EXECUTIVE SUMMARY

- The Global Entrepreneurship Monitor (GEM) analyses entrepreneurial activity across a large and growing range of nations and regions. This report examines the level of entrepreneurship in the South East Wales economic area using the Wales sample taken from the GEM 2005 survey.
- GEM measures nascent entrepreneurs - the proportion of the adult population aged 18-64yrs who are actively participating in the process of start-up - and owners of 'baby businesses – those who are active in running a new business for less than 42 months. Combining these two measures gives us the main output index, namely the Early-Stage Entrepreneurial Activity (ESE) rate.
- In 2005, the ESE index for South East Wales was measured at 4.7 per cent as compared to 5.3 per cent for Wales as a whole. This is lower than the ESE index for Mid-Wales (5.7 per cent), North Wales (6.0 per cent) and West Wales (6.1 per cent).
- In terms of established business ownership i.e. those who have owned and managed a business that has paid wages or salaries for more than 42 months, the rate in South East Wales is 3.5 per cent, lower than any UK or Welsh region. This demonstrates that neither new nor established entrepreneurship is deeply rooted within the economy of the region.
- South East Wales had an opportunity ESE (i.e. those who start a new business to exploit a perceived business opportunity) of 4.0 per cent in 2005, lower than for the rest of Wales or the UK.
- The importance of family business to the region is significant, with 12.9 per cent of the entrepreneurs citing this as the reason for becoming involved in business, twice the prevalence rate for Wales and the UK as a whole.
- There is a far higher proportion of businesses started in this region that are likely to be high growth businesses, which suggests that whilst fewer firms will be created during the next few years, those businesses which will become established will create more wealth and employment than those in other parts of Wales.
- In South East Wales, the female ESE activity rate was measured at 2.6 per cent which is lower than the 4.7 per cent measured for the rest of Wales. Only the North West of England has a lower proportion of women involved in starting and managing a new business.
- The highest level of ESE activity is found amongst those aged between 35-44 years (6.1 per cent), followed by the 25-34 year olds (5.8 per cent), a pattern that is replicated in most other countries and regions.
- In terms of income, those with an annual salary within the upper 33 percentile in South East Wales have the highest participation rates in entrepreneurial activity (6.0 per cent), although the economically inactive are the most entrepreneurially orientated work status group in South East Wales
- Only 1.9 per cent of individuals with no formal qualification are involved in enterprise activities, as compared to 3.6 per cent for the rest of Wales. This suggests that there could be greater focus on developing enterprise skills as part of a wider community regeneration programme within the region.
- In terms of immigration and entrepreneurial activity, immigrants in South East Wales have a higher ESE rate (9.7 per cent) than the immigrant average for the UK or immigrants in the rest of Wales.
- The percentage of the population expecting to be involved in future start-ups is roughly the same for both South East Wales (7.6 per cent), and the rest of Wales (7.8 percent). A smaller percentage of the population in South East Wales also stated they knew an entrepreneur, that there are good start-up opportunities and that they possess the skills to start a business, indicating that South East Wales has a more negative outlook to entrepreneurship than the rest of Wales.

- Difficulties in obtaining finance is the major barrier faced by entrepreneurs, with 48 per cent of respondents claiming that access to funding prevents them from going into business in South East Wales.
- The most common source of funding for business start-ups is bank overdrafts, with informal and formal venture capital are also used more intensively in the region
- In 2005, only one per cent of respondents from South East Wales indicated that they made an informal investment in the last three years, below the average for the rest of Wales and the UK
- Both the entrepreneurial aspiration rate and the ESE prevalence rate for young people in South East Wales is slightly higher than for the rest of Wales although it is considerably less than the UK rate.
- The majority of 18-24 yr olds in the region consider lack of funding to be a major barrier reflecting the lack of collateral that young people are able to provide when attempting to acquire debt financing.
- Enterprise education has the effect of raising the levels of ESE for 18 to 24 year olds, especially among young women, suggesting that a specific focus of enterprise education courses within schools, universities and colleges in South East Wales, and Wales as a whole, should focus on specific training for female undergraduates.
- ESE for those living in the M4 corridor is higher than for those living in the South Wales Valleys Whilst all measures of entrepreneurship are found to be higher in the M4 corridor region, the largest difference is in terms of established business ownership, suggesting a longer term pattern of differences in entrepreneurial activity between the two parts of South East Wales. Entrepreneurial aspirations are also found to be much higher in the M4 corridor than the South Wales Valleys corridor.
- In terms of entrepreneurial attitudes, more people personally know an entrepreneur in the M4 corridor than in the Valleys, which is not surprising given the higher business ownership rate in the M4 corridor. This lack of role models could be one explanation as to why entrepreneurial aspirations are lower in the Valleys.

INTRODUCTION

Initiated in 1997 as a joint initiative between Babson College and London Business School, the Global Entrepreneurship Monitor (GEM) describes and analyses entrepreneurial activity across a large and growing range of nations. Through producing internationally comparable data on the "elusive concept of entrepreneurship", the GEM study is unique as the only longitudinal study of entrepreneurship undertaken throughout the major nations of the World[1]. Since its inception, the aim of the GEM study has been to answer three fundamental questions:

- Does the level of entrepreneurial activity vary between countries (and regions within countries) and, if so, by how much?
- Does the level of entrepreneurial activity affect the national or regional rate of economic growth?
- What makes a country (or region) entrepreneurial?

Since 1999, the primary output of GEM has been a comparable measure of entrepreneurial activity. This is not only measured across countries each year – allowing a ranking of nations to be established – but also across time – allowing individual countries to chart their progress against a reliable benchmark.

Whilst there can be different debates between academics and policy-makers about the meaning of entrepreneurship, the participants within the GEM project have one clear definition. For the purposes of the study, GEM defines early-stage entrepreneurship as: "**Any attempt at new business or new venture creation, such as self-employment, a new business organisation, or the expansion of an existing business by an individual, team of individuals, or established businesses."** This means that we are considering people who are either in the process of start-up or who have actually recently started a new business.

In examining this aspect of entrepreneurship, GEM constructs measures of entrepreneurial activity. Firstly, the level of start-up activity – defined as the proportion of the adult population aged 18-64yrs who are actively participating in the process of start-up. We call these individuals **nascent entrepreneurs** and the proportion of the population engaged in this activity we label as the nascent entrepreneurship prevalence rate. The second area is that of **new firms** or 'baby businesses.' Here we measure the proportion of the adult population that is currently active in running a new business – the new firms prevalence rate – and define new as businesses that have been running for less than 42 months.

By combining these two measures (nascent and new firm entrepreneurship), we can define the main output index, namely the **Early-Stage Entrepreneurial Activity (ESE)** rate.[2] Care is taken when compiling this measure not to double-count individuals who may be both nascent and new firm entrepreneurs and, for this reason, the ESE index will not always equal the exact sum of the other two measures. Clearly, a project of GEM's scale and scope is an ongoing work in progress and it requires continuous improvements with respect to both the quality of the data and the way the data are interpreted.

In the past, GEM has focused on the study of early-stage entrepreneurial activity. However, entrepreneurship is a complex and multifaceted phenomenon. Although GEM will continue collecting data and documenting the behaviour of potential entrepreneurs, its data also provides a broad range of information on many of the various phases of the entrepreneurial process. This year's series of GEM reports therefore analyse the existence and characteristics of **established business owners (EBO)**.

---

[1] *The latest reports from the Global Entrepreneurship Monitor project can be found on www.gemconsortium .org*
[2] *Formerly described as Total Entrepreneurial Activity (TEA) in GEM reports before 2005.*

This is the sixth annual GEM cross-national assessment of entrepreneurial activity and the project has expanded from 10 countries in 1999 to 35 in 2005. However, Wales is one of eighteen nations that have participated in the GEM project during the past six years.[3] As a result of **the larger sample of 8088 respondents** in 2005, the statistical reliability of the estimate of entrepreneurial activity in Wales is higher than any other participating nation in the global project. This makes the Welsh GEM data one of the most reliable in the world, making it possible to conduct a far more detailed examination of the specific framework conditions that influence entrepreneurial activity.

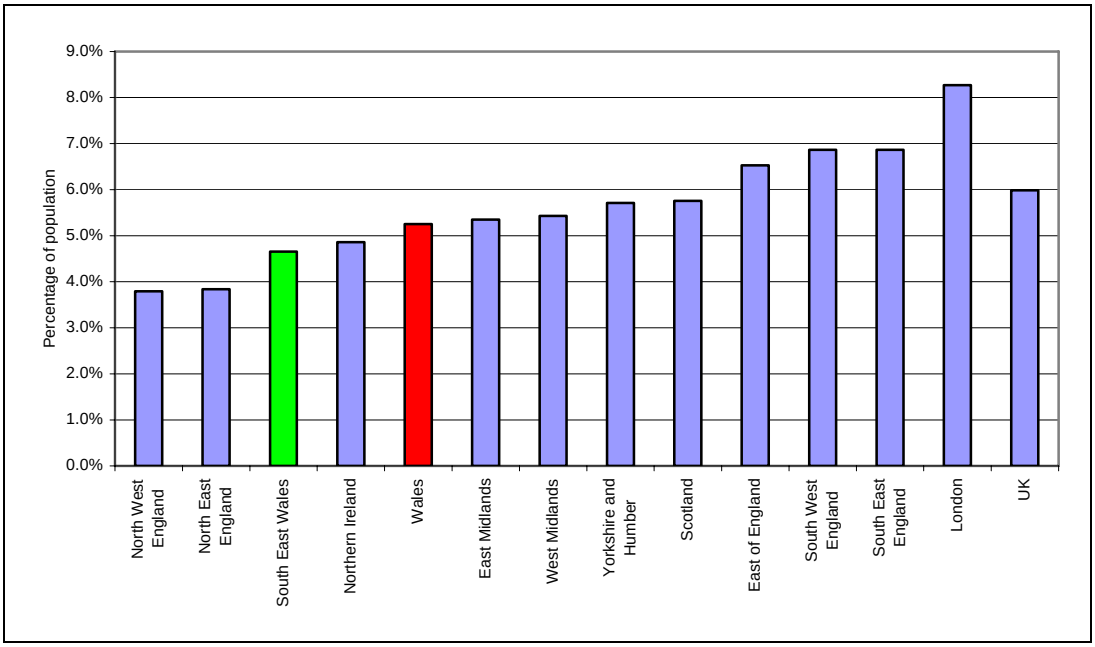
This report examines the level of entrepreneurship in the South East Wales economic area[4] using the Wales sample taken from the GEM 2005 survey. In order to make comparisons, figures are included occasionally for the other Welsh economic areas, Wales as a whole, and the UK as a whole. However, as any differences between Wales as a whole and South East Wales, will be biased downwards given that Wales as a whole also includes South East Wales[5] a majority of comparisons are made between South East Wales and Wales excluding South East Wales. There are also two special sections which focus on (a) youth entrepreneurship and (b) entrepreneurship in the South Wales valleys.

THE SCOPE OF ENTREPRENEURIAL ACTIVITY IN SOUTH EAST WALES, 2005

Early-Stage Entrepreneurial Activity

New firms create dynamism within local, regional and national economies, and the establishment and management of these venture is measured by the GEM project through the Early Stage Entrepreneurial (ESE) activity index.

Figure 1: Early-Stage Entrepreneurial Activity by UK region (ESE Index), 2005



[3] *The others being Argentina, Australia, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Italy, Japan, Norway, Singapore, Spain, Sweden, UK and US*

[4] *South East Wales is defined as the counties of Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Merthyr Tydfil, Monmouthshire, Newport Rhondda Cynon Taff, Torfaen, Vale of Glamorgan*

[5] *This is a particular problem for South East Wales when making comparisons using the GEM survey data as South East Wales provides the greatest number of respondents with over 3500 respondents.*

In 2005, the ESE index for South East Wales was measured at 4.7 per cent (Figure 1), as compared to 5.3 per cent for Wales as a whole. This is significantly lower than the early stage entrepreneurial activity index for Mid-Wales (5.7 per cent), North Wales (6.0 per cent) and West Wales (6.1 per cent).

As Figure 1 shows, if we compare South East Wales to the primary UK regions, then only the North West and North East of England have a lower rate of early stage entrepreneurial activity. More importantly, if South East Wales had the same ESE rate as the UK average of 6.1 per cent, then an additional 11,500 individuals would be involved in the process of starting new firms.

Given this finding for the region, greater analysis needs to be undertaken to examine whether this low level of entrepreneurship is prevalent throughout the region, or is isolated to only some areas. The special topic on entrepreneurship in the South Wales Valleys will begin to examine this important issue later.

Established Business Ownership

In addition to those entrepreneurs who are involved in the early stages of developing a business, there are also many established owner-managers in the region. These individuals are included in the **established business owner index (EBO),** which captures the percentage of individuals in a population that have owned and managed a business that has paid wages or salaries for more than 42 months.

In South East Wales, the rate of established business ownership is 3.5 per cent, lower than any UK or Welsh region, and demonstrating that neither new nor established entrepreneurship is deeply rooted within the economy of the region.

The Scope of Entrepreneurial Activity in South East Wales, 2005

Entrepreneurship in South East Wales is likely to be very different to entrepreneurship elsewhere in Wales, given the much bigger urban population in the economic area, and strong transport links to other large urban areas in England. With this more extensive access to other urban areas, there is significant potential for firms to be started with the aim of growing rapidly in serving larger markets. However, towns and cities are also more likely to offer greater employment opportunities in the main labour force, reducing the motivations of individuals to enter enterprise as a route to advance careers.

The importance of entrepreneurship for South East Wales can be measured in terms of the number of entrepreneurs active in the economic area and their contribution to the workforce. The number of entrepreneurs is calculated from the percentage of the population that are involved in entrepreneurial activities, and then extrapolating from the population of South East Wales aged between 18 and 65 years (863,000),[6] to produce an estimate of the entrepreneurs in the region (Table 1).

For overall business ownership (OBO), defined as the sum of early stage entrepreneurship and established business ownership, it is found that less than 8 per cent of the region's population is entrepreneurially active i.e. 68,600 entrepreneurs in South East Wales. In contrast, North Wales has 43,700 entrepreneurs (or two thirds of the number in South East Wales) but in a working age population of less than half the size. This seems to suggest that, despite being a largely urban region, entrepreneurship may not as important a contributor to wealth and employment in South East Wales as other parts of the economy.

