

GEM UK: Wales Report 2016

Karen Bonner, Mark Hart and Jonathan Levie

The Global Entrepreneurship Monitor (GEM) is an international project involving 65 economies in 2016 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 in 2016 was 2,950 adults aged over 18 years as a result of the Welsh Government boosting the UK national sample.

Main Findings

- **The rate of early-stage entrepreneurship (TEA) in Wales in 2016 was 7.6 per cent. This was not significantly different to the 2015 rate, nor to the 2016 estimates of 9.2 per cent for England and 8.8 per cent for the whole of the UK.**
- **Early-stage entrepreneurial activity is driven by opportunity reasons; opportunity-driven TEA was 5.6 per cent in Wales in 2016 and necessity-driven TEA 1.6 per cent. Both rates are similar to those observed in 2015.**
- **At 5.8 per cent the female TEA rate in Wales was close to its record high of 6.1 per cent in 2011. The rate was also almost identical to the UK estimate of 5.7 per cent. The female to male TEA ratio rose to 61 per cent in 2016; the UK ratio was 49 per cent. Compared to the UK the higher ratio in Wales reflects the lower than UK-average male TEA rate.**
- **The TEA rate for 18-24 year olds in Wales, at 6.0 per cent was not significantly different to the UK rate of 8.0 per cent. In recent years the two rates have converged after a period of increased TEA rates amongst the young in Wales during the recession.**
- **There was no difference in the TEA rates of young adults aged 18 to 29 and those of 30-64 year olds. In fact in 2016 all age groups in Wales and in the UK were equally entrepreneurial.**
- **Entrepreneurial attitudes were consistent with those reported in 2015. Opportunity perception of the non-entrepreneurial working age population remained at 30 per cent which was again significantly lower than that for the UK.**
- **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 was also relatively stable at just under 40 percent. This was similar to the UK figure.**
- **Around 9 per cent of non-entrepreneurial working age adults in Wales expect to start a business within the next three years. This rate is up significantly over the decade but in 2016 remains below the UK rate of 11 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 fourteenth year in which the WG has participated in GEM. Of the 300,000 respondents to GEM UK surveys for the period 2002-2016, over 50,000 respondents are from Wales. Wales now has one of the largest databases on entrepreneurial attitudes, activity and aspirations of the home nations 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 also 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 to social security than employees, for example, employee entrepreneurial activity tends to comprise a higher proportion of overall entrepreneurial activity³. Considering both TEA and EEA together provides a more comprehensive picture of entrepreneurial activity in a nation.

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.

³ World Economic Forum (WEF) and GEM Global (2016) "Europe's Hidden Entrepreneurs: Entrepreneurial Employee Activity and Competitiveness in Europe".

http://www3.weforum.org/docs/WEF_Entrepreneurship_in_Europe.pdf

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 2016 adult population survey are explained in more detail in the GEM UK 2016 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 2015, this was increased 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 2016 and the analysis of the fourteen years of GEM data (2002-16).

Total Early-Stage Entrepreneurial Activity (The TEA Index)

The rate of early-stage entrepreneurship in Wales in 2016 is 7.6 per cent which is not significantly different to the estimate of 6.8 per cent in 2015. The rate is also not significantly different to those in the other home nations, or to the UK estimate of 8.8 per cent (Figure 1).

Overall, a TEA rate of 7.6 per cent in Wales equates to around one in every thirteen adults aged 18-64, or around 126,000 individuals, 58 per cent of whom were in the very early stages of starting a business (nascent entrepreneurs 4.4%) and the remainder those who had a new business which was between 3 and 42 months old.

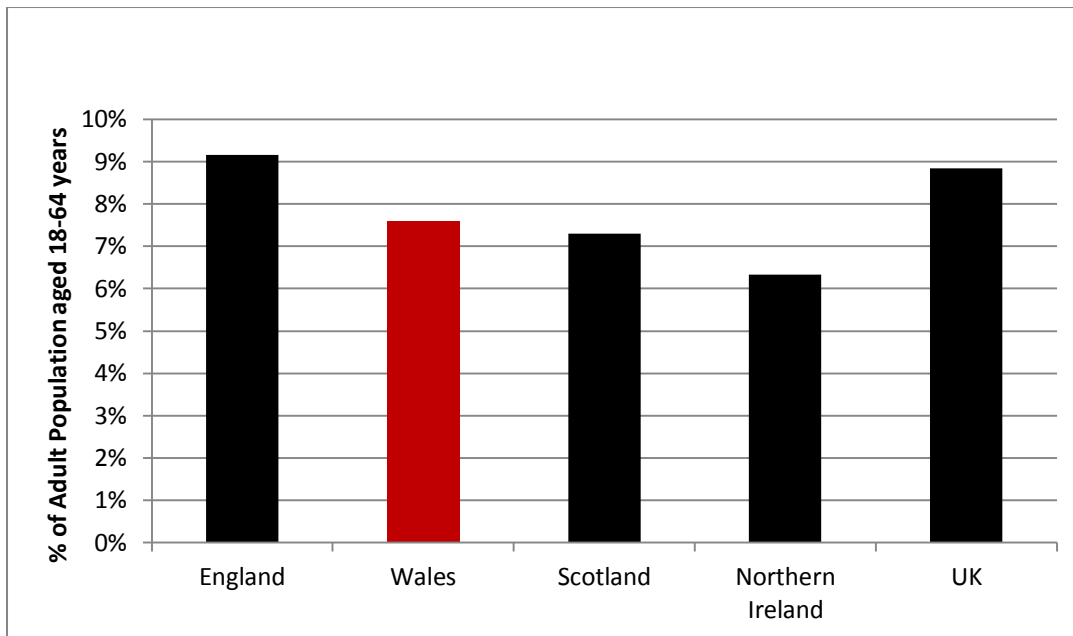


Figure 1: Total early-stage entrepreneurial activity (TEA) in the UK Home Nations 2016 (Source: GEM APS)

As Figure 2a shows the rate of early-stage entrepreneurial activity in both Wales and the UK remained relatively unchanged, at around 6 per cent, between 2004 and 2010. Since then there has been considerable volatility and a divergence in the respective rates. Early-stage entrepreneurial activity in Wales peaked in 2011 before dropping back to the long-run average rate in 2013. There was a recovery in TEA rates in both Wales and the UK in 2014, and a convergence in 2015. The 2016 trend is upwards for both, with the rate in Wales close to its previous peak.

In 2016 the nascent entrepreneurial activity rate in Wales was 4.4 per cent, virtually unchanged from 4.3 per cent in 2015. The new business rate was up slightly, but not significantly, from 2.5 per cent in 2015 to 3.5 per cent in 2016. Both nascent and new entrepreneurship rates increased in the UK between 2015 and 2016; the nascent rate rising from 4.0 per cent to 5.1 per cent and the new business owner rate from 3.1 per cent to 3.8 per cent.

