

GEM UK: Wales Report 2019

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The Global Entrepreneurship Monitor (GEM) is an international project involving 50 economies in 2019 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 2019 was 1,500 adults aged over 18 years as a result of the Welsh Government boosting the UK national sample.

Main Findings

- **The rate of total early-stage entrepreneurship (TEA) in Wales in 2019 was 7.0 per cent. This was not significantly different to the 2018 rate in Wales but was significantly lower than the 2019 estimates of 10.5 per cent for England and 9.9 per cent for the whole of the UK.**
- **Early-stage entrepreneurs in Wales are more strongly motivated to make a difference in the world (nearly two-thirds). They also reveal that carrying on a family tradition is more important in Wales but so too is setting up a businesses to earn a living because jobs are scarce.**
- **At 7.0 per cent the female TEA rate in Wales was for the first time the same as the male rate; the UK ratio was 63 per cent. The female TEA rate in Wales is now at a record high of 7.0 per cent in 2019 which is well above the 2002 rate of 3.0 per cent. Only the male TEA rate in Wales was significantly different to the UK estimate of 12.1 per cent. The UK female TEA rate was 7.7 per cent.**
- **The level of youth entrepreneurship in Wales is significantly higher in 2019 than what it was eighteen years ago: 6.3 per cent compared to 2.0 per cent. Entrepreneurial activity was, however, significantly lower for 45-64 year olds than for those aged 25-34 in Wales and the UK as a whole.**
- **Just under half (45.2%) of non-entrepreneurs state that they have the skills, knowledge and experience to start a business and half (49.1%) know an entrepreneur that has started a business within the past two years. These are much higher in 2019 and together highlight a growing confidence within the population in terms of ability to start a successful business and the conditions to do so.**
- **A smaller proportion of non-entrepreneurs in Wales believe there are good start-up opportunities locally within the next six months. Further, fear of failure is slightly higher to that in the UK and in 2019 half (50.6%) of those in Wales that identified start-up opportunities stated that fear of failure would prevent them from starting a business.**
- **7.6 per cent of non-entrepreneurial working age adults in Wales expect to start a business within the next three years, significantly lower than the UK rate of 11.0 per cent.**

Background

The Global Entrepreneurship Monitor (GEM) is an international project which seeks to provide information on the entrepreneurial landscape of countries 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) sponsors 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 sixteenth year in which the WG has participated in GEM. Of the 345,000 respondents to GEM UK surveys for the period 2002-2019, around 63,500 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, the young or older people.

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.

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

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

The methodology, sample sizes and weighting systems used for the GEM UK 2019 adult population survey are explained in more detail in the GEM UK 2019 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 and that has been maintained in the 2019 survey.

The following report presents a summary of the headline results and key themes arising from the GEM survey in 2019 as well as an analysis of the eighteen years of GEM data (2002-19).

Total Early-Stage Entrepreneurial Activity (The TEA Index)

The rate of early-stage entrepreneurship in Wales in 2019 is 7.0 per cent which is not significantly different to the estimate of 6.9 per cent in 201. However, the rate in 2019 is significantly different to that in England (10.5%) and the UK estimate of 9.9 per cent (Figure 1).

Overall, a TEA rate of 7.0 per cent in Wales equates to around one in every fourteen adults aged 18-64, or around 128,000 individuals, 59 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 4 and 42 months old. The comparable figure for nascent business owners in the UK was 6.5 per cent.

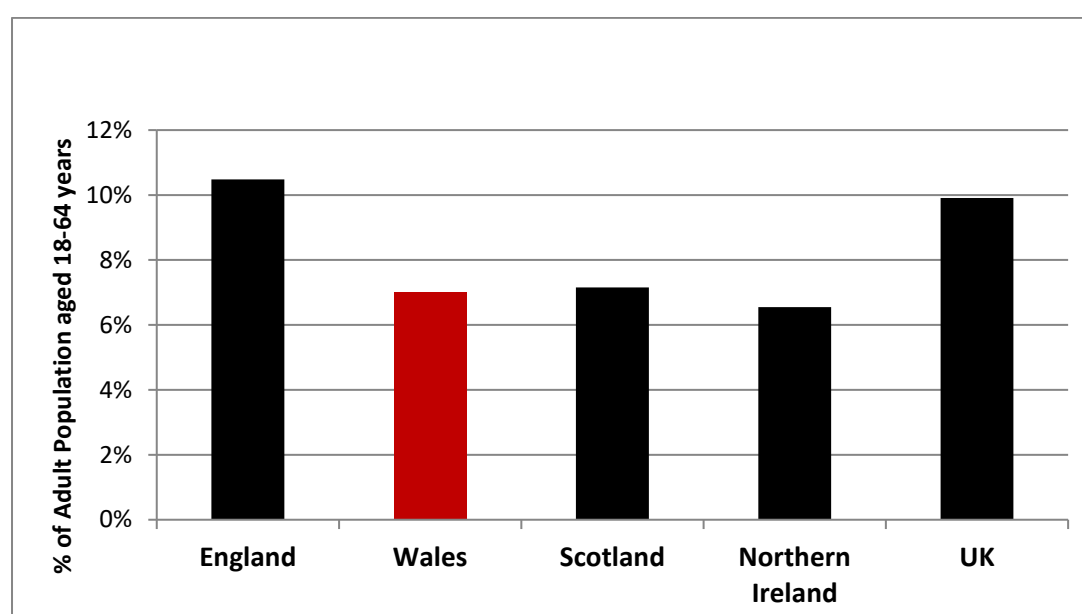


Figure 1: Total early-stage entrepreneurial activity (TEA) in the UK Home Nations 2019
(Source: GEM APS)

As Figure 2a shows the rate of early-stage entrepreneurial activity in both Wales and the UK remained relatively stable, at around 6 per cent, between 2004 and 2010. There has been more volatility and a divergence in the respective rates since then. Early-stage entrepreneurial activity in Wales peaked at 8.1 per cent in 2011 before dropping back to the long-run average rate in 2013. The gap between the rates in Wales and the UK that opened in 2017 appeared to be widening again in 2019 with the rates significantly different.

In 2019 the nascent entrepreneurial activity rate in Wales was 4.1 per cent, slightly higher than the rates in 2017 and 2018. The new business ownership rate of 3.0 per cent was also not

significantly different to the rate of 3.2 per cent in 2018. However, there was a significant rise in nascent entrepreneurship rates in the UK between 2018 and 2019; the nascent rate sitting at 6.5 per cent compared to the previous 4.0 per cent. The new business owner rate for the UK was not significantly different standing at 3.6 per cent in 2019 compared to 4.0 per cent previously. So, the overall difference in TEA rates between Wales and the UK was driven by a sharp increase in nascent entrepreneurship in the UK in 2019.