[6] *Population of North Wales figure obtained from the Office of National Statistics (ONS) 2004 population estimates.*

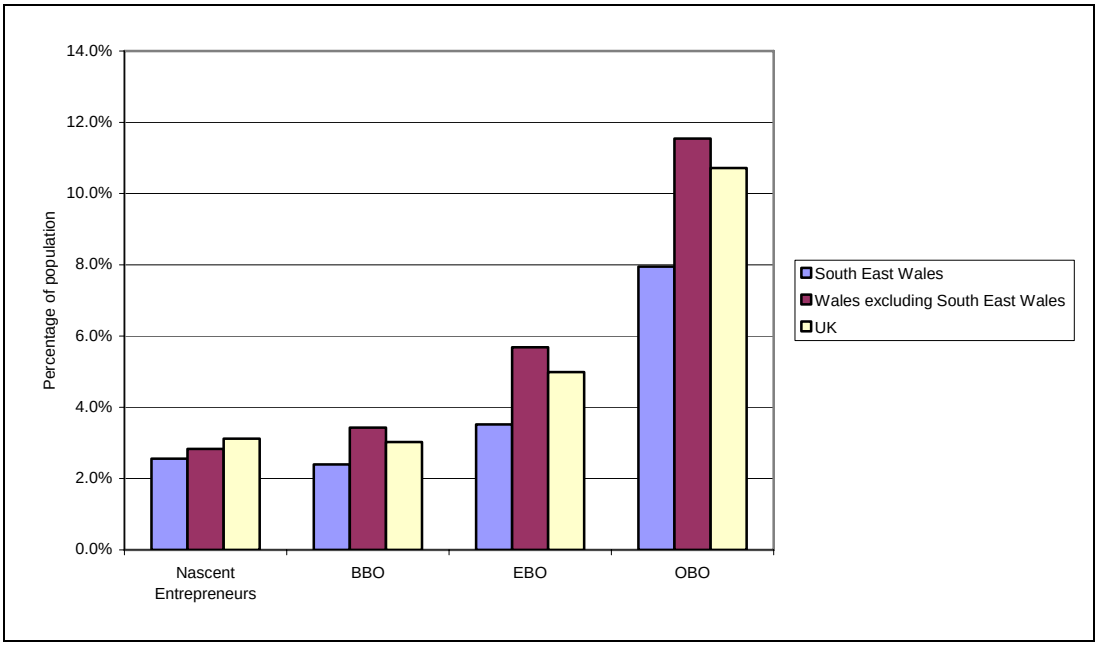
Table 1: Number of Entrepreneurs in South East Wales, 2005

	Percentage of Population	Number (thousands)
Nascent Entrepreneurs	2.6%	22.1
Baby Business Owners (*BBO*)	2.4%	20.7
Early Stage Entrepreneurship (ESE)	*4.7%*	*40.6*
Established Business Owners (*EBO)*	3.5%	30.4
Overall Business Ownership (OBO)	*8.0%*	*68.6*

Figure 2 shows that both nascent entrepreneurship and baby business ownership (BBO) in South East Wales are lower than the UK and the rest of Wales. More worryingly, the difference in BBO rates is larger than that for the nascent entrepreneurship rate[7], suggesting that the number of actual new start-ups that go on to employ people and create wealth is significantly lower.

As indicated previously, there is also a significant difference between EBO rates in South East Wales and those for the rest of Wales and the UK. The effect of these results is that the overall entrepreneurship ownership rate in South East Wales is less than three quarters that of the UK average[8].

Figure 2: Overall Business Ownership and Component Entrepreneurship Measures in South East Wales, the rest of Wales, and the UK, 2005



It is worth noting that without South East Wales, Wales' BBO, EBO and OBO rates would be higher than the UK average. At first glance, this suggests that the lower rate of entrepreneurship within Wales is being driven by the lack of activity within this one region. However, it should be noted that the low EBO rate suggests a longer term legacy of non-participation in entrepreneurial activities within South East Wales. The slightly higher rate of

[7] South East Wales BBO rate is significantly lower at the 5% level than the rest of Wales and the UK (t = 2.60 and t = 2.26 respectively). The differences in the EBO rates are significant between South East Wales and the UK at the 1% level (t = 4.37 and t = 4.34 respectively).

[8] South East Wales OBO rate is significantly lower at the 1% level than the rest of Wales and the UK (t = 5.13 and t = 5.60 respectively)

ESE could signal a closure of the gap with rest of the country, especially as developing an enterprise culture can take several years.

As noted above, differences in the entrepreneurship activity rates at different stages may not necessarily result in greater business creation if the business starts do not come to fruition. To measure the success of start-ups being converted to established businesses, the ratio of early stage entrepreneurs to established businesses is calculated (the transition ratio)[9].

Table 2: Transition Ratios for South East Wales, the rest of Wales and the UK, 2005

	ESE	***EBO***	**Transition Ratio**
South East Wales	4.7%	3.5%	0.75
Rest of Wales	6.1%	5.7%	0.95
UK	6.0%	5.0%	0.83

Table 2 suggests that fewer start-ups and new businesses survive long enough to become established in South East Wales. This low transition ratio could be symptom of a more competitive market place than for the rest of Wales, where only the most efficient firms become established and a greater number of firms which are uncompetitive are forced out of the market place. This premise can be partly examined through the business churn rate, represented as the total percentage of the population involved in either starting or closing a business.

Table 3: Churn and Business Stock for Wales for South East Wales, the rest of Wales and the UK

	Start-ups	**Closures**	**Total Churn**	**Net Effect on Stock**
South East Wales	4.7%	1.6%	6.3%	3.1%
Rest of Wales	5.1%	1.9%	7.1%	3.2%
UK	4.8%	1.9%	6.7%	2.9%

As Table 3 shows, there is little evidence of South East Wales being more dynamic than other parts of Wales, with a lower churn rate than the UK and the rest of Wales. The relatively low level of closures does indicate that, in 2005, South East Wales had a higher positive effect on the stock of businesses than the UK as a whole.

Opportunity and Necessity Entrepreneurship

The GEM study measures individual participation in entrepreneurial activities in two ways – individuals either start a new business to exploit a perceived business opportunity or they are pushed into entrepreneurship because all other options to work are either absent or unsatisfactory. As previous research has shown, this can vary by region or even with a region.

For example, while a large urban market in an area such as South East Wales may offer a number of opportunities, there is also a strong possibility that poorer parts of the larger metropolitan areas will observe high unemployment levels which could result in more early stage entrepreneurs being motivated by necessity. Alternatively, the presence of a large

[9] According to the 2005 GEM Global Executive report, both the early-stage rate and the established rate of entrepreneurial activity fluctuate somewhat over time in most countries. This implies that the transition rate from early-stage to established activity also fluctuates over time. It is very likely that the survival chances of early-stage businesses also vary over time, in response to macroeconomic framework conditions. These fluctuations limit the extent to which the transition rate from early to established entrepreneurial activity correctly approximate the survival chances of newly founded businesses in a country at a given point in time. Thus, this proxy should be interpreted with caution.

urban market could increase the availability of low paid jobs and therefore other alternatives, apart from necessity-based entrepreneurship, are available to those who are unemployed.

Table 4: Opportunity and Necessity Early Stage Entrepreneurship, South East Wales, the rest of Wales and the UK, 2005

	Opportunity	Necessity	Ratio: Opp:Nec
South East Wales	4.0%	0.7%	6.12
Rest of Wales	4.9%	1.0%	4.86
UK	5.2%	0.7%	7.04

As Table 4 shows, in terms of opportunity entrepreneurship, South East Wales has an opportunity ESE of 4.0 per cent in 2005. This is considerably lower than for the rest of Wales, which has a much greater level of opportunity-driven entrepreneurship (4.9 per cent)[10]. It is also well below the UK rate (5.2 per cent), with only one UK region - the North East of England – having an early stage opportunity entrepreneurship rate lower than the South East Wales. **For necessity entrepreneurship – where individuals perceived they have no choice but to enter into entrepreneurial activity – South East Wales had a necessity ESE of 0.7 per cent in 2005**, which is the same as the UK average.

The ratio of opportunity to necessity driven entrepreneurs is higher in South East Wales (6.1) than for the remainder of Wales (4.9). This suggests that the large urban areas do seem to provide market opportunities for new businesses rather than creating businesses which are a result of people being forced into entrepreneurship as a last resort to paid employment.

Given this, it is important to understand the drivers for opportunity entrepreneurs in South East Wales. This can be done through investigating the main motivations in pursuing the opportunities that are being exploited by entrepreneurs, which can range from lifestyle reasons - such as gaining greater independence - to more financially driven motives.

Table 5: Main Reasons for Pursuing an Enterprise Opportunity, South East Wales, the rest of Wales and the UK, 2005

	South East Wales	Rest of Wales	UK
Independence	54.8%	73.1%	59.7%
Increase Income	25.8%	15.4%	27.0%
Just Maintain Income	4.8%	0.0%	1.8%
Other Reason	1.6%	5.8%	6.5%
Family Business	12.9%	5.8%	5.1%

Table 5 indicates that independence is the main reason for entrepreneurs across all regions pursuing a business opportunity, with 54.8 per cent of entrepreneurs in South East Wales citing this reason as the key driver in establishing a new business. However, a far higher proportion of opportunity entrepreneurs (25.8 per cent) in South East Wales are driven by financial considerations than for the rest of Wales. This could suggest that these are a group of entrepreneurs that are most likely to try and develop businesses with high growth potential. Therefore, whilst a smaller percentage of the population are early stage entrepreneurs in the South East, they may be more likely to create wealth and income than those based in the other Welsh regions.

[10] The difference between the opportunity ESE rates of South East Wales and the rest of Wales is not significant at the 5% level, (t = 1.93), although the UK opportunity ESE rate is significantly higher (t = 3.29). There is no statistically significant difference in the necessity ESE rates for the Welsh areas and UK from one another.

It is also worth noting that the percentage of financially motivated entrepreneurs in South East Wales is only equivalent to that of the UK average, and well below London, where 32.4 per cent of entrepreneurs pursue an opportunity in order to increase their income. The next section examines whether this greater financial drive does result in more growth orientated start-ups or faster growing firms in South East Wales compared to elsewhere in Wales.

The importance of family business to the region is also significant, with 12.9 per cent of the entrepreneurs citing this as the reason for becoming involved in business. This is more than twice the prevalence rate for Wales and the UK as a whole. Given the absence of any specific support for family business and succession planning within the region, this may be another policy issue that needs further consideration.

When asked to identify other influences in starting a business, the two most highly identified reasons by opportunity entrepreneurs in South East Wales were the 'challenge of leading their own business' (59.4 per cent of opportunity entrepreneurs) and being able to 'pursue and idea, innovation or hobby'. This is considerably lower than for the rest of Wales, which suggests that in promoting a greater enterprise culture within South East Wales, concentrating on marketing these aspects of an entrepreneurial lifestyle may not as preferable as emphasising the profit element of new venture creation.

Table 6: Other Motivations for Pursuing a Business Opportunity, South East Wales, the rest of Wales and the UK, 2005

	South East Wales	Rest of Wales	UK
Challenge of leading own business	59.4%	70.0%	68.8%
Pursue an idea, innovation or hobby	50.2%	65.7%	54.5%
Dissatisfied in current job	16.0%	30.7%	25.7%
Difficulty finding paid employment	6.7%	6.5%	7.6%
None of the above	15.7%	5.5%	9.4%

In South East Wales, opportunity entrepreneurs are also less influenced by their current working conditions than in other parts of Wales and the UK when it comes to making the decision to start a business (Table 6). Only 16.0 per cent were dissatisfied with their current job, as compared to 30.7 per cent for the rest of Wales. Only 6.7 per cent in South East Wales had difficulty in finding paid employment, similar to the rate for the rest of Wales (6.5 per cent).

Entrepreneurship and Growth

One of the main drivers for policymakers in raising the level of enterprise in the economy is the potential for growth and innovation from the small firm sector[11]. Whilst the idealistic view of entrepreneurship is that of high growth businesses guided by skilled and motivated entrepreneurs, the reality is that many businesses are started by individuals for personal lifestyle reasons rather than the dream of becoming the next self-made millionaire. Nevertheless, research has shown that growth-oriented entrepreneurs are disproportionately responsible for the generation of wealth and employment in the small firm sector.

In order to identify this type of entrepreneur, a new measure - high expectations entrepreneurship (HEE) - was devised by Autio (2005)[12]. This only includes those individuals who are involved in starting a business or running a new business (early stage

[11] *Storey, D., 2003; 'Entrepreneurship, Small and Medium Sized Enterprises and Public Policies' in Acs, Z. J. & Audretsch, D. B., Handbook of Entrepreneurship Research: An Interdisciplinary Survey and Introduction, Kluwer Academic Publishers, pp. 473-511*

[12] *Autio, E. (2005) Global Entrepreneurship Monitor: High-Expectation Entrepreneurship, Summary Report*

entrepreneurs) that is expected to employ twenty or more people in five years time. One drawback to this measure is that the number of employees in five years is entirely based on the expectations of the entrepreneur, which may be unrealistic before the business becomes established. Therefore, an alternative measure is based on the EBOs and BBOs. Where the businesses have been set-up and expectations might be more realistic having gone through the process of starting a business. This measure is called high job growth businesses (HJG), and includes all owner managed businesses (baby and established businesses - OM) expecting to create an additional twenty jobs in the next five years, and excludes all nascent entrepreneurs.

As Table 7 shows, **South East Wales has the same HEE rate (0.7 per cent) as the rest of Wales (0.7 per cent) and the UK (0.7 per cent), this is despite having a lower ESE and EBO rate.** More importantly, there is a far **higher proportion of the businesses started in this region (14.7 per cent) that are likely to be high growth businesses**. In contrast, **existing firms in South East Wales appear to be less growth orientated than those in the UK, with a HJG prevalence rate of 0.3 per cent, identical to the rate for the rest of Wales,** although the proportion of owner-managed businesses that are growth oriented (5.5 per cent) is higher in South East Wales than for the rest of the country (3.5 per cent).

Table 7: High expectation entrepreneurship and high job growth businesses, South East Wales, the rest of Wales and the UK, 2005

	HEE	***ESE***	***%HEE***	***HJG***	***OM***	***%HJG***
South East Wales	0.7%	4.7%	14.7%	0.3%	5.8%	5.5%
Rest of Wales	0.7%	6.0%	10.8%	0.3%	9.1%	3.5%
UK	0.7%	6.0%	10.9%	0.5%	8.0%	5.9%

It therefore appears that enterprise in South East Wales is more growth orientated than other parts of Wales and compares well with the UK average. Most importantly, the significantly higher percentage of HEE entrepreneurs as a proportion of all those starting a business in the region suggests that whilst fewer lifestyle businesses will be created in South East Wales during the next few years, those businesses which will become established will create more wealth and employment than those in other parts of Wales. Whether this has links to the personal motivations of the entrepreneur, as discussed earlier, will be examined in greater detail in subsequent research studies.

Another possible explanation for the higher levels of growth is that start-ups are emerging from larger corporations within the region, rather than being established by individual entrepreneurs. Such corporate start-ups normally have distinct advantages over independent businesses, in that they have access to the resources, expertise, networks and markets of the 'parent' organisation.

Table 8: Corporate and Independent Business Starts in Wales and the UK, South East Wales, the rest of Wales and the UK, 2005

	Independent Business Start-up	**Corporate Business Start-up**	**Ratio Corporate: Independent**
South East Wales	3.4%	1.3%	0.4
Rest of Wales	3.9%	1.3%	0.3
UK	3.6%	1.2%	0.3

As Table 8 indicates, a slightly greater proportion of the start-up population in South East Wales is involved in a corporate business start than for either the rest of Wales and the UK.

Therefore, whilst the greater influence from large corporations may partially explain the emphasis on growth found in South East Wales, it is not likely to be the main factor.

ENTREPRENEURIAL CHARACTERISTICS

Entrepreneurship and Gender

Over the past thirty years, there have been increases in the number of women entering self-employment and business ownership, although the rate of increase has varied widely from country to country[13]. According to a special report from the GEM Global team[14], women's entrepreneurship is expanding around the world, and women now account for more than one-third of all people involved in entrepreneurial activity and are likely to play an even greater role when informal sectors are considered. Across the world, generations of women from very different backgrounds contribute to their environments and are showing very encouraging signs of entrepreneurial spirit.

