



GEM UK: Wales Report 2020

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The Global Entrepreneurship Monitor (GEM) is an international project involving 43 economies in 2020 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 2020 was 1,540 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 2020 was 6.5 per cent. This was not significantly different to the 2019 rate in Wales nor to the 2020 estimates of 7.7 per cent for England and 7.5 per cent for the whole of the UK.**
- **In 2020 early-stage entrepreneurs in Wales were most strongly motivated to start up to earn a living as jobs are scarce (nearly two-thirds). They were least likely to set up a business to carry on a family tradition.**
- **At 5.6 per cent the female TEA rate in Wales was not significantly different from the male rate of 7.5 per cent. The female TEA rate in Wales has dropped back from the record high of 7.0 per cent in 2019 but remains above the 2002 rate of 3.0 per cent. Neither the male nor female TEA rates in Wales in 2020 were significantly different to those in the UK.**
- **The level of youth entrepreneurship in Wales is significantly higher in 2020 than what it was nineteen years ago: 10.1 per cent compared to 2.0 per cent. There were no significant differences in entrepreneurial activity across the age groups in 2020 in Wales.**
- **Around two fifths (41.1%) of non-entrepreneurs state that they have the skills, knowledge and experience to start a business and just under half (45.1%) know an entrepreneur that has started a business within the past two years. These are similar to 2019 and together indicate a resilience 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, than in the UK, believe there are good start-up opportunities locally within the next six months. Fear of failure rates are, however, similar. In 2020 just over half (54.9%) of those in Wales that identified start-up opportunities stated that fear of failure would prevent them from starting a business.**
- **The pandemic has had the most dramatic impact on intention to start a business with the rate in Wales more than doubling in 2020. In total 16.7 per cent of non-entrepreneurial working age adults in Wales expect to start a business within the next three years, similar to the UK rate of 16.2 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 seventeenth year in which the WG has participated in GEM. Of the 351,000 respondents to GEM UK surveys for the period 2002-2020, around 65,000 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, 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 2020 adult population survey are explained in more detail in the GEM UK 2020 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 2020 survey.

The following report presents a summary of the headline results and key themes arising from the GEM survey in 2020 as well as an analysis of the nineteen years of GEM data (2002-20).

Total Early-Stage Entrepreneurial Activity (The TEA Index)

The rate of early-stage entrepreneurship in Wales in 2020 is 6.5 per cent which is not significantly different to the estimate of 7.0 per cent in 2019. The rate in 2020 is not significantly different to that in England (7.7%) and the UK estimate of 7.5 per cent (Figure 1).

Overall, a TEA rate of 6.5 per cent in Wales equates to around one in every fifteen adults aged 18-64, or around 122,000 individuals, 67 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 4 and 42 months old. The comparable figure for nascent business owners in the UK was 4.2 per cent.

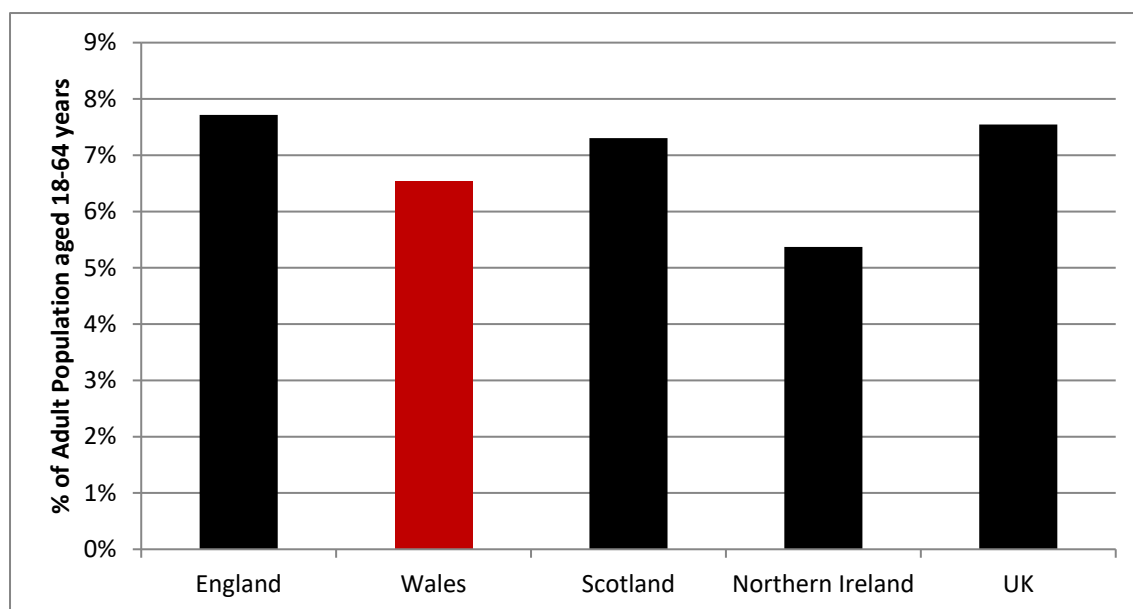


Figure 1: Total early-stage entrepreneurial activity (TEA) in the UK Home Nations 2020
(Source: GEM APS)

As Figure 2a shows the rate of early-stage entrepreneurial activity in both Wales and the UK remained relatively stable between 2004 and 2010, at around 6 per cent. 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 has narrowed again during 2020.

In 2020 the nascent entrepreneurial activity rate in Wales was 4.4 per cent, similar to 2019. The new business ownership rate of 2.4 per cent was also not significantly different to the rate of 3.0 per cent in 2019. There was a decline in the nascent entrepreneurship rate in the UK between 2019 and 2020; falling from 6.5 per cent to 4.2 per cent. The new business owner rate for the UK was virtually unchanged at 3.5 per cent in 2020. As a result, the narrowing of TEA rates between Wales and the UK was driven by the decline in nascent entrepreneurship in the UK in 2020.