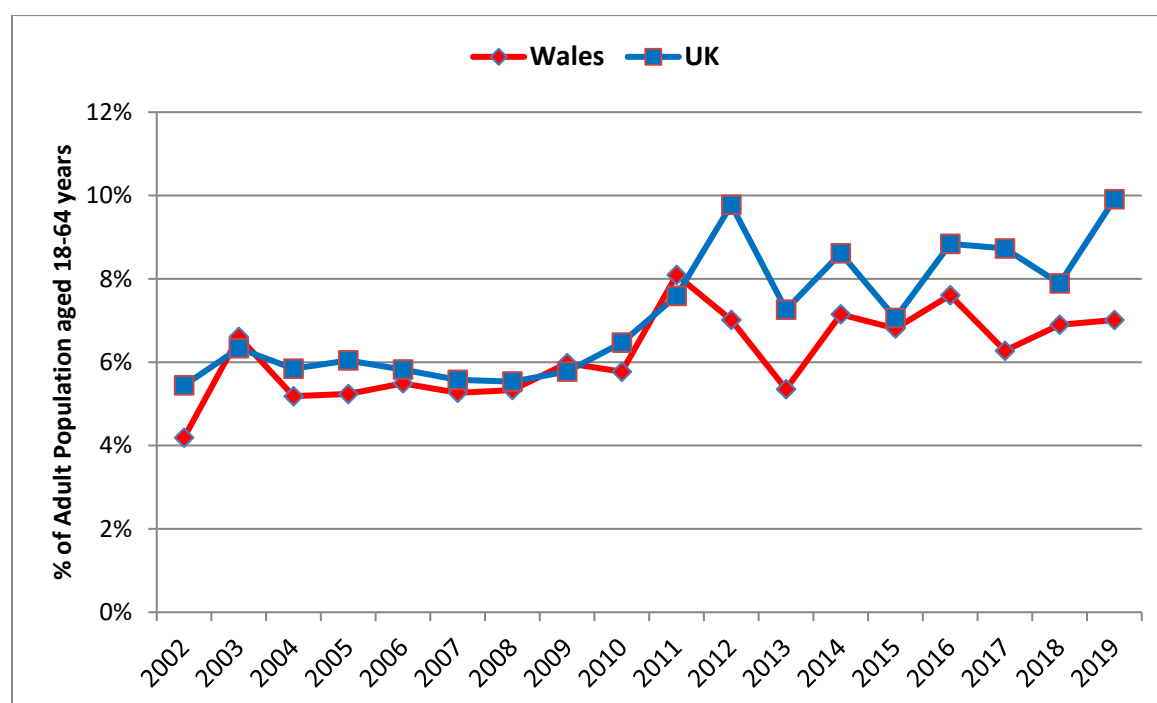


Figure 2a: Total Early-Stage Entrepreneurial Activity in Wales and the UK (2002-19)
(Source: GEM APS)

Until 2011 the TEA rates of East and West Wales tended to follow similar trends (Figure 2b). Since then there has been a slight gap between the two although the rates are not significantly different. Until 2017 the trends in early-stage entrepreneurial activity broadly follow the same trends but in the last two years there has been some divergence with West Wales having TEA rates around 2 percentage points higher than in East Wales.

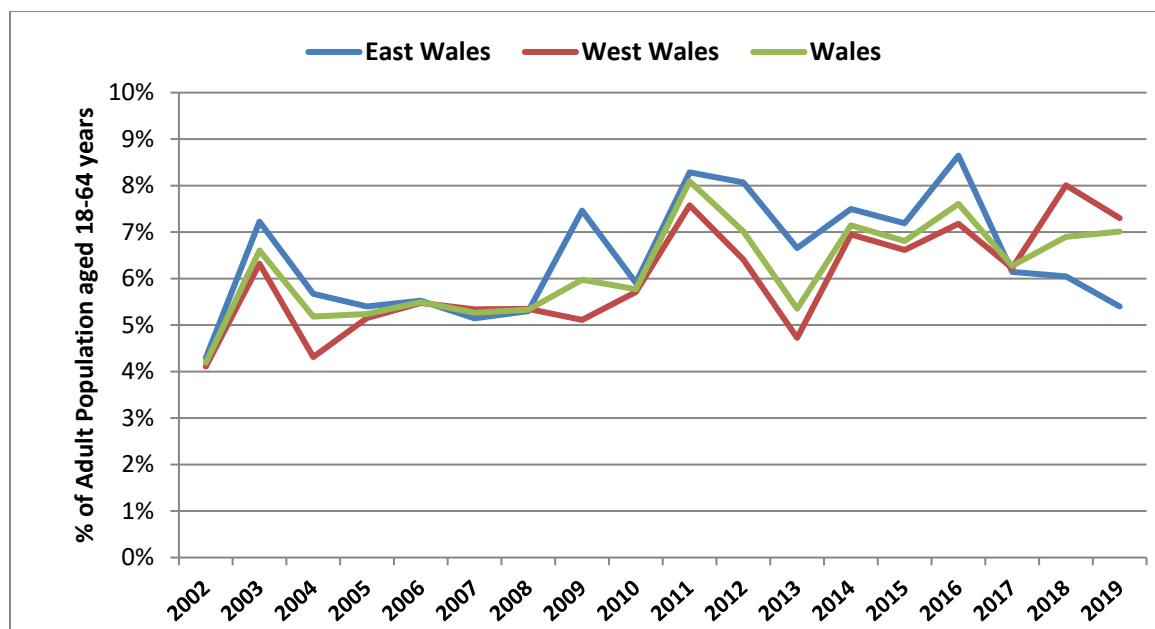


Figure 2b: Total Early-Stage Entrepreneurial Activity in East Wales, West Wales & Valleys, Wales and the UK (2002-19) (Source: GEM APS)

In the 2019 survey, a new and improved method of looking at founders' motives for starting their business was introduced. Previously the question asked was too constrained and only allowed for one choice between necessity and opportunity. These questions were replaced with new questions which allowed for a combination of motives that show a more realistic set of drivers for start-up.

The four motives were “to make a difference in the world”, “to build great wealth or very high income”, “to continue a family tradition” and “to earn a living because jobs are scarce.” The former two can be thought of as more opportunity driven, while the third is more complex as this could be both due to opportunity or necessity. The final one can be thought of as more necessity driven. However, the fundamental point is 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. Note that these motivations do not include autonomy or independence; this is because pre-tests showed that this was a universal motivation for entrepreneurs and does not distinguish between types of entrepreneurs.

Figure 3 shows a breakdown of these motives by home nation gender as a percentage of early-stage entrepreneurs. Three things stand out immediately with respect to early-stage entrepreneurs in Wales. First, they are more likely to report that they motivated to start-up their business ‘to make a difference in the world’ (61.4%) compared to 48.8 per cent in the UK

overall. Second, they were also more likely to be pushed by a desire ‘to earn a living because jobs are scarce’ compared to early-stage entrepreneurs in the UK. Finally, almost 1 in 4 were motivated by the need ‘to continue a family tradition’ compared to less than 1 in 10 in the UK overall.

