



GEM UK: Wales Report 2014

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The Global Entrepreneurship Monitor (GEM) is an international project involving 73 economies in 2014 which seeks to provide information on the entrepreneurial landscape of countries. Many studies have shown 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 2,977 adults aged over 16 years of age in 2014 as a result of the Welsh Government boosting the national sample.

Main Findings

- **The rate of early-stage entrepreneurship (TEA) in Wales for 2014 was 7.1 per cent. This was not significantly different to the estimates of 9.1 per cent for England and 8.6 per cent for the whole of the UK, and was also not significantly different to the 2013 rate of 5.4 per cent.**
- **Necessity-driven TEA in Wales in 2014 was 1.4 per cent, barely unchanged from the 2013 rate, while opportunity-driven TEA was 5.6 per cent, not significantly different from the 4.0 per cent estimate in 2013.**
- **The female TEA rate in Wales remained close to its 2013 rate at 4.9 per cent, which was down from a record high of 6.1 per cent in 2011. This was not significantly different from the UK estimate of 5.7 per cent. However, the female to male ratio of TEA fell from 65 per cent to 52 per cent in 2014 (UK 49%, down from 66%).**
- **The TEA rate of young adults aged 18 to 29 rose from 4.9 per cent in 2013 to 8.4 per cent in 2014 (UK: 7.3%, up from 6.4% in 2013), while the TEA rate among 30 to 64 year olds was 6.9 per cent (5.4% in 2013), significantly lower than the UK average of 9.3 per cent (7.5% in 2013) and the average for England (9.8%).**
- **Entrepreneurial attitudes improved in Wales in 2014. Opportunity perception rose from 25.1 per cent of the non-entrepreneurial working age population to 29.5 per cent. Opportunity perception also increased in the UK from 33.2 per cent to 36.8 per cent.**
- **The percentage of non-entrepreneurial individuals of working age in Wales who saw opportunities but were afraid of starting a business in case it might fail remained unchanged in 2014 at 39.4 per cent (39.2% in 2013). The UK figure was also similar to that in 2013 (UK: 43.0% from 41.4%).**

- **The proportion of non-entrepreneurial working age adults in Wales who expect to start a business within the next three years rose significantly to 7.8 per cent (3.9% in 2013). Start-up intentions also increased significantly in the UK from 5.4 per cent to 8.5 per cent**

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 twelfth year in which the WG has participated in GEM. Of the 853,000 respondents to GEM UK surveys for the period 2002-2014, over 50,000 respondents were from Wales. Wales now has the largest database on entrepreneurial attitudes, activity and aspirations of any region of the UK for this period. This is particularly useful when conducting trend analysis for important sub-populations in Wales, such as women, young or older people, in relation to other home nations.

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, particularly in innovation-driven economies like Wales.

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.

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).

Since 2011 entrepreneurial activity among employees has been measured. We now know that culture and regulations can affect how entrepreneurial activity is expressed within nations. In countries where entrepreneurs have much less access

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 own, and which has not paid wages or other income to the owners in the past 3 months.

² The second phase is defined as from 4 to 42 months after the new venture begins to provide income to the owners. Entrepreneurs who at least part own and manage a new business that has been paying some form of income to the owners for at least 4 and not more than 42 months are referred to as new firm entrepreneurs.

to social security than employees, for example, employee entrepreneurial activity tends to comprise a higher proportion of overall entrepreneurial activity³.

In addition to activity, the GEM survey asks all respondents about their attitudes to entrepreneurial activity, and asks entrepreneurs about their aspirations.

The methodology, sample sizes and weighting systems used for the GEM UK 2014 adult population survey are explained in more detail in the GEM UK 2014 report (www.gemconsortium.org). An important change in the sample design was introduced in 2010 when 10 per cent of respondents in each Government Office Region (GOR) were selected at random from households which had mobile phones but not fixed phone landlines. In 2014, this was increased from to 20 per cent, in line with recent estimates in the proportion of mobile-only households in the UK.

The following report presents a summary of the headline results, and key themes arising from the GEM survey in 2014 and the analysis of the twelve years of GEM data (2002-14).

Total Early-Stage Entrepreneurial Activity (the TEA Index)

The rate of early-stage entrepreneurship in Wales in 2014 was 7.1 per cent. This was higher than the estimate of 5.4 per cent in 2013, although not significantly so, and also not significantly different to the estimate of 9.1 per cent for England and the UK estimate of 8.6 per cent. Scotland was the only home nation to have a TEA rate that was significantly lower than that for England in 2014 (Figure 1).

Overall, a TEA rate of 7.1 per cent in Wales equates to around one in every fourteen adults aged 18-64 or around 146,000 individuals, 58 per cent of whom were in the very early stages of starting a business (nascent entrepreneurs 4.1%) and the remainder those who had a new business which was between 3 and 42 months old.

³ Bosma, N. et al. (2013) Global Entrepreneurship Monitor special report on employee entrepreneurial activity. London: Global Entrepreneurship Research Association.

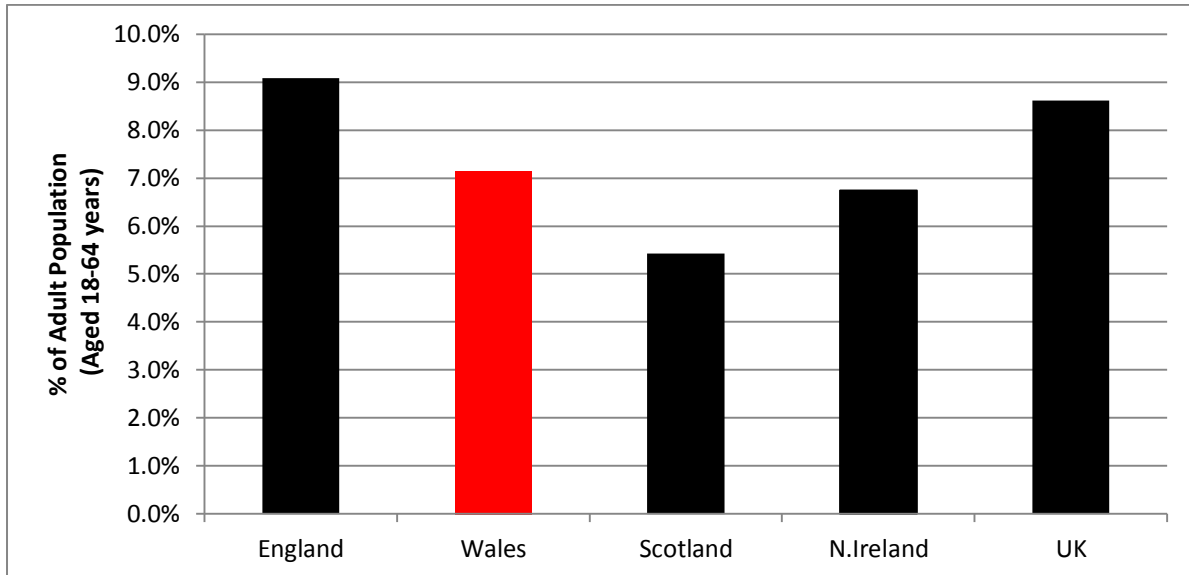


Figure 1: Total early-stage entrepreneurial activity (TEA) in the UK Home Nations 2014 (Source: GEM APS)

The rate of early-stage entrepreneurial activity in Wales, as in the UK, remained relatively flat between 2004 and 2010, rising quite quickly thereafter. Unlike the UK the rate in Wales dropped in 2012 and further dropped towards the long run average in 2013. There appears to be a recovery in TEA rates in both Wales and the UK in 2014, although it remains to be seen whether this is temporary or not (Figure 2a).

