



## **Global Entrepreneurship Monitor (GEM)**

### **2009 survey - South East summary**

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## GEM UK: South East Summary 2009

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The Global Entrepreneurship Monitor (GEM) is an international project involving 54 countries in 2009 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. Entrepreneurship is thought to be one of the mechanisms that helps turn around recessions by reallocating resources in such a way that promising new activities replace obsolete economic activities. 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 the South East was 2,995 adults aged over 16 years of age in 2009 as a result of support from the South East England Development Agency (SEEDA).

### Main Findings

- As the economy was struggling to emerge from the recession in the third quarter of 2009 the percentage of nascent and new entrepreneurs in the working age population - the early stage entrepreneurial activity (TEA) rate - was 6.2% in the South East. This compares with 5.5% in 2008. The difference in these annual estimates is not statistically significant. The TEA rate for the UK in 2009 was 5.8%, broadly the same as 12 months earlier (5.3%).
- The South East had the third highest TEA rate of a group of UK regions and nations in 2009. However, the regional differences in 2009 are much narrower than in previous years and the TEA rate in the South East is statistically different from only one region: Scotland.
- The female TEA rate in the South East was 3.6% in 2009, the same as in 2008 while the male TEA rate increased from 6.8% to 8.1%. The UK female TEA rate was 3.7% in 2009. While the female TEA rate has declined slightly in relation to the male TEA rate in the past two years, the long run ratio of female to male TEA is identical to the UK average.
- The age profile of entrepreneurs in the South East is similar to that of the UK as a whole. Graduate TEA rates in the South East are also similar to national rates.
- The proportion of the non-entrepreneurial population in the South East reporting that there are good opportunities for start-up in their local areas in the next 6 months declined in 2008 and again in 2009 to 24.5% from a high of 41.0% in 2007. This trend is similar to the UK.
- Future start-up expectation rates in the South East have remained at 6.2% of the working age population, the same as the UK estimate in 2009, and mark an eight year low.
- A fifth of early-stage entrepreneurs and 8% of established business owner-managers in the South East thought there were more opportunities for their business as a result of the global slowdown. And almost one in three entrepreneurs (nascent and new business owners) in the South East in 2009 were more positive about their prospects for growth than they were before the global slowdown. These two groups of business owners have the potential to be the job and wealth creators of tomorrow.

## Background

The South East England Development Agency (SEEDA) sponsored the South East component of the Global Entrepreneurship Monitor (GEM UK) research project. Stimulating entrepreneurship remains an important challenge for the region and SEEDA has taken the lead in ensuring that it is embedded within its core activities. This is the eighth year in which SEEDA has participated in GEM and we are beginning to see the results of that commitment as we now have one of the largest databases on entrepreneurial intentions of any region of the UK for the period 2002-2009. Where appropriate, we draw upon this pooled dataset of ~180,000 respondents for the UK (~16,000 in the South East) to provide trend analysis. Participation in the GEM project is providing valuable evidence regarding the level of early stage entrepreneurship within the South East.

The results from GEM data analysis are used as key benchmarking indicators by regional and national authorities around the world. They also enable comparisons to be made with the other regions of the UK and other countries participating in GEM. Overall, GEM's unique ability to provide information on the entrepreneurial landscape of countries in a global context makes its data a necessary resource for any serious attempt to study and track entrepreneurial behaviour.

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

## How GEM Measures Entrepreneurial Activity

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

- A telephone survey of a random sample of the adult population is conducted between May and September: the GEM Adult Population Survey (APS).
- The TEA index is the proportion of those respondents in the sample of adults aged 18 to 64 who are classified as nascent<sup>1</sup> entrepreneurs and new business owner-managers<sup>2</sup>. Respondents who are established business owner-managers are also identified.
- All entrepreneurs are asked if the motive for their new business was necessity (i.e. there are no better alternatives for work) or opportunity (where entrepreneurs may be exploiting the potential for new market creation).
- In addition the GEM survey asks all respondents about their attitudes to entrepreneurial activity.

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

The following presents a summary of the headline results, and key themes arising from the GEM survey in 2009 and the analysis of the eight years of GEM data (2002-09).

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

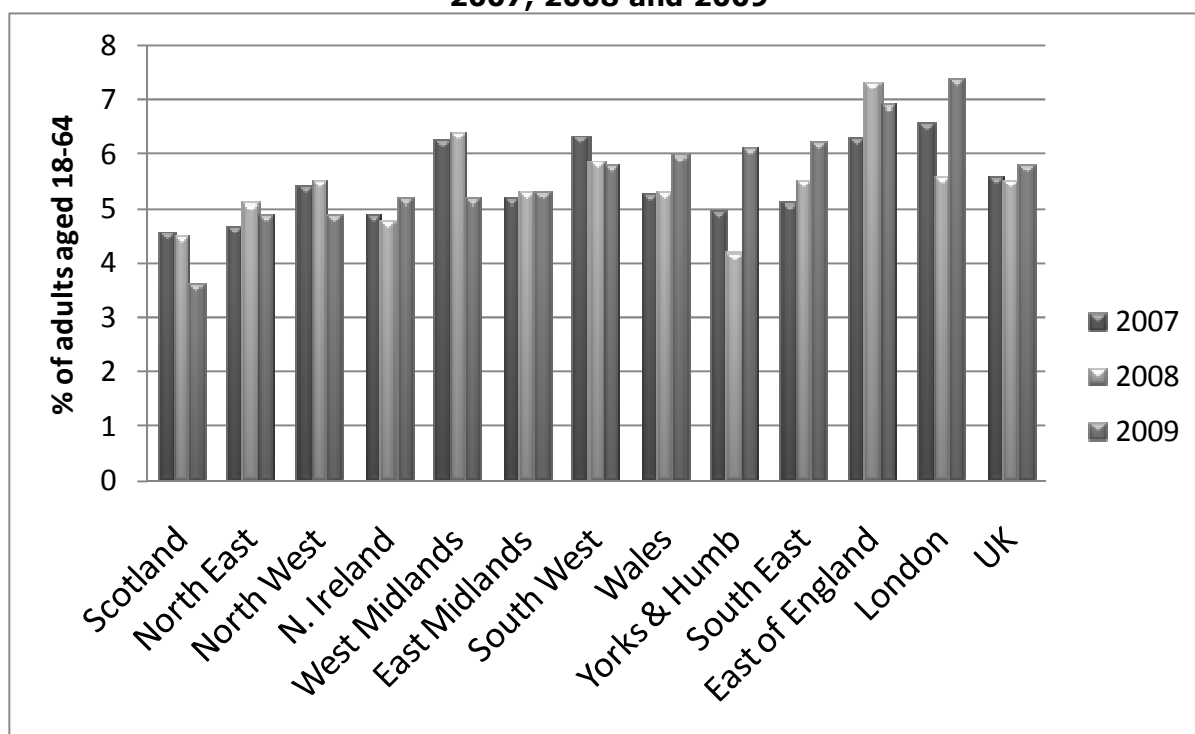
<sup>2</sup> The second phase is the first 42 months after the new venture begins to pay wages. Entrepreneurs who at least part own and manage a new business that is between 4 and 42 months old and have not paid salaries for longer than this period are referred to as new business owner-managers.