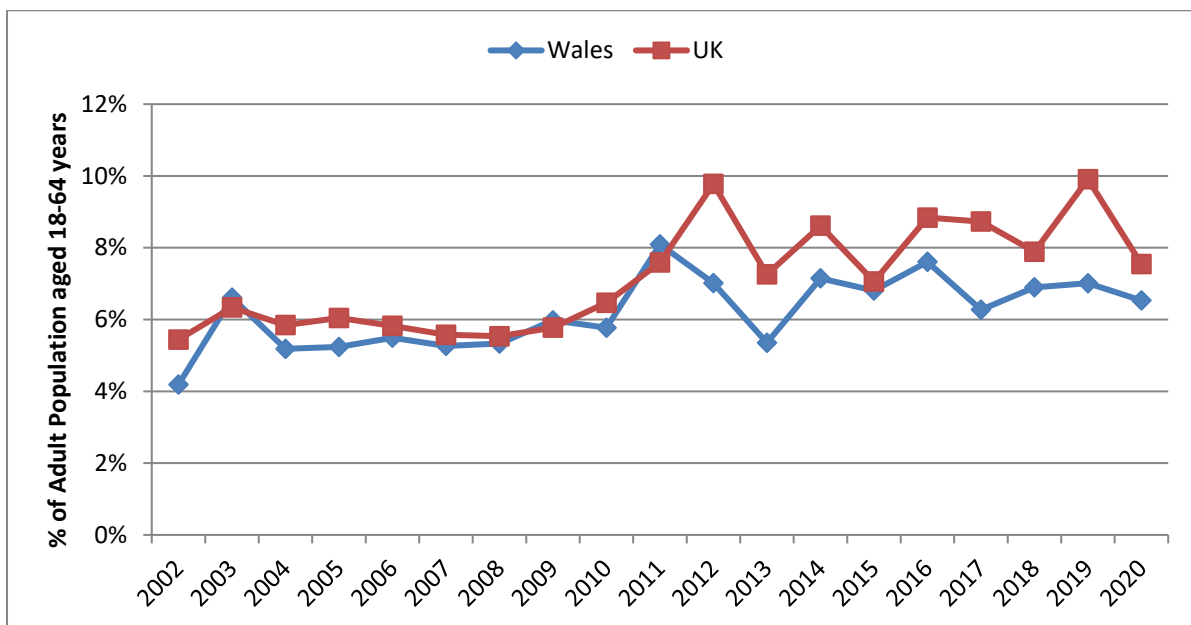


Figure 2a: Total Early-Stage Entrepreneurial Activity in Wales and the UK (2002-20)
(Source: GEM APS)

Until 2011 the TEA rates of East and West Wales followed similar trends (Figure 2b). Although a gap subsequently opened between the two the rates were not significantly different. From 2017 the rate in West Wales was higher than in East Wales but, again, the difference was not statistically significant.

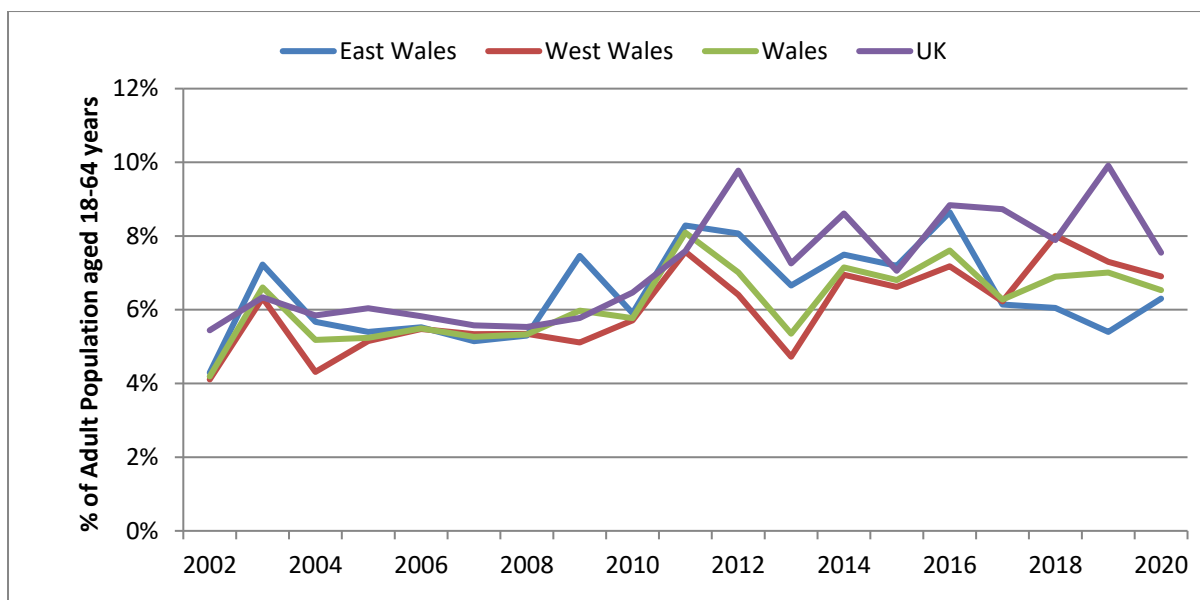


Figure 2b: Total Early-Stage Entrepreneurial Activity in East Wales, West Wales & Valleys, Wales and the UK (2002-20) (Source: GEM APS)

In the 2020 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 as a percentage of early-stage entrepreneurs. One notable aspect is that early-stage entrepreneurs in all home nations are much less likely to report starting a business “to continue a family tradition” than all other motivations. In 2020, the pandemic appeared to drive more necessity entrepreneurship with

more than three fifths of all entrepreneurs reporting starting a business “to earn a living because jobs are scarce”. Entrepreneurs in Wales were much less likely to report that they were motivated to start-up their business ‘to make a difference in the world’ (40.4%) compared to 56.3 per cent in the UK overall. Just over half were motivated by the need ‘to build great wealth or a very high income’ compared more than two fifths in the UK overall.

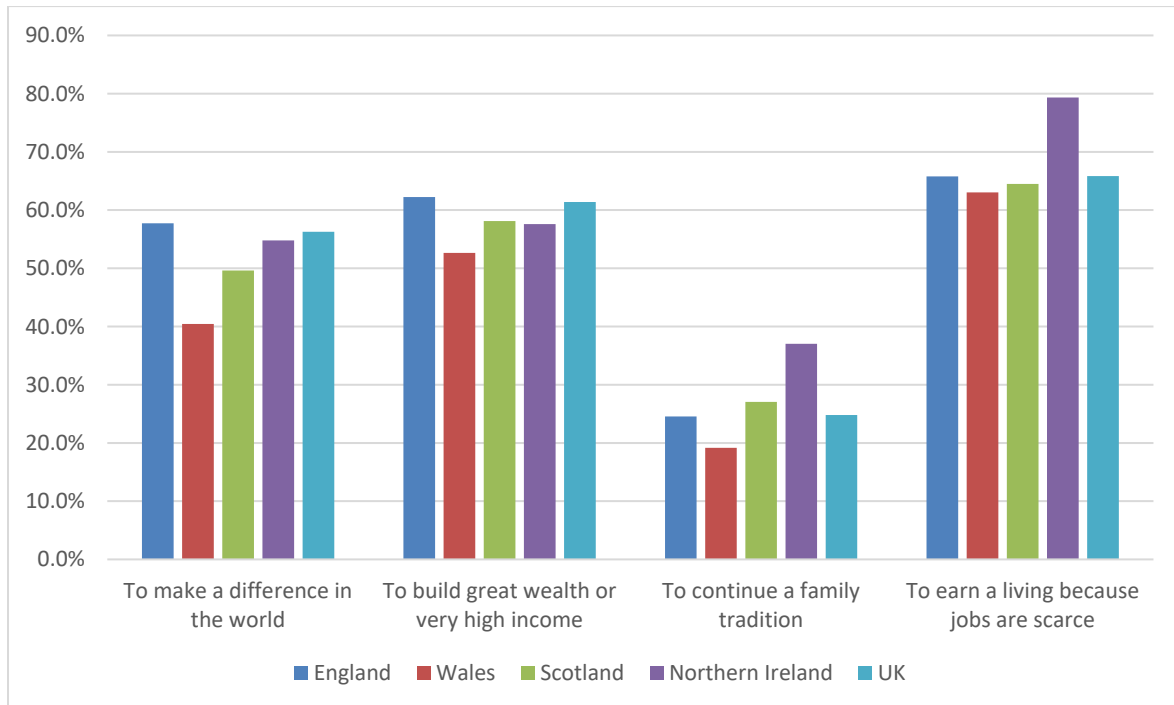


Figure 3: Motivation for Entrepreneurship in UK Home Nations (2020) (Source: GEM APS)

Who are the Entrepreneurs in Wales?