In 2014 the nascent entrepreneurial activity rate in Wales was 4.1 per cent up marginally from 3.5 per cent in 2013; the new business rate was also up from 2.0 per cent to 3.2 per cent. Both nascent and new entrepreneurship rates also increased in the UK as a whole; although in the UK the rate of increase was higher for nascent entrepreneurship, rising from 3.8 to 4.9 per cent, compared to an increase from 3.6 to 3.8 per cent for new business owners.

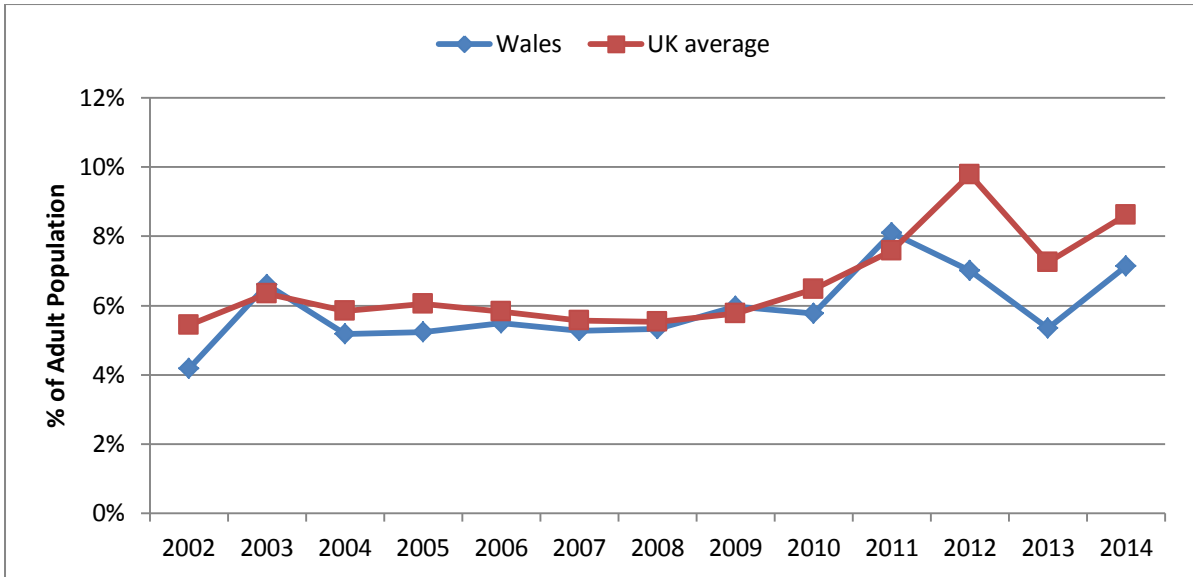


Figure 2a: Total Early-Stage Entrepreneurial Activity in Wales and the UK (2002-14). (Source: GEM APS)

Figure 2b suggests that the dip in the level of early-stage entrepreneurial activity in Wales during 2012-13 may have been concentrated in West Wales & Valleys rather than in East Wales, although the differences between the two aren't statistically significant. The apparent peak in entrepreneurial activity in East Wales in 2009 may be an anomaly due to small sample size.

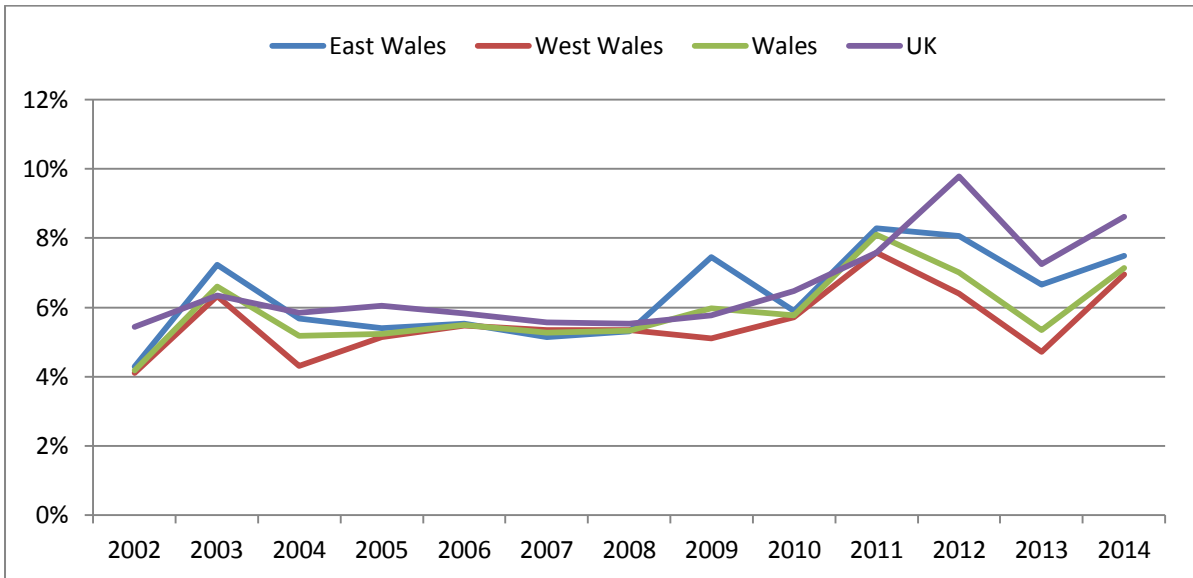


Figure 2b: Total Early-Stage Entrepreneurial Activity in East Wales, West Wales & Valleys, Wales and the UK (2002-14). (Source: GEM APS)

Necessity-driven TEA in Wales in 2014 was 1.4 per cent, barely unchanged from the 2013 rate. Opportunity-driven TEA was 5.6 per cent, not significantly different from

the 4.0 per cent estimate in 2013. Necessity-driven TEA as a proportion of all TEA was 19 per cent, which was a lower share than previous years, however it was higher than that in other home nations (Figure 3).