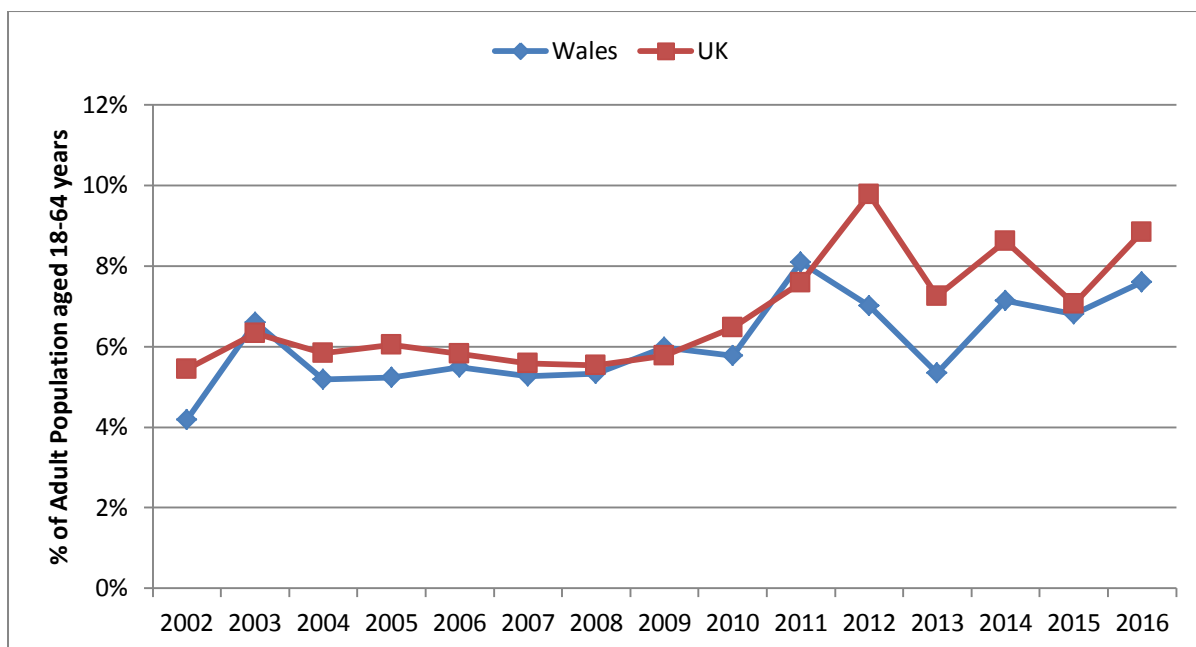


Figure 2a: Total Early-Stage Entrepreneurial Activity in Wales and the UK (2002-16)
(Source: GEM APS)

The TEA rates of East and West Wales have tended to follow similar trends over time (Figure 2b) although at slightly different levels. Since 2015 the entrepreneurial activity rate in East Wales has matched the UK rate. Entrepreneurial activity in West Wales has also been on an upward trend and in 2016, as in previous years, was not significantly different to the rate in East Wales.

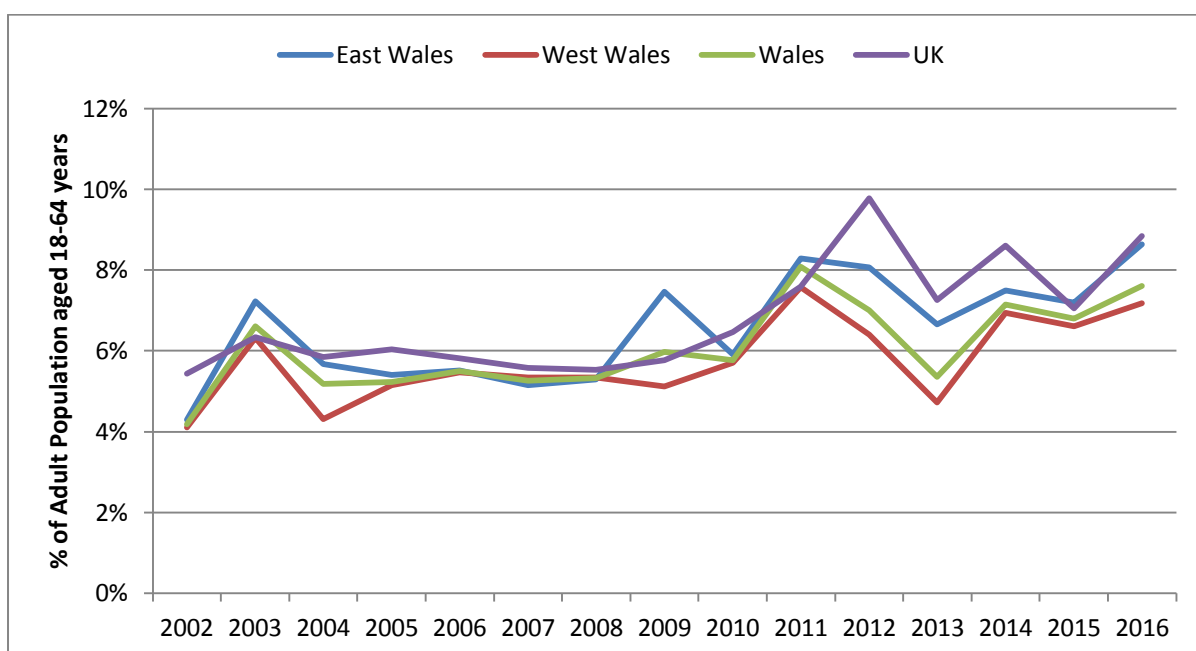


Figure 2b: Total Early-Stage Entrepreneurial Activity in East Wales, West Wales & Valleys, Wales and the UK (2002-16) (Source: GEM APS)

Necessity-driven TEA in Wales in 2015 was 1.6 per cent, relatively unchanged from 2015. Opportunity-driven TEA was 5.6 per cent, again virtually unchanged from the estimate of 5.4 per cent in 2015. Necessity-driven TEA as a proportion of all TEA was 21 per cent, a higher share than in the other home nations and the UK (Figure 3).