Gender: Males typically have higher early-stage entrepreneurial activity rates than females. In 2019 in Wales the male TEA rate was identical to the female TEA rate – 7.0 per cent. Similarly, in 2020 the male rate, although higher, was not significantly different to the female TEA rate. In the UK, England and Scotland in 2020 male TEA rates were all significantly higher than for females (Figure 4).

The ratio of female to male early-stage entrepreneurial activity is typically around 50 per cent in the UK but rose to 69 per cent in 2020. The ratio in Wales exceeded this at 75 per cent in 2020, similar to Northern Ireland at 73 per cent. Scotland’s ratio was lowest at 57 per cent due primarily to the high male TEA rate.

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 2020 period suggest that males are twice as likely to be early-stage entrepreneurs as females with a ratio of 56 per cent in Wales, 51 per cent in England and 55 per cent in Scotland. The Northern Ireland female to male TEA ratio is lower at just 39 per cent due to the historically low female entrepreneurial activity rates.

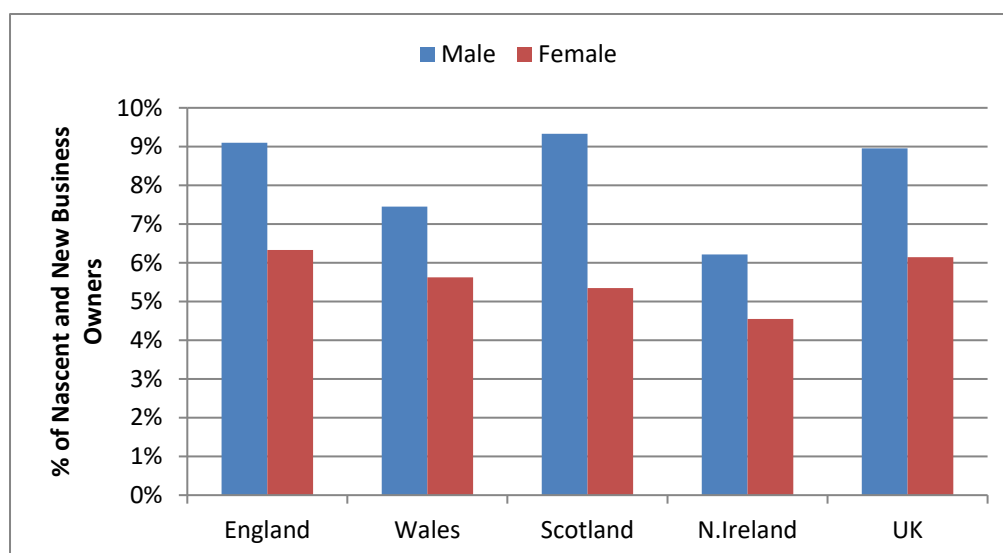


Figure 4: Total Early-Stage Entrepreneurial Activity by Gender in the UK Home Nations in 2020 (Source: GEM APS)

The female TEA rate in Wales has fluctuated a great deal over time, reaching a record high of 7.0 per cent in 2019 which was well above its long run average of around 4.0 per cent between

2002 and 2010 (Figure 5). In 2020 the rate had fallen back to that observed between 2016-18. The Welsh male TEA rate peaked in 2011 at 10.2 per cent but has fallen back to around 7 per cent since 2019. 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 lower level.

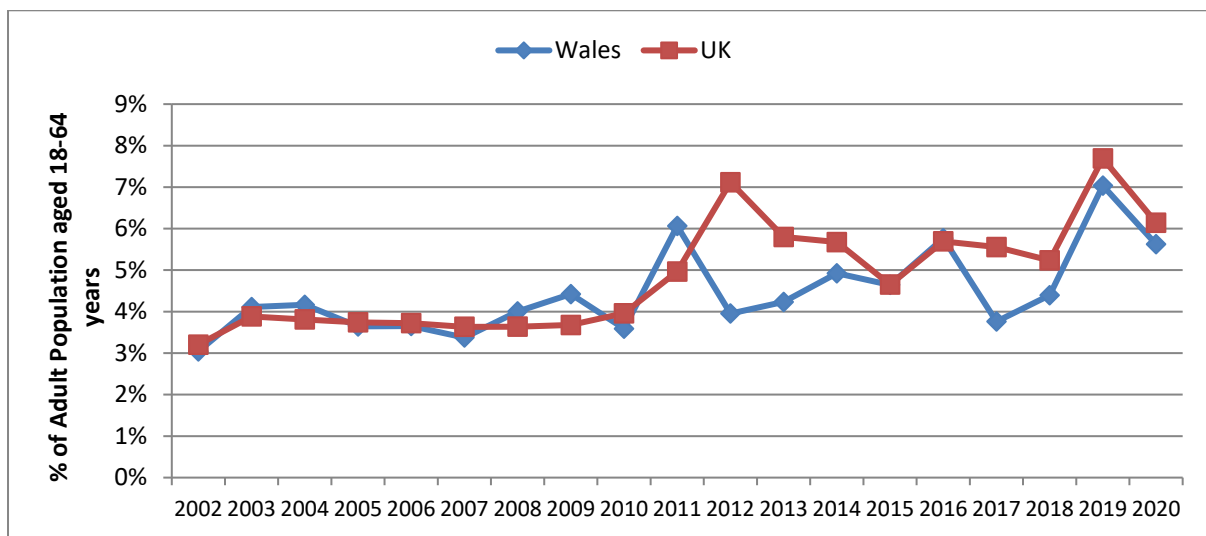


Figure 5: Total Early-Stage Female Entrepreneurial Activity in Wales and the UK, 2002-2020 (Source: GEM APS)

Age: In the UK individuals aged between 25-34 years typically display the highest rates of early-stage entrepreneurial activity. In 2020 in the UK those aged 45-64 years old had significantly lower entrepreneurial activity rates than all younger age bands but this difference was not significant in Wales. In England those aged 55-64 had significantly lower TEA rates than all younger ages. In Scotland those aged 45+ had lower entrepreneurial activity rates than those aged 18-24 only. There were no significant differences in the entrepreneurial activity rates across the age-bands in Wales or Northern Ireland (Figure 6).

