (Figure 10). In 2010 there was a very modest rise in the perception of start-up opportunities in Wales which was also evident in the UK overall.

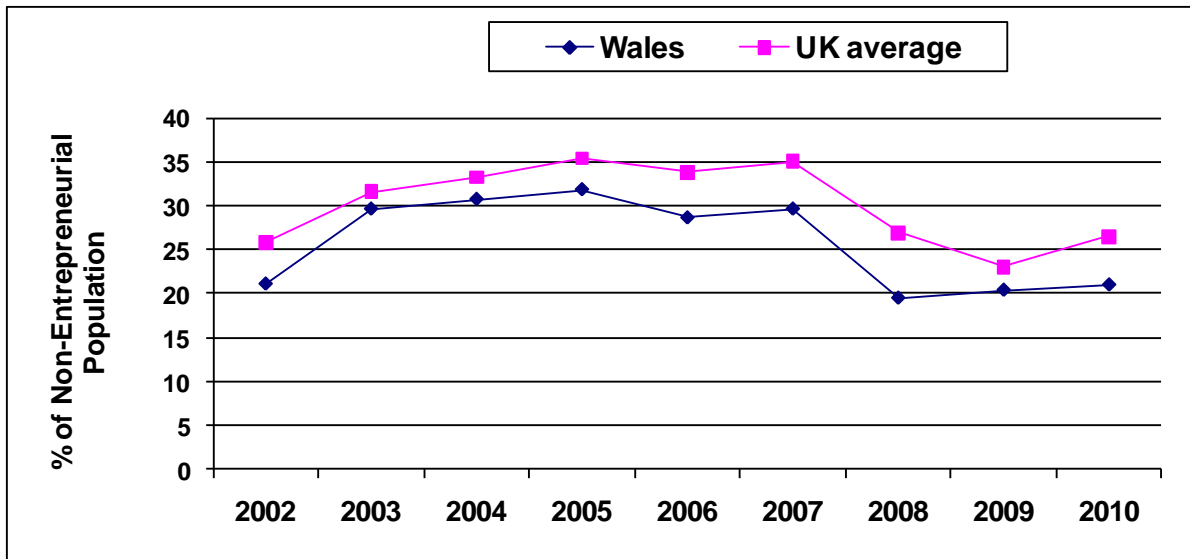


Figure 10: Perception of Start-up Opportunities in Wales and the UK, 2002-10. (Source: GEM APS)

Looking to the future, the proportion of adults in Wales who expect to start a business within the next three years has risen slightly in 2010: 5.8 per cent. This has mirrored the UK trend which saw a rise to 7.3 per cent. Both these increases in 2009 are not significant. As we have noted in previous years there had been a steady fall in future start-up intentions in Wales since 2005 – prior to the onset of the recent economic downturn. Figure 11 shows the trend to 2010 by including landline only respondents in the analysis. We can see that while there has been a slight increase in the UK the future start-up intention of Welsh respondents has not changed since 2009⁹.

⁹ This also serves to illustrate the value of introducing mobile only households into the construction of the sample. They serve to boost the future start-up rate slightly from 5.0% to 5.8%.