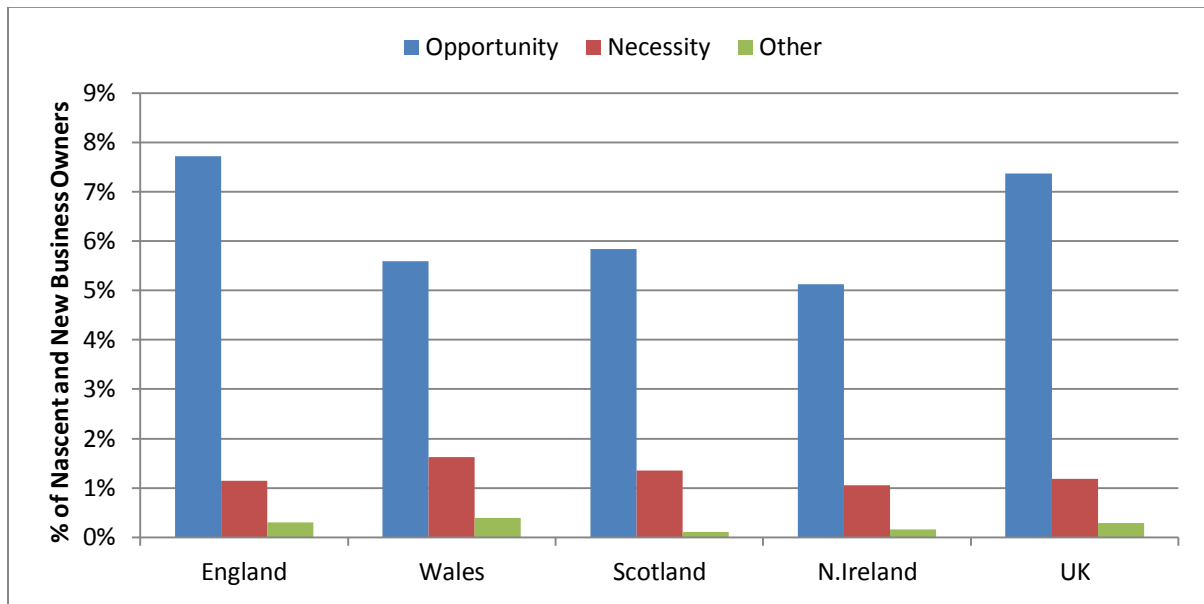


Figure 3: Opportunity and Necessity Entrepreneurship in the UK Home Nations in 2016
(Source: GEM APS)

Who are the Entrepreneurs in Wales?

Gender: Males typically have higher early-stage entrepreneurial activity rates than females; in Wales the male TEA rate was 9.5 per cent in 2016 compared to 5.8 per cent for females. In 2016 male TEA rates across the UK and home nations were all significantly higher than females except in Northern Ireland; the latter due to a relatively low male (Figure 4). The male rate in Northern Ireland was also significantly lower than the male rate in England and the UK; there were no differences across the home nations in the female rates.

The ratio of female to male early-stage entrepreneurial activity is generally around 50 per cent in the UK. The ratio in Wales was 61 per cent in 2016 compared to a UK ratio of 47 per cent. Northern Ireland also had a relatively high ratio at 62 per cent. Annual ratios may vary from year to year however the long run average ratios over the 2002 to 2016 period

suggest that Wales has a similar ratio, at 53 per cent, to England (49 per cent) and Scotland (53 per cent) but higher than Northern Ireland (38 per cent).

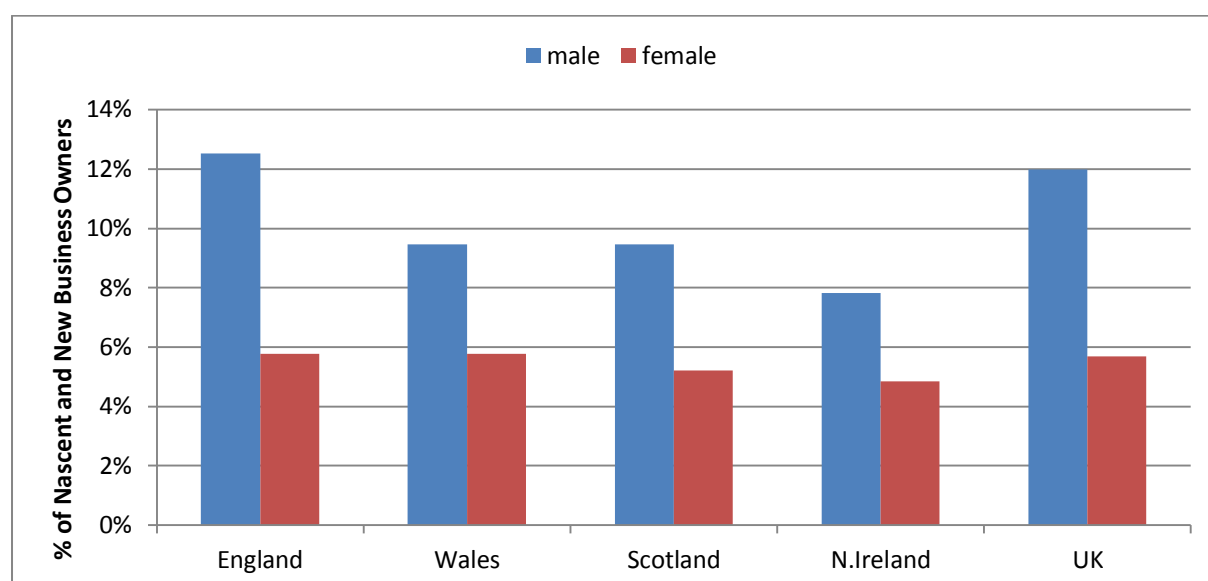


Figure 4: Total Early-Stage Entrepreneurial Activity by Gender in the UK Home Nations in 2016 (Source: GEM APS)

The female TEA rate in Wales fell 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. The rate in 2016 was close to its previous peak (Figure 5). The Welsh male TEA rate also fell significantly from 10.2 per cent to 6.5 per cent between 2011 and 2013 but has stabilised at around 9 per cent in recent years. We can see from Figure 5 that female TEA rates in Wales have, for the most part, matched the UK trend and, although there was some divergence over 2011-13, it has reverted to match the UK trend in 2015.

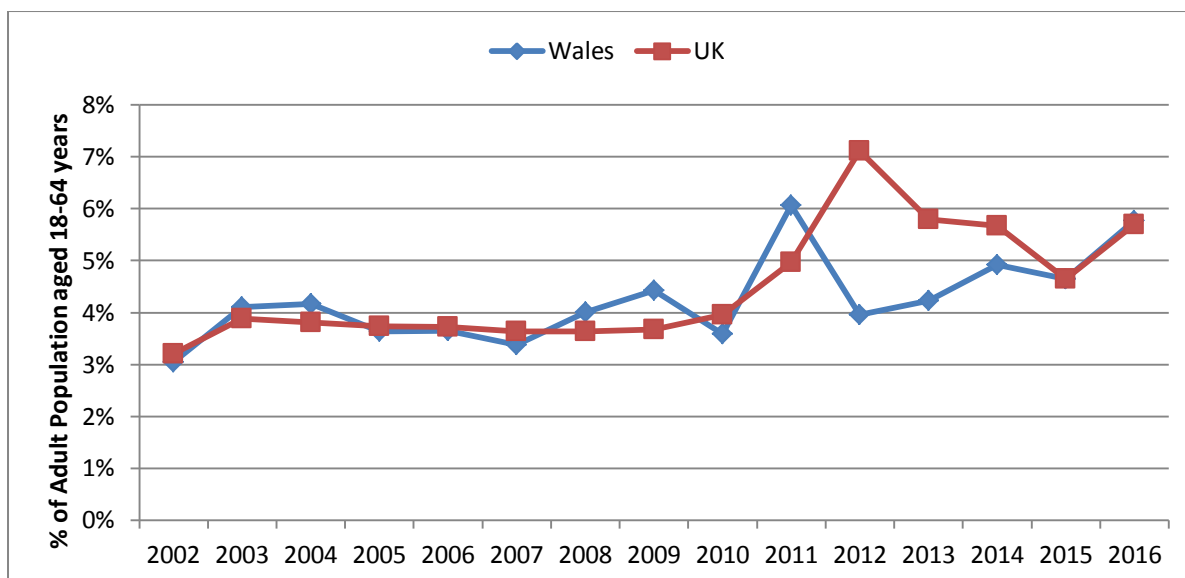


Figure 5: Total Early-Stage Female Entrepreneurial Activity in Wales and the UK, 2002-2016. (Source: GEM APS)