Given this, it is disappointing to note that in 2005, female early stage entrepreneurial activity in Wales was measured at 3.6%, which represents a decrease from the high level of 4.5% achieved in 2004. This is the first time since the GEM Wales was initiated that the ESE rate for women has declined. In contrast, male ESE has increased from 6.5% in 2004 to 6.9% in 2005. This inevitably suggests that the gender gap between male and female entrepreneurial activity has widened, which has implications for Wales as the effect of gender difference on early stage entrepreneurship is statistically significant.

In South East Wales, the female ESE activity rate was measured at 2.6 per cent (Table 9), which is significantly lower than the 4.7 per cent measured for the rest of Wales.[15] Indeed, data from the GEM UK report suggests that only the North West of England has a lower proportion of women involved in starting and managing a new business

Table 9: Early Stage Entrepreneurship and Established Business Ownership by Gender, South East Wales, the rest of Wales and the UK, 2005

	ESE Male	ESE Female	ESE Balance	EBO Male	EBO Female	EBO Balance
South East Wales	6.9%	2.6%	27.6%	5.5%	1.6%	22.3%
Rest of Wales	7.5%	4.7%	38.9%	8.3%	3.1%	27.4%
UK	8.2%	3.8%	32.0%	7.8%	2.2%	22.3%

According to the GEM Global report, the average female to male ESE activity ratio suggests that 36.2 per cent of active entrepreneurs are female. In other words, there are almost twice as many men who are active entrepreneurs than women. Nevertheless, the overall Welsh figure is very close to the World's average, with 34.4 per cent of entrepreneurs being female. In the majority of cases, male entrepreneurial activity is higher than that of female activity. The proportion of women managing their own established business in South East Wales (1.6 per cent) is half that for the rest of Wales. Across the UK, only the North East of England has a lower EBO rate.

The ESE female to male ratio in South East Wales (27.6 per cent) is considerably lower than most nations participating in the GEM study, and below the ratio of the rest of Wales and the UK. In terms of EBOs the South East Wales, the gender balance (22.3 per cent) figure is similar to that of the UK.

---

[13] Carter, S. and Bennett, D. (2006) "Gender and entrepreneurship", in Carter, S. and Jones-Evans, D. (eds) Enterprise and Small Business: Principles, Policy and Practice, 2nd edition, FT Prentice Hall

[14] Minitti, M. Allen, I.E. and Langowitz, N. (2006) GEM 2005 report on women and entrepreneurship, Babson College, MA

[15] This difference in the female ESE prevalence rate for the two parts of Wales is significant at the 1% level (t = 3.35).

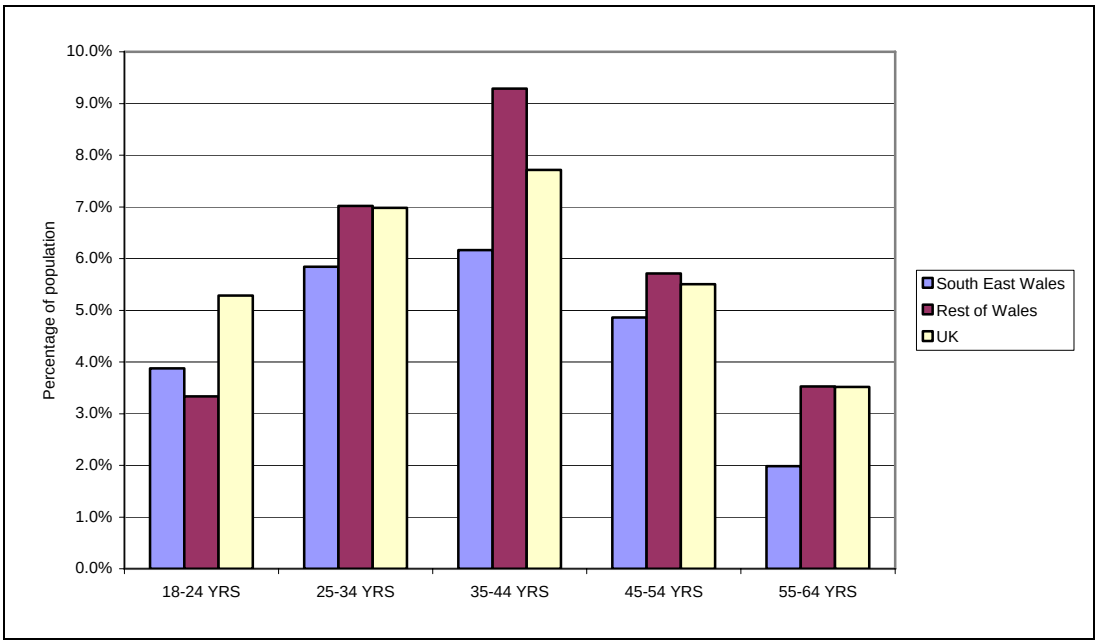
Therefore, female participation in enterprise in Wales therefore appears to be driven by participation from the other areas of Wales, with the more urban South East Wales following a pattern more akin to the UK as a whole. This may suggest that a more focused approach to encouraging greater female enterprise in South East Wales is required, given that the majority of new employment within the region during the last few years has been attributed to women. The availability of such jobs may partly explain the lower activity rates but certainly the potential of entrepreneurship as a career option for women in the region needs a re-emphasis by policy-makers.

Entrepreneurship and Age

Figure 3 suggests that entrepreneurial activity and age are found to have an inverted U-shaped relationship in South East Wales with the highest level of early-stage entrepreneurial activity being those aged between 35-44 years, with an ESE of 6.1 per cent, followed by the 25-34 year olds (5.8 per cent). This pattern is replicated in most other countries and regions.

In the rest of Wales, the age group with the highest level of early stage entrepreneurial activity are also those aged between 35-44 year olds bracket, with an ESE of 9.3 per cent. When compared to the rest of Wales and the UK the ESE prevalence rate is lower for all age groups in South East Wales, with the exception of the youth age group (18 to 24 years) where the South East Wales prevalence rate (3.9 per cent) exceeds that of the rest of Wales (3.3 per cent).

Figure 3: Early Stage Entrepreneurship by age group in South East Wales, the rest of Wales and the UK, 2005



The biggest gaps between the prevalence rates of South East Wales and the rest of Wales occur for the age groups with the highest and lowest prevalence rates, South East Wales trails the rest of Wales by 3.1 per cent for the 35-44 year age group, and 1.5 per cent for the 55-64 year age group.[16]

[16] *The difference in ESE rate is significant for the 35-44 year age group at the 5% level (t = 2.40), but the difference in the older 55-64 year age group is insignificant (t = 1.79).*

The results for 35-44 yr olds may have a significant impact on the entrepreneurial potential of the region as it would be expected that this is the age group most likely to contain individuals with the experience to start high growth businesses, whilst still being relatively young enough to retain the drive to create a successful venture. Again, this needs further research to examine whether the buoyancy of the job market within the region is discouraging individuals from entering self-employment.

Entrepreneurship and Income

In terms of income, Table 10 indicates that those with an annual salary within the upper 33 percentile in South East Wales have the highest participation rates in entrepreneurial activity (6.0 per cent). This is followed by those in the middle 33 percent tile of income (4.5 per cent), with the poorest third also having the lowest participation rates in starting and managing a new business (3.0 per cent). If South East Wales is compared with the rest of Wales and the UK, then the ESE is lower in every income group.

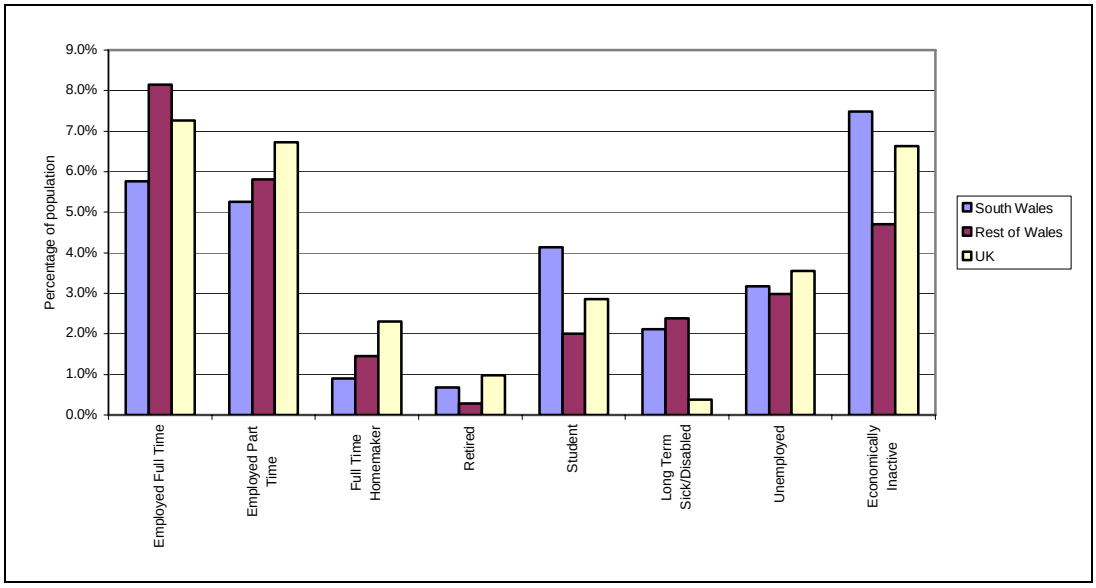
Table 10: Early Stage Entrepreneurship by income group in South East Wales, the rest of Wales and the UK, 2005

Income Tier (thirds)	South East Wales	Rest of Wales	UK
Lower	3.2%	4.4%	4.3%
Middle	4.5%	5.9%	5.9%
Upper	6.0%	7.4%	7.1%

Entrepreneurship and Employment Status

There is a much higher prevalence rate (7.5 per cent) in South East Wales than in the rest of Wales (4.7 per cent) for entrepreneurship amongst the economically inactive.[17] This makes the economically inactive the most entrepreneurially orientated work status group in South East Wales.

Figure 4: ESE by Employment Status, South East Wales, the rest of Wales and the UK, 2005



[17] *This is not significant at the 5% level due to the small numbers of economically inactive in the samples of each of the samples.*

Those in employment are the next most entrepreneurially active, although the full-time employed ESE prevalence rate is lower in South East Wales than for the rest of Wales and the UK. The ESE rate (4.1 per cent) for students in the region is double that for the rest of Wales and may reflect the concentration of academic institutions in South East Wales, along with the different programmes to support graduate enterprise.

It must be noted that the ESE measure includes baby business owners who may class themselves as employed by the new business they have started. This creates a bias towards the employed being involved in ESE. However, it may be more prudent to examine the nascent entrepreneurship prevalence rate when examining the effect of work status. As Table 11 shows, the economically inactive remain the most likely to be involved in nascent entrepreneurship, followed by those in full time education, and then the unemployed.

Therefore, the data suggests that there appears to be less desire to become a nascent entrepreneur for the employed in South East Wales than in the rest of Wales or the UK, where the full time employed form one of the most active groups for nascent entrepreneurship.

Table 11: Nascent Entrepreneurship and Employment Status, South East Wales, the rest of Wales and the UK, 2005

	South East Wales	Rest of Wales	UK
Full Time Employed	3.0%	3.4%	3.3%
Part-Time Employed	2.1%	2.8%	3.6%
Homemaker	0.9%	1.5%	2.2%
Retired	0.3%	0.3%	0.9%
Student	4.1%	2.0%	2.6%
Disabled	1.0%	2.4%	0.4%
Unemployed	3.2%	3.0%	3.6%
Economically Inactive	6.2%	3.9%	5.9%

Entrepreneurship and education.

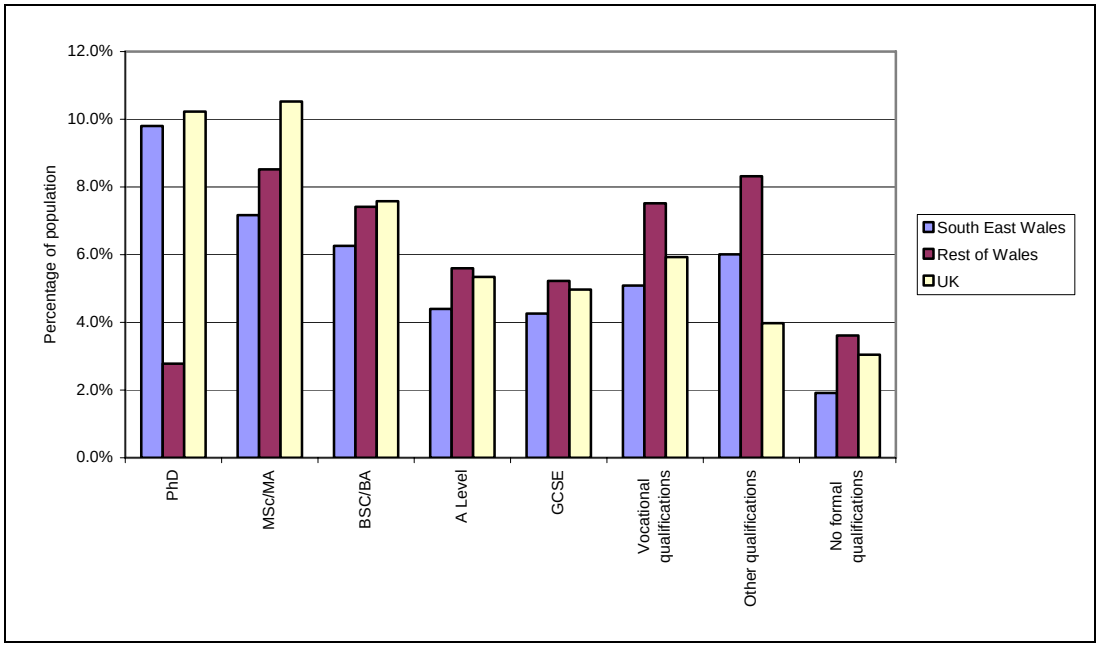
There has been considerable debate over the influence of educational attainment on entrepreneurial activity. Whilst many early studies in the field of entrepreneurship indicated the educational attainment of entrepreneurs to be low, more recent research has begun to recognise that those with higher levels of education will have the abilities and skills required to recognise an opportunity and exploit it successfully[18]. In addition, the influence of education on entrepreneurship has been a key part of the GEM study since its initiation in 1999, and is especially pertinent to Wales, given the increasing emphasis on the development of a knowledge-based economy.