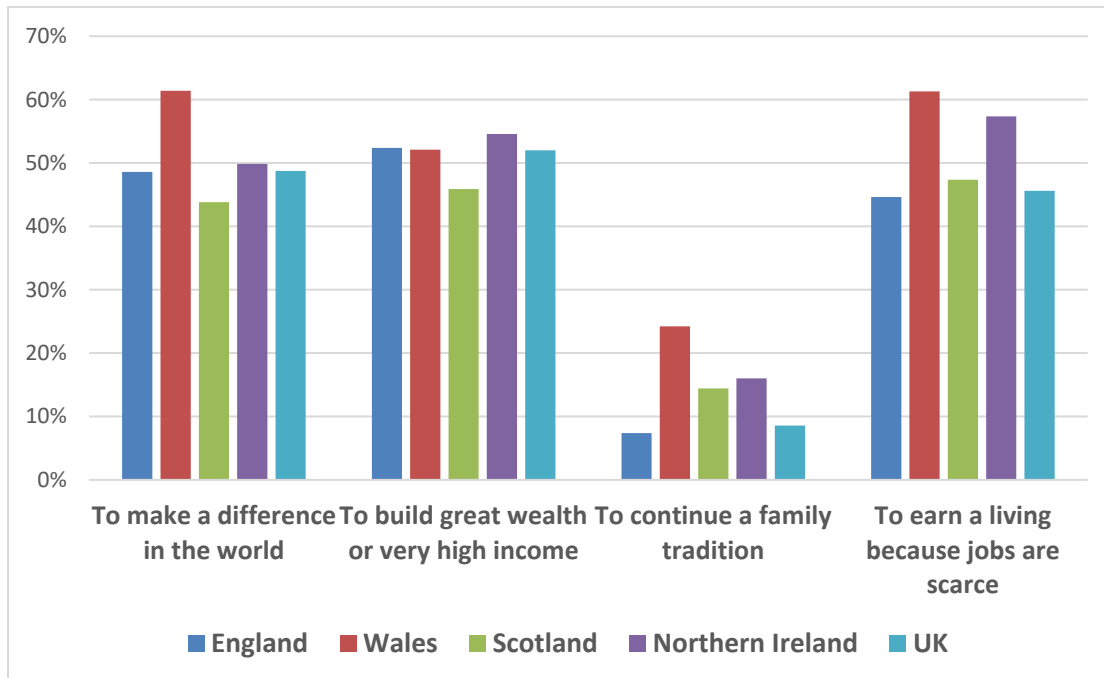


Figure 3: Motivation for Entrepreneurship in UK Home Nations (2019) (Source: GEM APS)

Who are the Entrepreneurs in Wales?

Gender: Males typically have higher early-stage entrepreneurial activity rates than females; however, in Wales the male TEA rate was identical to the female TEA rate – 7.0 per cent. In 2018 male TEA rates across the UK and home nations were all significantly higher than for females (Figure 4). There were no significant differences in the male or female rates across the home nations.

The ratio of female to male early-stage entrepreneurial activity is generally around 50 per cent in the UK but rose to 63 per cent in 2019. The ratio in Wales was below this at 47 per cent in 2018 but is now 100 per cent demonstrating both a fall in the male TEA rate combined with a rise in the female TEA rate. Scotland's ratio was 62 per cent while in Northern Ireland it was just 31 per cent. Annual ratios may vary from year to year so they are best viewed over the longer term. The long run average ratios over the 2002 to 2019 period suggest that males are twice as likely to be early stage entrepreneurs as females with a ratio of 52 per cent in Wales, 49 per cent in England and 54 per cent in Scotland. The Northern Ireland female to male TEA ratio is lower at just 38 per cent due to the historically low female entrepreneurial activity rates.

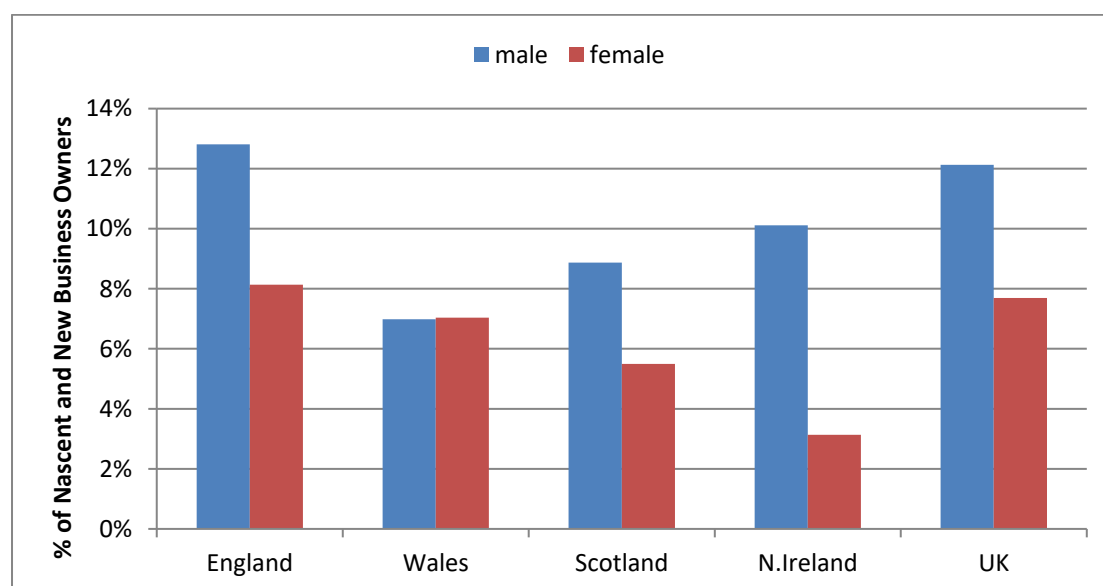


Figure 4: Total Early-Stage Entrepreneurial Activity by Gender in the UK Home Nations in 2019 (Source: GEM APS)

The female TEA rate in Wales has fluctuated a great deal over time but is now at a record high of 7.0 per cent in 2019 which is well above its long run average of around 4.0 per cent between 2002 and 2010 (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 since stabilised at around 9 per cent. Figure 5 demonstrates that female TEA rates in Wales matched the UK trend until 2010 and after a period of divergence appear to be tracking the UK trend once again albeit at a higher level.