Age: In the UK individuals aged between 25-44 years typically display the highest rates of early-stage entrepreneurial activity. In 2016 there were no significant differences in the activity rates across the agebands either in the UK, England, or in Wales. In both Scotland and Northern Ireland the TEA rate for 55-64 year olds was significantly lower than for those aged 25-34 years.

For several years, the distribution of the TEA rate by age has been shifting towards a younger generation in Wales. Figure 7 shows particularly high TEA rates for 18-24 year olds in Wales over the 2011-12 period however the rate has dropped back to around 6 per cent and has remained stable at that level in the last few years. The UK rate has been more changeable and in 2016 was similar to the peak rate observed in 2012.

Compared to the UK the higher rate of early-stage entrepreneurial activity amongst 18-24 year olds in Wales witnessed during the recession suggests they faced a tougher economic climate, the lack of jobs necessitating entry into self-employment which dissipated as the economy recovered. Alternatively it may also reflect the increased provision of youth entrepreneurship activities by the Welsh Government during this period.

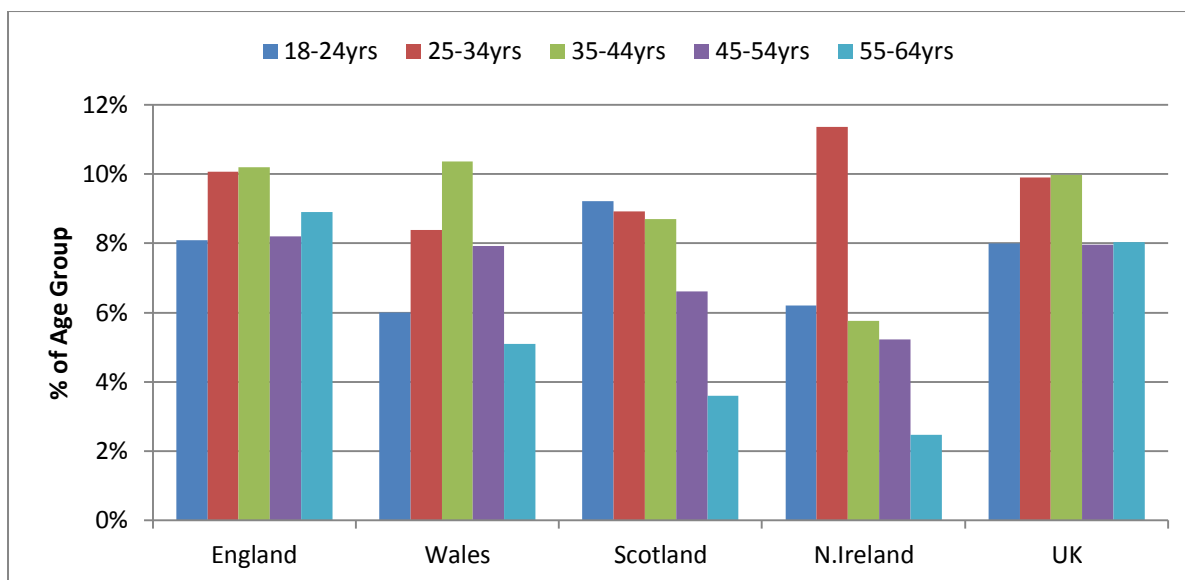


Figure 6: Total Early-Stage Entrepreneurial Activity by Age in the UK Home Nations, 2016 (Source: GEM APS)

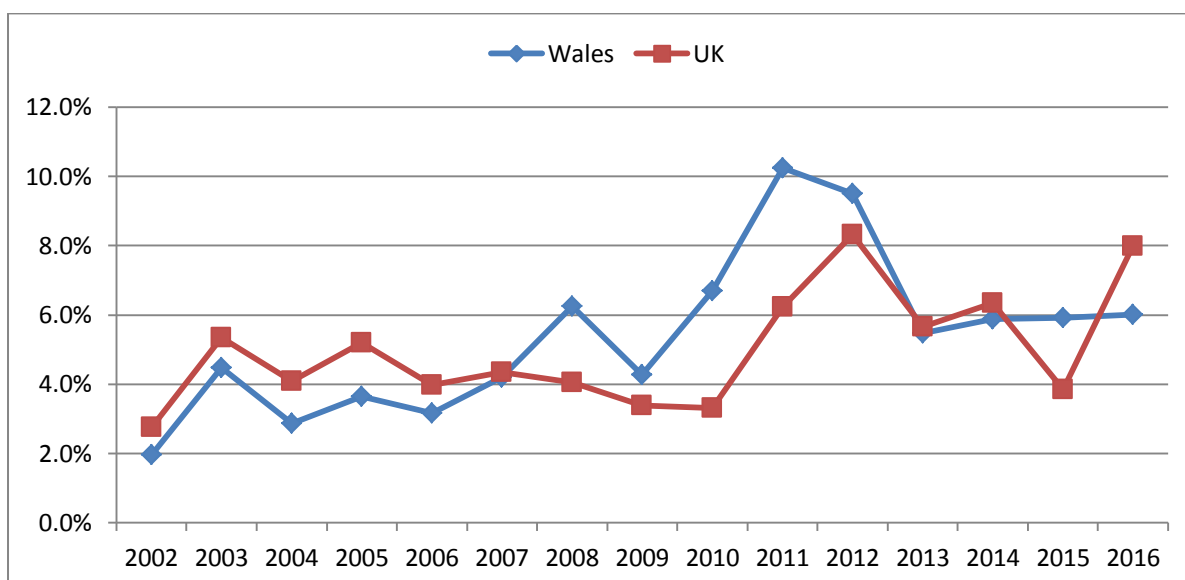


Figure 7: Trend in Total early-stage Entrepreneurial Activity amongst 18-24 year olds in Wales and the UK, 2002 to 2016 (Source: GEM APS)

A potentially more helpful analysis is to assess the trend in the TEA rate for the 18 to 29 age group (where there seems to be a natural break in UK GEM activity data) and compare that to the 30 to 64 age group. Figures 8 and 9 show that, compared to the other home nations, the TEA rate for young adults in Wales was relatively high during the recession, but in recent years has reverted to the rates observed elsewhere. In contrast, the TEA rate among 30 to 64 year olds in Wales was significantly lower than that for England, and the UK average, during

the 2012-14 period. In 2016 there were no significant differences between the home nations in the 18-29 age group or in the 30-64 age group, nor were there any significant differences between the two age groups.