According to Figure 5, a general pattern of higher ESE activity and higher educational attainment appears to hold for both the rest of Wales and the UK, with a secondary peak for those with other and vocational qualifications. This secondary peak is more apparent in other parts of Wales, with South East Wales following the UK more closely. It does appear that, compared with the rest of Wales and the UK, university education has a smaller impact in raising ESE in South East Wales. The exception is those individuals with Ph.Ds, with 9.8 per cent stating that they were starting/managing a firm (although this is a relatively small group and subject to large variations). Nevertheless, this is three times the rate for doctorates to be involved in

[18] *For example, recent research has shown a positive correlation between education and opportunity recognition. (Arenius, P. and De Clercq, D. (2005) 'Network-based approach on opportunity recognition', Small Business Economics, 24:3, 249-265).*

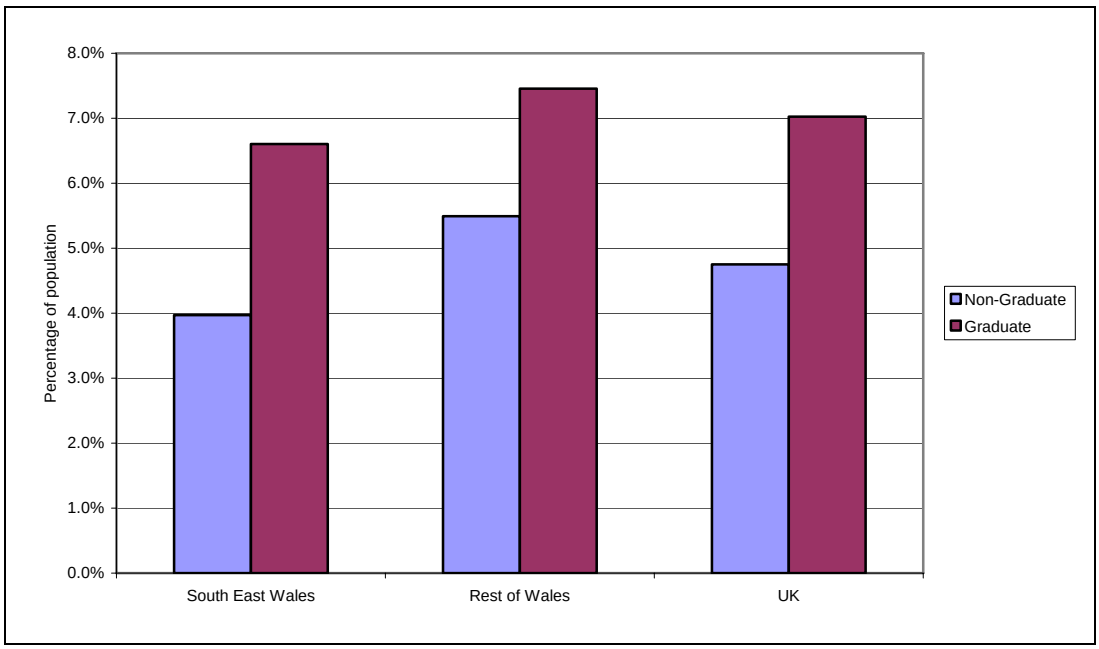
entrepreneurial activity in the rest of Wales, and equivalent to the UK participation rate by this group which, again, may reflect the strong academic presence within the region.

Figure 5: ESE by Educational Attainment, South East Wales, the rest of Wales and the UK, 2005



One of the least active groups is those individuals with no formal qualification, with only 1.9 per cent involved in enterprise activities, as compared to 3.6 per cent for the rest of Wales. This suggests that there could be greater focus on developing enterprise skills as part of a wider community regeneration programme within the region.

Figure 6: Graduates and Entrepreneurial Activity, South East Wales, the rest of Wales and the UK, 2005



Given the relatively small size of the sub-groups at differing levels of educational attainment it is not possible to observe the pattern that education has upon ESE easily, and therefore a division by graduates and non-graduates may allow greater validity to the differences between regions to be established. Figure 6 shows that whilst graduate ESE is lower in South East Wales, this is likely to be more a general symptom of lower ESE in South East Wales rather than the lower impact of education, as the gap between graduates and non-graduates is actually greater in South East Wales (2.63 per cent) than in the rest of Wales (1.96 per cent).[19]

Entrepreneurship and immigration.

The changes in immigration within the UK are well-documented and whilst many immigrants were initially employed within the manufacturing and transport sectors, there was also a growing pattern of high self-employment amongst the immigrants which became more pronounced as opportunities within these traditional industries declined. Indeed, as ethnic groups become assimilated into the mainstream labour market, it could be expected that the necessity to start up a new business as an alternative to unemployment, would decline. However, it could be equally plausible that entrepreneurial activity will rise with assimilation into the society of the host country as ethnic groups gain the skills to succeed in their own businesses, and perceive new opportunities across different markets. It would also be expected that the degree of assimilation, and hence the degree of entrepreneurial activity, may well differ across different ethnic groups, especially as research has shown that different ethnic groups have differing attitudes to self-employment [20].

To examine the effect of immigration on entrepreneurial activity, we have coded respondents into those that have spent their entire lives in one region (life-long Residents); people born in the UK, but moving into another region (in-migrants); and those born outside the UK (Immigrants). The importance that these groups play in the economy of each region obviously varies according to the levels of in-migration and immigration that different regions experience.

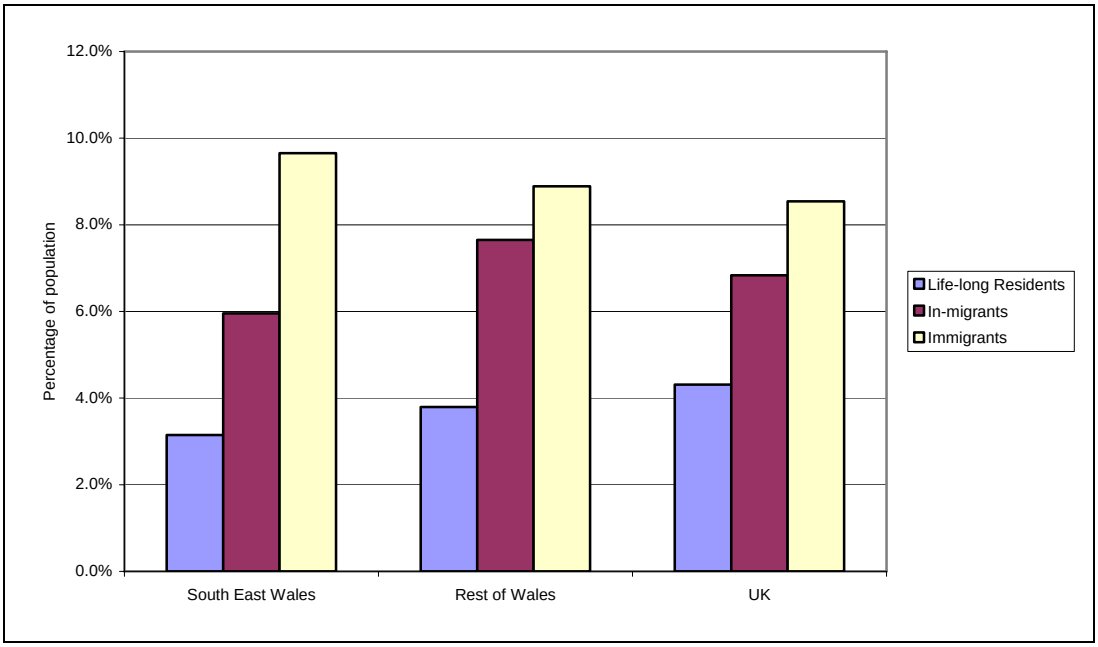
Figure 7 shows that there is a greater difference between the migration-status groups in South East Wales than in the rest of Wales and the UK. Life-long residents (3.2 per cent) and in-migrants (6.0 per cent) in South East Wales have lower ESE prevalence rates, whilst immigrants have a higher ESE rate (9.7 per cent) than the immigrant average for the UK or immigrants in the rest of Wales. This could possibly be due to a large immigrant population in the larger urban areas of South East Wales, which provides a market for specialist goods aimed at these immigrant and ethnic minority groups.

---

[19] The difference between the graduate ESE rates in South East Wales and the rest of Wales is not significant (t = 0.73). The difference between the ESE rates of graduates and non-graduates in each of Welsh areas is significant at the 5 per cent level (South East Wales, t = 2.97 and Wales excluding South East Wales, t = 2.04).

[20] Further discussion of the effect of immigration on entrepreneurship can be found in Ullah, F. Brooksbank, D., Jones-Evans, D. and Thompson, P. (2006) The assimilation of UK ethnic entrepreneurs into the mainstream labour market, paper to be presented at the ISBE National Conference, Cardiff, November 2006.

Figure 7: ESE by Immigration Status, South East Wales, the rest of Wales and the UK, 2005



Entrepreneurship, Job Creation and Turnover

Table 12 reports the expected turnover of start-ups in the first year of business and in the third year of business. It then compares this to the turnover of existing businesses currently and three years ago. This gives a direct comparison of whether expectations for start-ups in South East Wales.[21]

As expected, the data suggests that there is a strong positive skew to the distribution of turnovers for both start-ups and businesses in the UK, although an examination of the median figures indicates that whilst start-ups are expecting a large increase in turnover in their first three years, the experience of established businesses suggests that this may not be realistic**.**

Entrepreneurs in South East Wales appear to be more optimistic than their counterparts elsewhere in Wales, expecting a much larger increase in turnover in the next three years. As in other parts of Wales and the UK, it is apparent that these ambitions are unlikely to be realised with owner managers' median turnover increasing by only a small amount in the last three years. It is also noticeable that start-ups expect to employ more people than existing businesses, both now and in the future. Existing owner managers in South East Wales also appear to be in control of more assets than entrepreneurs elsewhere in Wales and the UK.

[21] *Figures are limited to those businesses reporting turnovers of less than £25 million. Extreme values from respondents reporting part ownership of businesses with turnovers in the region of £200 million have such a large impact upon the mean values that they become meaningless.*

Table 12: Business Turnover of Start-Ups and Businesses in South East Wales, the rest of Wales and the UK, 2005

		South East Wales		Rest of Wales		UK	
		Mean	Median	Mean	Median	Mean	Median
Start-ups	Estimated T/over in 1st Year (£)	1,422,917	50,000	164,783	30,000	522,918	40,000
	Estimated T/over in 3rd Year (£)	4,718,268	120,000	550,589	60,000	1,541,256	76,000
	Jobs Now	13.85	1	204.80	3	59.64	2
	Jobs in 5 Years	75.24	3.5	120.42	4	39.49	4
Owner Managers	Estimated T/over 3 Years Ago (£)	2,344,826	40,000	820,993	35,000	2,126,722	50,000
	Estimated Current T/over (£)	3,328,382	50,000	2,621,096	40,000	2,604,160	50,000
	Jobs Now	8.81	1	4.25	1	14.59	1
	Jobs in 5 Years	11.89	2	10.46	2	19.74	2
	Approximate Company Assets	11,236,919	50,000	1,456,898	30,000	2,257,607	25,000

Export orientation can give a measure of how the growth potential of new businesses, as well as the current strategy of existing businesses in expanding market opportunities. Table 13 indicates **that nascent entrepreneurs in South East Wales are less export-oriented than those in the rest of Wales, with only 9.2 per cent intending to export more than 50 per cent of their goods and services**.

Table 13: Entrepreneurship and Export Orientation, in South East Wales, the rest of Wales and the UK, 2005

	South East Wales		Rest of Wales		UK	
	Start-ups	Businesses	Start-ups	Businesses	Start-ups	Businesses
NONE	76.3%	88.6%	68.7%	81.0%	73.9%	85.1%
1-25%	4.0%	1.8%	8.1%	4.3%	6.2%	2.9%
26-50%	10.5%	2.3%	10.1%	6.5%	6.6%	4.1%
51-75%	6.6%	2.3%	4.0%	3.0%	5.7%	3.1%
76-90%	1.3%	3.7%	4.0%	1.6%	2.6%	1.7%
91-100%	1.3%	1.4%	5.1%	3.5%	5.1%	3.1%

Only 7.4 per cent of existing enterprises in South East Wales are actively exporting more than half of their business, which is a lower rate than for the rest of Wales (8.1 per cent) and the UK (7.9 per cent). It therefore appears that both nascent entrepreneurs and owner managers in South East Wales are less export orientated than their counterparts in other parts of Wales, with a greater percentage of each group indicating that they expected none of their turnover to come from abroad. This may be partly explained by the larger local markets within the region, which enable businesses to establish themselves locally without having to export their goods elsewhere.

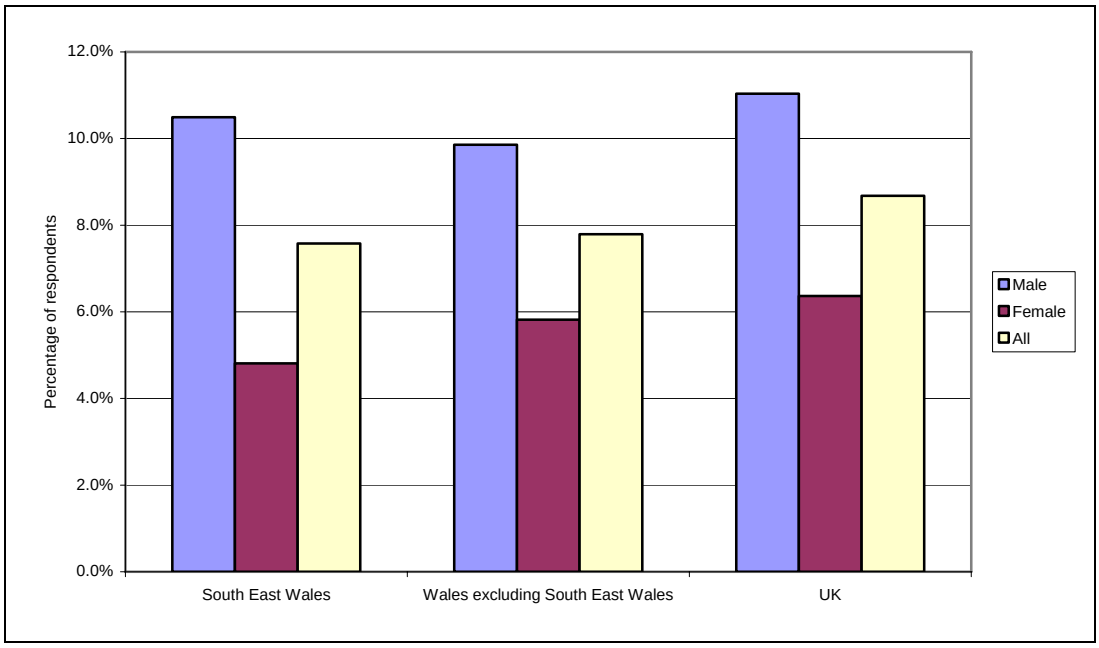
ENTREPRENEURIAL ATTITUDES

The GEM survey asks a series of questions which attempt to measure the attitudes of the population towards starting a business and many related features of entrepreneurship. The

analysis that follows is a pictorial descriptive narrative that describes the regional data from the GEM Wales project. Some basic cross-tabulations and correlations are presented, but much care is needed in interpreting these as providing any kind of strict causal link to entrepreneurship. Attitudes and cultures take many years to shape in any country or region and what follows is not meant to be prescriptive.

Figure 8 shows that the percentage of the population expecting to be involved in future start-ups is roughly the same for both South East Wales (7.6 per cent), and the rest of Wales (7.8 percent). However, both lag behind the UK as a whole, where 8.9% of the population expect to start a business in the next three years.

Figure 8: Percentage of Population Expecting to Start a Business in the Next Three Years, South East Wales, the rest of Wales and the UK, 2005



As found with entrepreneurial activity, there is a greater gender imbalance in South East Wales with regards to entrepreneurial expectations of starting a business in the next three years. **Male entrepreneurial aspirations (10.5 per cent) are higher in South East Wales than the rest of Wales, but female aspirations are lower (4.8 per cent).** Again, this could either suggest that the current labour market for women within the region is relatively buoyant, or that entrepreneurship has not been adequately 'sold' as a future career option.