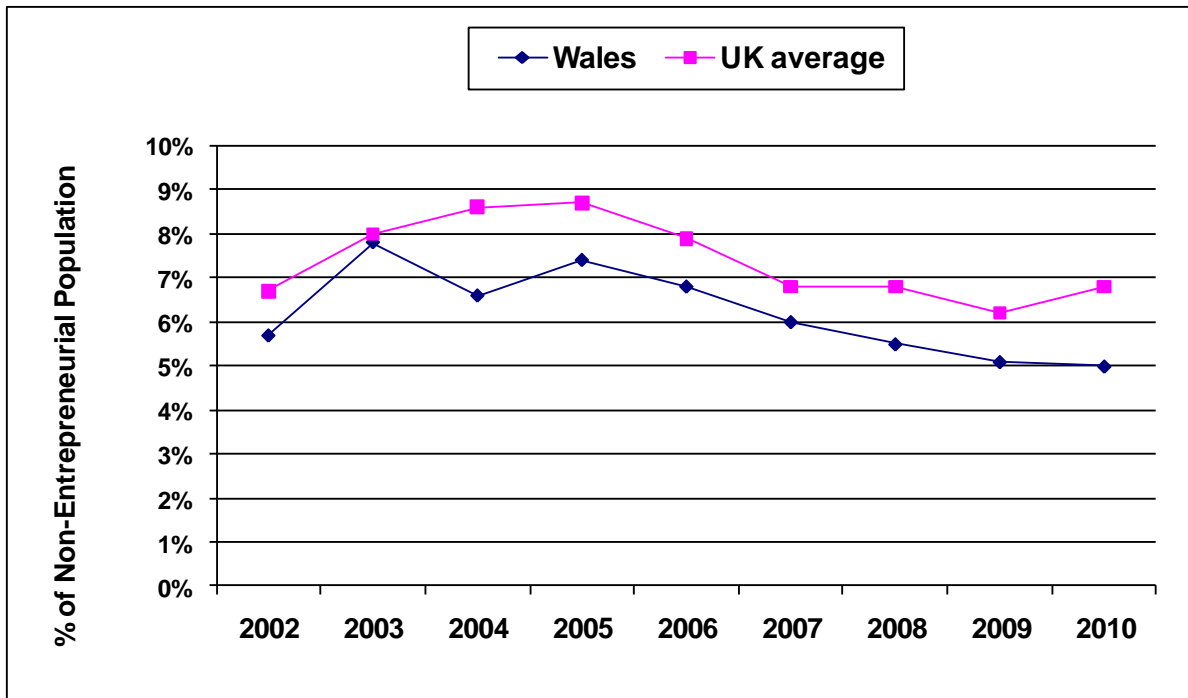


Figure 11: Future Start-up Expectations (within 3 years) in Wales and the UK, 2002-10.
(Source: GEM APS)

Men are more likely than women to report that they intend to start a business in the next three years in Wales (Figure 12). In 2010, 3.5 per cent of women in Wales are expecting to start a business in the next 3 years compared to 8.1 per cent of men. The ratio of female to male future start-up intentions in Wales is 43 per cent and is almost identical to that observed for the TEA rate in 2010.

Wales has the lowest rates of male future start-up intentions than any of the home nations in 2010 although the female rate is similar to Scotland and Northern Ireland but is lower than in England. The female to male ratio is broadly similar in the three Devolved Administration areas. In the UK 9.8 per cent of males and 4.8 per cent of females reported that they expected to start a business in the next three years.

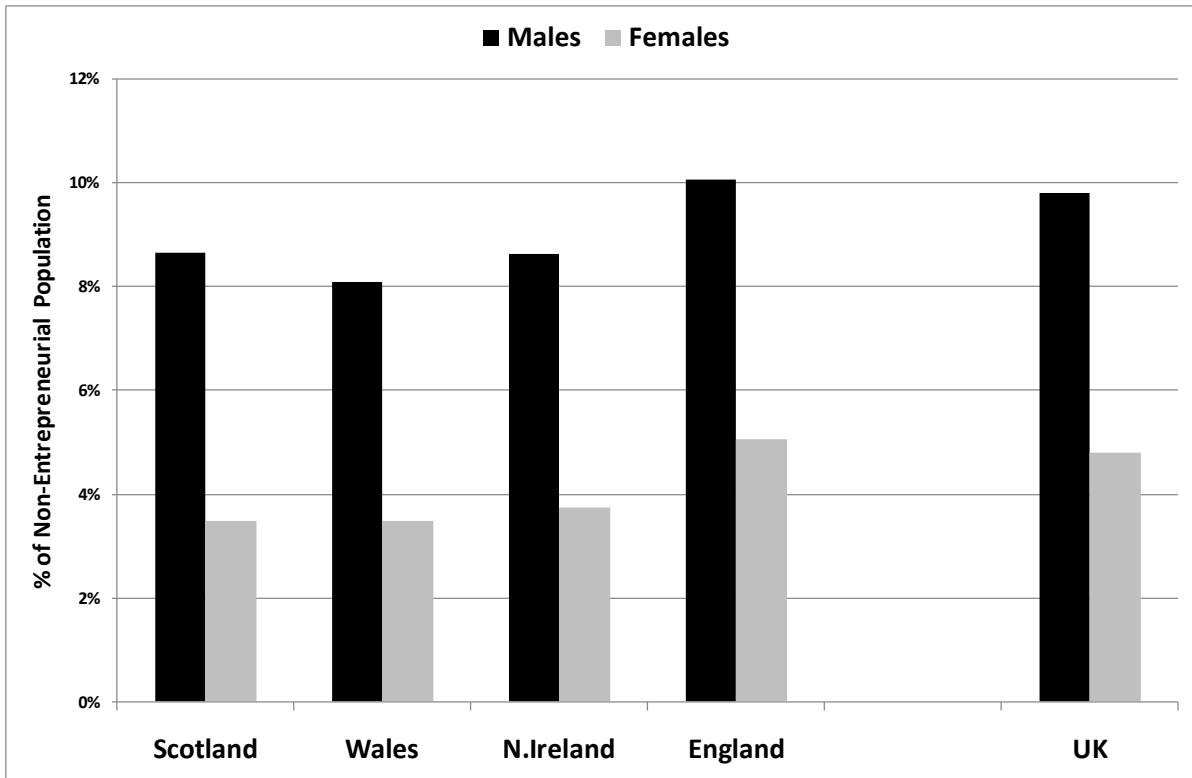


Figure 12: Future Start-up Expectations (within 3 years) in the UK Home Nations by Gender, 2010. (Source: GEM APS, 2010)