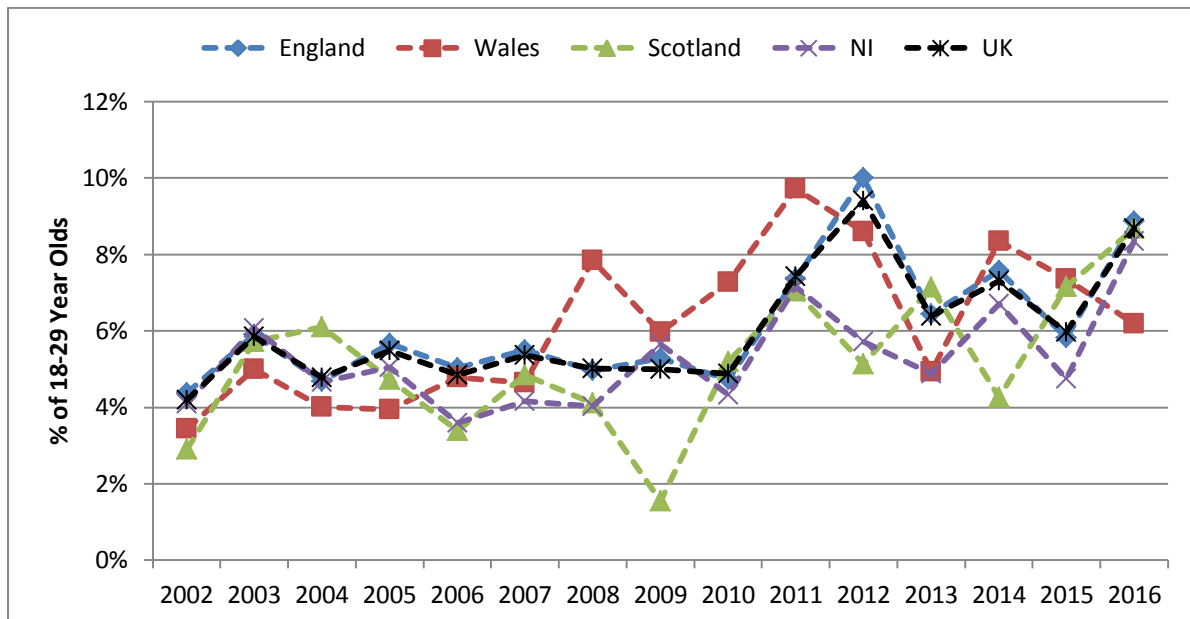


Figure 8: Trend in Total early-stage Entrepreneurial Activity in the UK Home Nations for 18 to 29 year olds, 2002 to 2016 (Source: GEM APS)

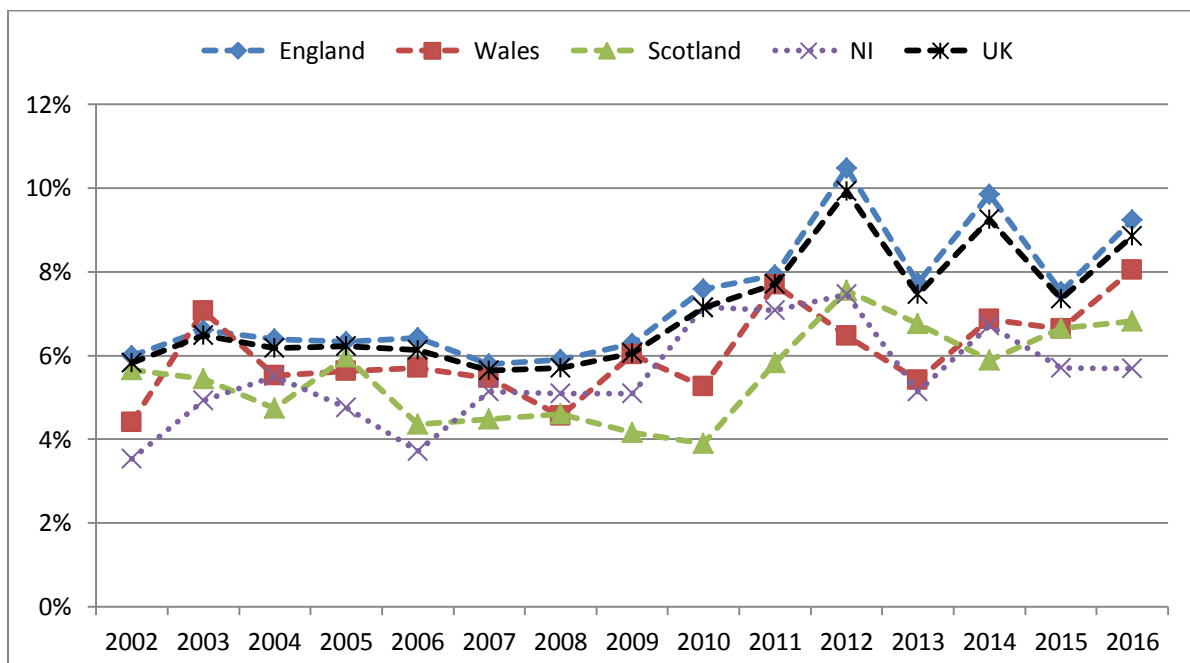


Figure 9: Trend in Total early-stage Entrepreneurial Activity in the UK Home Nations for 30 to 64 year olds, 2002 to 2016 (Source: GEM APS)

Education: Graduates in the UK typically have higher rates of early-stage entrepreneurial activity than non-graduates. In 2016 the UK graduate TEA rate of 10.4 per cent was significantly higher than the rate of 7.8 per cent for non-graduates (Figure 10). The non-graduate rate was, however, significantly higher than that observed in 2015 (5.5%).

The Welsh graduate TEA rate in 2016 was 9.1 per cent compared to the non-graduate rate of 6.9 per cent; this difference was not statistically significant. There were also no significant differences in the respective rates compared to 2015. Scotland was the only home nation in which the TEA rates for graduates was significantly higher than for non-graduates in 2016.