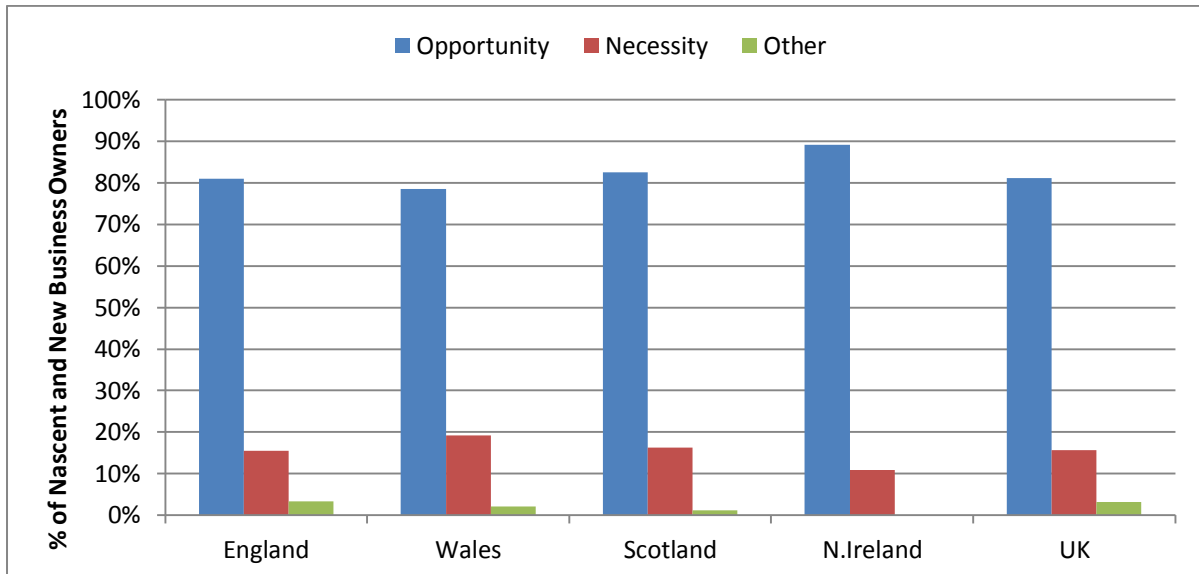


Figure 3: Opportunity and Necessity Entrepreneurship in the UK Home Nations in 2014. (Source: GEM APS 2014)

Who are the Entrepreneurs in Wales?

Gender: In 2014 in all home nations, except Scotland, males had a significantly higher TEA rate than females. Scotland was also the only home nation with a significantly lower male TEA rate than England; there was no difference amongst the female home nation TEA rates.

The ratio of female to male early-stage entrepreneurial activity typically varies across the four home nations. The ratio in Wales fell from 65 per cent to 52 per cent in 2014, which was slightly higher than the UK ratio of 49 per cent. While annual ratios are likely to vary from year to year, the long run average ratios over the 2002 to 2014 period suggest that Wales has a similar ratio, at 54 per cent, to England (49%) and Scotland (51%) but higher than Northern Ireland (36%).

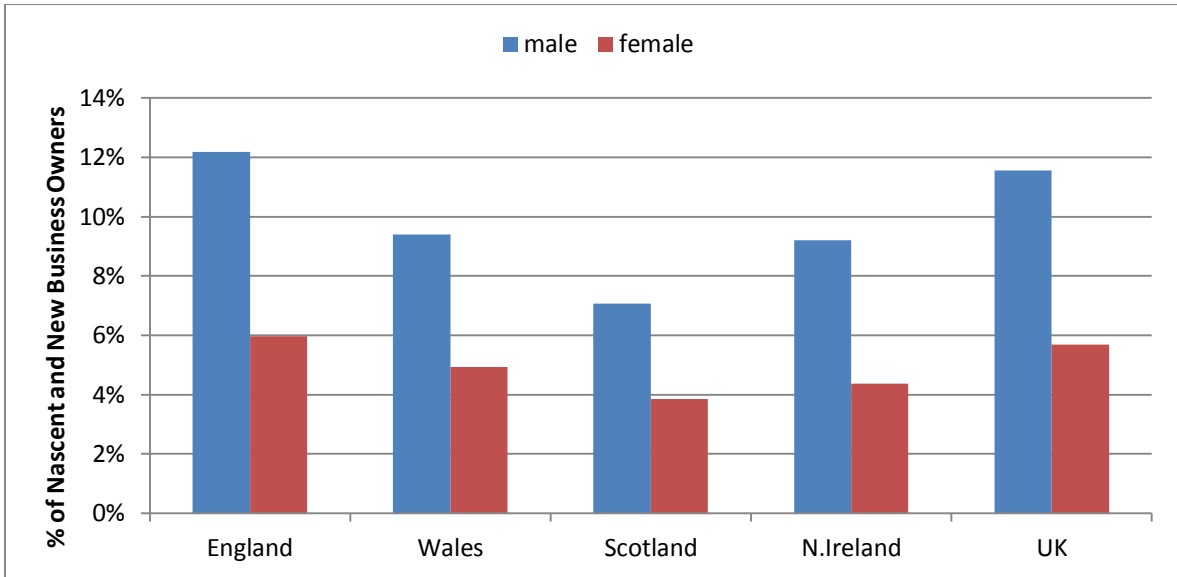


Figure 4: Total Early-Stage Entrepreneurial Activity by Gender in the UK Home Nations in 2014. (Source: GEM APS 2014)

The female TEA rate in Wales slipped from a record high of 6.1 per cent in 2011 to its long run average of around 4.0 per cent in 2012 and 2013. By 2014 the rate stood at 4.9 per cent. The Welsh male TEA rate fell significantly from 10.1 per cent to 6.5 per cent between 2011-13 but by 2014 had increased again to 9.4 per cent. We can see from Figure 5 that female TEA rates in Wales have generally matched the UK trend although from year to year they are more volatile because of a relatively small sample size; the medium term trend however is upwards.