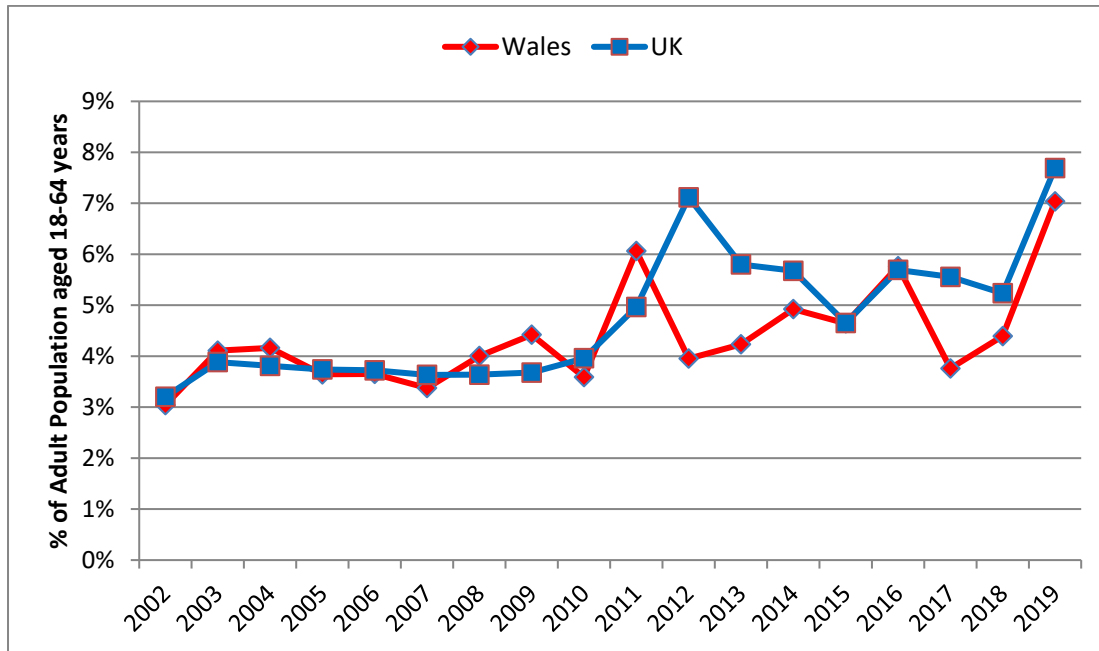


Figure 5: Total Early-Stage Female Entrepreneurial Activity in Wales and the UK, 2002-2018 (Source: GEM APS)

Age: In the UK individuals aged between 25-34 years typically display the highest rates of early-stage entrepreneurial activity. In 2019 in the UK those aged 45-64 years old had significantly lower entrepreneurial activity rates than those aged between 25-34 years but this difference was not significant in Wales although it was in England. There were no significant differences in the entrepreneurial activity rates across the age-bands in Wales, Northern Ireland or Scotland due to very wide confidence bands (Figure 6).

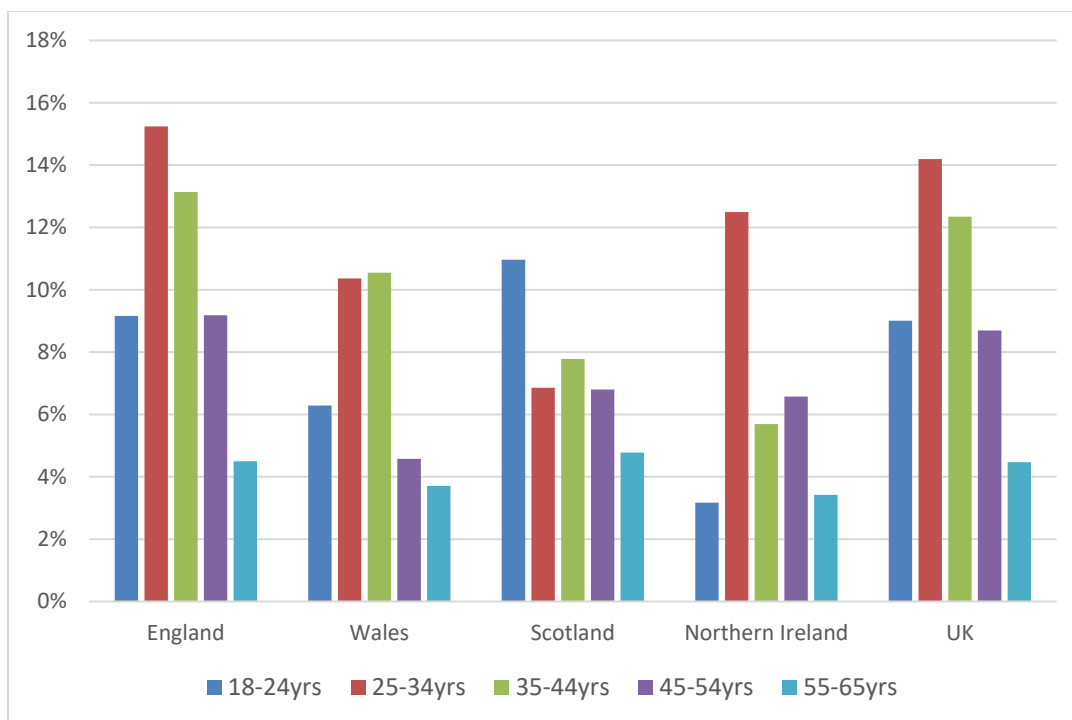


Figure 6: Total Early-Stage Entrepreneurial Activity by Age in the UK Home Nations, 2019 (Source: GEM APS)

For several years, entrepreneurial activity in Wales had been shifting towards a younger generation, for example there were particularly high TEA rates for 18-24 year olds during the recession period, peaking at 10 per cent in 2011 (Figure 7). The rate has since dropped back to around 7 per cent. In contrast to the relatively stable Welsh rates recently, the UK rate has been more variable recently and has risen to its highest rate of 8.4 per cent in 2018.

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. However, since 2015 the rise in youth entrepreneurship has been a clear trend in the UK which has not been mirrored in Wales. Nevertheless, the level of youth entrepreneurship in Wales is significantly higher in 2019 than what it was eighteen years ago: 6.3 per cent compared to 2.0 per cent. This may well reflect the increased provision of youth entrepreneurship activities by the Welsh Government during this period but it does also reflect the overall trend in the UK where the TEA rate rose from 2.8 per cent to 9.0 per cent for this age group. Enterprise education has been a major contributor factor in recent decades and this

evidence indicates it may well be having an impact on the actual entrepreneurial activities of these young people.

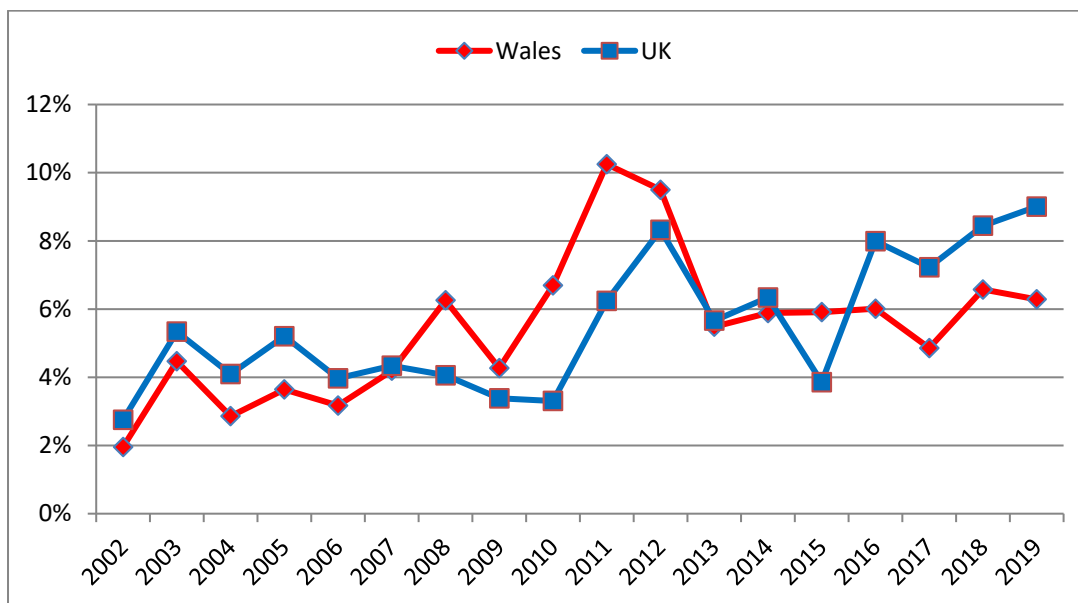


Figure 7: Trend in Total early-stage Entrepreneurial Activity amongst 18-24 year olds in Wales and the UK, 2002 to 2019 (Source: GEM APS)