### Total Early-Stage Entrepreneurial Activity (the TEA Index)

Figure 1 shows the level of total early-stage entrepreneurial activity (TEA) for the UK regions between 2007 and 2009. The point estimate for TEA in the South East for 2009, which is based on a sample of 2255 individuals aged between 18 and 64, was higher than it was in the previous two years: 6.2 per cent compared to 5.5 per cent in 2008 and 5.1 per cent in 2007. However, this apparent rise is not statistically significant. In comparison the TEA rate for the UK was 5.8 per cent in 2009 which was almost identical to the previous two years (5.6% and 5.5%).

Overall, a TEA rate of 6.2 per cent in the South East equates to around one in every sixteen working age adults, or just over 320,000 individuals, equally divided between those individuals in the very early stages of starting a business (nascent entrepreneurs 3.1%) and those who had a new business which was between 3 and 42 months old (3.2%). In both the South East and the UK, nascent entrepreneurship rates have fallen since 2003, although the trend is more volatile in the South East, probably because of smaller sample sizes. New business owner-manager rates in the South East have very closely tracked UK average since 2006, although as in the case of nascent entrepreneurship rates, they were higher than the UK average in earlier years.

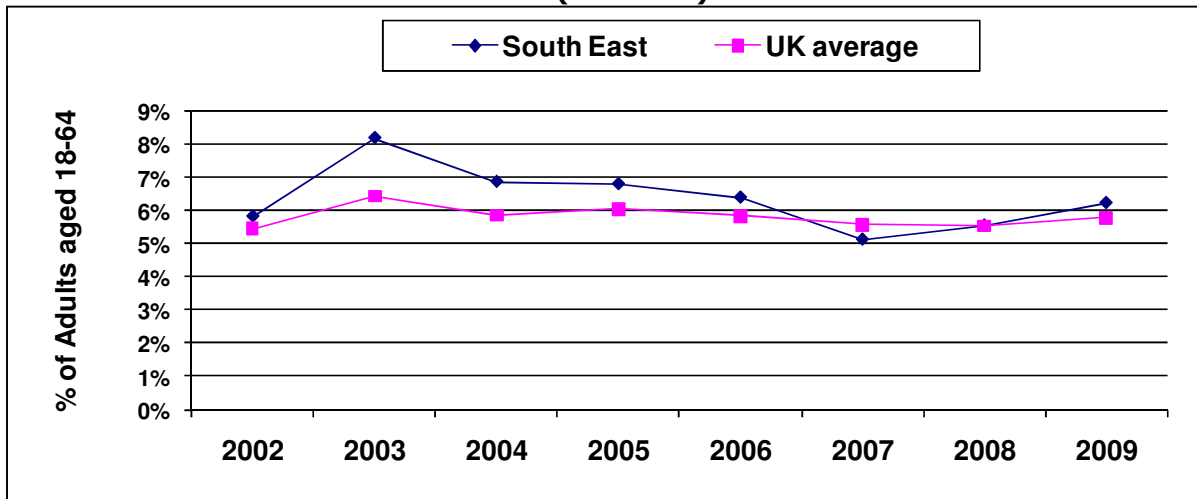
**Figure 1: Total early-stage entrepreneurial activity (TEA) in the UK Regions in 2007, 2008 and 2009**



Source: GEM APS

Looking at the 2002-2009 period we observe that the rate of early-stage entrepreneurial activity in the South East as the economy continued to suffer from the economic downturn is just above what it was in 2002 (Figure 2). The level of early-stage entrepreneurial activity in the South East has tracked the UK trend very closely over the past four years.

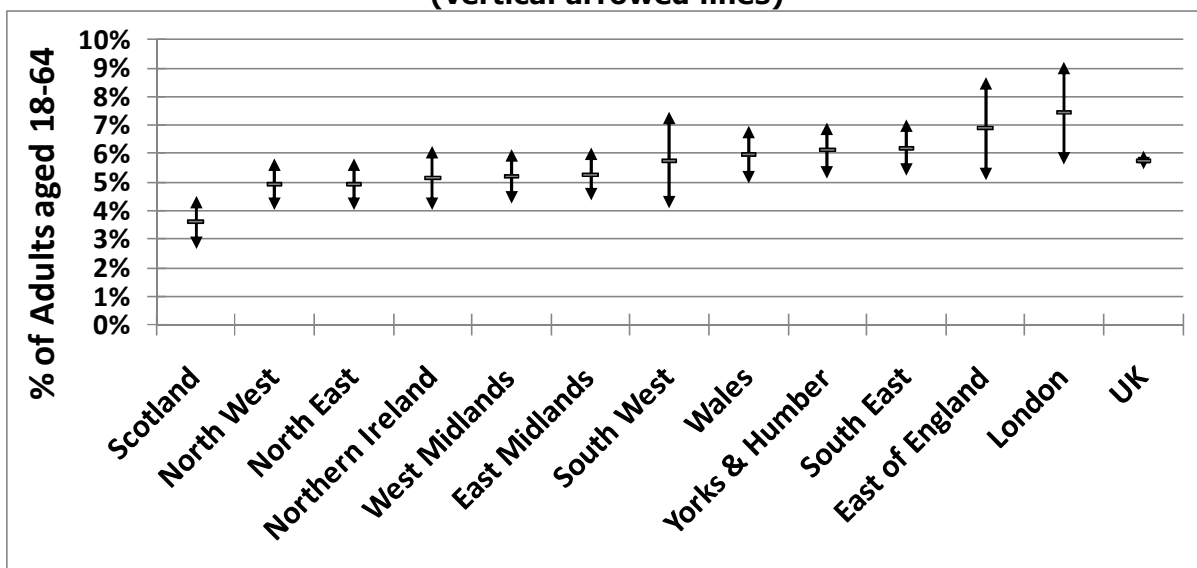
**Figure 2: Total Early-Stage Entrepreneurial Activity in the South East and the UK (2002-09)**