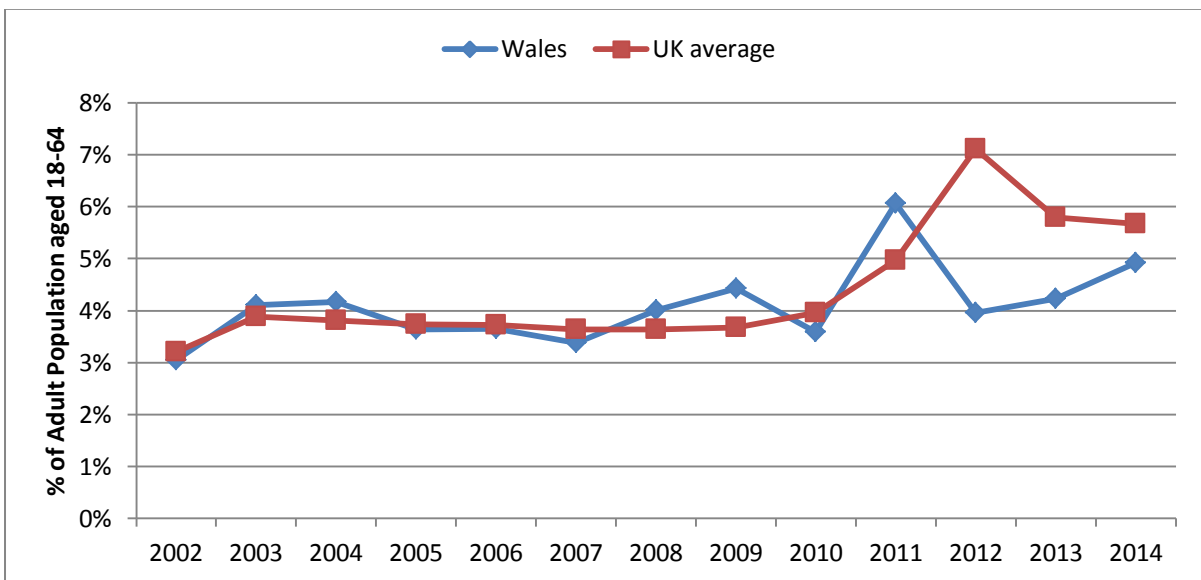


Figure 5: Total Early-Stage Female Entrepreneurial Activity in Wales and the UK, 2002-2014. (Source: GEM APS)

Age: As Figure 6 shows, individuals aged between 35-44 years display the highest rate of early-stage entrepreneurial activity in the UK, and in England in 2014. The pattern differs somewhat amongst the other home nations with the highest rates in Scotland and Northern Ireland found amongst the 45-54 age group. For several years, the distribution of the TEA rate by age has been shifting towards a younger generation in Wales, and in 2014 25-34 year olds display the highest TEA rates.

In 2014 the rate for 18-24 year olds in Wales was again similar to that for the UK (Figure 7), the converging of the two series similar to the trend observed pre-recession. The higher rate of early-stage entrepreneurial activity amongst 18-24 year olds in Wales during the recession suggests that the tough economic climate may have stimulated this increased entrepreneurial activity; the lack of jobs necessitating entry into self-employment which has now dissipated as the economy recovers.

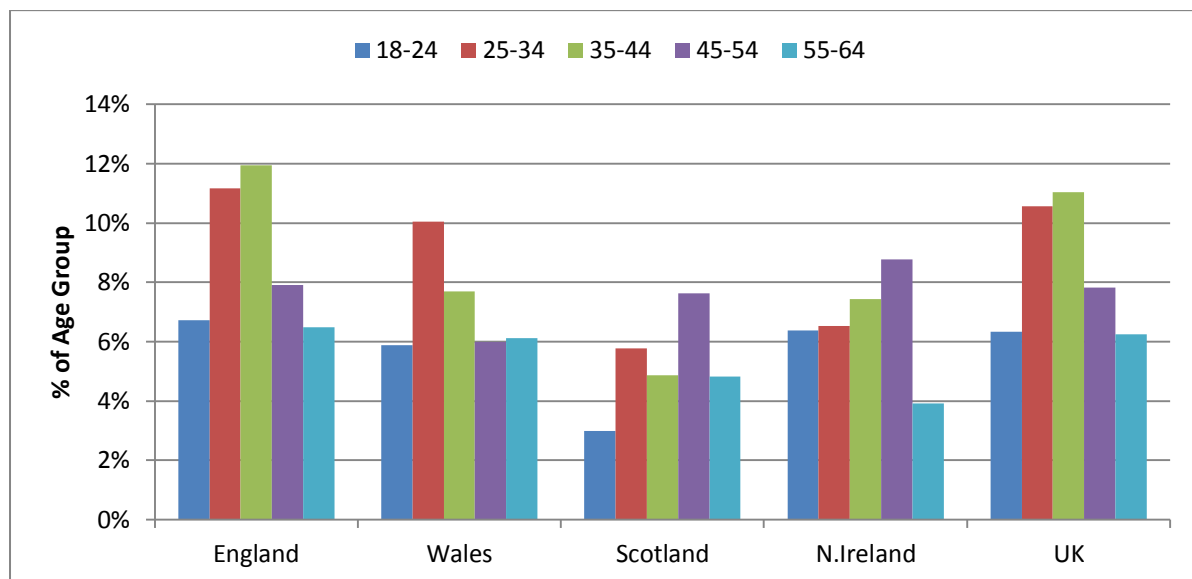


Figure 6: Total Early-Stage Entrepreneurial Activity in the UK Home Nations, 2014. (Source: GEM APS, 2014)

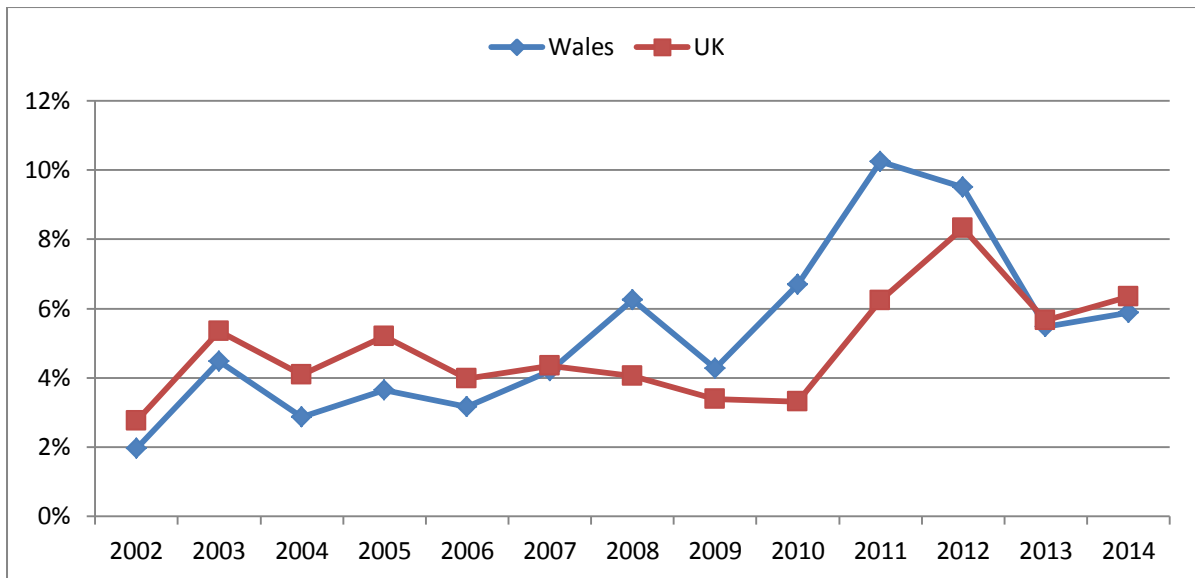


Figure 7: Trend in Total early-stage Entrepreneurial Activity amongst 18-24 year olds in Wales and the UK, 2002 to 2014. (Source: GEM APS, 2002 to 2014)