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 the TEA rate for young adults in Wales, despite a lot of annual fluctuations, has almost tripled over almost two decades from 3.4 per cent to 8.8 per cent. There was a similar trend in the other home nations except Northern Ireland where the increase has been less marked and there has been greater levels of annual fluctuation. In contrast, the TEA rate among 30 to 64 year olds in Wales, as in Scotland and Northern Ireland, was significantly lower than that for England, and the UK average. This is part of the reason why the TEA rate in Wales is significantly lower than in England and the UK

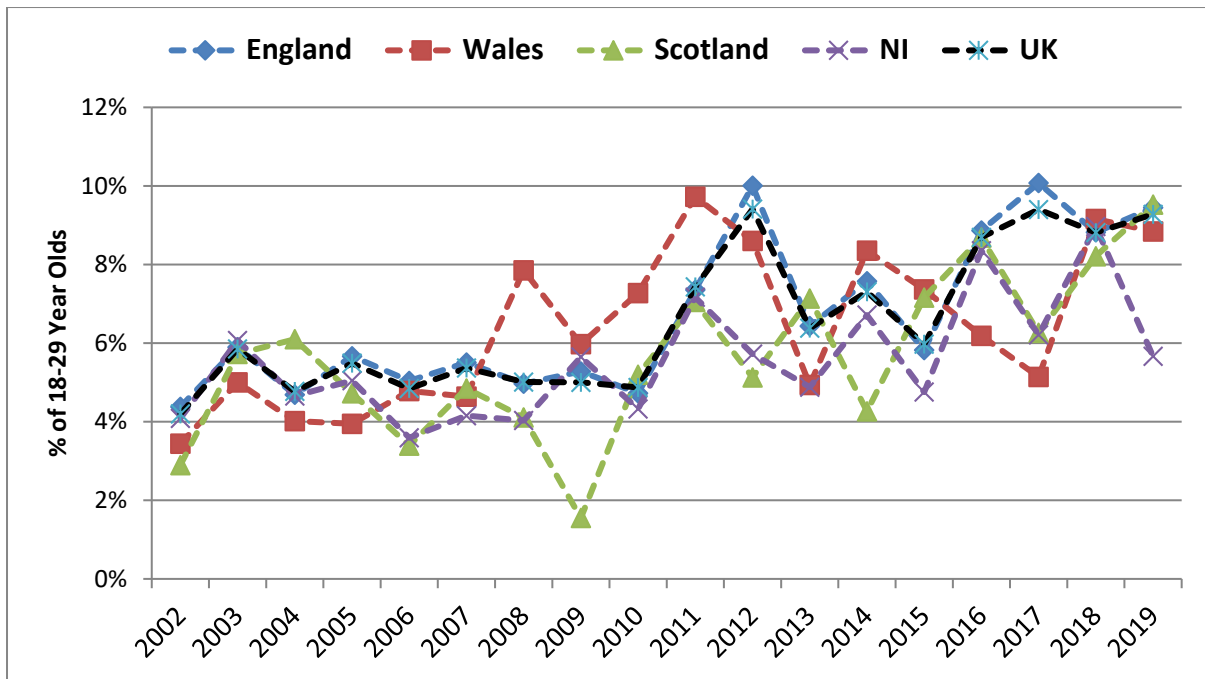


Figure 8: Trend in Total early-stage Entrepreneurial Activity in the UK Home Nations for 18 to 29 year olds, 2002 to 2019 (Source: GEM APS)

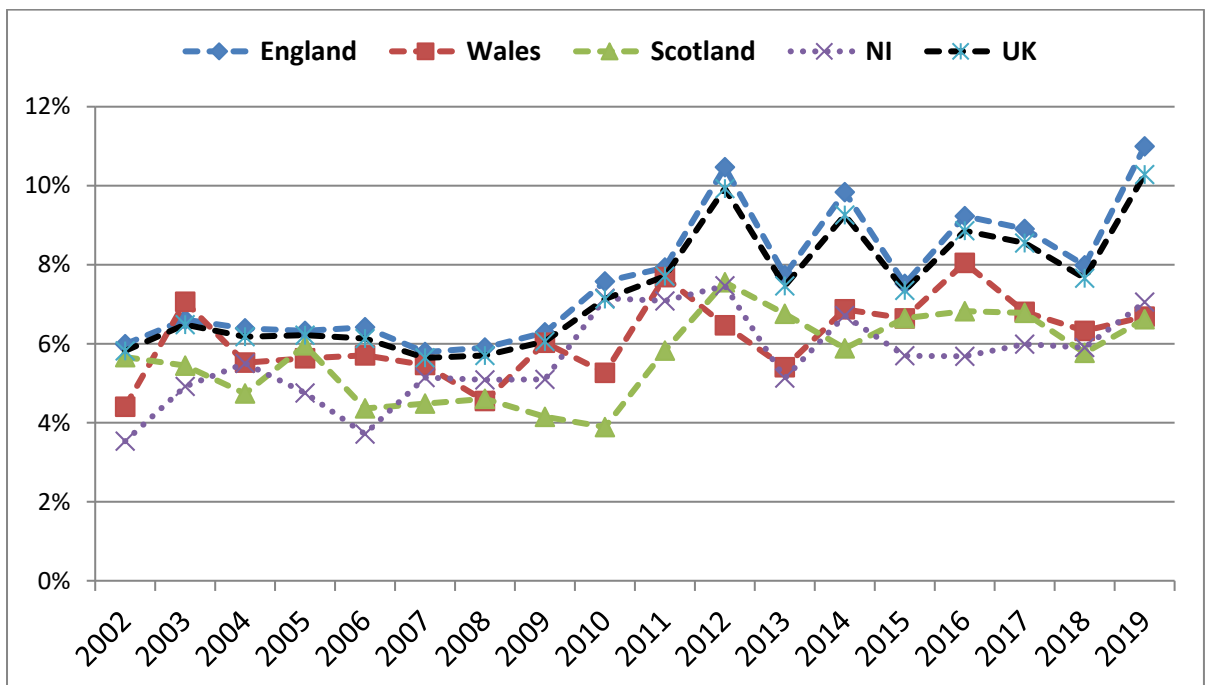


Figure 9: Trend in Total early-stage Entrepreneurial Activity in the UK Home Nations for 30 to 64 year olds, 2002 to 2019 (Source: GEM APS)

Education: Graduates in the UK typically have higher rates of early-stage entrepreneurial activity than non-graduates. In 2019 the UK graduate TEA rate of 11.9 per cent was significantly higher than the rate of 8.2 per cent for non-graduates (Figure 10). Neither rate was significantly different to that in 2018.

The Welsh graduate TEA rate in 2018 was 7.8 per cent compared to the non-graduate rate of 6.4 per cent; this difference was not statistically significant. There were also no significant differences in the respective rates compared to 2018 as they were almost identical. England was the only home nation in which the TEA rate for graduates was significantly higher than for non-graduates in 2019.