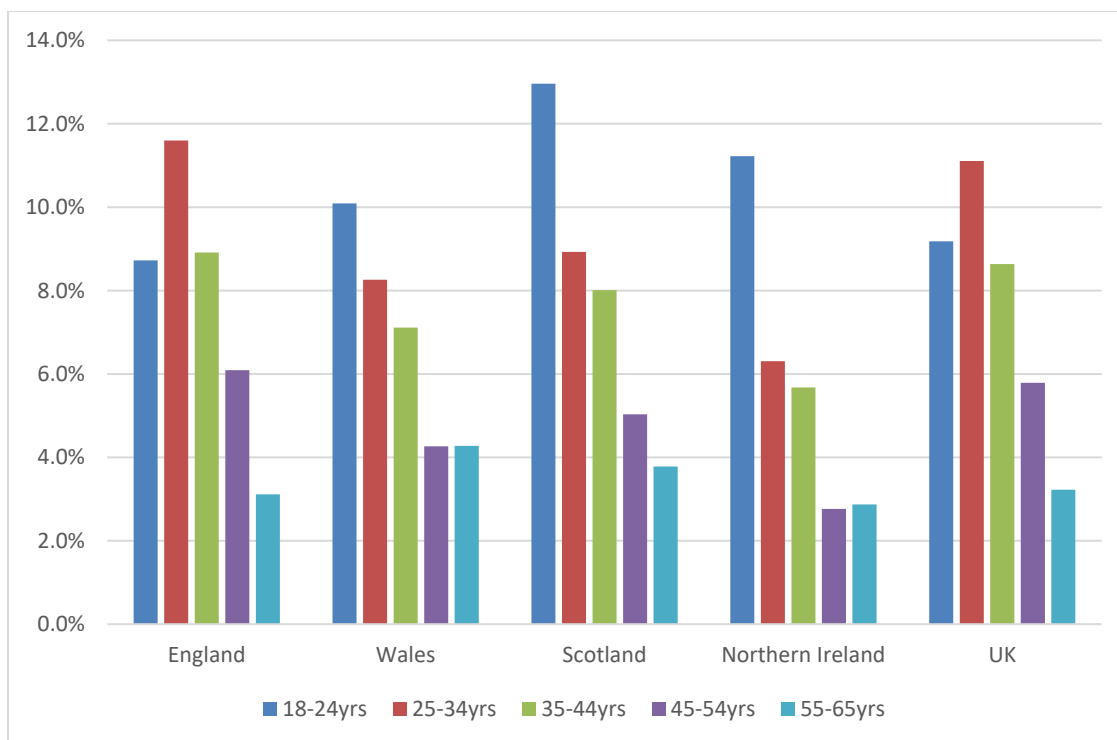


Figure 6: Total Early-Stage Entrepreneurial Activity by Age in the UK Home Nations, 2020 (Source: GEM APS)

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. It dropped back in the intervening period but was once again at 10 per cent in 2020 (Figure 7). The UK rate has been steadily increasing over recent years and has risen to its highest rate of 9.2 per cent in 2020.

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, that is until 2020 when the pandemic appears to have again driven necessity entrepreneurship among this age group.

The level of youth entrepreneurship in Wales is significantly higher in 2020 than what it was in 2002: 10.1 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 9.2 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.

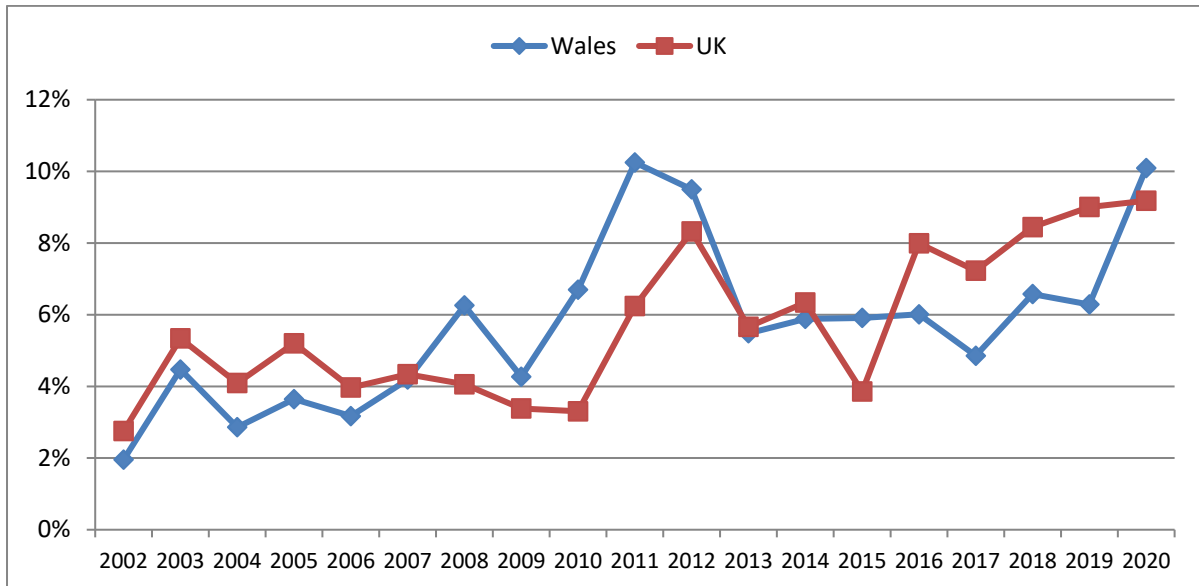


Figure 7: Trend in Total early-stage Entrepreneurial Activity amongst 18-24 year olds in Wales and the UK, 2002 to 2020 (Source: GEM APS)

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 9.2 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 to the younger entrepreneurs the TEA rate among 30 to 64 year olds in all home nations declined in 2020. In England and the UK the rate in 2020 fell by around 4 percentage points on 2019. The drop in the Welsh rate was lower at just 1 percentage point. As a result of this decline, TEA rates in 2020 across all home nations were not significantly different than those in 2002 for this age group.