The attitudes towards entrepreneurship in South East Wales, Wales and the UK are set out in Table 14. The initial four questions are primarily a gauge of an individual's assessment of their own capacity to start a business. The first question relates in part to the research data on networks of entrepreneurs – knowing an entrepreneur can provide a role model to follow if, of course, the relationship with the entrepreneur is positive. In the second question, the ability to recognise and then exploit opportunities is at the heart of a dynamic economy. Thirdly, having the skills to actually start a firm, linked with the fourth element of not fearing failure, is crucial. The next three questions relate to the cultural environment within which entrepreneurship exists in the economy.

Given the lower entrepreneurial activity prevalence rates, it is not surprising to find that a smaller percentage of the population replied that they knew an entrepreneur in South East Wales. This shows one of the difficulties in raising the level of entrepreneurship within the region in that entrepreneurial networks are likely to be less extensive. It is also found that a smaller proportion of the population of South East Wales feel that there are good start-up

opportunities (33.1 per cent) and possess the skills to start a business (45.2 per cent), as compared to the rest of Wales.[22] Therefore, it appears that, overall, South East Wales has a more negative outlook to entrepreneurship than the rest of Wales. This may explain some of the lower ESE scores within the region.

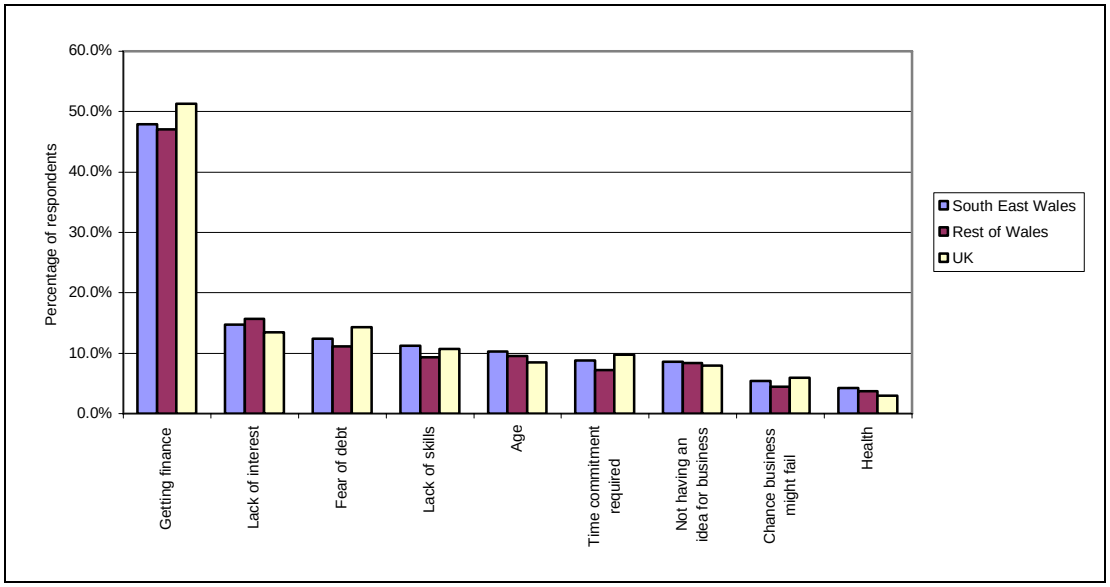
Table 14: Attitudes towards Entrepreneurship, South East Wales, rest of Wales, and UK, 2005

	South East Wales	Rest of Wales	UK
Personally know an entrepreneur	24.4%	26.8%	27.7%
Good start-up opportunities	33.1%	36.6%	38.5%
Has skill to complete a start-up	45.2%	53.2%	50.7%
Fear of Failure would prevent start-up	32.9%	32.6%	34.2%
Entrepreneurship is a good career choice	57.1%	55.0%	54.3%
Starting a new business carries high status	73.0%	72.4%	71.7%
Good media coverage of entrepreneurships	52.8%	57.2%	54.4%

Barriers to entrepreneurship

Last year, the GEM survey introduced questions relating to the perceived barriers to, and motivations for, entrepreneurship. This is a crucial area for investigation when designing policies and programmes, and knowledge of these factors should be of great use to the Welsh Assembly Government in the future.

Figure 9: Perceived Barriers to Entrepreneurship, South East Wales, the rest of Wales and the UK, 2005



The data presented has indicated that the motivations of entrepreneurs in South East Wales for starting a business are quite different from those of other Welsh entrepreneurs, which therefore suggests that the barriers that prevent people starting their own businesses may also differ. However, as Figure 9 shows, there is not much

[22] *The difference in the percentage of respondents feeling there are good start-up opportunities in South East Wales and the rest of Wales is significant at the 5% level (t = 2.28), and with the rest of the UK at the 1% level (t = 4.62). The difference in the percentage of respondents feeling they have the skills to complete a start-up is even greater statistically, being significant at the 1% level (t = 5.00) this is also the case for the UK (t = 4.54).*

difference between the perceived barriers to entrepreneurship in South East Wales than for the rest of Wales and the UK.

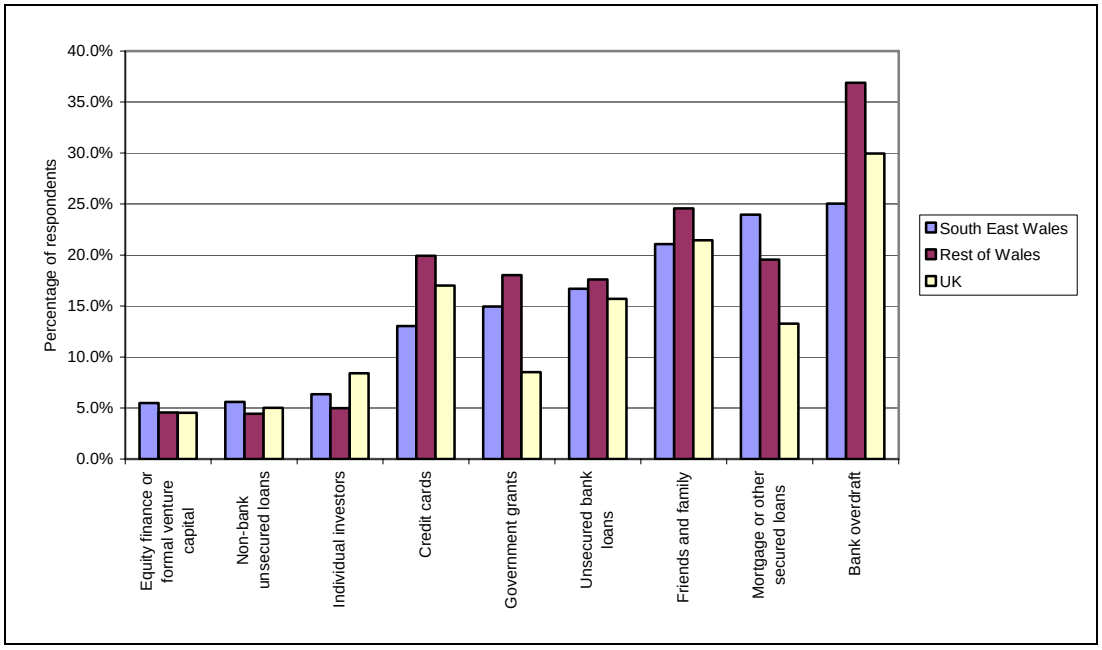
Difficulties in obtaining finance is the major barrier faced by entrepreneurs in all regions, with 48 per cent of respondents claiming that access to funding prevents them from going into business in South East Wales, slightly lower than the rate for the UK (51.2 per cent).

ACCESS TO FINANCE

The previous section indicated that access to finance was as the main factor that held people back from entering entrepreneurship. Given this, the whole area of financing new firms should be examined in greater detail, especially as the region has more high potential entrepreneurs at start-up who will, if they are to grow their business, require access to different sources of funding.

Figure 10 shows that, in South East Wales, as for the rest of Wales and the UK, the most common source of funding for business start-ups is bank overdrafts (25.0 per cent), although this is used far less than for the rest of Wales (36.9 per cent). Greater use is also made of secured loans (24.0 per cent),[23] than in other parts of Wales, with less drawing on friends and family (21.1 per cent) and credit cards (13.1 per cent).

Figure 10: Sources of Finance, South East Wales, the rest of Wales and the UK, 2005



It therefore appears that more formal sources of finance from banks are used more readily in South East Wales than the rest of Wales. The data also indicates that entrepreneurs in Wales access more funding through government grants than the UK average. South East Wales, with 15 per cent of entrepreneurs sourcing finance from the public sector, is no exception in this.

Two sources of funding that are used more intensively in South East Wales are informal and formal venture capital. **6.4 per cent of businesses currently utilise 'business angel' finance in North Wales, as opposed to 5.0 per cent for the rest of Wales.** Similarly, 5.5

[23] *The difference is only statistically different between South East Wales and the UK as a whole (1% level, t = 4.71), but there is no significant difference with the rest of Wales (t = 1.59).*

per cent of entrepreneurs in the region have utilised venture capital as opposed to 4.6 per cent for the rest of Wales and 4.5 per cent for the UK.

These findings probably reflect the nature of the types of high aspirational new businesses being established within the region, with more formal financing and investment from high value individuals and equity funding being more important at start-up than informal finance or bootstrapping via credit cards.

Where access has been refused to a source of finance, this can be measured as a percentage of all entrepreneurs. In this case, a low refusal rate could be representing the fact that the source of finance will only be attempted to be utilised rarely. Alternatively, the refusal rate can be measured as a percentage of entrepreneurs attempting to access a specific type of finance, but who have previously been refused access to that source of funds. This second measure gives a better indication of the difficulty in accessing the source of finance.

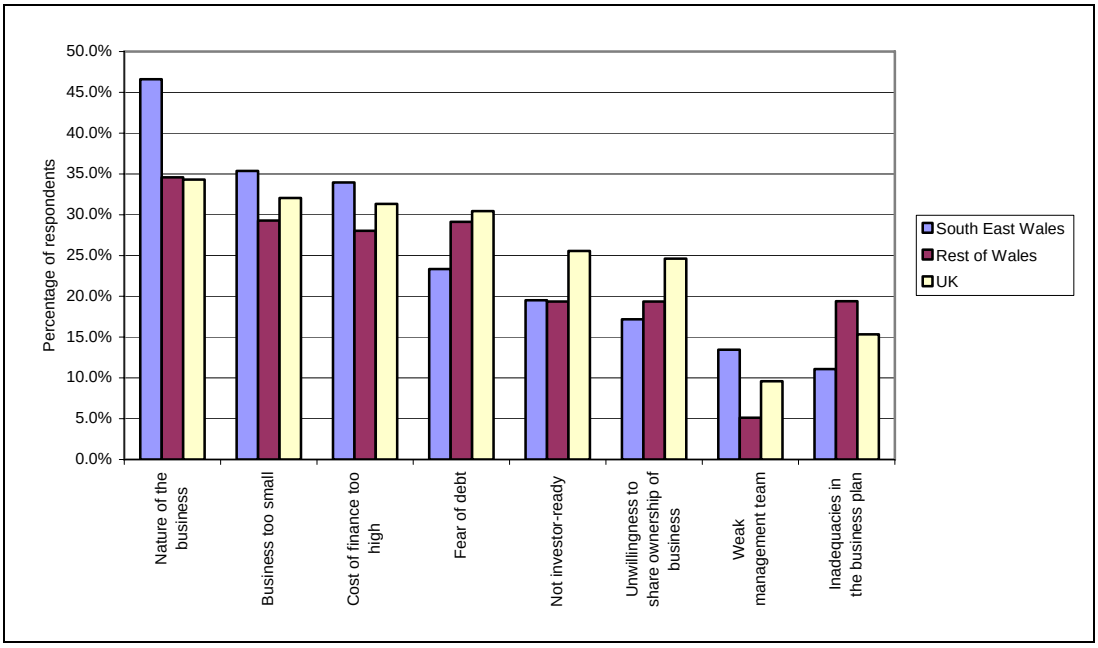
Table 15: Sources of finance where access has been refused, South East Wales, the rest of Wales and the UK, 2005

	South East Wales		**Rest of Wales**		**UK**	
	% Ent	% Att	% Ent	% Att	% Ent	% Att
Government grants	7.5%	40.1%	7.8%	34.2%	4.4%	37.8%
Bank overdraft	5.5%	19.7%	4.2%	11.3%	4.7%	15.0%
Unsecured bank loans	4.4%	22.2%	3.7%	18.7%	3.8%	21.1%
Friends and family	3.3%	14.7%	2.5%	9.5%	2.3%	10.1%
Mortgage	3.0%	12.1%	2.4%	11.5%	2.5%	17.5%
Equity finance	2.3%	31.1%	1.4%	28.6%	1.6%	31.0%
Credit cards	2.2%	15.4%	2.2%	10.8%	2.5%	14.3%
Individual investors	2.1%	28.7%	1.9%	30.1%	2.6%	25.5%
Non-bank unsecured loans	1.6%	22.8%	0.7%	14.3%	1.6%	27.1%

Table 15 shows that accessing government grants is ranked as the most difficult to access for all entrepreneurs (7.5 per cent), but also for those who are specifically applying for public sector support (40.1 per cent). This is likely to be due to the attractiveness of grants as a source of funding, which will mean that many entrepreneurs may apply for grants, even though they may not qualify as businesses. This refusal rate for grants is higher than for Wales as a whole (34.2 per cent) and the UK (37.8 per cent). Other sources of finance with high scores for refusal for South East Wales entrepreneurs include short term debt finance such as for overdrafts and unsecured bank loans. Equity finance, from either formal sources or individual investors, is one of the sources of finance that may seem easy to access, given the failure rate expressed as a percentage of entrepreneurs. However, if we examine the proportion of refusals within equity finance alone, we find that 28.8 per cent of entrepreneurs specifically applying for equity finance in South East Wales have been refused. Therefore, equity finance may be more likely to be perceived as being difficult to obtain, and few entrepreneurs will attempt to access it.

The main reason for failing to access finance in South East Wales is perceived to be the nature of the business (46.6 per cent), which is considerably higher than the rest of Wales (34.6 per cent) and the UK (34.3 per cent). This needs more research, but could link into the difficulty in accessing government grants, given that activities such as retail are normally exempt from access to many sources of public sector funding. The study also finds that entrepreneurs in South East Wales are more likely to consider the small size of their business (35.4 per cent) and the high cost of finance (34.0 per cent) as other key factors in restricting the availability of funding for the business.

Figure 11: Reasons for Failing to Access Finance, in South East Wales, the rest of Wales and the UK, 2005



More worryingly, 13.5 per cent of entrepreneurs in South East Wales believe that they have a weak management team and this contributes to a failure to access finance, nearly three times the rate for the rest of Wales and higher than for the UK. However, the lower proportion of entrepreneurs who are unwilling to share their ownership of the business (17.2 per cent) is a positive sign, and may explain the higher incidence of equity investment in the region.