Source: GEM APS

The South East had the third highest TEA rate of a group of UK regions and nations in 2009. However, the regional differences in 2009 are much narrower than in previous years and the TEA rate in the South East was statistically different from only one region: Scotland. Scotland's TEA rate was significantly lower than that of Wales, Yorkshire & Humberside, South East, East of England and London, as shown by the gaps between 95% confidence intervals of regional point estimates in Figure 3.

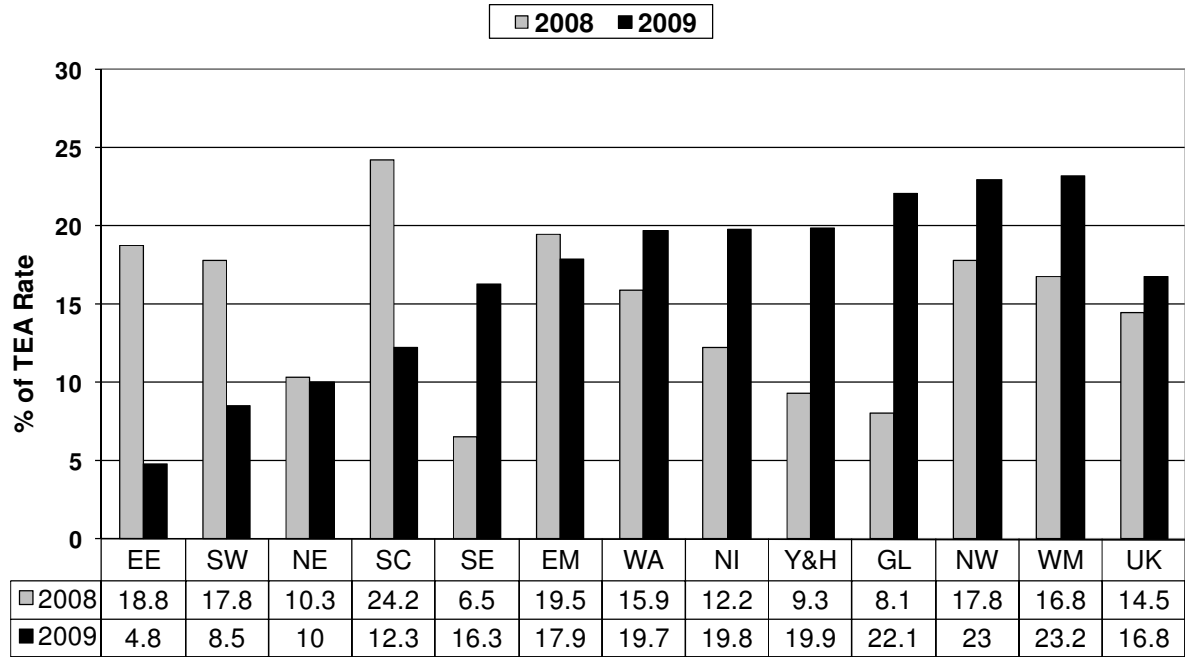
**Figure 3: Early-Stage Entrepreneurial Activity in the UK Regions in 2009, showing point estimates (horizontal bars) and 95% confidence intervals (vertical arrowed lines)**



Source: GEM APS

As the recession deepened in the South East and the level of early-stage entrepreneurial activity increased, 'necessity' entrepreneurship as a proportion of early-stage entrepreneurial activity increased to 16.3 per cent in 2009. This compares with 6.5 per cent in 2008 and 10.0 per cent in 2007 (Figure 4). Those giving opportunity as the main motive for starting reduced from 88% of all early-stage entrepreneurs to 76%. Given the increasing difficulties in the labour market since 2008 there could be an increase in 'push' factors influencing people to start a business in the South East. However, the opposite trend is apparent in the East of England. Necessity entrepreneurship is very rare in the UK, so actual year-to-year fluctuations may not be accurately represented in small samples. Caution needs to be exercised in interpreting ratios such as these.