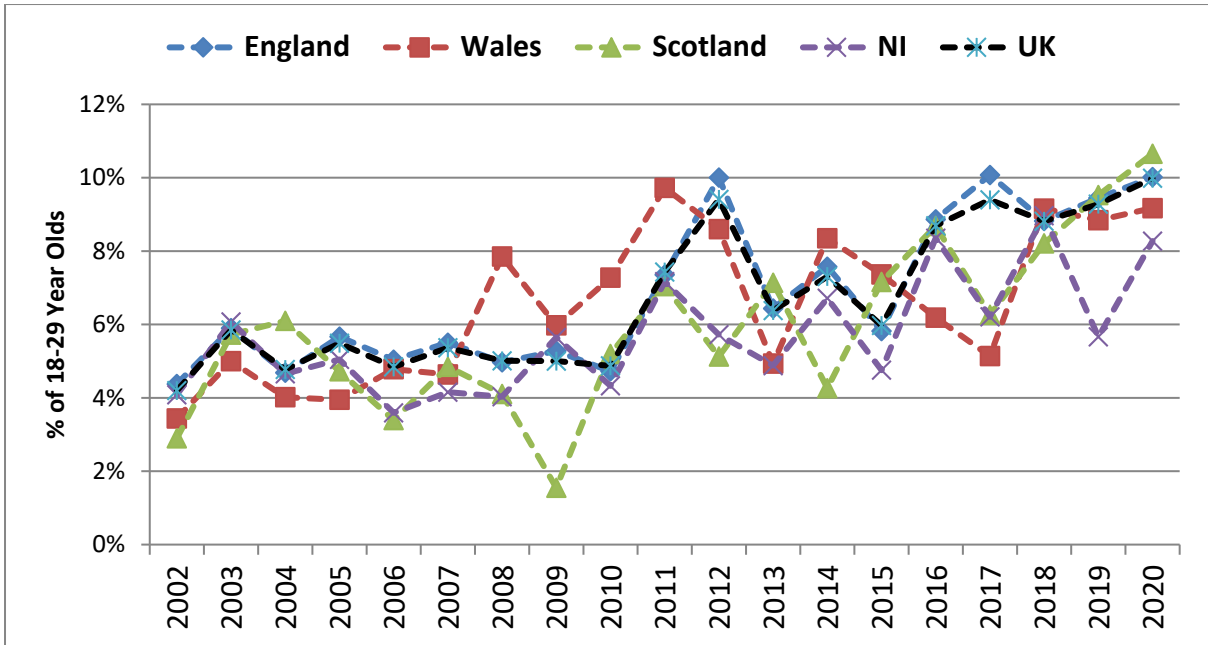


Figure 8: Trend in Total early-stage Entrepreneurial Activity in the UK Home Nations for 18 to 29 year olds, 2002 to 2020 (Source: GEM APS)

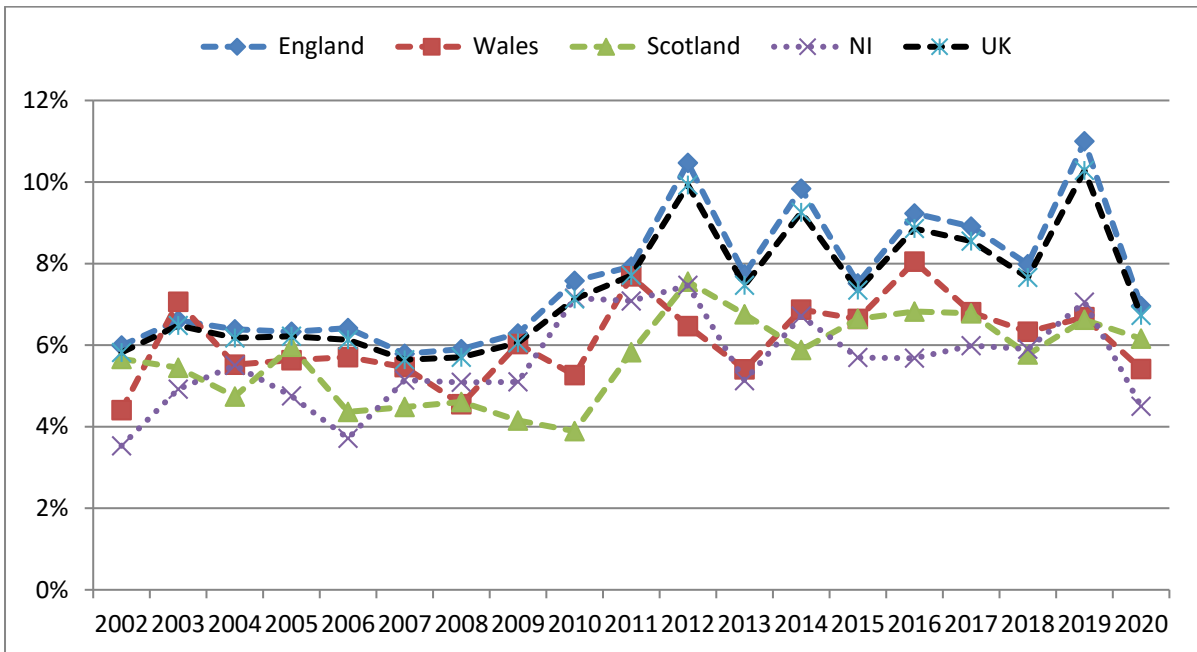


Figure 9: Trend in Total early-stage Entrepreneurial Activity in the UK Home Nations for 30 to 64 year olds, 2002 to 2020 (Source: GEM APS)

Education: Graduates in the UK typically have higher rates of early-stage entrepreneurial activity than non-graduates. In 2020 the UK graduate TEA rate of 9.0 per cent was significantly higher than the rate of 6.4 per cent for non-graduates (Figure 10). Both rates were significantly lower than 2019.

The Welsh graduate TEA rate in 2020 was 6.4 per cent compared to the non-graduate rate of 6.6 per cent; this difference was not statistically significant. There were also no significant differences in the respective rates compared to 2019. England was the only home nation in which the TEA rate for graduates was significantly higher than for non-graduates in 2020.