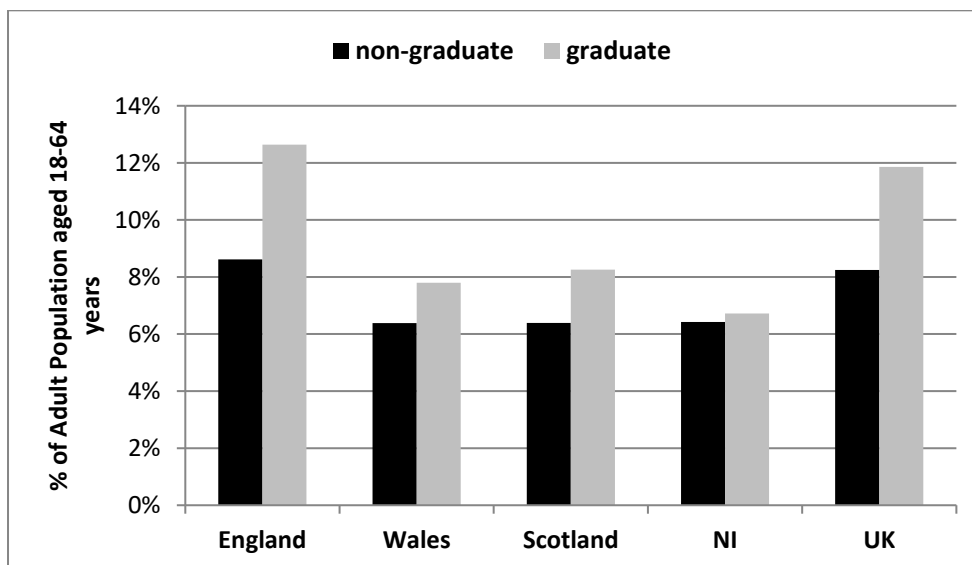


Figure 10: Total Early-Stage Entrepreneurial Activity in the UK Home Nations by Graduate Status, 2019 (Source: GEM APS)

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 are involved in entrepreneurial activity may feel compelled to provide positive answers in the Adult Population Survey (APS).

In Wales in 2019 49.1 per cent of non-entrepreneurial individuals state that they know an entrepreneur, which is slightly higher than in the UK as a whole (Figure 11), and significantly higher than in 2018 when it was 29 per cent. Around 45.2 per cent of non-entrepreneurs believe they have the skills to set up in business, again similar to the UK average of 47.5 per cent.

As in previous years, 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, 29.4 per cent in Wales versus 39.1 per cent in the UK. Despite this gap, there is no difference in the fear of failure rates amongst those who perceive good start-up opportunities.

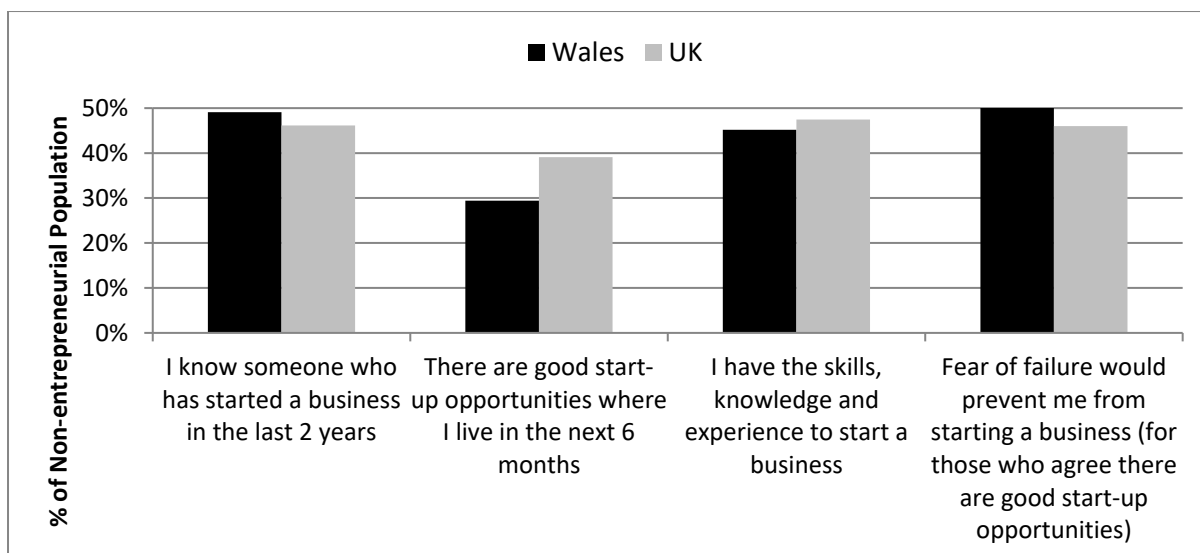


Figure 11: Entrepreneurial Attitudes and Perceptions in Wales and the UK 2019 (Source: GEM APS)

Figure 12 displays the attitudes towards entrepreneurship when restricted to 18-24 year olds only. The only significant difference in the attitudinal measures between Wales and the UK for this age group is for “*good start-up opportunities where I live in the next 6 months*”: 26.2 per cent in Wales compared to 42.7 per cent in the UK overall.

When comparing the attitudes of young people against all non-entrepreneurs (as shown in Figure 11) a lower proportion of young people in Wales believe that they have the skills, knowledge and experience to start a business, at 36.1 per cent compared to 45.2 per cent for the wider non-entrepreneurial population. This was also the case in the UK with just 39.0 per cent of young people agreeing with this statement compared to 47.5 per cent of all UK non-entrepreneurs. However, in 2019 these differences were not significant.

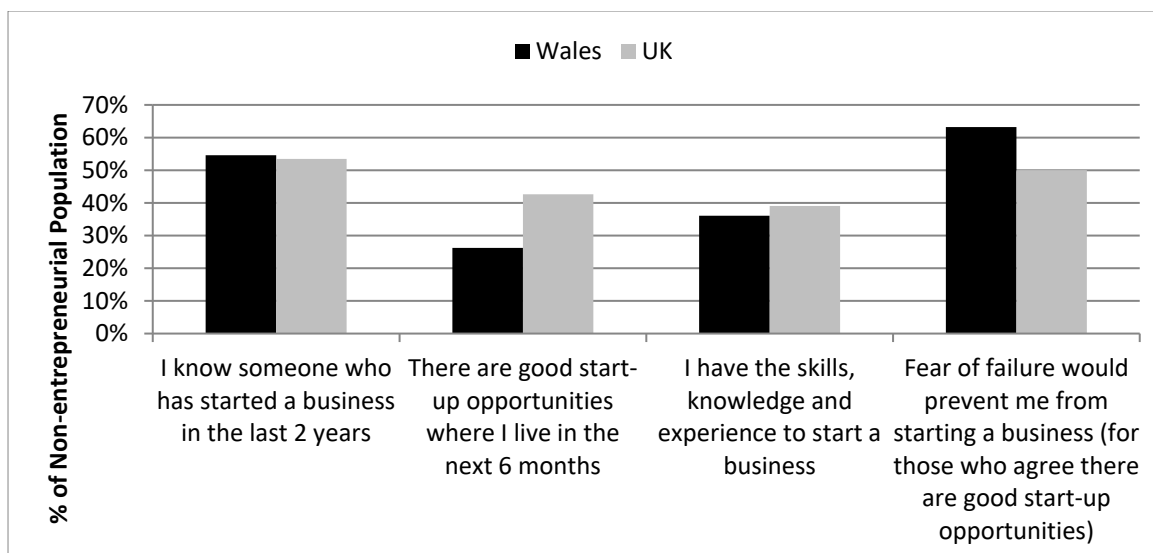


Figure 12: Entrepreneurial Attitudes and Perceptions among 18-24 year olds in Wales and the UK 2019 (Source: GEM APS)

The proportion of the non-entrepreneurial population in Wales that see good start-up opportunities but report that the fear of failure would prevent them starting a business stood at 50.6 per cent in 2019, which was not significantly different to 2018 when it was 42.1 per cent. The UK rate at 46.0 per cent was also unchanged on the year (42.8%), and was not significantly different to Wales.