**Figure 4: Necessity Entrepreneurship as a % of TEA in UK Regions in 2008 and 2009**



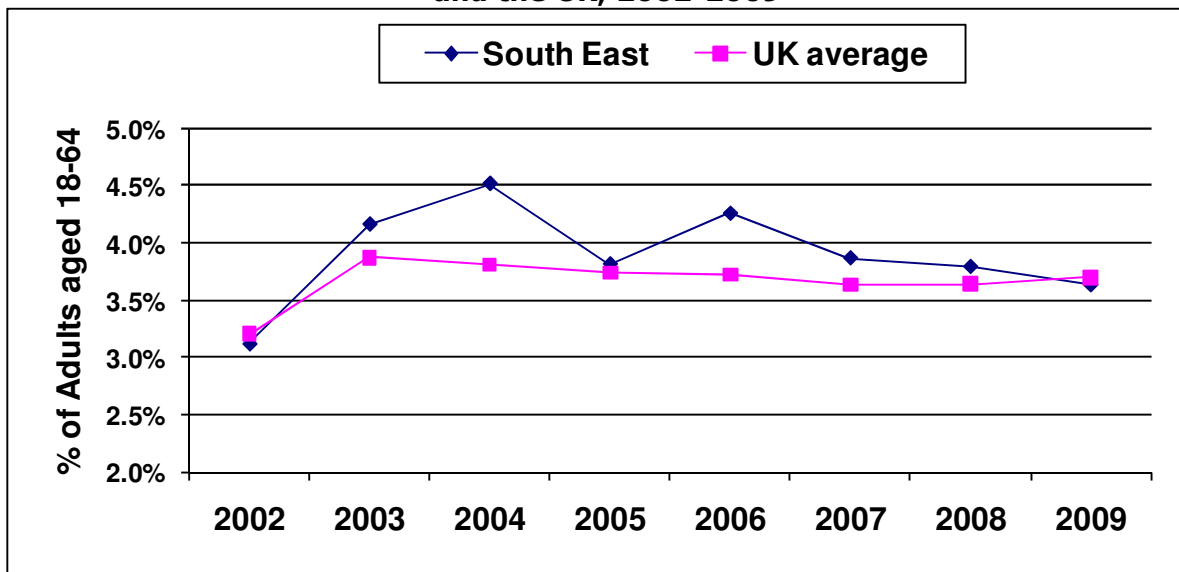
Source: GEM APS

### Who are the Entrepreneurs in the South East?

**Gender:** In 2009, the female level of entrepreneurial activity in the South East was 3.6 per cent compared to 8.8 per cent for males. This compares with 3.8 percent and 7.3 per cent in 2008. However, these year on year changes in the male and female TEA rates are not significant (Figure 5). The ratio of female to male TEA rates in the South East has declined from 76% in 2007 to 59% in 2009, but the eight year average at 63% is very close to the UK average of 62%.

The female TEA rate in the South East is almost identical to the UK overall (3.7%). The regions with higher point estimates of female TEA are London (5.5%), the East of England (4.5%) and Wales (4.4%), although none of these are statistically different.

**Figure 5: Total Early-Stage Female Entrepreneurial Activity in the South East and the UK, 2002-2009**



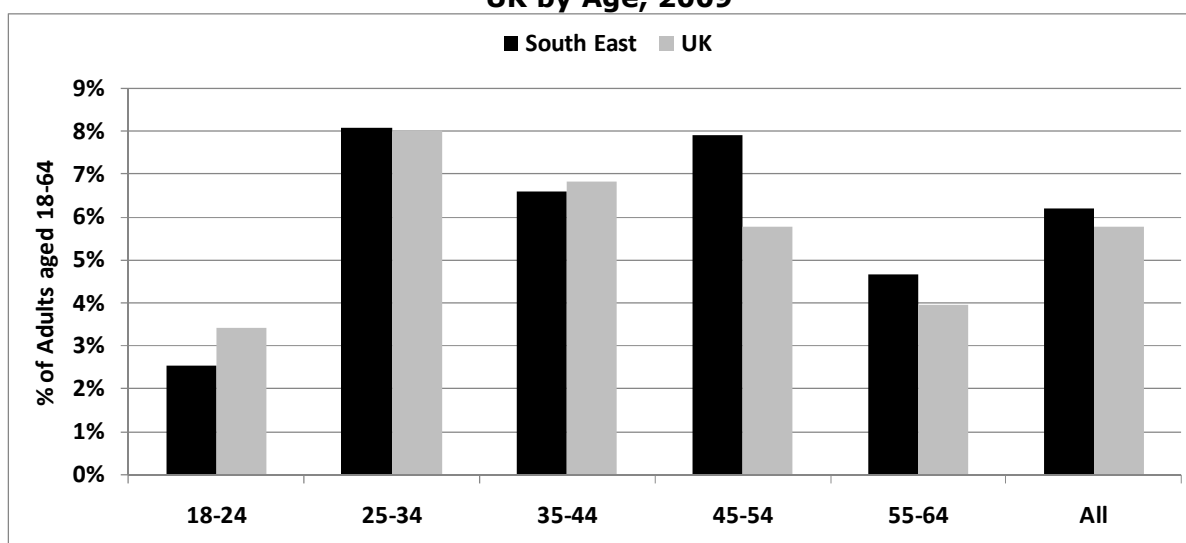
Source: GEM APS

**Age:** In the South East, 2.5 per cent of young adults (aged 18 to 24) are engaged in total early-stage entrepreneurial activity compared to 3.4 per cent for the UK as a whole (Figure 6). This represents a fall of almost 3 percentage points since 2008 (from 5.3%) for this age group but it is not statistically significant, because the sample of 18 to 24 year olds is small.

The regions with the highest levels of early-stage entrepreneurial activity in this youngest age group are London (7.6%) and Yorkshire & Humberside (5.6%). Early-stage entrepreneurial activity in the South East peaks for the 25-34 age group (8.1%) which is the same for the UK (8%).

At the other end of the age spectrum there were no significant differences in TEA rates between the South East and the UK for those individuals aged between 55 and 64 years: 4.7 per cent compared to 3.9 per cent.

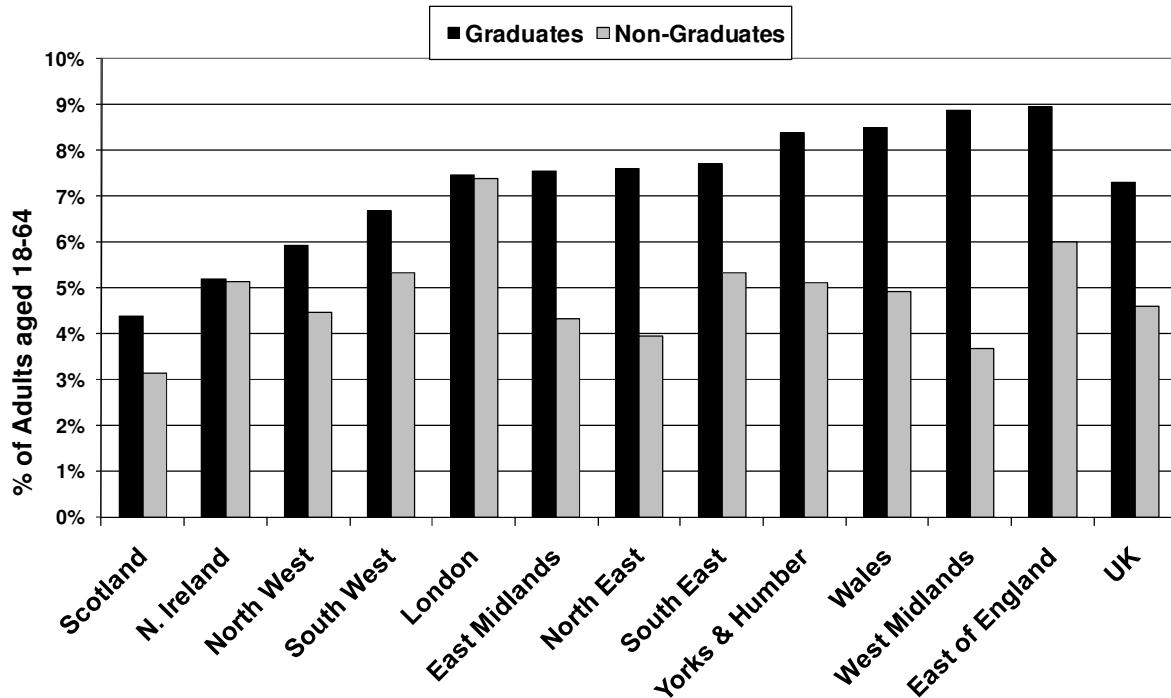
**Figure 6: Total Early-Stage Entrepreneurial Activity in the South East and the UK by Age, 2009**