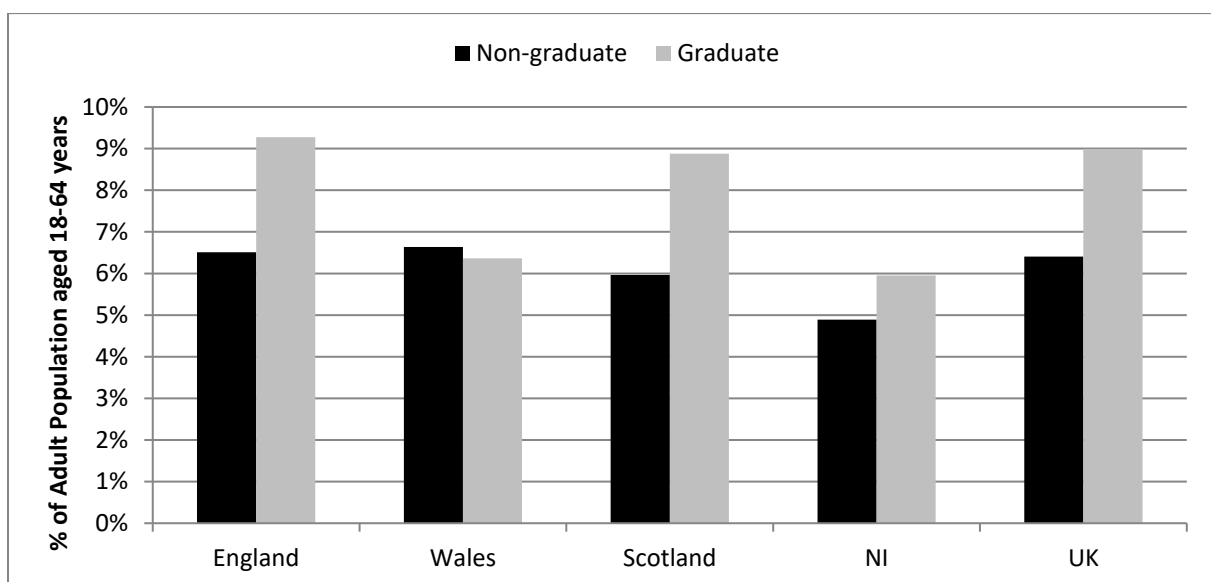


Figure 10: Total Early-Stage Entrepreneurial Activity in the UK Home Nations by Graduate Status, 2020 (Source: GEM APS)

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 2020 45.1 per cent of non-entrepreneurial individuals state that they know an entrepreneur, which is non significantly different to the UK rate of 47 per cent (Figure 11). Neither is significantly different to 2019. In total 41.1 per cent of non-entrepreneurs believe they have the skills to set up in business, again similar to the UK average of 44.3 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, 25.0 per cent in Wales versus 32.0 per cent in the UK. Despite this gap, there is no significant difference in the fear of failure rates amongst those who perceive good start-up opportunities.

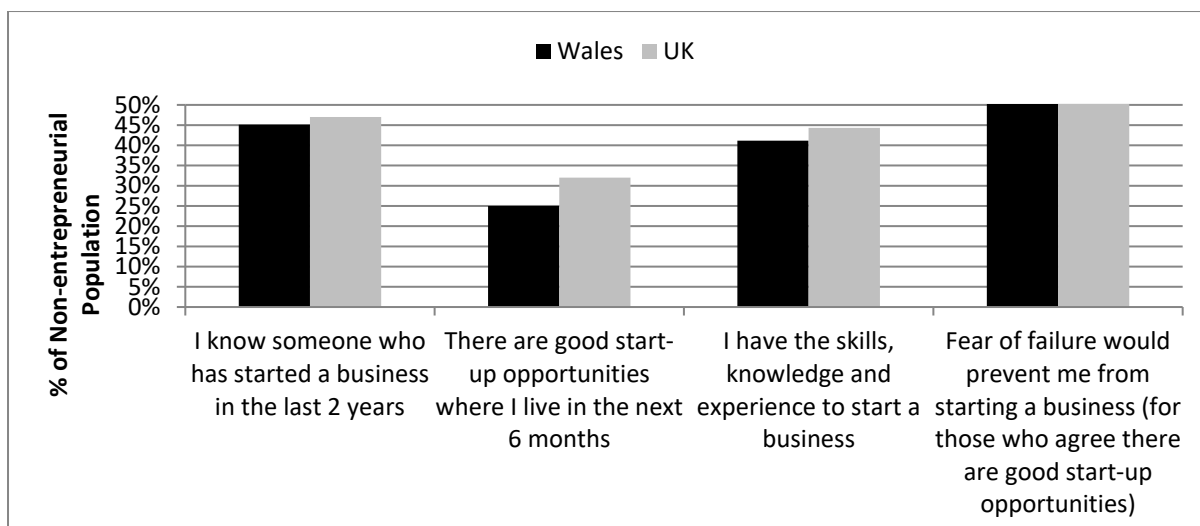


Figure 11: Entrepreneurial Attitudes and Perceptions in Wales and the UK 2020 (Source: GEM APS)

Figure 12 displays the attitudes towards entrepreneurship when restricted to 18-24 year olds only. Although the fear of failure rate is higher in Wales than the UK, there is no significant difference between it and the respective UK rate. Indeed, there are no significant differences in any of the attitudinal measures between Wales and the UK for this age group.

When comparing the attitudes of young people against all non-entrepreneurs (as shown in Figure 11) a significantly higher proportion of young people in Wales know someone who has started a business in the past two years, at 60.3 per cent compared to 45.1 per cent for the wider non-entrepreneurial population. This was also the case in the UK with 59.3 per cent of young people agreeing with this statement compared to 47.0 per cent of all UK non-entrepreneurs.

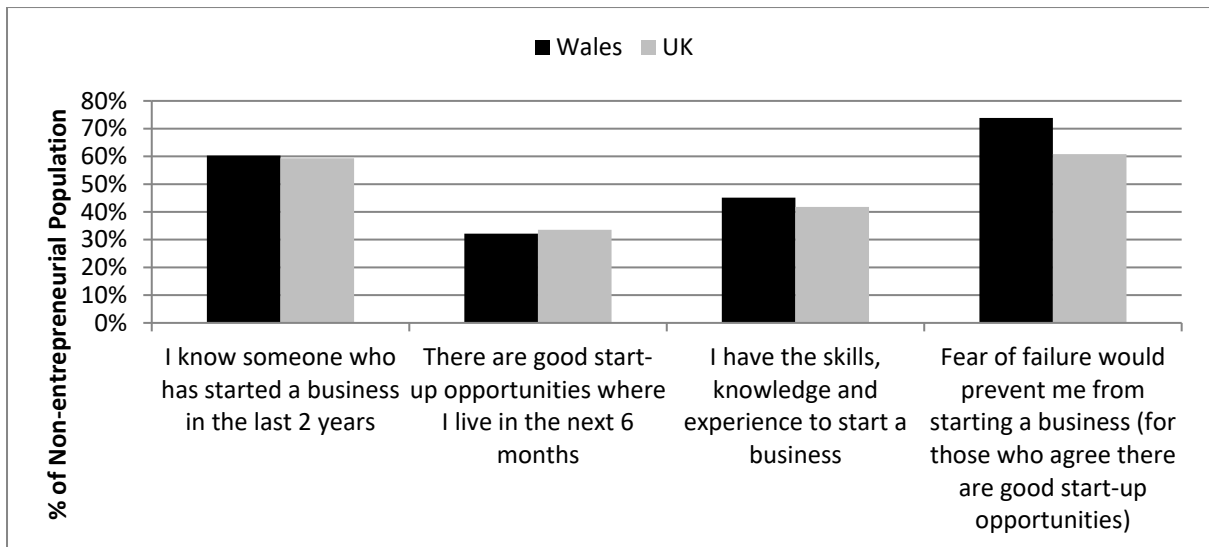


Figure 12: Entrepreneurial Attitudes and Perceptions among 18-24 year olds in Wales and the UK 2020 (Source: GEM APS)

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 54.9 per cent in 2020, which was not significantly different to 2019 when it was 50.6 per cent. The UK rate of 53.0 per cent was however, significantly higher than the equivalent rate in 2019 of 46.0 per cent.