A potentially more helpful analysis is to assess how TEA rates have changed in the 18 to 29 age group (where there seems to be a natural break in UK GEM activity data) and compare them to the 30 to 64 age group. Figures 8 and 9 show that the TEA rate for young adults in Wales has been relatively high since 2008; higher than for 30-64 year olds and returning to this position in 2014 after the dip in the previous two years. In contrast, TEA rates among 30 to 64 year olds in Wales have been consistently lower than that for England, and in fact in 2014 the TEA rates in the home nations were significantly lower than the in English rate for this age group.

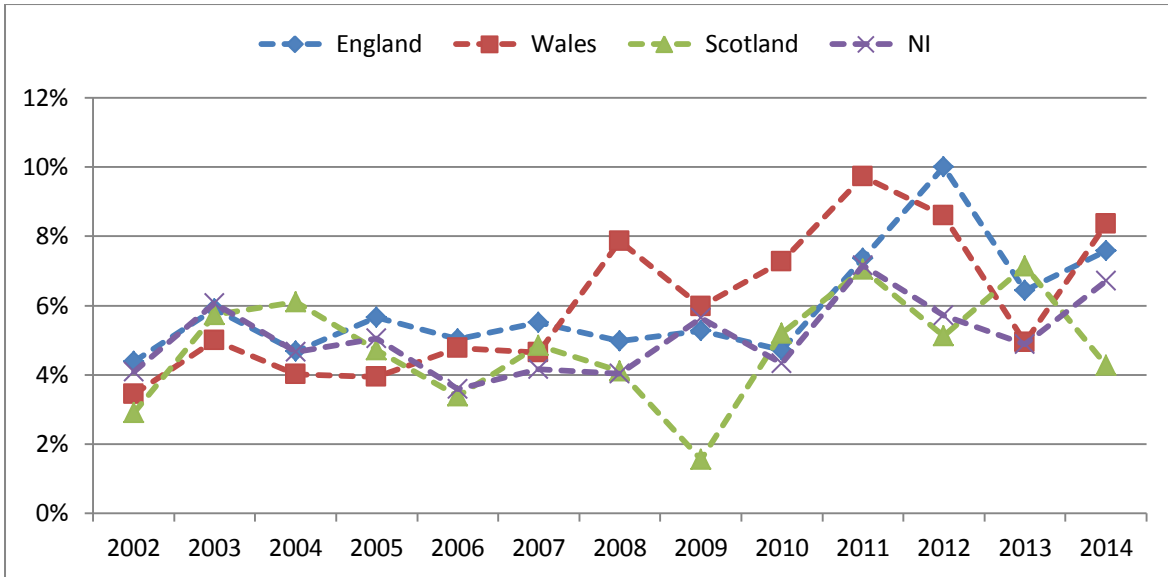


Figure 8: Trend in Total early-stage Entrepreneurial Activity in the UK Home Nations for 18 to 29 year olds, 2002 to 2014. (Source: GEM APS, 2002 to 2014)

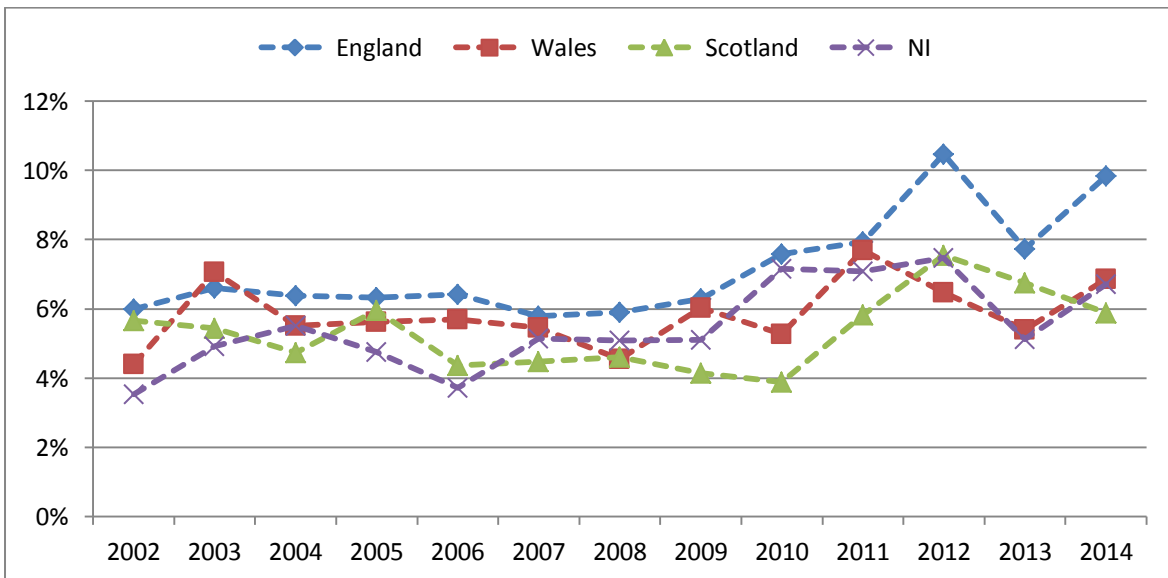


Figure 9: Trend in Total early-stage Entrepreneurial Activity in the UK Home Nations for 30 to 64 year olds, 2002 to 2014. (Source: GEM APS, 2002 to 2014)

Education: The TEA rate for graduates in the UK in 2014 was 10.8 per cent which was significantly higher than that for non-graduates at 7.4 per cent (Figure 10); the non-graduate rate was also significantly higher than in 2013 (5.5%). The Welsh graduate rate in 2014 was 8.5 per cent compared to the non-graduate rate of 6.4 per cent; however there were no significant differences between the two rates, or

compared to the previous year. The only significantly different rates in 2014 between graduates and non-graduates were in the UK, England and Northern Ireland.