Source: GEM APS, 2009

**Education:** The average rate of total early-stage entrepreneurial activity for graduates in the UK in 2009 was 7.3 per cent (6.8% in 2008). The level of graduate entrepreneurship in the South East was 7.7 per cent of graduates currently residing in the region – an insignificant decrease of half a per cent since 12 months ago (Figure 6). There is a great deal of variation across the UK regions and the South East is ranked 5<sup>th</sup>, with the East of England (9%) and the West Midlands (8.9%) the top two regions - as they were 12 months previously. However, the only significant difference again in 2009 is between the West Midlands and Scotland (4.4%).

**Figure 7: Total Early-Stage Entrepreneurial Activity in the UK Regions by Graduate Status, 2009**

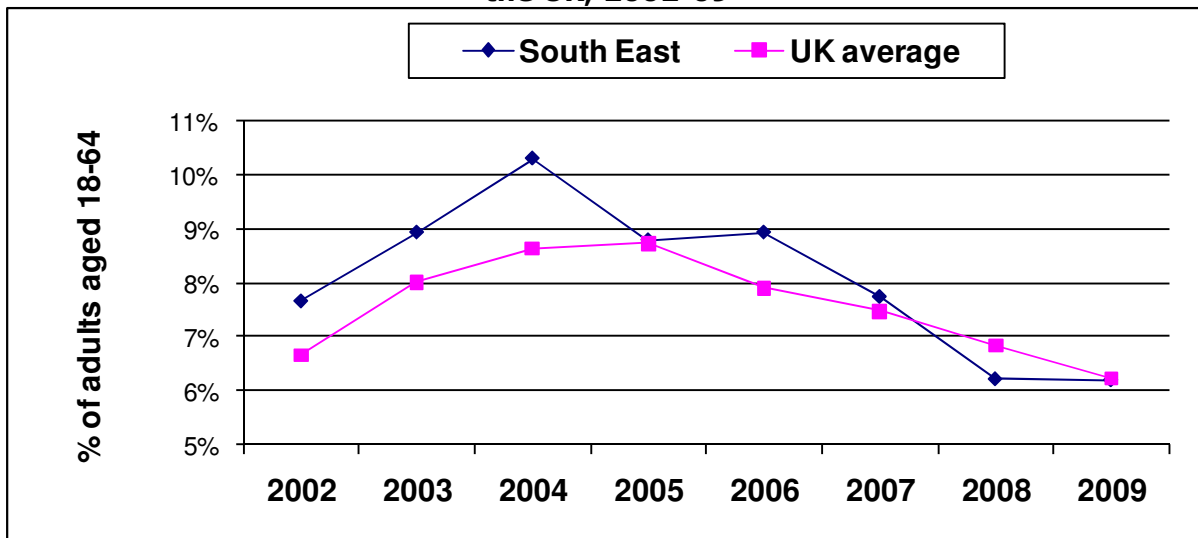


Source: GEM APS, 2009

### Entrepreneurial Intentions

Looking to the future, the proportion of adults in the South East who expect to start a business within the next three years was the same in 2009 as in 2008: 6.2 per cent (Figure 10). This compares with a slight fall in the UK from 6.8 to 6.2 per cent. Interestingly, there has been a steady fall in future start-up intentions in the South East since 2004 – well before the recent economic downturn. Intention rates in the South East have more closely tracked the UK average in recent years, just like TEA rates.

**Figure 10: Future Start-up Expectations (within 3 years) in the South East and the UK, 2002-09**

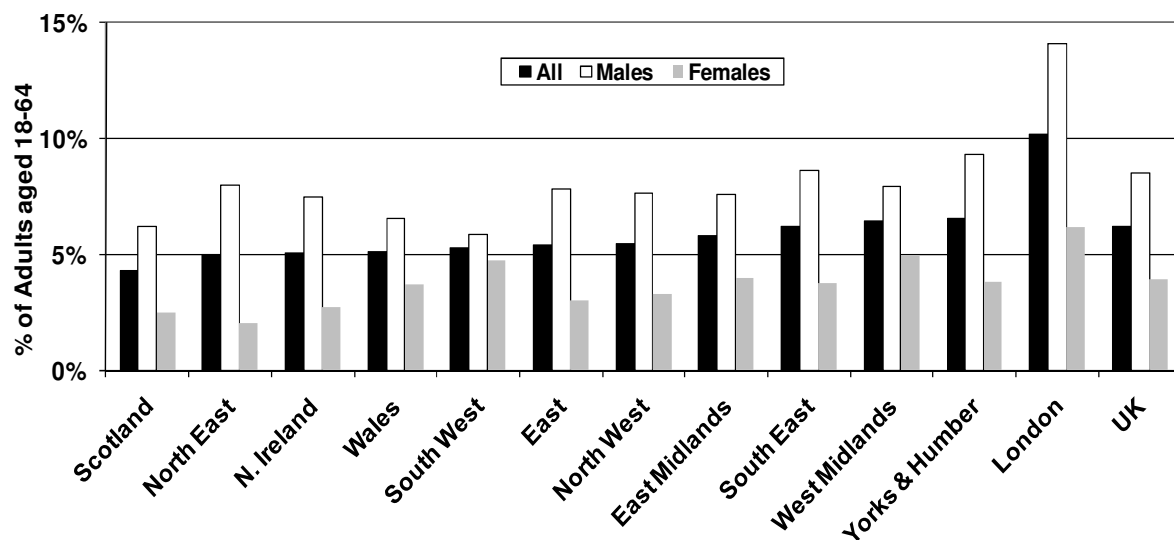


Source: GEM APS

In 2009, 3.8 per cent of women in the South East expected to start a business in the next 3 years compared to 8.6 per cent of men, very similar to the UK rates of 3.9 per cent and 8.5 per cent. Only London recorded a significantly higher rate of future start-up

intentions than respondents in the South East. In all regions except South West, West Midlands, Wales and Northern Ireland, men were statistically more likely than women to report that they intend to start a business in the next three years (Figure 11).