Figure 13 shows that fear of failure rose sharply in Wales since 2017 as it did in the other home nations and mirrors what happened in the immediate years following the Great Financial Crisis (GFC). This upward trend may well reflect the increasing levels of uncertainty over Brexit and in 2019 the lack of progress on getting a Free Trade Agreement (FTA) with the European Union (EU). In 2019 there were no significant differences in the fear of failure rates across the home nations.

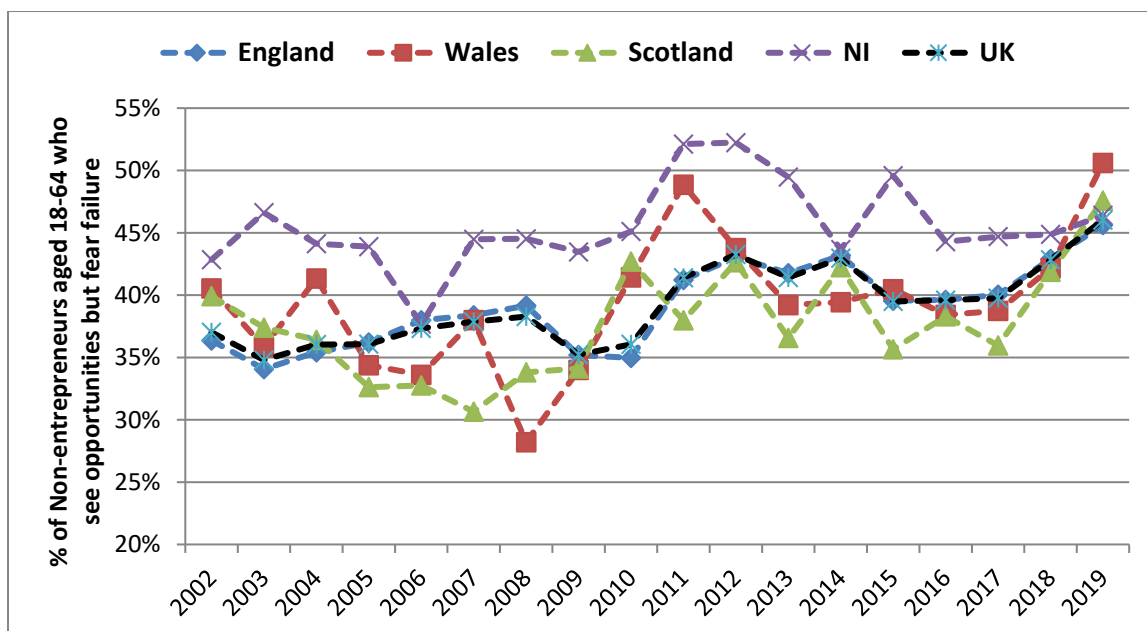


Figure 13: Fear of Failure among those who see Opportunities in the UK Home Nations, 2002-19 (Source: GEM APS)

In the 2019 survey 29.4 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 39.1 per cent in the UK. This was a slight fall from the estimate of 33.2 per cent in 2018. Neither were significantly different to their 2018 respective estimates and, although the trend for both is upward until 2018, there remains a statistically significant gap in opportunity perception between Wales and the UK since the GFC (Figure 14).

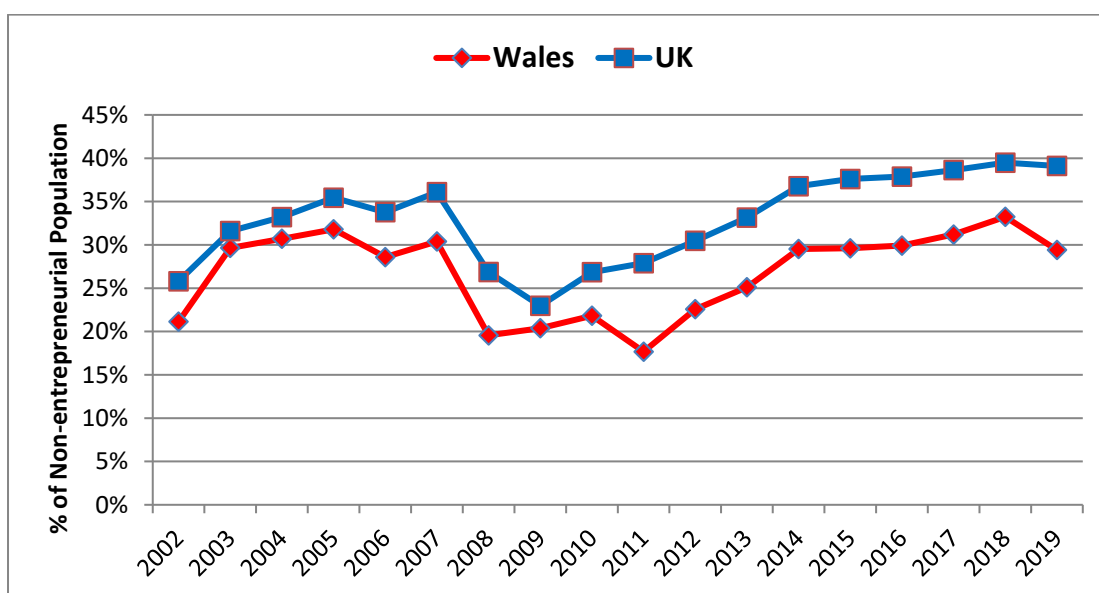


Figure 14: Perception of Start-up Opportunities in Wales and the UK, 2002-19 (Source: GEM APS)

The proportion of non-entrepreneurial working age adults in Wales who expect to start a business within the next three years stood at 7.6 per cent in 2019 up from 6.8 per cent in 2018 (Figure 15). The UK estimate was significantly higher at 11.0 per cent in 2019 a rise of 2.5 percentage points since 2018. Neither rates were significantly different to their 2017 values. The previous increases in these intention rates during the recession potentially reflected necessity reasons; in more recent years it is likely that in the face of an improving economy prospects for start-up reflect more opportunity entrepreneurship.