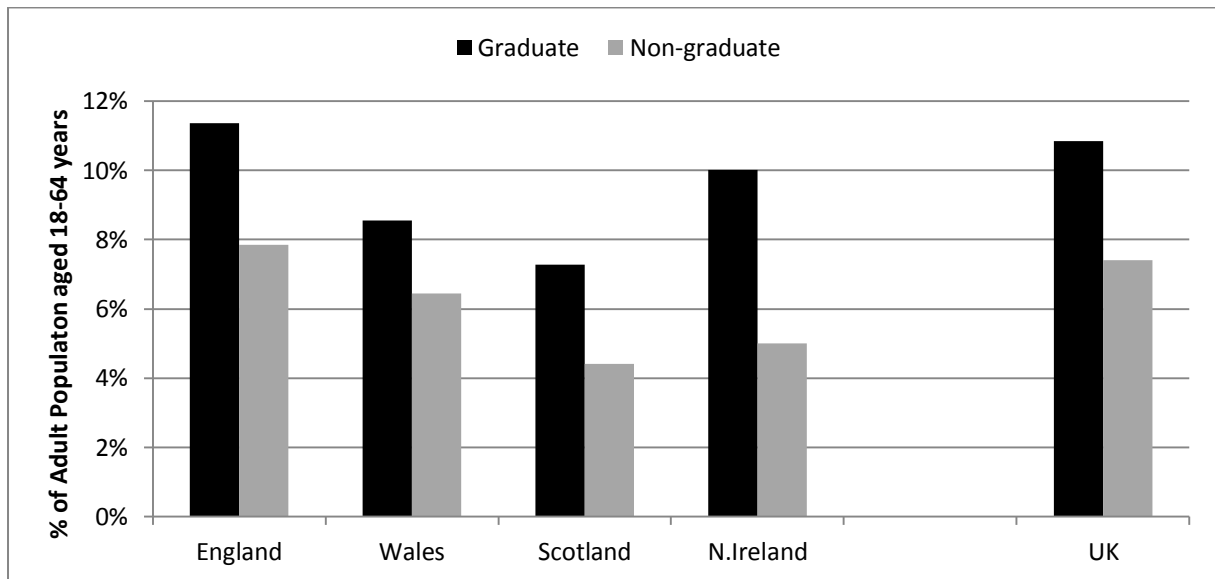


Figure 10: Total Early-Stage Entrepreneurial Activity in the UK Home Nations by Graduate Status, 2014. (Source: GEM APS, 2014)

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 who 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 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). Hence, as in the last number of years, we report attitudinal data only for that portion of the population who are not already entrepreneurs.

In Wales in 2014, just over one in four (27.0%) individuals state that they know an entrepreneur. This is the around the same proportion as the UK as a whole (Figure 11), and not significantly different to previous years. In Wales around two fifths

(39.3%) of non-entrepreneurs believe they have the skills to set up in business – again similar to the UK average at 38.4 per cent.

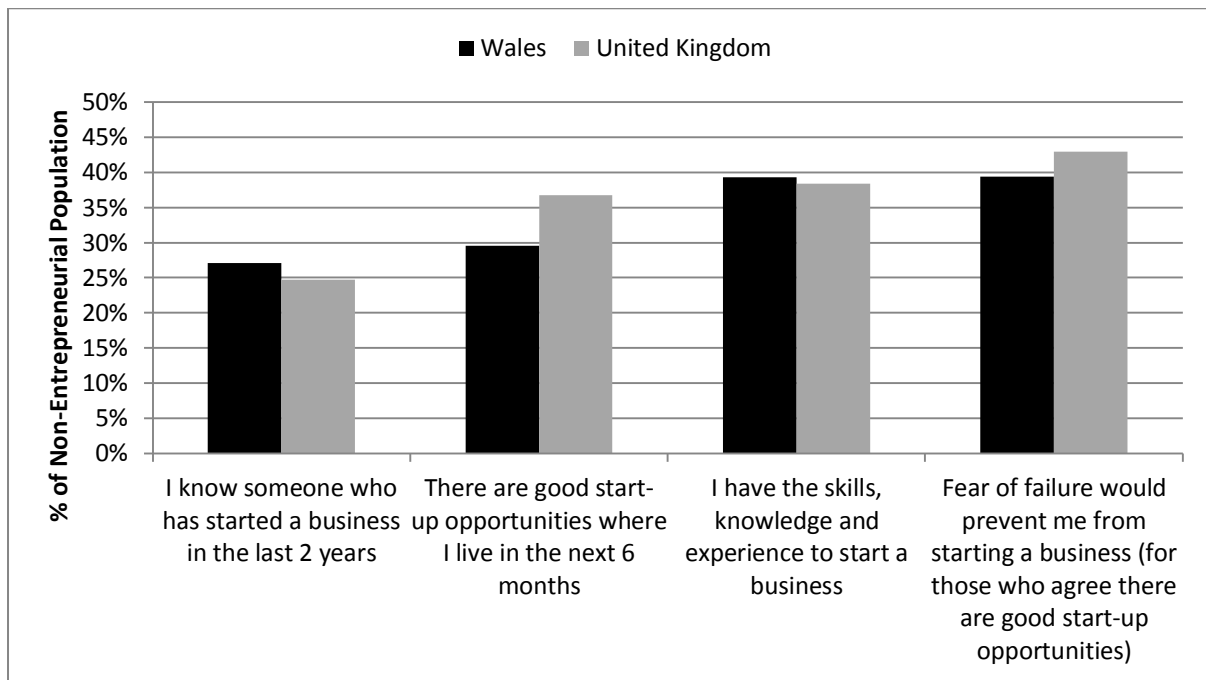


Figure 11: Entrepreneurial Attitudes and Perceptions in Wales and the UK 2014. (Source: GEM APS, 2014)

The proportion of the non-entrepreneurial population seeing good start-up opportunities but reporting that the fear of failure would prevent them starting a business stood at 39.4 per cent in 2014, which was virtually unchanged from 2013 and similar to the UK figure of 43.0 per cent. Figure 12 shows that fear of failure rose more sharply in Wales than in other home nations since the onset of the recession in 2007, but has now fallen into line with the other home nations.