**Figure 11: Future Start-up Expectations (within 3 years) in the UK Regions by Gender, 2009**



Source: GEM APS, 2009

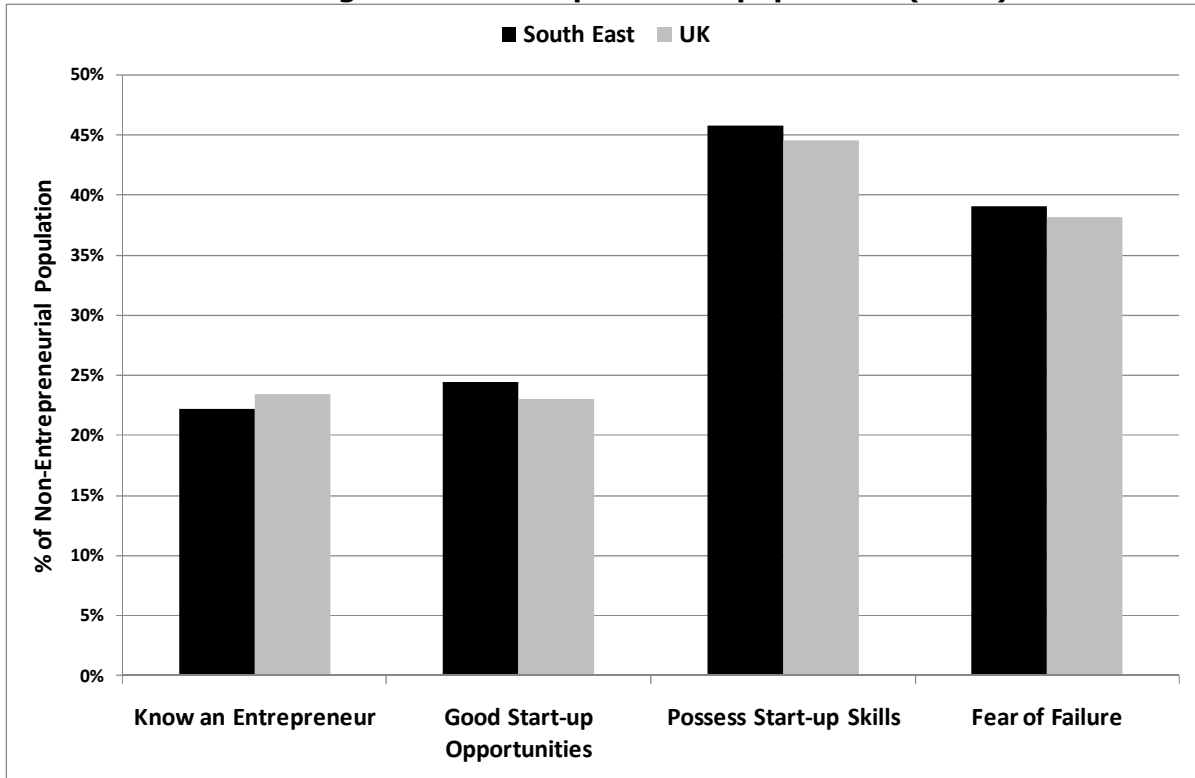
### Entrepreneurial Attitudes

GEM has developed a number of attitudinal statements which provide a proxy for entrepreneurial potential in a country/region. They include knowing a person starting a business in the last 2 years, perception of good opportunities for start-up, self-belief in possessing the relevant skills to set up in business and the importance of fear of failure as a deterrent to setting up in business.

GEM attitudinal data is best treated at the group rather than individual level, because individuals who are already entrepreneurs may feel compelled to provide positive answers in the Adult Population Survey (APS). Here, as in 2008, we report attitudinal data only for that portion of the population who are not already entrepreneurs. While most attitudes have not changed much in the past three years, there has been a marked decline in opportunity perception.

In the South East in 2009, 22.3 per cent of non-entrepreneurial individuals stated that they know an entrepreneur, similar to the UK as a whole (Figure 8). In the South East over two-fifths (45.8%) of non-entrepreneurs believed they have the skills to set up in business – again similar to the UK average. Only London has higher proportions (just over half) reporting they have the skills to set up a business. The proportion of the population reporting that the fear of failure would prevent them starting a business is the same in the South East (39.1%) as in the UK overall – just under two-fifths. This is a proportion that has not changed significantly throughout the recession.

**Figure 8: Entrepreneurial Attitudes and Perceptions in the South East and the UK among the non-entrepreneurial population (2009)**