INFORMAL VENTURE CAPITAL

The extent to which individuals provide funds for start-up firms on what is usually an informal basis is an important indicator of entrepreneurial activity. This is because (a) in most areas outside of major financial centres and technology clusters business angels are the only source of risk capital and (b) the informal investement market is an important mechanism for retaining and recycling wealth within the region that it was created[24].

In 2005, only 1.0% of respondents from South East Wales have indicated that they have made an informal investment in the last three years (Table 16). This is below the average for the rest of Wales (1.4 per cent)[25] and below the UK level of informal investment (1.3 per cent). It is less than half of the highest UK regional business angel prevalence rate of 2.2 per cent for London. Whilst the differing prevalence rates are interesting, this does not tell the whole story as there is potential for informal investments to be made in a large range of values ranging from a few hundred pounds to over £200,000.

[24] Mason. C. (2006) "Venture capital and the small business", in Carter, S. and Jones-Evans, D. (eds) Enterprise and Small Business: Principles, Policy and Practice, 2nd edition, FT Prentice Hall

[25] The difference between the in business angel prevalence rates in South East Wales and the rest of Wales are not significant at the 5 per cent level (t = 1.60).

Table 16: Business Angel Investments in South East Wales, the rest of Wales and the UK, 2005

	South East Wales	Rest of Wales	UK
Business Angel Prevalence Rate	1.0%	1.4%	1.3%
Business Angel 3 Year Funding (Mean)	£20,252	£26,295	£21,618
Business Angel 3 Year Funding (Median)	£10,000	£5,000	£10,000

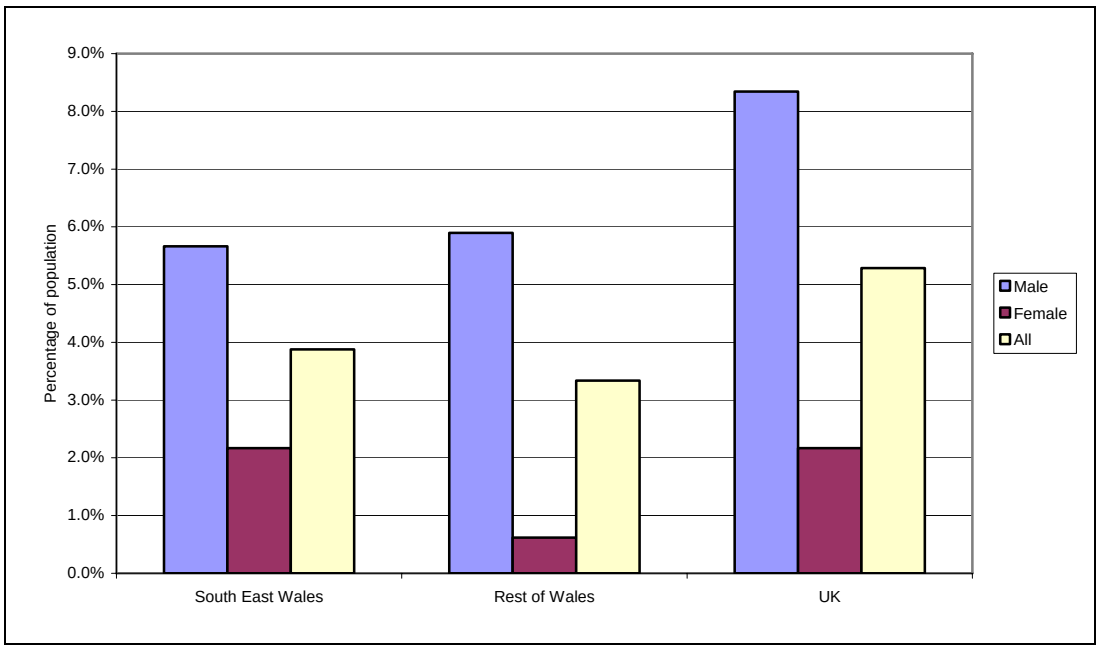
In South East Wales, the mean of the total investments made by individual business angels over the last three years is lower at £20,252 than for the rest of Wales and the UK. However, the median for business angel investment in the region is twice that of the rest of Wales and equivalent to the UK. This indicates that the informal investments undertaken in South East Wales are higher across a wider range of businesses.

SPECIAL FOCUS 1
YOUTH ENTREPRENEURSHIP

Entrepreneurship amongst young people[26] is increasingly seen as being highly desirable for the economy. This is because young people are perceived as being one of the most dynamic and resourceful parts of the workforce, and youth enterprises, given their access and understanding of fast growing sectors of the market, are often likely to be those that have the greatest growth potential to provide an innovative drive to the economy. In addition, a number of areas in Wales suffer from pockets of high unemployment and economic inactivity amongst young people. One potential solution to this problem is to encourage greater involvement in entrepreneurship by young people.

Figure SF1.1 shows the early stage entrepreneurship (ESE) rates for South East Wales for both genders with comparative figures for the rest of Wales and the UK[27]. It shows that the ESE prevalence rate for South East Wales (3.9 per cent) is slightly higher than for the rest of Wales (3.3 per cent), although it is considerably less than the UK rate (5.3 per cent). When the youth ESE rates are sub-divided by gender, the rate for the UK (8.3 per cent) is considerably higher than for South East Wales (5.7 per cent) or for the rest of Wales (5.9 per cent). However, the female youth ESE rate in South East Wales (2.2 per cent) is identical that of the UK, whilst the female youth rate for the rest of Wales (0.6 per cent) is exceptionally low.

Figure SF1.1: Early-Stage Entrepreneurial Activity rates for young people, South East Wales, the rest of Wales and the UK, 2005



One reason for lower ESE rates amongst young people in general is that they are less likely to have adequate wealth to start businesses without a large amount or external funding readily available. Moreover, they may have embarked on a career or be undertaking a course in further/higher education which they will focus on for the immediate future. Given the increasing focus and attention on entrepreneurship, there would be an expectation that many will have entrepreneurial aspirations and that drive and ambition will mean that a larger proportion of young people will be starting their own businesses in the near future.

---

[26] *For the purposes of this study, young people are defined as those adults aged between 18-24 yrs*

[27] *It is not sensible to examine the established business ownership (EBO) rate as very few businesses run by youth entrepreneurs will have had time to mature into established businesses.*

Figure SF1.2: Proportion of young people who expect to be involved in a business start-up within the next three years, South East Wales, the rest of Wales and the UK, 2005

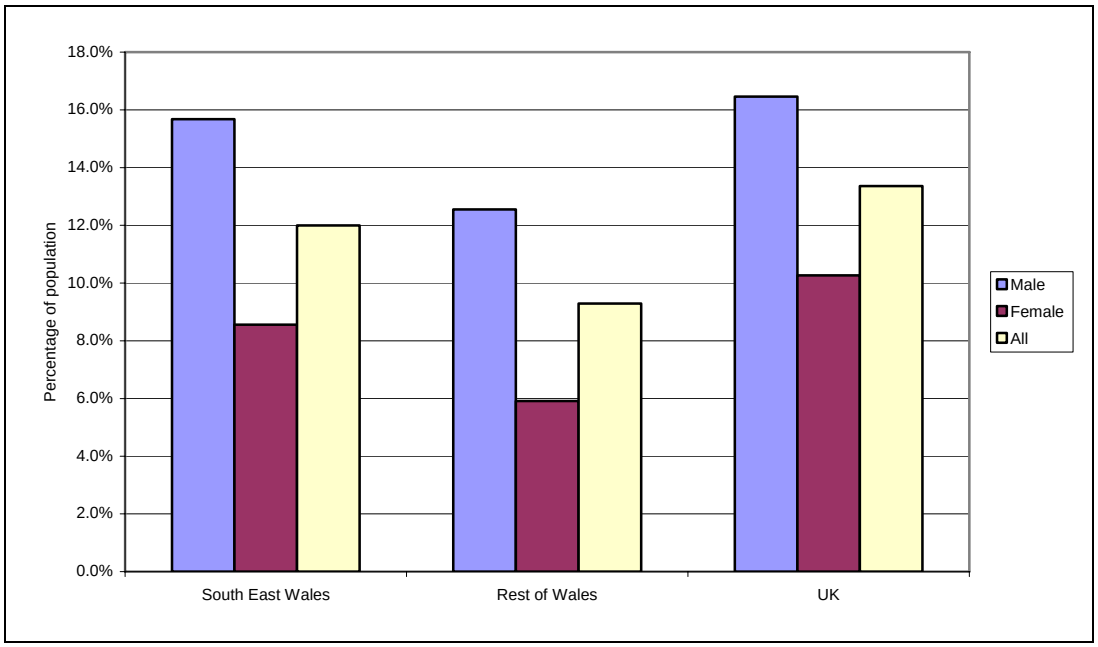


Figure SF1.2 shows that although entrepreneurial aspirations for young people are higher in South East Wales (15.7 per cent) than for the rest of Wales (12.6 per cent), they remain below the UK rate of 16.5 per cent. If aspirations by gender are examined, 8.6 per cent of young women in South East Wales, as compared to 5.9 per cent for the rest of Wales, will start a business in the next three years, although this difference does not account for far lower levels of ESE rates outside of this region. Given this, an examination should be made of the impact that education and work-status have upon entrepreneurship rates, aspirations and attitudes.

Table SF1.1 shows that education is a key factor in raising the level of youth ESE prevalence rate in all parts of Wales and the UK. Whilst graduates in the rest of Wales (5.7 per cent) perform far more strongly than non-graduates (2.8 per cent), the gap is less in South East Wales, suggesting that education has a weaker influence upon young people in this region. Of interest is the fact that, in Wales, education seems to have less of an effect on female rates of entrepreneurship, whereas in the UK, there is a considerable gap between female graduates and non-graduates.

Table SF1.1 - ESE and educational achievement for young people, South East Wales, the rest of Wales and the UK, 2005

	South East Wales		Rest of Wales		UK	
	Non-graduate	Graduate	Non-graduate	Graduate	Non-graduate	Graduate
Male	5.3%	6.9%	4.7%	12.1%	6.8%	13.3%
Female	2.0%	2.8%	0.8%	0.0%	1.5%	4.0%
All	3.6%	4.9%	2.8%	5.7%	4.2%	8.4%

In terms of entrepreneurial aspirations, it is found that education has quite different effects upon different regions (Table SF1.2). For the UK as a whole, university education increases the aspirations of both genders, although differing results are found for South East Wales

and for the rest of Wales, with non-graduates having higher aspirations than young graduates.

For example, young males in South East Wales who are non-graduates (16.7 per cent) have higher aspirations than graduates (12.6 per cent). In contrast, young women in the rest of Wales who do not graduate from university (6.8 per cent) are three and half times more likely to start a business in the next three years than those with a university education (2.3 per cent). These results suggest that a far more detailed analysis is required of the role of education in changing the attitudes of young people towards entrepreneurship, and how these differ across regions.

Table SF1.2 - Education and entrepreneurial aspirations for young people, South East Wales, the rest of Wales and the UK, 2005

	South East Wales		Rest of Wales		UK	
	Non-graduate	Graduate	Non-graduate	Graduate	Non-graduate	Graduate
Male	16.7%	12.6%	11.9%	16.0%	16.2%	17.3%
Female	8.6%	8.5%	6.8%	2.3%	9.5%	12.3%
All	12.4%	10.7%	9.4%	8.8%	12.9%	14.7%

Table SF1.3 - Entrepreneurial Attitudes amongst young people by education and gender, South East Wales, the rest of Wales and the UK, 2005

		Know an Entre	Good Opport	Start-up Skills	Fear of Failure	Good Career	High Status	Good Media Cover
South East Wales	Non Graduate Male	28.3%	32.9%	40.4%	18.3%	74.1%	82.1%	48.4%
	Graduate Male	25.1%	28.1%	33.2%	37.4%	54.2%	76.5%	54.6%
	Non Graduate Female	28.8%	19.1%	28.1%	37.3%	74.3%	77.2%	45.1%
	Graduate Female	16.5%	67.2%	47.0%	56.9%	87.5%	84.4%	51.6%
	Non graduates	28.6%	26.1%	34.3%	27.6%	74.2%	79.9%	46.8%
	Graduates	21.1%	44.8%	40.0%	46.5%	72.1%	80.8%	53.0%
Rest of Wales	Non Graduate Male	34.7%	30.9%	33.9%	20.3%	70.8%	79.5%	44.1%
	Graduate Male	22.4%	57.4%	61.6%	27.0%	34.2%	80.8%	68.3%
	Non Graduate Female	22.8%	23.3%	29.2%	41.1%	69.3%	88.1%	49.5%
	Graduate Female	25.1%	30.5%	28.6%	43.0%	70.8%	77.1%	64.1%
	Non graduates	29.6%	27.7%	31.8%	29.3%	70.1%	83.4%	46.6%
	Graduates	23.6%	46.3%	46.6%	34.3%	51.5%	78.9%	66.2%
UK	Non Graduate Male	35.5%	34.3%	47.2%	29.5%	75.7%	80.2%	50.0%
	Graduate Male	38.6%	46.9%	53.3%	25.9%	49.5%	78.9%	49.8%
	Non Graduate Female	25.2%	30.0%	27.4%	39.5%	76.2%	85.4%	47.1%
	Graduate Female	37.9%	47.8%	24.8%	39.0%	51.4%	76.2%	43.7%
	Non graduates	31.0%	32.5%	38.6%	33.9%	75.9%	82.8%	48.5%
	Graduates	38.3%	47.4%	39.0%	32.2%	50.5%	77.4%	46.5%

Table SF1.3 indicates that the differences in aspirations across regions may be explained by a far lower proportion of graduates in the South East Wales (21.6 per cent) and the rest of Wales (21.1 per cent) actually know an entrepreneur personally. This means that whilst opportunity perception and confidence in skills is high across graduates in all three regions, there are less role models available for graduates to encourage them into self-employment. Therefore, it might be expected that courses within universities that are directed specifically at enterprise education would be more successful in increasing entrepreneurial activity among young people, given that many of these courses have a strong participatory element, and often involve entrepreneurs acting as instructors or role models.

Figure SF1.3: ESE and enterprise education amongst young people, South East Wales, the rest of Wales and the UK, 2005

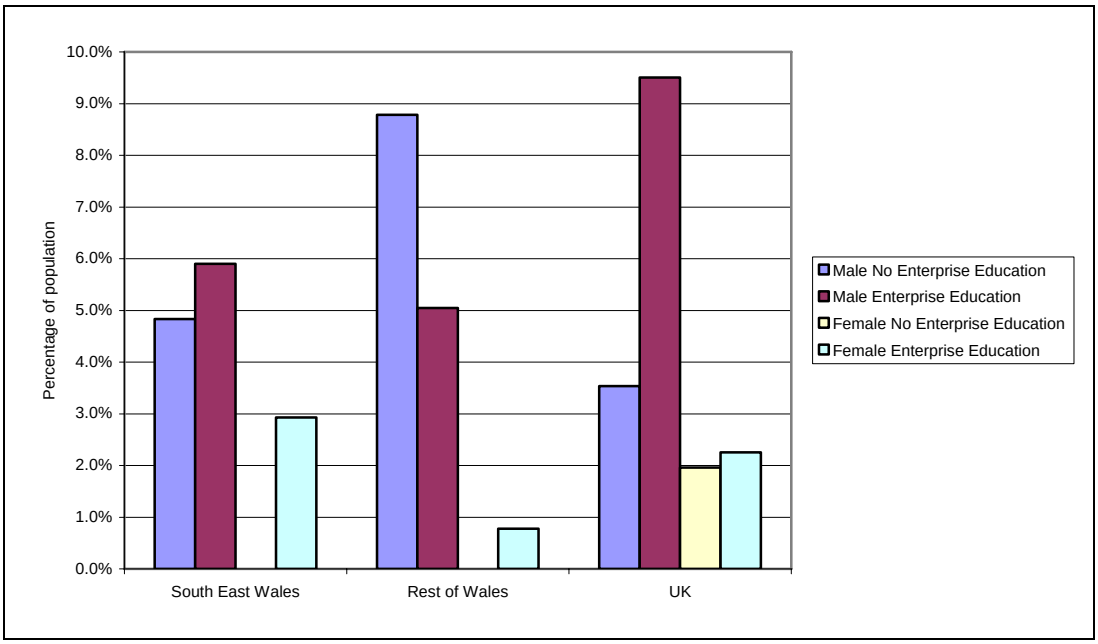


Figure SF1.3 compares the ESE prevalence rates for the young people in South East Wales, the rest of Wales and the UK, examining whether they had received enterprise education from any of the following sources; school, work experience, university, or government programmes.