Figure 13 shows that fear of failure has risen 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 lack of progress on getting a Free Trade Agreement (FTA) with the European Union (EU). In 2020 the pandemic further contributed towards increased fear of failure. There were no significant differences in the fear of failure rates across the home nations.

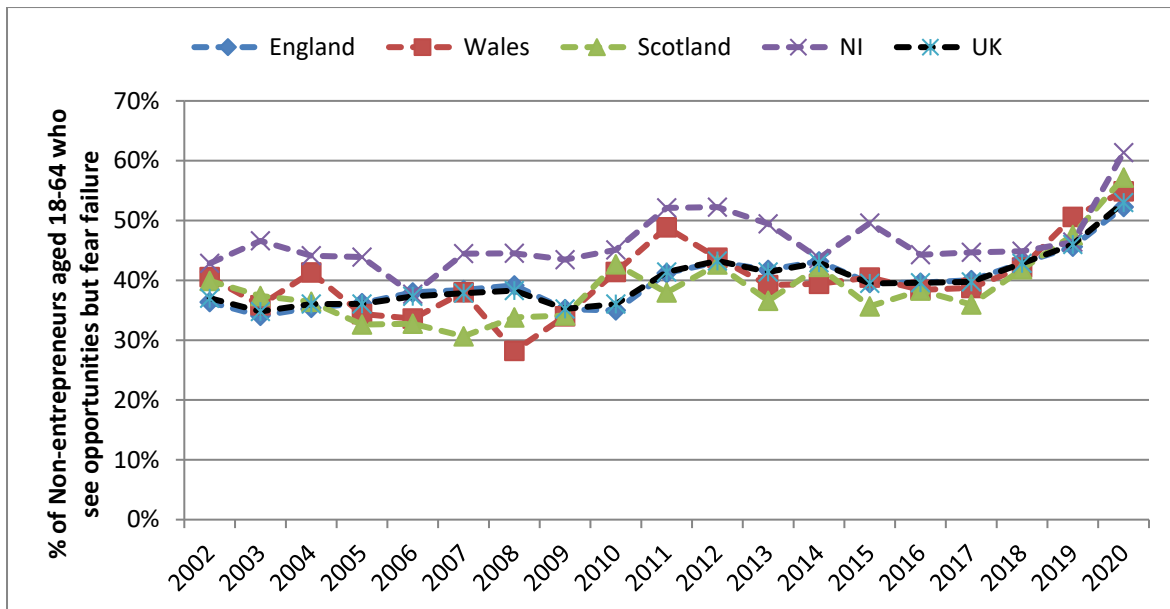


Figure 13: Fear of Failure among those who see Opportunities in the UK Home Nations, 2002-20 (Source: GEM APS)

In the 2020 survey 25.0 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 32.0 per cent in the UK. The 2020 rate in the UK was significantly lower than in 2019, although this was not the case for Wales. There remains a statistically significant gap in opportunity perception between Wales and the UK since the GFC (Figure 14).

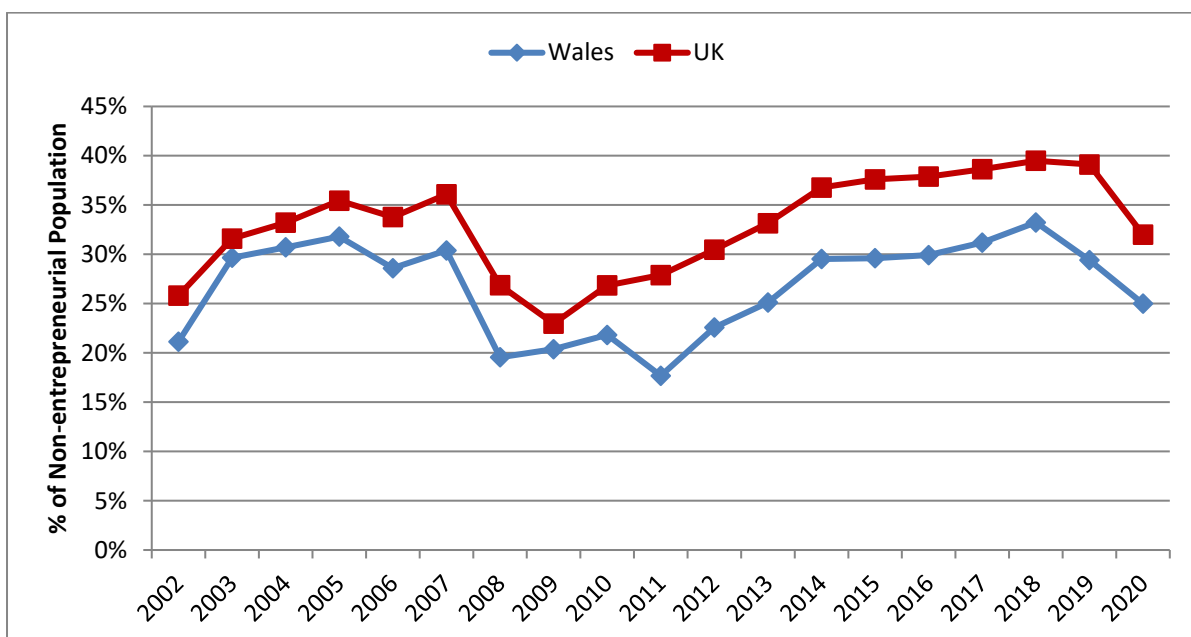


Figure 14: Perception of Start-up Opportunities in Wales and the UK, 2002-20 (Source: GEM APS)

The proportion of non-entrepreneurial working age adults in Wales who expect to start a business within the next three years stood at 16.7 per cent in 2020, the highest rate on record and significantly higher than the rate of 7.6% in 2019 (Figure 15). The UK estimate of 16.2% was also significantly higher than the rate of 11.0 per cent in 2019. The previous increases in these intention rates during the recession potentially reflected necessity reasons. It is likely that in 2020 the pandemic has induced both necessity and opportunity driven intention due to job losses but also new ways of working and digital opportunities.