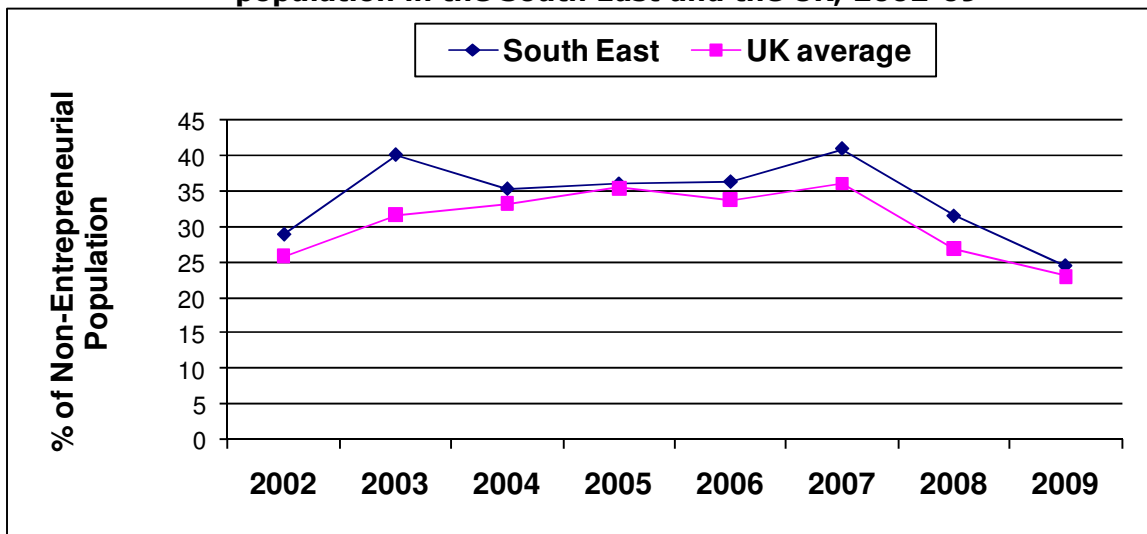


Source: GEM APS, 2009

The perception of start-up opportunities in the South East in 2009 was the same as the UK average (24.5% and 23% respectively) and significantly lower than the level reported by respondents in the South East in 2007 (i.e. 41.0%).

Figure 9 shows that after 5 years of relatively stable levels of opportunity perception, 2008 and 2009 have registered declines both in the South East and in the UK as a whole.

**Figure 9: Perception of Start-up Opportunities among the non-entrepreneurial population in the South East and the UK, 2002-09**



Source: GEM APS

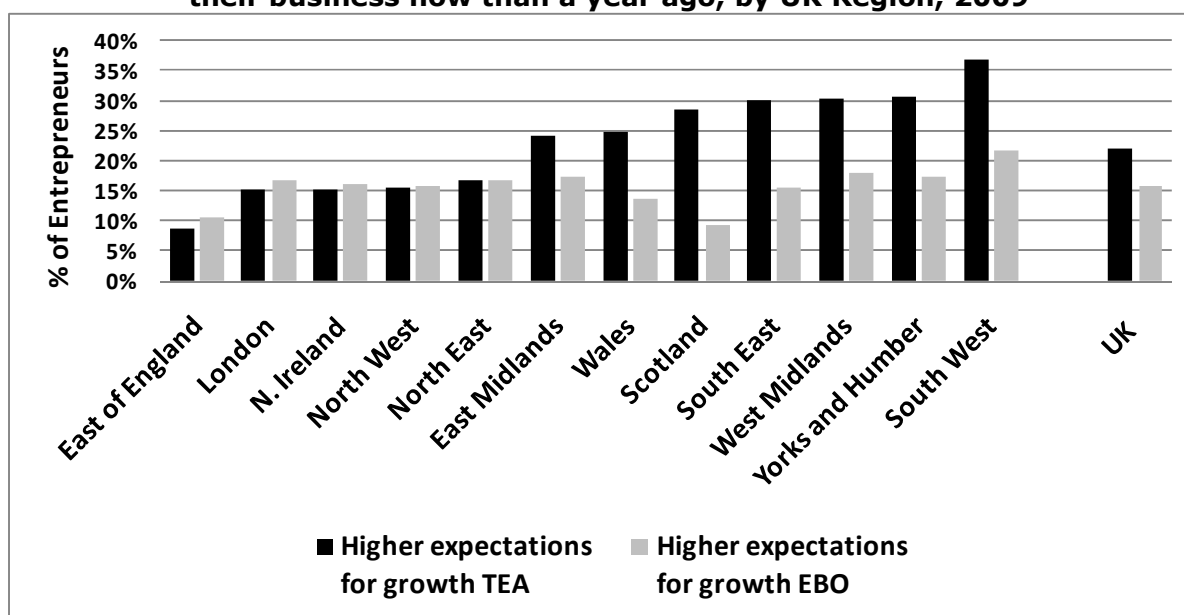
## Impact of Recession on Entrepreneurial Activity

In 2009 the GEM survey carried new questions on the attitudes of entrepreneurs to start-up and growth in the recession. Whilst starting a business in the UK has got tougher for most people since 2007, almost one in three (30.2%) early-stage entrepreneurs (nascent and new business owners) in the South East in 2009 said they were more positive about their prospects for growth now than one year ago (Figure 12). This compares with 22 per cent in the UK.

Established business owners (EBOs) in the South East are more pessimistic than those involved in start-ups but still around one in six (15.4%) of these owner-managers were more positive about their prospects for growth, the same as the UK average of 15 per cent.

These two groups of business owners have the potential to be the job and wealth creators of tomorrow.

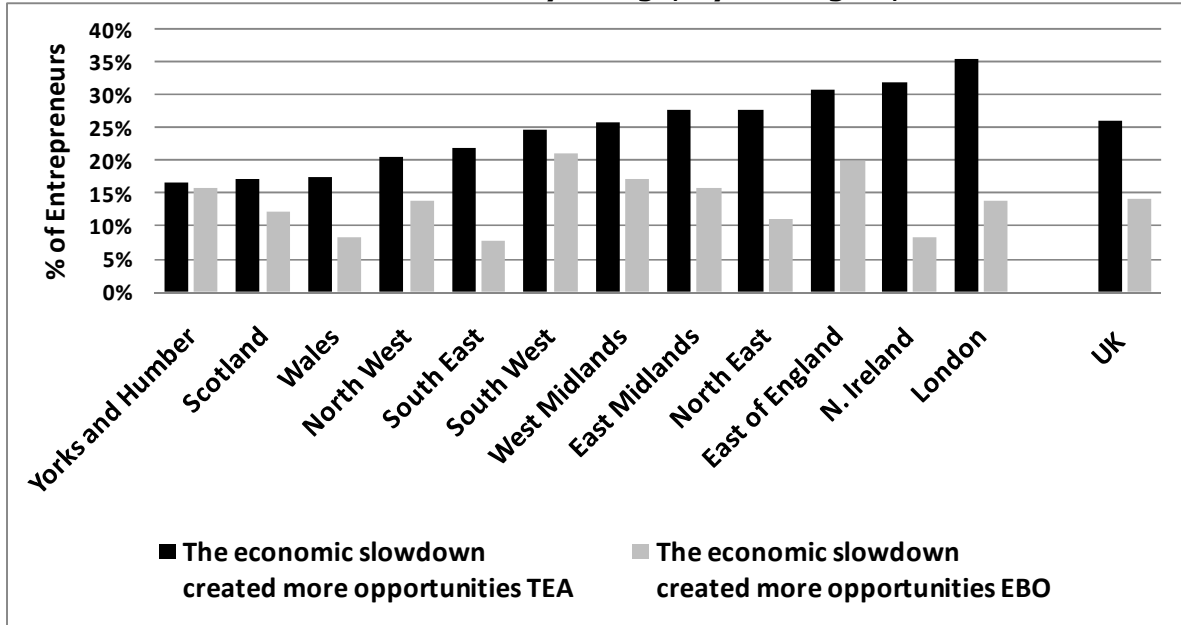
**Figure 12: Percentage of early-stage entrepreneurs (TEA) and established business owner-managers (EBO) who had higher expectations for growth of their business now than a year ago, by UK Region, 2009**