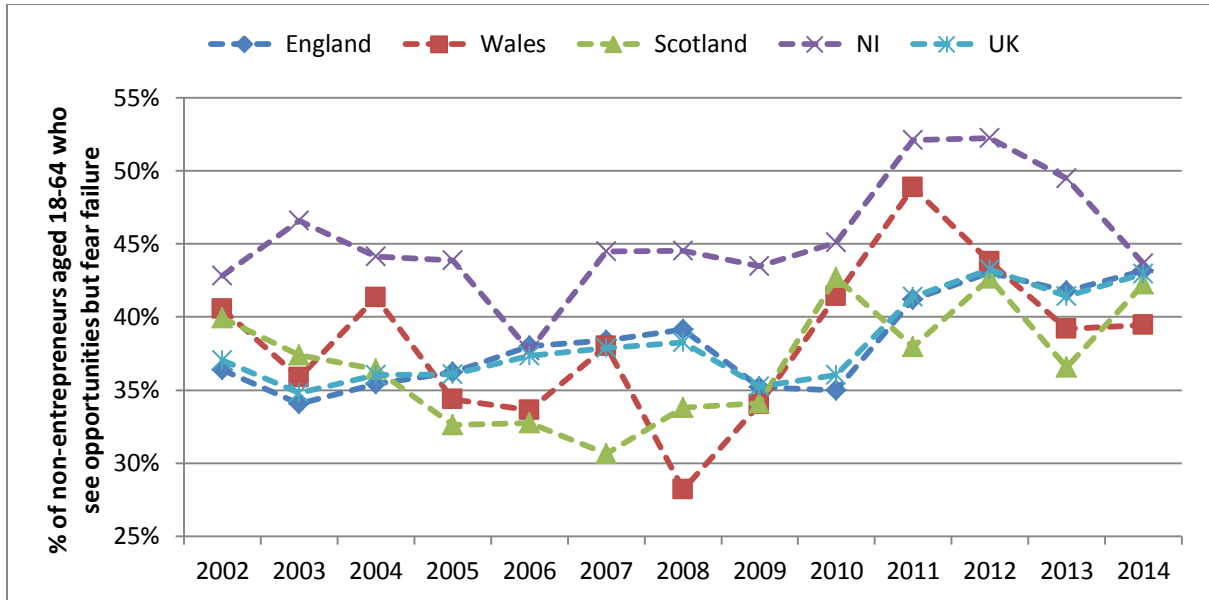


Figure 12: Fear of Failure among those who see Opportunities in the UK Home Nations, 2002-14. (Source: GEM APS)

In the 2014 survey, only 29.5 per cent of the non-entrepreneurial working age population in Wales agreed there were good opportunities for starting a business in their local area in the next six months, compared with 36.8 per cent in the UK. Both were significantly higher than their 2013 respective estimates however the significant gap in opportunity perception between Wales and the UK remained (Figure 13).

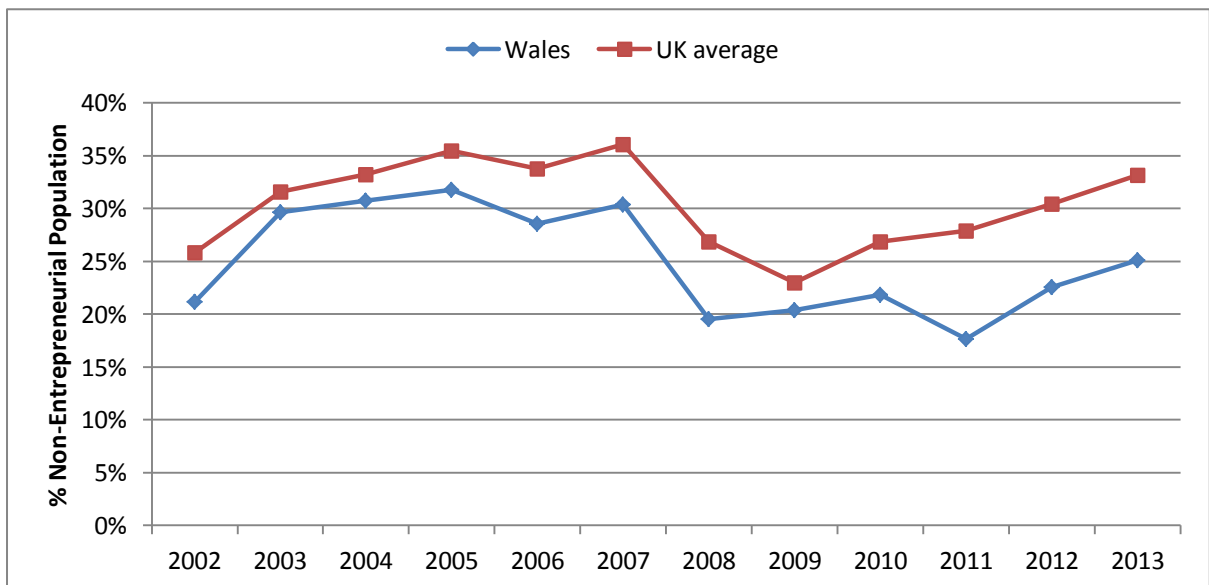


Figure 13: Perception of Start-up Opportunities in Wales and the UK, 2002-14. (Source: GEM APS)

Looking to the future, the proportion of non-entrepreneurial working age adults in Wales who expect to start a business within the next three years rose significantly to 7.8 per cent from 3.9% in 2013 (Figure 14). The UK estimate also rose significantly from 5.4 per cent to 8.5 per cent. The increases are consistent with the general upswing in entrepreneurial activity in 2014 particularly when the improved perception of start-up opportunities are considered, suggesting a return to optimism amongst the non-entrepreneurial population.

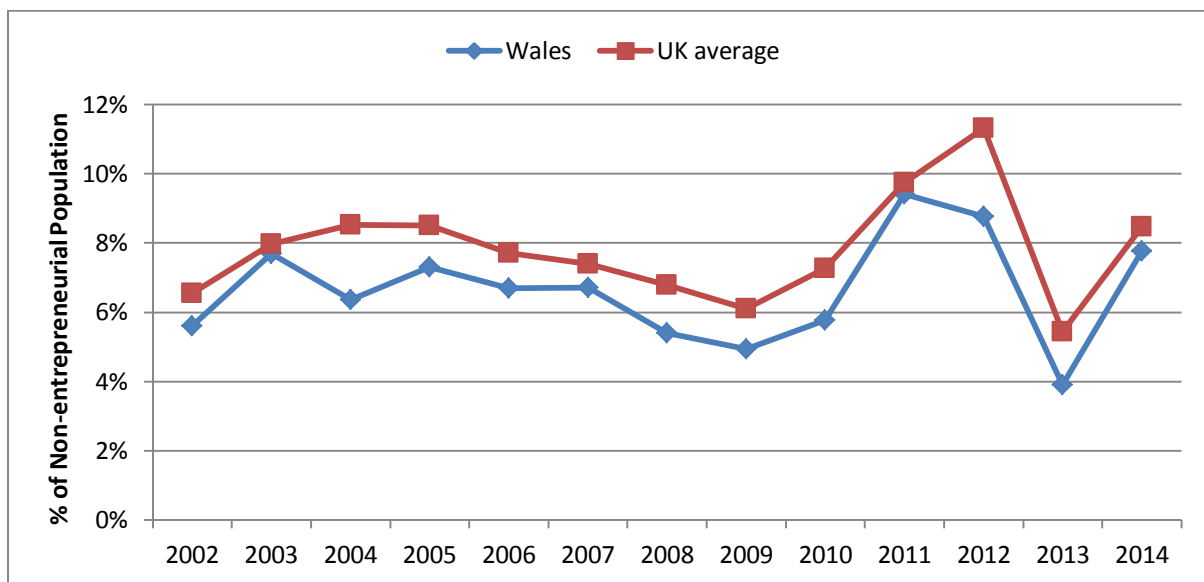


Figure 14: Future Start-up Expectations (within 3 years) in Wales and the UK amongst the non-entrepreneurial population, 2002-14. (Source: GEM APS)