In the UK, enterprise education has the effect of raising the levels ESE for 18 to 24 year olds. This is especially the case for young men who have undertaken courses in entrepreneurship who have an ESE rate of 9.5 per cent. This contrasts with 3.4 per cent of those young men without experience of enterprise education who start a new business.

A similar effect is found in South East Wales, although the difference in male ESE for those who has undertake enterprise education (5.9 per cent) as opposed to those who had not (4.8 per cent) is smaller than for the UK. Contrast this with the rest of Wales, where male youth ESE falls with enterprise education training. The data also indicates suggests that ESE amongst young women is increased in Wales by enterprise education.[28] This could suggest that a specific focus of enterprise education courses within schools, universities and colleges in South East Wales, and Wales as a whole, should focus on specific training for female undergraduates.

[28] *None of these differences are statistically significant because of the sample sizes available.*

Figure SF1.4 suggests that, in terms of entrepreneurial aspirations, enterprise education has a positive effect on those expecting to be involved with a business start in the next three years. In South East Wales, 18.6 per cent of young men who have studied enterprise aspire to start a new business, as opposed to 6 per cent who did not. Similarly, 11.6 per cent of young women in the region have been encouraged to consider entrepreneurship as a career option.

Figure SF1.4: Entrepreneurial Aspirations and Enterprise Education amongst young people, South East Wales, the rest of Wales and the UK, 2005

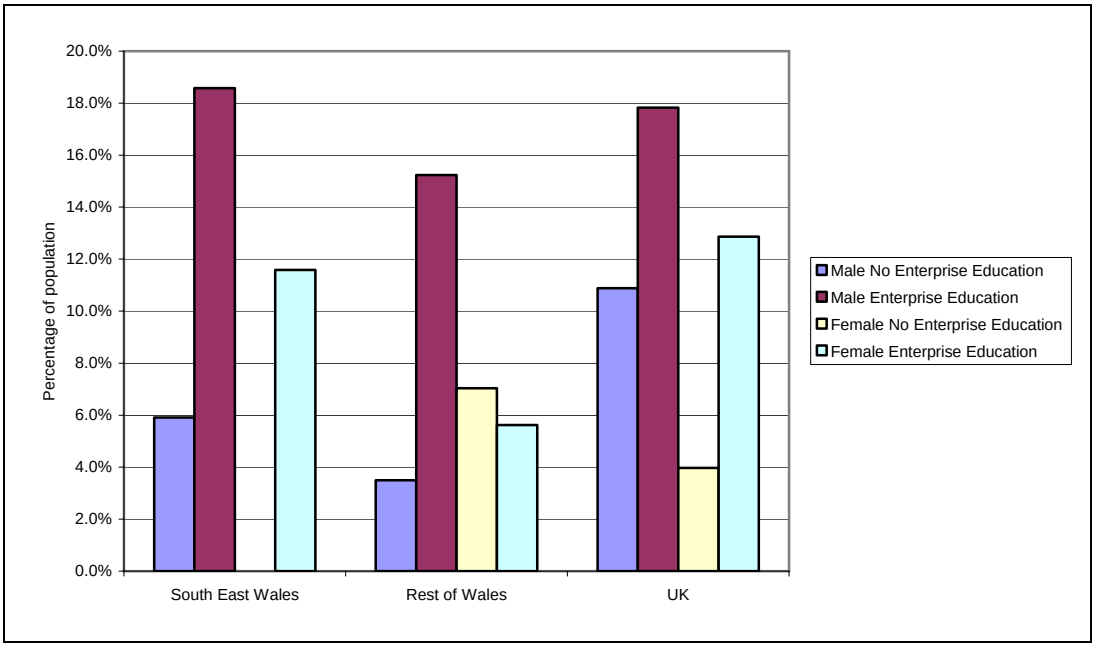


Figure SF1.5: ESE and employment status amongst young people, South East Wales, the rest of Wales and the UK, 2005

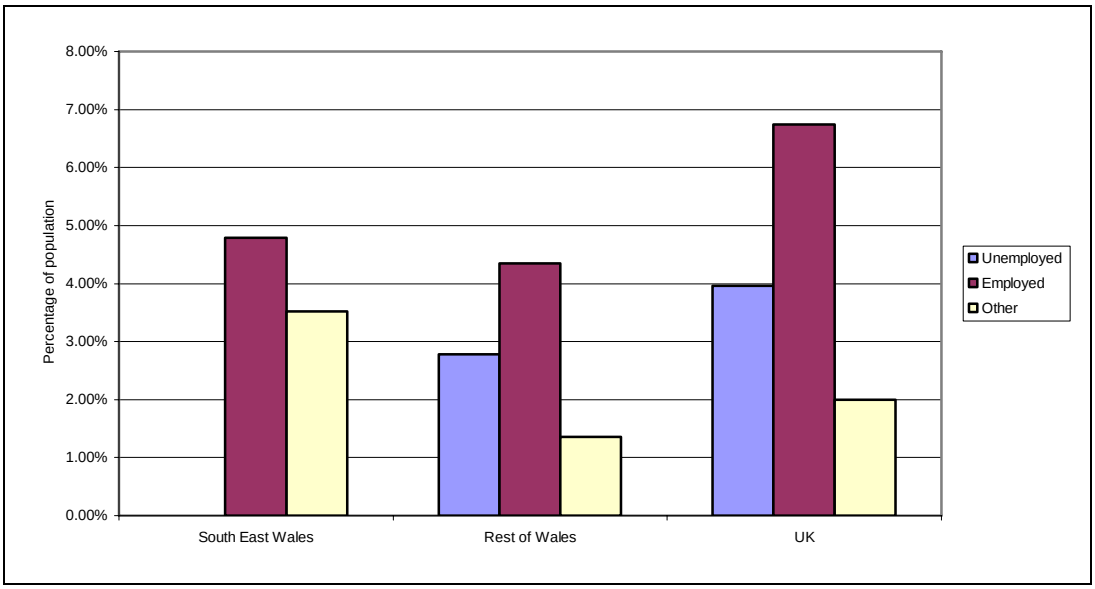
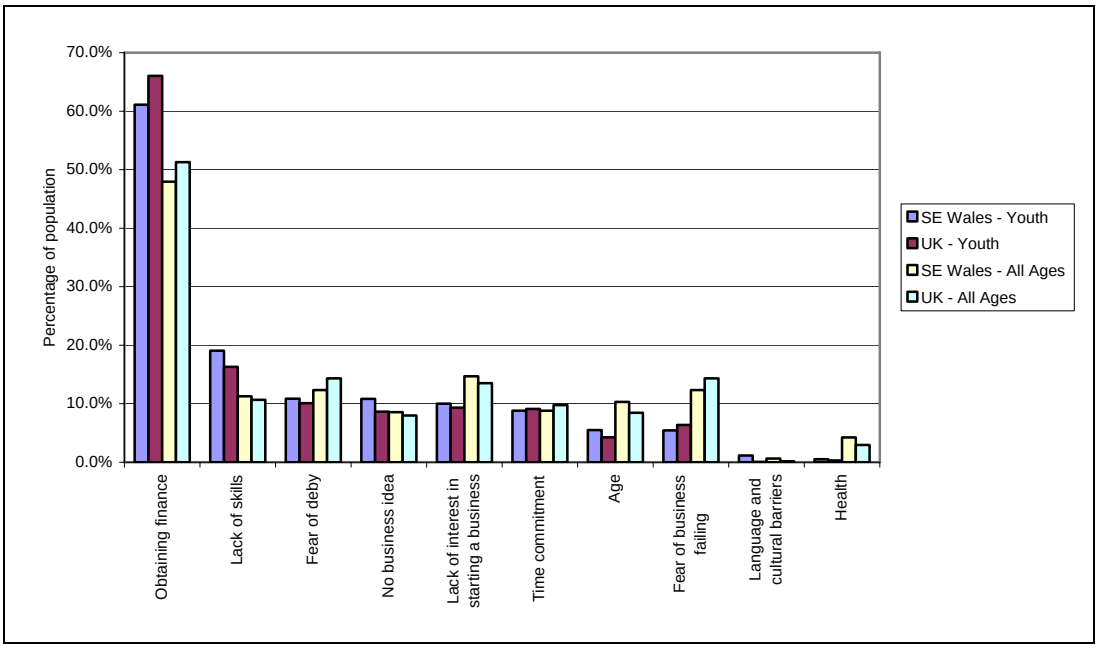


Figure SF1.5 shows ESE for the youth age group when sub-divided by work status in three categories: unemployed, either unemployed and claiming benefits or economically inactive and not claiming benefits; employed, either full or part-time; other, including those in full time education, the disabled, and full-time homemakers.

In all regions, the employed are the most entrepreneurially active amongst young people. In South East Wales, 4.8 per cent of young entrepreneurs are employed, as compared to 3.5 per cent of 'others'. It is also worth noting that there are no unemployed young people in the South East involved in ESE activities, suggesting that enterprise is not functioning as a way of lowering youth unemployment.

Figure SF1.6 compares the specific barriers to young people in South East Wales and the UK undertaking entrepreneurial activity, as compared to the rest of the population. Whilst the main barrier across all ages is availability of finance, this is more pronounced amongst young people. In South East Wales, 61.1 per cent of those aged 18-24 consider lack of funding to be a major barrier, which is lower than the corresponding figure for the UK (66.0 per cent). This probably reflecting the lack of collateral that young people are able to provide when attempting to acquire debt financing.

Figure SF1.6: Barriers to entrepreneurship amongst young people and all adults, South East Wales, UK, 2005



The second key barrier is lack of skills, which is again perceived as being higher for young people in both South East Wales (19.1 per cent) and the UK (16.3 per cent) than for the rest of the population. This is an important finding, given that this research has demonstrated clearly the important link between entrepreneurial activity and involvement in enterprise education activity, especially as these courses are likely to provide the young people with the skills (or confidence that they possess the skills) to overcome this barrier.

SPECIAL FOCUS 2
ENTREPRENEURSHIP IN THE WELSH VALLEYS

South East Wales can be geographically divided into two areas, namely the richer urban areas on the M4 corridor and the more deprived poorer areas in the South Wales Valleys[29]. As Figure SF2.1 shows, ESE for those living in the M4 corridor (5.1 per cent) is higher than for those living in the South Wales Valleys (4.3 per cent).[30] The proportion of men in the M4 corridor region starting and managing a business (7.5 per cent) is also higher than for men based in the South Wales Valleys (6.4 per cent). For women, only 2.3 per cent of Valleys based women are entrepreneurially active as compared to 2.9 per cent living in the rest of South East Wales.

Figure SF2.1: Early-Stage Entrepreneurial Activity, South Wales Valleys, M4 Corridor, 2005.

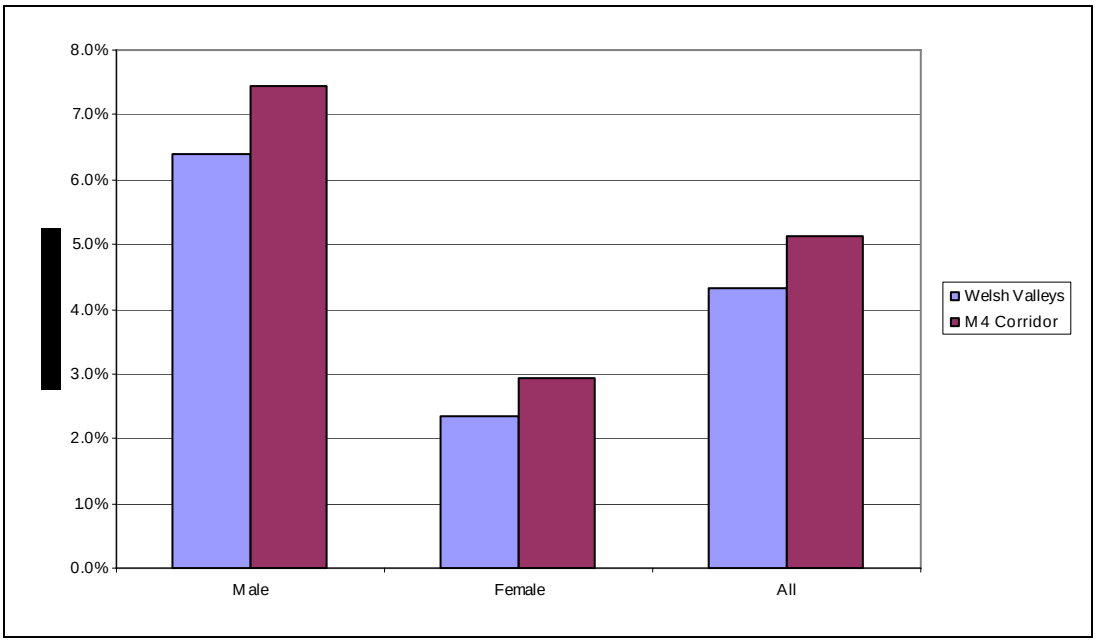


Figure SF2.2 shows the overall business ownership (OBO) rate and its component parts. Whilst all measures of entrepreneurship are found to be higher in the M4 corridor region, the largest difference is in terms of established business ownership i.e. 4.2 per cent of the population are involved in managing an established business within the M4 corridor as compared to 3.0 per cent in the South Wales Valleys.[31] This suggests a longer term pattern of differences in entrepreneurial activity between the two parts of South East Wales. The greater level of entrepreneurial activity at each stage of business development also ensures that the OBO rate is considerably higher in the M4 corridor than the Valleys[32].