Source: GEM APS 2009

In the South East, a fifth (21.9%) of early-stage entrepreneurs and 7.8 per cent of established business owner-managers thought there were more opportunities for their business as a result of the global slowdown (Figure 13). The comparable figures for the UK were 20 per cent and 14 per cent.

**Figure 13: Percentage of early-stage entrepreneurs (TEA) and established business owner-managers (EBO) who saw more opportunities for their business now than a year ago, by UK Region, 2009**

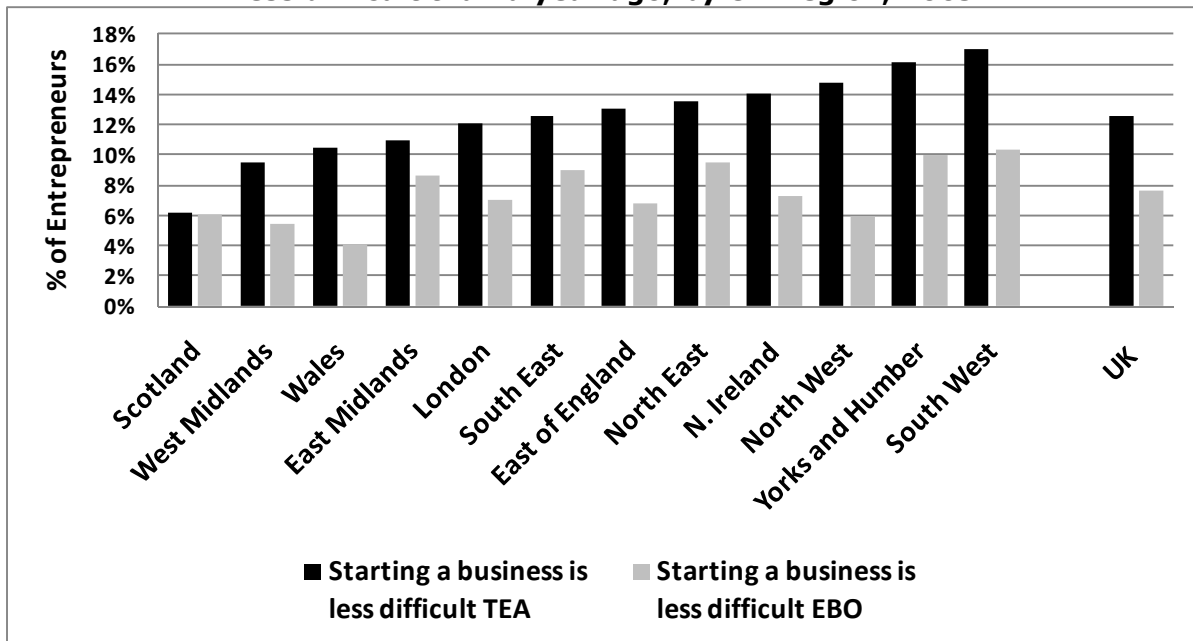


Source: GEM APS 2009

Only one in ten of early-stage entrepreneurs (12.6 per cent) and established business owner-managers (9 per cent) in the region thought that starting a business was less difficult than a year ago (Figure 14). The comparable figures for the UK were very similar: 13 and 8 per cent respectively.

Obviously, the vast majority of entrepreneurs report that it is more difficult to start a business in 2009 than in 2008 but for a small group of business owners in the South East opportunities do exist for entrepreneurial actions in the region.

**Figure 14: Percentage of early-stage entrepreneurs (TEA) and established business owner-managers (EBO) who thought that starting a business now was less difficult than a year ago, by UK Region, 2009**



Source: GEM APS 2009

## Concluding Observations

Developing enterprise and an enterprise culture remain key policy objectives within the South East. The current economic downturn or crisis has presented a new and unanticipated challenge to policymakers seeking to develop an enterprise culture within the UK and its regions.

The crisis may have different effects on different *types* and *phases* of entrepreneurship, resulting in both negative and positive trends in activity. Entrepreneurship is thought to be one of the mechanisms that helps turn around recessions by reallocating resources in such a way that promising new activities replace obsolete economic activities. This, of course, is dependent upon the institutional context found within each country and region.

The evidence from the GEM 2009 survey (conducted in the period May-September) can be summarised as follows:

- Entrepreneurial attitudes and activity in the South East closely follow those of the UK average. Entrepreneurial attitudes and activity in the South East tend to be less positive than those in London but more positive than those in peripheral regions.
- The GEM estimate of total early-stage entrepreneurial activity in the South East has increased from 5 per cent in 2007 to 6 per cent in 2009; these estimates are however not statistically different from each other. In other words, the differences could be due to the small size of the samples. In the UK during this period, TEA rates were static at just under 6 per cent.
- The proportion of non-entrepreneurial individuals who perceived good opportunities for start-up in their local area continued to decline in the South East 2009 for a second year, to 25 per cent from a high of 41 per cent in 2007.
- The number of people expecting to start a business in the next three years in the South East was the same in 2009 as in 2008 (6 per cent), but is down from a peak of 10 per cent in 2004.
- Most entrepreneurs were more pessimistic for their businesses than they were a year ago. However, a significant minority, almost one in three early-stage entrepreneurs (nascent and new business owners) in the South East were more positive about their prospects for growth than they were before the global slowdown. And a fifth of early-stage entrepreneurs and around 8 per cent of established business owner-managers in the South East thought there were more opportunities for their business as a result of the global slowdown.

## 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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