Young People and Entrepreneurial Activity

Figure 13 shows the proportion of early-stage entrepreneurs in the population of young adults by home nation annually from 2002 to 2010. As we discussed earlier from 2002 to 2009, only households with landlines were surveyed. In 2010, 10% of the sample consisted of mobile-only households. This made a significant difference to the TEA rate for young people in Wales – lifting it from 6.6 per cent to 7.2 per cent. In Figure 12, TEA rates for the full sample are shown on the right; rates for the landline only household sample are more comparable with earlier years.

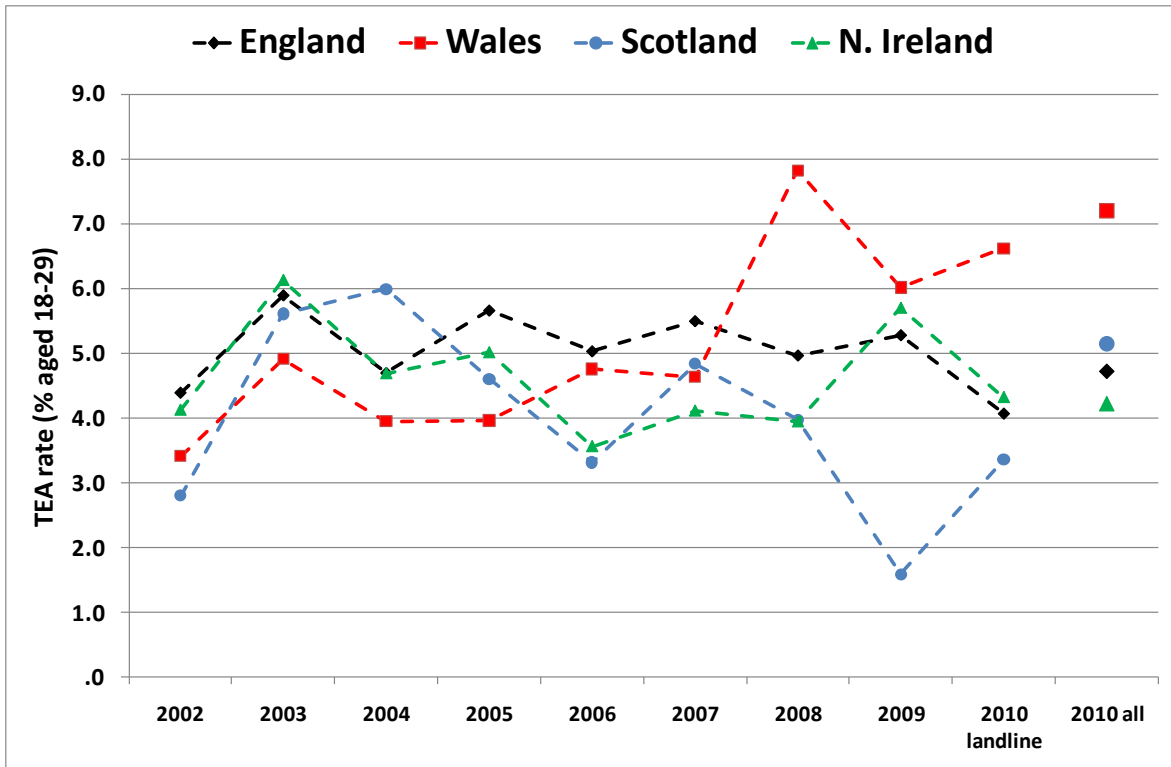


Figure 13: Total Early-Stage Entrepreneurial Activity in the UK Home Nations for 18-29 year-olds, 2002-10. (Source: GEM APS)

Two notable features of Figure 13 are a doubling of the Welsh rate from 2002 to 2010 and a dip in the Scottish TEA rate in 2009 and. During this time, the Welsh Government implemented a Youth Entrepreneurship Strategy.

In the 2008 GEM UK survey¹⁰, almost three out of five (58%) of 18 to 29 year olds in Wales agreed they had received training in starting a business provided by a college or university that was not part of their formal education, compared with only 35 per cent in Scotland, 39 per cent in England and 29 per cent in Northern Ireland. There was no significant difference in the proportion who had received training in starting a business as part of formal post-school education across the home nations.

In 2010 we included specific questions for the WG on two dimensions of enterprise education. First, we asked about the awareness of Dynamo Resources (a scheme available to schools and colleges to promote enterprise) among the under-30 year old population in Wales. Second, we asked a more precise question on whether they had taken part in any

¹⁰ This was the last year the survey carried a full set of questions on enterprise education and training.

activities at school, college or university that made them think about starting a business or being their own boss.