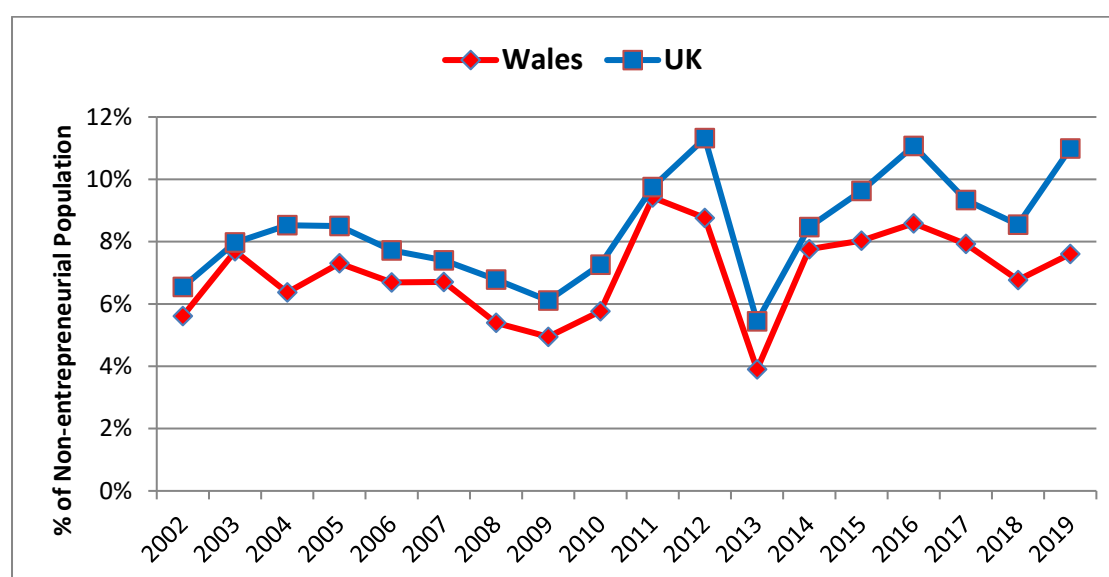


Figure 15: Future Start-up Expectations (within 3 years) in Wales and the UK amongst the non-entrepreneurial population, 2002-19 (Source: GEM APS)

In 2018, 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 4.8 per cent (Figure 16). This translates into a female to male ratio of 45 per cent which is a lower ratio than for early-stage entrepreneurship in Wales (100%). The ratio compares to 67 per cent in England, 50 per cent in Scotland and 55 per cent in Northern Ireland. Overall, start-up intentions for both males and females in the home nations were not significantly different to those in 2018.

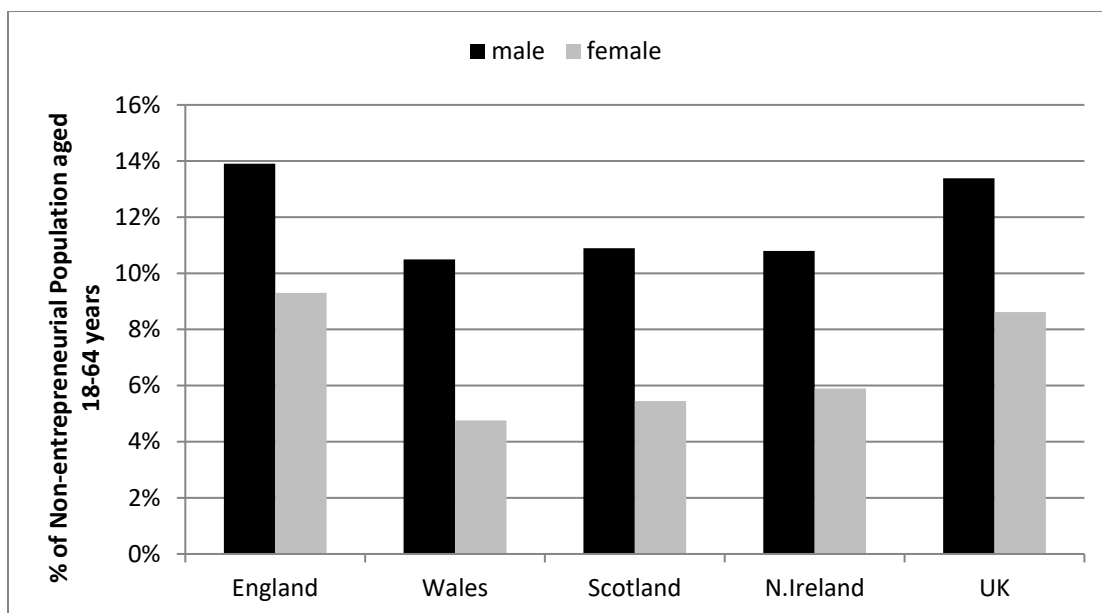


Figure 16: Future Start-up Expectations (within 3 years) in the UK Home Nations by Gender, 2019 (Source: GEM APS)

Welsh Language fluency and Entrepreneurial Activity

There were no significant differences in 2019 in the TEA rates of those in Wales who were fluent in spoken and written Welsh (7.2%); who could speak and understand some Welsh (7.7%), and who had little or no Welsh skills (6.6%). The rates were not significantly different to 2017 and 2018.

Concluding Observations

Entrepreneurial activity in Wales in 2019 has continued to remain strong with both a TEA rate and a start-up intention rate of around 7.0 per cent and 7.6 per cent respectively. Along with entrepreneurial activity, attitudes towards entrepreneurship are also relatively healthy. Just under half (45.2%) of non-entrepreneurs state that they have the skills, knowledge and experience to start a business and half (49.1%) know an entrepreneur that has started a business within the past two years. These are much higher proportions than in 2018 and are an important feature of an entrepreneurial ecosystem. Together these measures highlight a growing confidence within the population in terms of ability to start a successful business and the conditions to do so. For the first time in nearly two decades the male and female TEA rate is identical in Wales, although we need to see a longer run of data before we can celebrate the closing of the gap, and youth entrepreneurship continues to increase compared to pre GFC levels.

Despite the buoyancy, there continue to be some underlying issues. Attitude-wise a smaller proportion of non-entrepreneurs in Wales than in the UK 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. 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. Further, fear of failure is slightly higher to that in the UK and in 2019 half (50.6%) of those in Wales that identified start-up opportunities stated that fear of failure would prevent them from starting a business. This could well reflect the increasing levels of business uncertainty related to the negotiations over a FTA with the EU.

The new motivation questions in the GEM UK survey provide some interesting insights into the mind-set of early-stage entrepreneurs in Wales. They are more strongly motivated to make a difference in the world (nearly two-thirds) compared to nascent and new business owners elsewhere in the UK. They also reveal that carrying on a family tradition is more important in Wales but so too is setting up a businesses to earn a living because jobs are scarce. This provides important disaggregation of entrepreneurial motivation which goes beyond a simple binary opportunity/necessity typology.

On the eve of the COVID-19 pandemic in 2020 the outlook for entrepreneurial activity in Wales was upbeat however work remains to close the gap with the UK in terms of opportunity recognition. The results of the GEM UK 2020 survey which commenced in October 2020 will provide a fascinating insight into the entrepreneurial dynamic of the Welsh nation as it sought to respond to the challenges of the public health crisis an economy in turmoil.

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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