In 2014, the proportion of non-entrepreneurially active men in Wales who reported that they intend to start a business in the next three years was significantly higher than that for females (Figure 15) at 10.1 per cent for males and 5.4 per cent for females. The ratio of female to male future start-up intentions in Wales was 53 per cent, down from 67 per cent in 2013 which was similar to Scotland and Northern Ireland, although lower than the English ratio of 65 per cent. Overall, start-up intentions for all home nations have risen over the past year.

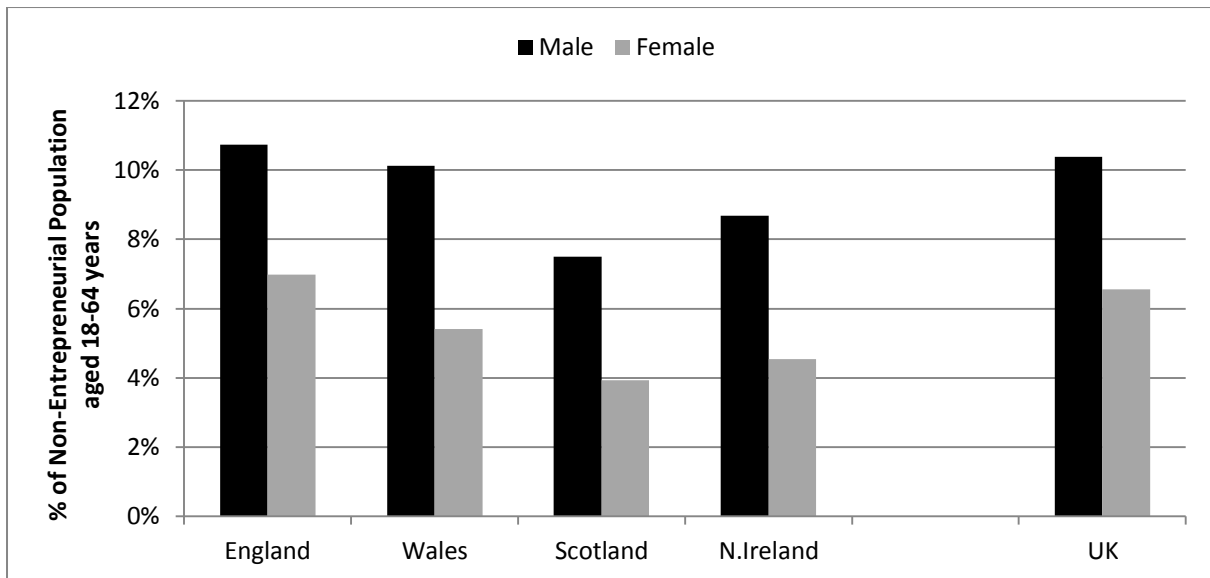


Figure 15: Future Start-up Expectations (within 3 years) in the UK Home Nations by Gender, 2014 (Source: GEM APS, 2014)

Welsh Language fluency and Entrepreneurial Activity

There was no significant difference in 2013 in the TEA rate of those in Wales who were fluent in spoken and written Welsh (9.1%), who could speak and understand some Welsh (5.8%) and who had little or no Welsh skills (7.4%).

Training, Awareness and Entrepreneurial Activity

In 2014 40.5 per cent of nascent and new entrepreneurs aged 18 to 24 and 21.8 per cent of entrepreneurs aged 25 to 30 had heard of Big Ideas Wales⁴, compared with 28.3 per cent of others aged 18 to 24 and 25.9 per cent of others aged 25 to 30. In general there was no significant difference between all 18-24 year olds (29.0%) and all 25-30 year olds (25.4%). Overall, 27.7 per cent of young adults aged 18 to 30 had heard of Big Ideas Wales, which was up significantly on the 2013 estimate of 14.2 per cent⁵.

Since 2014 we have asked all respondents whether they have taken part in any activities at school, college or university that made them think about starting a business or being their own boss⁶. In Wales 7.8 per cent of people said they had

⁴ This was previously known as Dynamo Resources.

⁵ Note that this series is quite volatile due to the small number of observations.

⁶ This question is different to previous years when it was asked only to 18-30 year olds.

taken part in such activities, and this rose to 14.0 per cent of 18-29 year olds. The latter was similar to England and Scotland, at 16.0 per cent each respectively, although lower than the rate in Northern Ireland at 29.9 per cent.

In 2014, very similar proportions of people in the home nations had heard of Global Entrepreneurship Week: 10.9 per cent in Wales, 8.6 per cent in England, 8.3 in Scotland, and 9.3 per cent in Northern Ireland. All of these estimates were up on 2013, although not significantly so.

Concluding Observations

There appears to be a renewed confidence in the Welsh economy in 2014, as highlighted by the strong TEA rate, which is higher than the long-run average, coupled with the significant increase in start-up intentions. Entrepreneurial activity in Wales tends to be concentrated amongst the younger age groups, and the improvement in economic conditions is also reflected in both an increase in entrepreneurial activity amongst 18-29 year olds and a narrowing of the gap between activity rates for 18-24 year olds in Wales compared to the UK. The latter suggesting that the increased availability of employee jobs no longer necessitates entry into self-employment amongst the very young.

The renewed optimism in the economy is seen clearly in the attitude metrics, with a significant increase reported in the opportunities for starting a business, and a doubling in the proportion of non-entrepreneurs in Wales that expect to start a business in the next three years. Despite these positive messages there still remains a gap between Wales and the UK in terms of the perception of start-up opportunities whilst fear of failure remains a significant barrier, although this is also the case for the UK. In fact fear of failure, although down from its peak of 50 per cent in 2011 in Wales, stands at around 40 per cent in 2014 which is a similar proportion to the other home nations. Given that this is barely unchanged from the rate reported in 2002 it suggests that policy has a role to play in reducing the impacts associated with business failure, and hence reducing the associated fear in taking that step to start-up.

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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