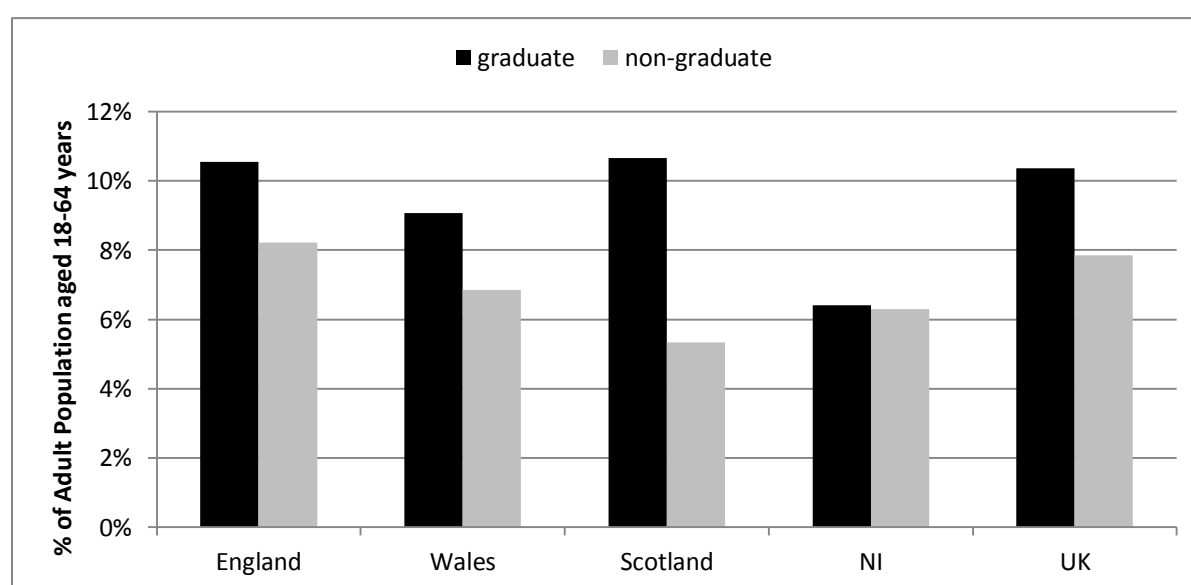


Figure 10: Total Early-Stage Entrepreneurial Activity in the UK Home Nations by Graduate Status, 2016 (Source: GEM APS)

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 reported here for that portion of the population who are not already entrepreneurs as individuals who involved in entrepreneurial activity may feel compelled to provide positive answers in the Adult Population Survey (APS).

In Wales in 2016 one quarter of non-entrepreneurial individuals state that they know an entrepreneur which is the around the same proportion as the UK as a whole (Figure 11), and not significantly different to previous years. Two fifths (38.4%) of non-entrepreneurs believe they have the skills to set up in business – again similar to the UK average at 41.1 per cent. As in 2015, the main difference between Wales and the UK is the significantly lower share of the non-entrepreneurial population in Wales who believe there are good start-up opportunities in their area in the next six months. Despite this gap, there is no difference in the fear of failure rates.

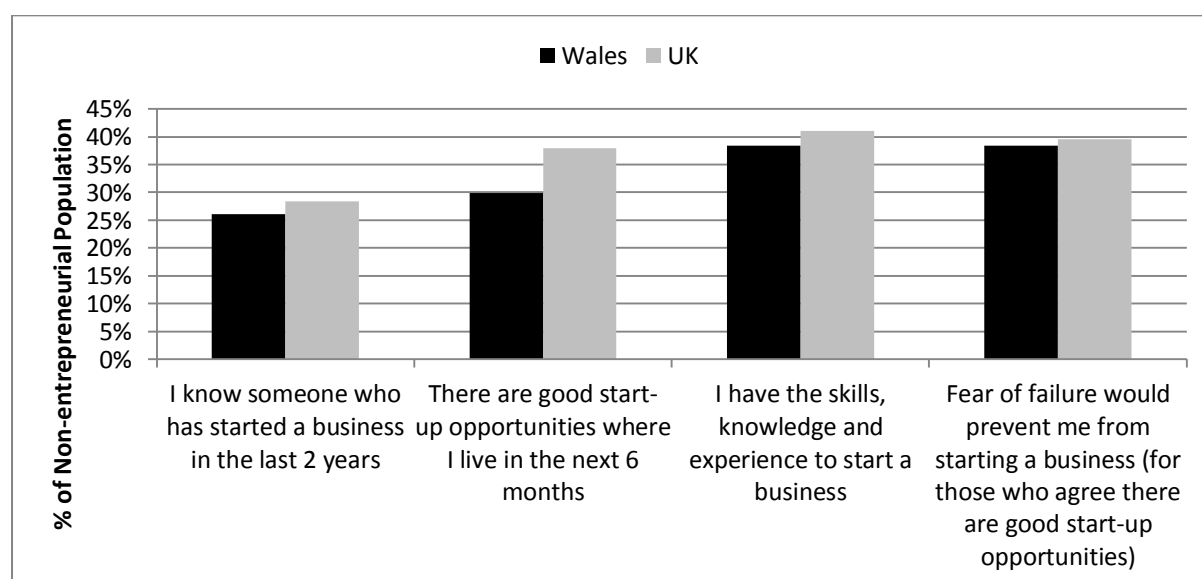


Figure 11: Entrepreneurial Attitudes and Perceptions in Wales and the UK 2016
(Source: GEM APS)

Figure 12 displays the attitudes towards entrepreneurship when restricted to 18-24 year olds only. Despite the apparent high share of those in Wales reporting that fear of failure would prevent them from starting a business there were actually no significant difference in attitudes between Wales and the UK.

When comparing the attitudes of young people against all non-entrepreneurs (as shown in Fig. 11) a significantly lower proportion of young people in Wales believe that they have the

skills, knowledge and experience to start a business, at 27.6 per cent compared to 38.4 per cent for the wider non-entrepreneurial population. This was also the case in the UK with just 31.8 per cent of young people agreeing with this statement compared to 41.1 per cent of all UK non-entrepreneurs.

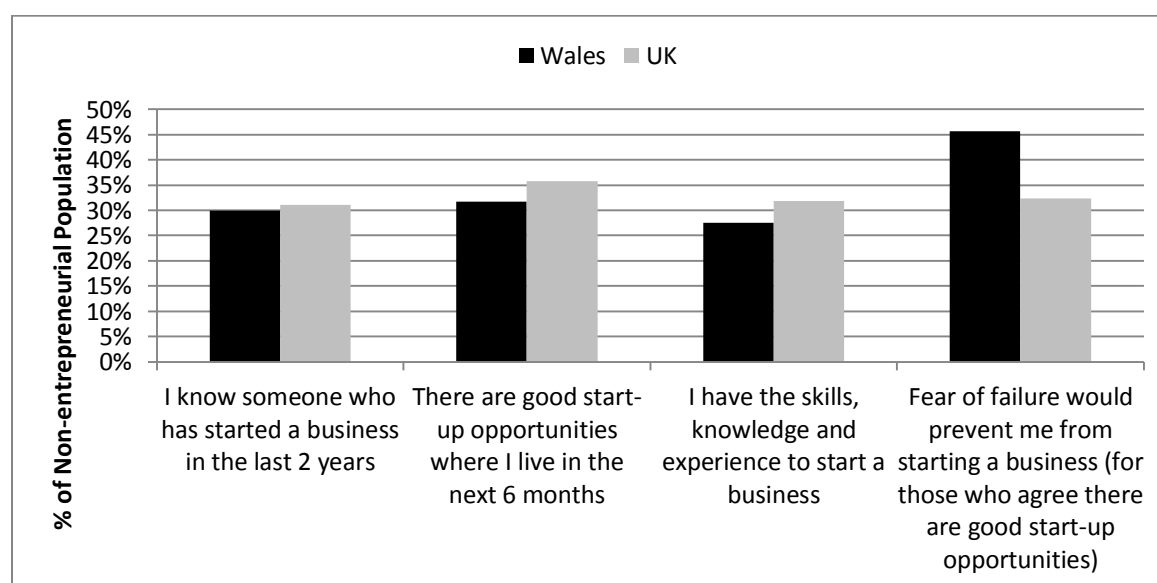


Figure 12: Entrepreneurial Attitudes and Perceptions among 18-24 year olds in Wales and the UK 2016 (Source: GEM APS)