Although only 15.8 per cent of this age group had heard of the initiative Dynamo Resources, almost half (48%) reported that they had taken part in enterprise education at school, college or university. Equivalent statistics are not available for other home nations but will be collected as part of the 2011 GEM UK survey. Further, when we asked about participation in Global Entrepreneurship Week one in five (20%) of 18-29 year-olds in Wales responded that they had done so compared to 15 per cent in the UK overall and only 8.2 per cent in Scotland. This also serves as part of the explanation of the rising level of entrepreneurial activity among young people in the last 8 years in Wales.

Impact of Recession on Entrepreneurial Activity

Once again in 2010 the GEM survey carried questions on the attitudes of entrepreneurs to start-up and growth in the recession. There are clear indications from the responses to these questions that the attitudes of entrepreneurs in the UK as a whole are moving in a slightly more positive direction as the economy moves out of recession. Comparing like-for-like households (i.e. those with landlines), there was an increase in the proportion of early-stage entrepreneurs (nascent and new business owners) in the sample who were more positive about their prospects for growth than they were 12 months previously, from 20.5 per cent in 2009 to 25.0 per cent in 2010. The views of established business owners (EBOs) in the UK have also become more positive since 2009. Just over one in five (21.7%) of these owner-managers were more positive about their prospects for growth in 2010, up from 15.9 per cent in 2009.

In the UK in 2010, a fifth (19.4%) of early-stage entrepreneurs and just over one in 10 (11.7%) of established business owner-managers thought there were more opportunities for their business as a result of the global slowdown. This was broadly similar to the results a year ago. A slightly higher proportion of early-stage entrepreneurs in the UK in 2010 - almost one in 7 (14.0%) - thought that starting a business was less difficult than a year ago with a larger proportion that the difficulties are about the same. Just over a half of nascent

and new business owners reported that it was more difficult to start a business in 2010 compared to two-thirds in 2009.

An analysis of the responses from entrepreneurs in Wales shows that almost a third (31.5%) early-stage entrepreneurs (nascent and new business owners) in Wales in 2010 were more positive about their prospects for growth than they were before the global slowdown - up from 24.9 per cent in 2009. They were also more positive than their counterparts in the UK overall. Established business owners (EBOs) in Wales are less positive than those involved in start-ups but again around one in six (17.3% - up from 13.7% in 2009) of these owner-managers were more positive about their prospects for growth.

In Wales, under a fifth (16.7%) of early-stage entrepreneurs and 7.6 per cent of established business owner-managers thought there were more opportunities for their business as a result of the global slowdown. This was slightly lower than in the UK over all but broadly similar to that reported in 2009 (17.4% and 8.4% respectively).

Around one in 10 (11.4%) of established business owner-managers in Wales thought that starting a business was less difficult than a year ago - double the proportion reporting this in 2009 (4%). Fewer than one in ten (8.8%) of early-stage entrepreneurs in the region thought that starting a business was less difficult than a year ago (10.5% in 2009). Entrepreneurs in Wales are slightly less optimistic than their counterparts elsewhere in the UK.

Obviously, the vast majority of entrepreneurs in Wales still report that it is more difficult to start a business in 2010 than in 2008 but for a small group of business owners opportunities do exist for entrepreneurial actions.

Concluding Observations

It is clear that Wales has an entrepreneurial profile and associated behaviour which displays many positive dimensions that will aid economic recovery. The evidence from the GEM 2010 survey (conducted in the period May-September) can be summarised as follows:

- The level of total early-stage entrepreneurial activity is broadly similar in 2010 to before the economic downturn.
- The entrepreneurial activity of young people (under 30 years of age) has risen markedly in recent years and there is some evidence to suggest from the GEM survey that this may be related to an active enterprise education policy in Welsh schools, colleges and universities as well as a wider involvement in national initiatives such as Global Entrepreneurship Week.
- The decline in the perception of good opportunities for start-up in Wales has stopped following the sharp fall between 2007 and 2008.
- Confidence is perhaps returning and this is reinforced by the fact that a higher proportion of business owners in Wales in 2010 were more positive about their prospects for growth than they were 12 months ago.

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.

For further information on the GEM UK project, contact:

Professor Mark Hart
Economics & Strategy Group
Aston Business School, Aston University
Aston Triangle, Birmingham, B4 7ET
Email: mark.hart@aston.ac.uk



Aston Business School

Dr Jonathan Levie
Hunter Centre for Entrepreneurship,
University of Strathclyde,
Livingstone Tower, 26 Richmond Street,
Glasgow, G1 1XH
Email: j.levie@strath.ac.uk