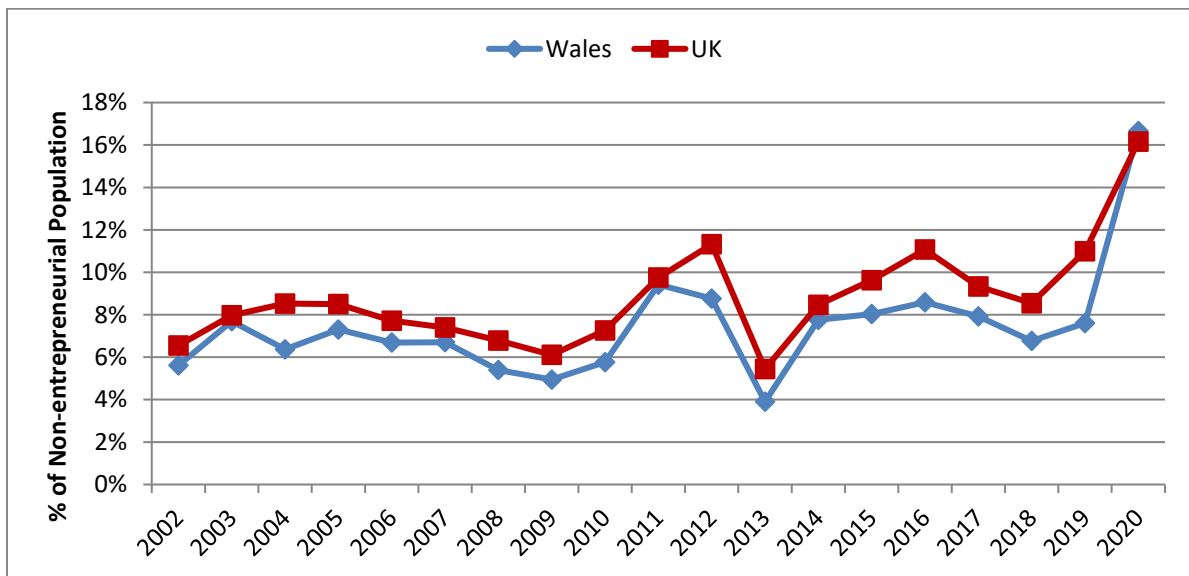


Figure 15: Future Start-up Expectations (within 3 years) in Wales and the UK amongst the non-entrepreneurial population, 2002-20 (Source: GEM APS)

In 2020, at 19.3 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 not significantly higher than that for females at 14.1 per cent (Figure 16). However the male rate for Wales, along with England and Northern Ireland were significantly higher than the equivalent male rates in 2019. The female rates for all homenations were significantly higher in 2020 than in 2019.

The 2020 intention rates for Wales translate into a female to male ratio of 73 per cent which is similar to that for early-stage entrepreneurship in Wales (75%). The ratio compares to 68 per cent in England, 96 per cent in Scotland and 61 per cent in Northern Ireland.

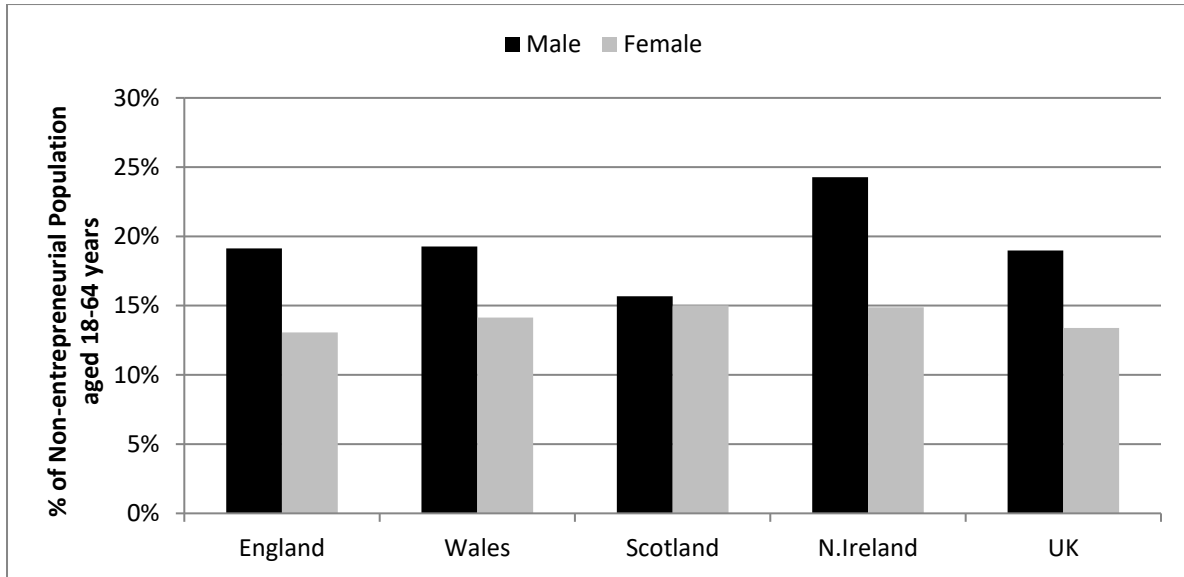


Figure 16: Future Start-up Expectations (within 3 years) in the UK Home Nations by Gender, 2020 (Source: GEM APS)

Welsh Language Fluency and Entrepreneurial Activity

There were no significant differences in 2020 in the TEA rates of those in Wales who were fluent in spoken and written Welsh (9.3%); who could speak and understand some Welsh (8.3%), and who had little or no Welsh skills (5.0%). The rates were not significantly different to 2019.

Concluding Observations

Entrepreneurial activity in Wales in 2020 has held up well considering the pandemic with little difference in the rate between 2019 and 2020. This contrasts with the UK overall where entrepreneurial activity in 2020 was significantly lower than in 2019. In Wales, intention to start a business is particularly buoyant, more than doubling over the year, indicating potential for necessity and opportunity entrepreneurship. Notably, the rise was for both males and females.

Along with entrepreneurial activity, attitudes towards entrepreneurship are also relatively healthy. Around two fifths (41.1%) of non-entrepreneurs state that they have the skills, knowledge and experience to start a business and just under half (45.1%) know an entrepreneur that has started a business within the past two years. These are similar proportions to 2019 and are an important feature of an entrepreneurial ecosystem. Together with the intention rates these measures highlight a growing confidence within the population in terms of ability to start a successful business and the conditions to do so. Continuing the trend from 2019 male and female TEA rates are not significantly different in Wales, although we need to see a longer run of data before we can celebrate the closing of the gap. 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. Notably fear of failure is similar to the UK in 2020 with just over half (54.9%) of those in Wales that identified start-up opportunities stating that fear of failure would prevent them from starting a business. Despite this, it does not seem to have impacted future intention.

The new motivation questions in the GEM UK survey provide some interesting insights into the mind-set of early-stage entrepreneurs in Wales. In 2020 they are more strongly motivated to start a business to earn a living as jobs are scarce, suggesting an immediate impact of the

pandemic. Compared to the UK, fewer in Wales seek to make a difference in the world (two fifths) compared to more than half of entrepreneurs in the UK. Carrying on a family business tradition was also the least important motivating factor in Wales and elsewhere. This provides important disaggregation of entrepreneurial motivation which goes beyond a simple binary opportunity/necessity typology.

Overall, the COVID-19 pandemic in 2020 appears to have altered motivations for entrepreneurship but it has not dampened activity. If anything, it has increased the likelihood for more entrepreneurship in Wales, with intention rates surging. The results of the GEM UK 2021 survey which commenced in October 2021 will provide a fascinating insight into whether such intention translates into action and we see a subsequent uplift in entrepreneurial activity in Wales.

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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