The proportion of the non-entrepreneurial population in Wales seeing good start-up opportunities but reporting that the fear of failure would prevent them starting a business stood at 38.4 per cent in 2016, which was down, but not significantly so, on 2015. The UK rate at 39.6 per cent was not significantly different to Wales.

Figure 13 shows that fear of failure rose more sharply in Wales than in other home nations since the onset of the recession in 2008, but in more recent years has fallen in line with the others. In 2016 there were no significant differences in the fear of failure rates across the home nations.

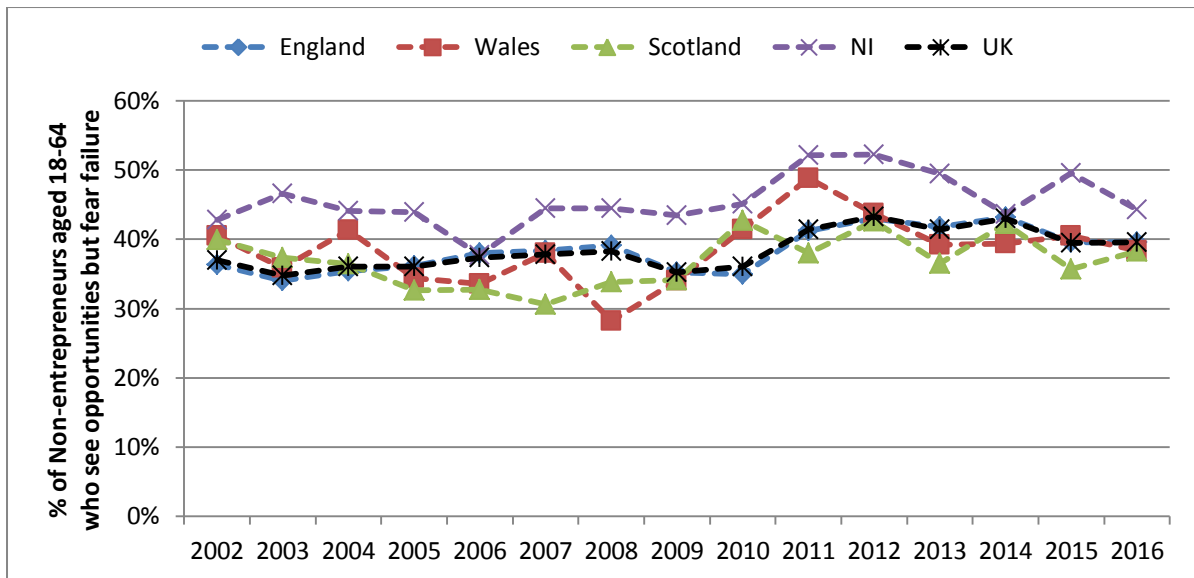


Figure 13: Fear of Failure among those who see Opportunities in the UK Home Nations, 2002-16 (Source: GEM APS)

In the 2016 survey 29.9 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 to 37.9 per cent in the UK. Neither were significantly different than their 2015 respective estimates and although the trend for both is upward the significant gap in opportunity perception between Wales and the UK remains (Figure 14).

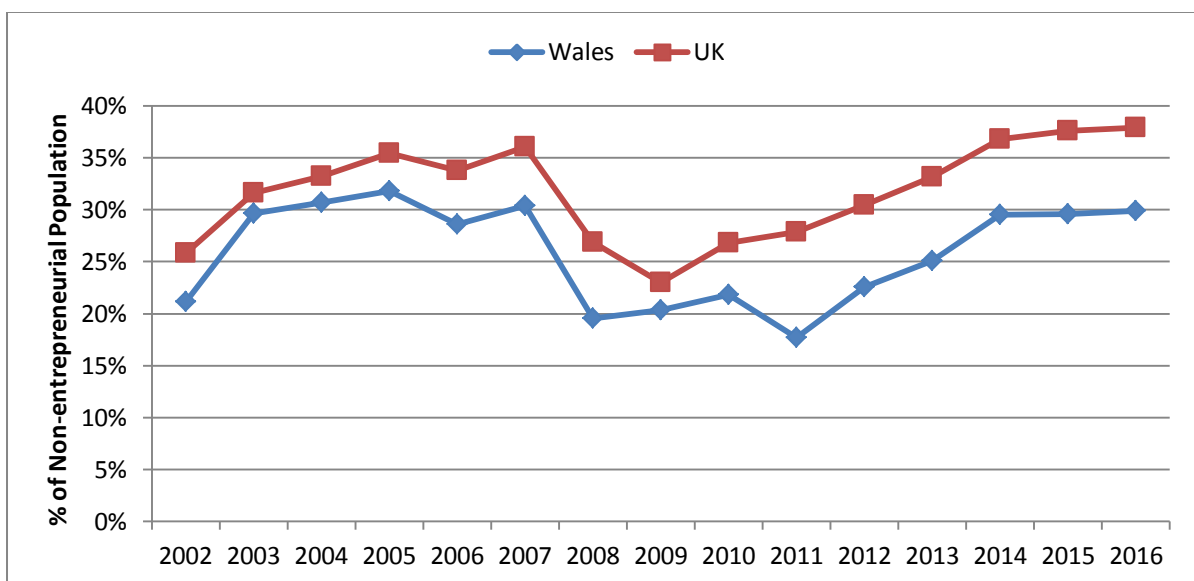


Figure 14: Perception of Start-up Opportunities in Wales and the UK, 2002-16 (Source: GEM APS)

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 remained virtually unchanged at 8.6 per cent in 2016 (Figure 15). The UK estimate rose significantly to 11.1 per cent in 2016. The previous increases in these intention rates during the recession potentially reflected necessity reasons; in 2016 it is likely that in the face of an improving economy, this represents the prospect of more opportunity entrepreneurship.

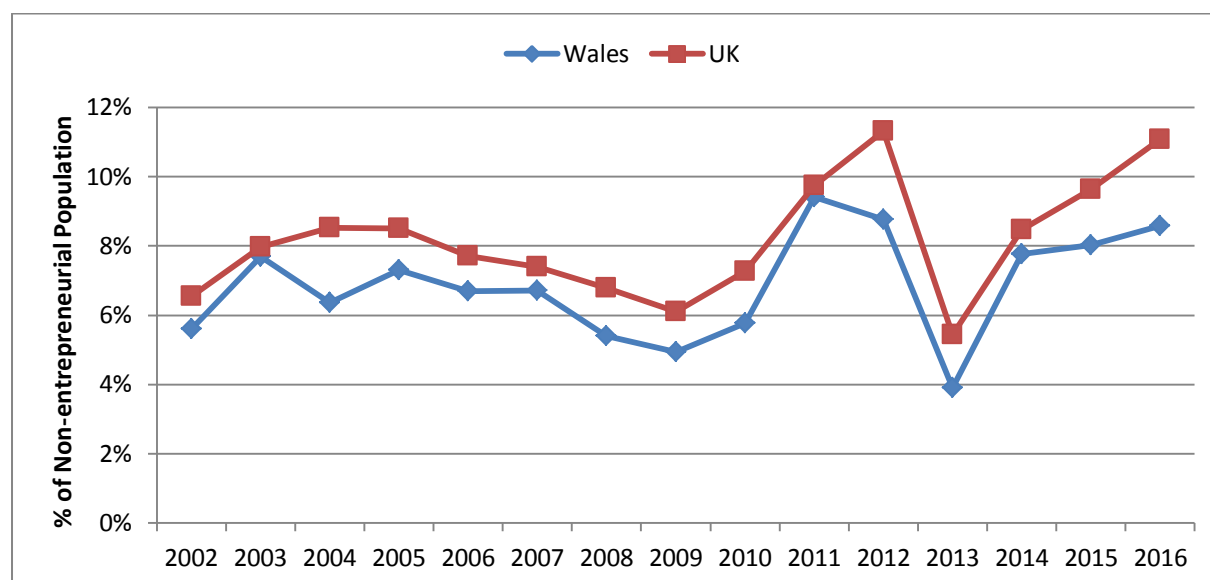


Figure 15: Future Start-up Expectations (within 3 years) in Wales and the UK amongst the non-entrepreneurial population, 2002-16 (Source: GEM APS)

In 2016, at 10.5 per cent, the proportion of non-entrepreneurially active males in Wales who reported that they intend to start a business in the next three years was significantly higher than that for females at 6.7 per cent (Figure 16). Translated into a female to male ratio this equates to 63 per cent; which compares to 60 per cent in England, 68 per cent in Scotland and 74 per cent in Northern Ireland; the latter due primarily to the lower than average male rate. Overall, start-up intentions for both males and females in the home nations were not significantly different to those in 2015.

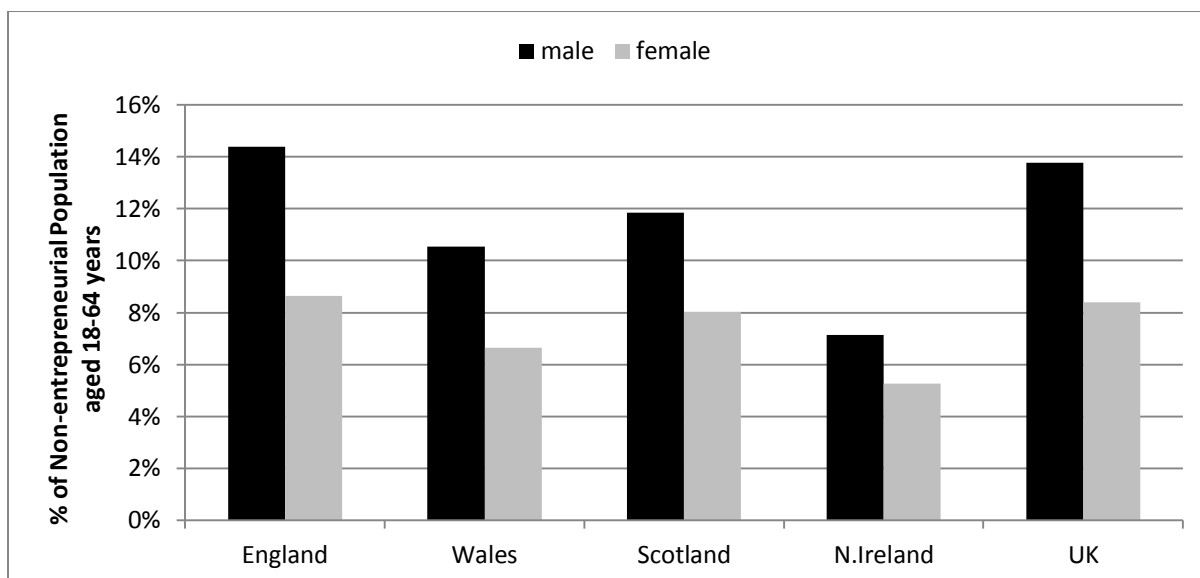


Figure 16: Future Start-up Expectations (within 3 years) in the UK Home Nations by Gender, 2016 (Source: GEM APS)

Welsh Language fluency and Entrepreneurial Activity

There were no significant differences in 2016 in the TEA rates of those in Wales who were fluent in spoken and written Welsh (10.0%); who could speak and understand some Welsh (7.6%), and who had little or no Welsh skills (6.9%).

Concluding Observations

Maintaining the trend of recent years entrepreneurial activity in Wales in 2016 has remained buoyant with the TEA rate holding at over 7 per cent and start-up intentions at around 9 per cent. During the recession there was a move towards increased entrepreneurial activity amongst the younger age groups in Wales, due in part to necessity reasons and a greater focus by Government on youth entrepreneurship, however in 2016 all age groups are equally likely to be entrepreneurial. In addition entrepreneurial activity in Wales is not significantly different to that observed in the UK as a whole, particularly in terms of gender and age.

The attitude metrics reinforce this positivity; just under two-fifths of non-entrepreneurs state that they have the skills, knowledge and experience to start a business and more than one

quarter know an entrepreneur that has started a business within the past two years. Where attitudes diverge from the UK is in the proportion that believe there are good start-up opportunities locally within the next six months. The rate for Wales has increased significantly since 2010 but is consistently lower than that for the UK and has remained unchanged over the year. Perceived lower opportunities may be reflective of differing local demand issues in Wales or in the conditions that are recognised as necessary for setting up a successful business.

Despite the gap with the UK in the perception of opportunity, fear of failure remains unchanged in Wales and compares well with the rate in the UK. At its peak in 2011 around half of those that identified start-up opportunities stated that fear of failure would prevent them from starting a business. In 2016 this has dropped to below 40 per cent reinforcing the more confident view within the population of the ability to start a successful business and the conditions to do so.

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:

Dr Karen Bonner
Economics, Finance and Entrepreneurship Group
Aston Business School, Aston University
Aston Triangle, Birmingham, B4 7ET
Email: k.bonner1@aston.ac.uk



Aston Business School

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



Aston Business School

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