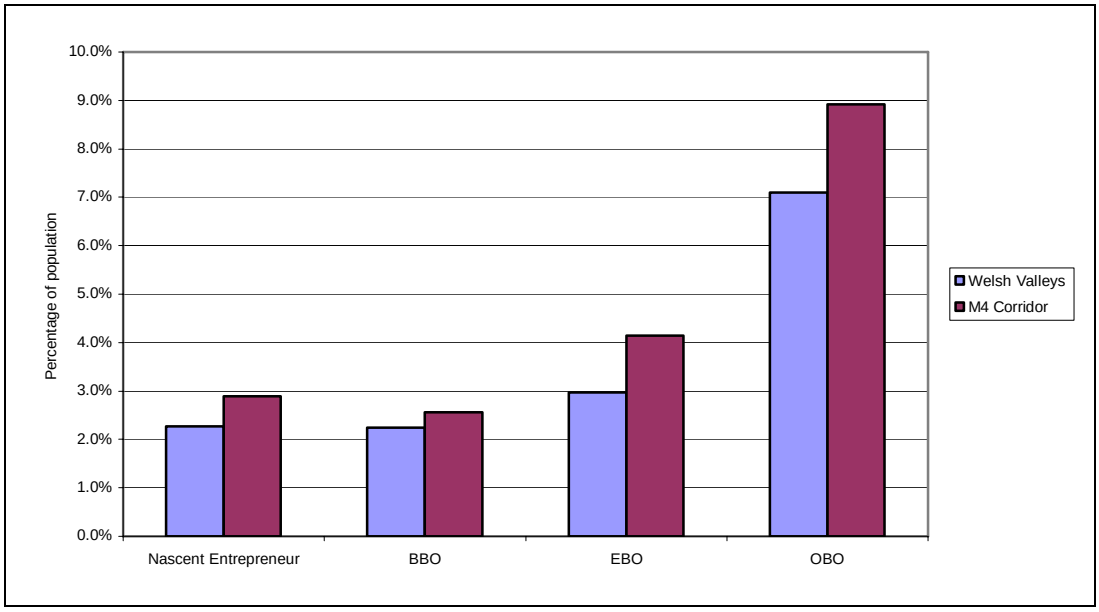
[29] In this study, the M4 corridor is defined as the counties of Bridgend, Cardiff, Newport, Vale of Glamorgan and Monmouthshire. The South Wales Valleys are defined as the counties of Rhonnda Cynon Taff, Caerphilly, Torfaen, Blaenau Gwent and Merthyr Tydfil

[30] It should, however, be noted that even the difference between all persons living in the two portions of South East Wales is not significant (t = 1.09).

[31] The difference in the M4 corridor and Valleys EBO rates is not significant at the 5% level (t = 1.87).

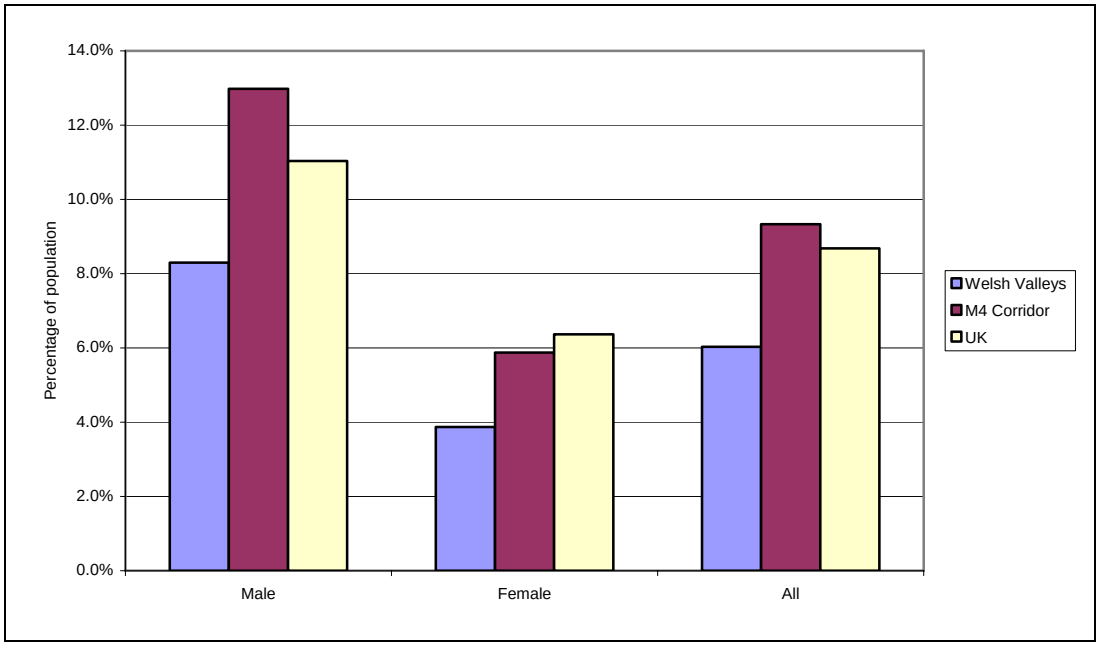
[32] The difference in the OBO rates is significant at the 5% level (t = 1.97).

Figure SF2.2: Overall Business Ownership, 2005, South Wales Valleys, M4 Corridor, 2005.



As Figure SF2.3 suggests, entrepreneurial aspirations are found to be much higher in the M4 corridor than the South Wales Valleys. 9.3 per cent of those living in the M4 corridor region aim to start a business in the next three years, as compared to only 6.0 per cent in the Valleys. Therefore, entrepreneurial aspirations in the Valleys are well below the UK average (8.7 per cent).

Figure SF2.3 - Entrepreneurial Aspirations, South Wales Valleys, M4 Corridor, 2005.



In terms of entrepreneurial attitudes, more people personally know an entrepreneur in the M4 corridor (27.7 per cent) than in the Valleys (21.5 per cent), which is not surprising given the higher EBO rate in the M4 corridor (Table SF2.1). This lack of role models could be one

explanation as to why entrepreneurial aspirations are lower in the Valleys. However, it is worth noting that only 27.9 per cent of adults within the Valleys believe there will be good start-up opportunities in the next six months, as opposed to an average of 38.5 per cent in the UK.

Table SF2.1: Entrepreneurial Attitudes, South Wales Valleys, M4 Corridor, 2005

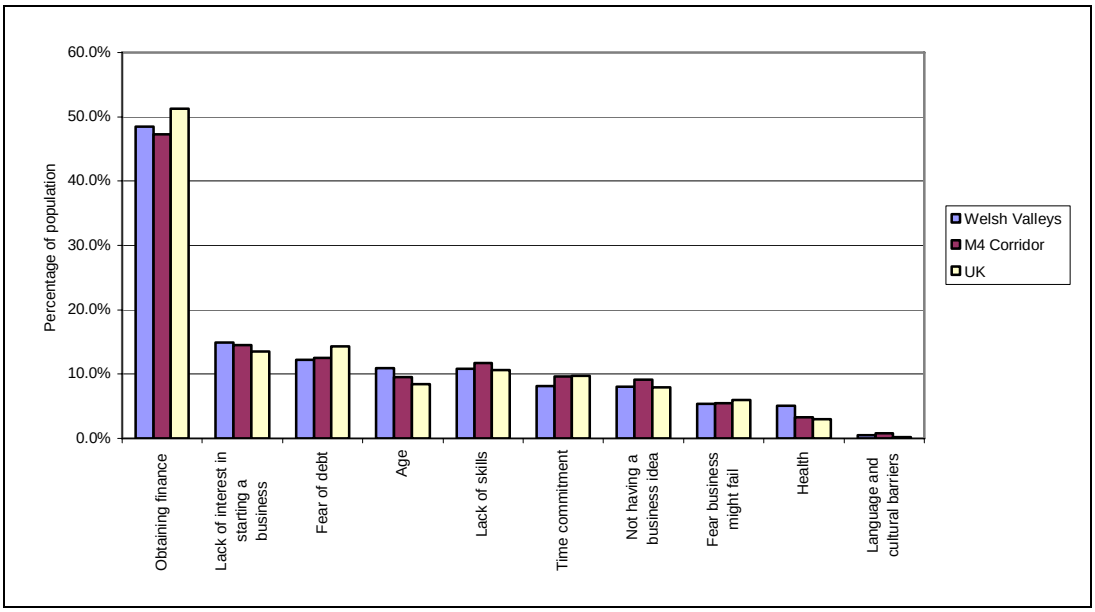
	Welsh Valleys	M4 Corridor	UK
Know an Entrepreneur	21.5%	27.7%	27.7%
Good Start-up Opportunities	27.9%	39.4%	38.5%
Possess Start-up Skills	42.0%	48.8%	50.7%
Fear of Failure	31.2%	34.9%	34.2%
Entrepreneurship is a good career	57.5%	56.6%	54.3%
Entrepreneurship has high status	71.7%	74.5%	71.7%
Good Media Coverage of Entrepreneurship	52.4%	53.2%	54.4%

Clearly, with less opportunities perceived in the market-place, then there will be lower aspirations, and hence lower levels of nascent entrepreneurship. There is also a lower proportion of individuals in the Valleys (42.0 per cent) who believe that they possess the start-up skills required for a new venture.

Interestingly, the percentage of respondents (31.2 per cent) who feel a fear of failure would prevent them from attempting to start a business is lower in the Valleys, perhaps reflecting a view that they have less to lose. However, there are indications that there is a culture that values entrepreneurship within the Valleys, with 57.5 per cent considering entrepreneurship to be a good career choice and 71.7 per cent stating that entrepreneurship has a high status in society.

As Figure SF2.4 suggests, in terms of the examining the barriers to starting a business, there is little difference between the Valleys, the M4 corridor and UK. The main barrier in the Valleys is obtaining finance (48.5 per cent).

Figure SF2.4: Perceived Barriers to Entrepreneurship, South Wales Valleys, M4 Corridor, 2005



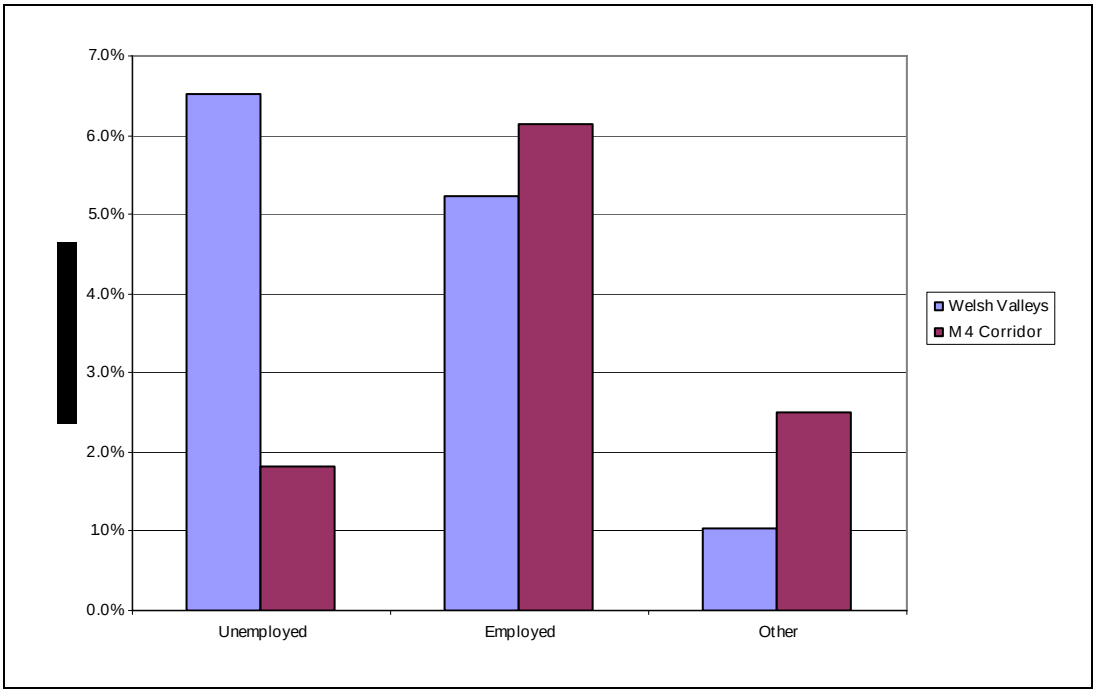
In examining the driving forces behind business starts in the Valleys, it is apparent that necessity entrepreneurship plays a greater role than in the M4 corridor (Table SF2.2). While still being dwarfed by the opportunity ESE rate, the necessity ESE prevalence rate (0.7 per cent) higher in the Valleys than the M4 corridor. Combined with the lower Valleys' opportunity ESE rate (3.5 per cent) this results in a much lower opportunity:necessity ratio of 4.8 as opposed to 8.1 in the M4 corridor region.

Table SF2.2: Opportunity and Necessity Entrepreneurship, South Wales Valleys, M4 Corridor, 2005

	Opportunity *ESE*	**Necessity *ESE***	**Ratio Opp:Nec**
Welsh Valleys	3.5%	0.7%	4.8
M4 Corridor	4.5%	0.6%	8.1

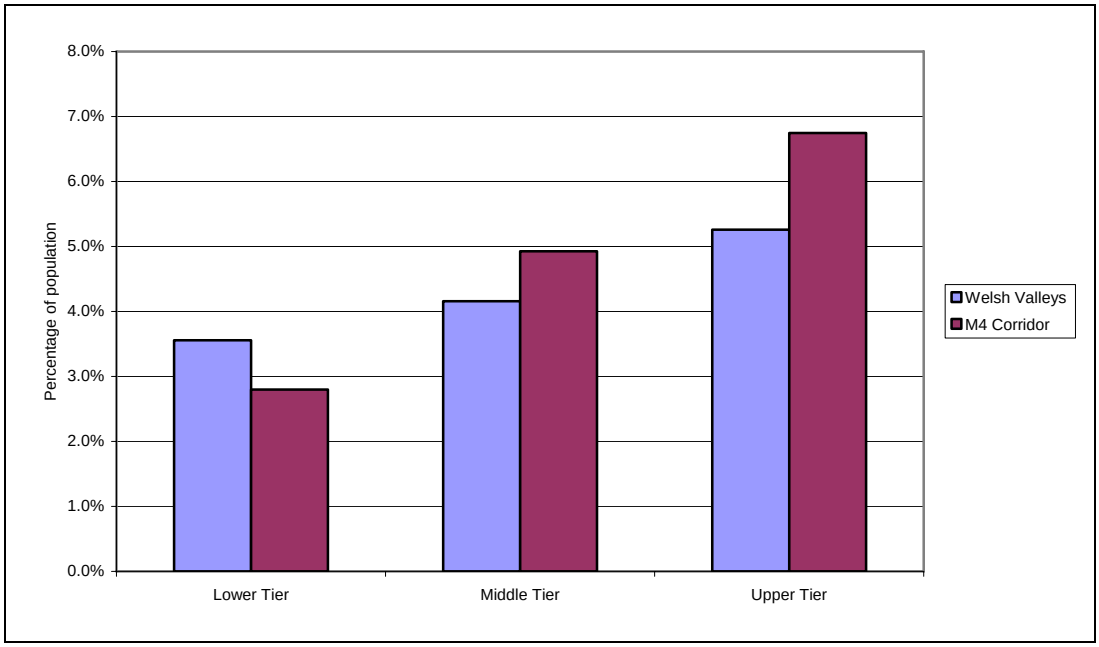
As Figure SF2.5 demonstrates, ESE by work status indicates that, within the South Wales Valleys, entrepreneurship is much more likely to be viewed as a way of obtaining employment. 6.5 per cent of those starting a new business in the Valleys come from an unemployed position as compared to 1.8 per cent in the M4 corridor.

Figure SF2.5: Employment Status and Entrepreneurship, South Wales Valleys, M4 Corridor, 2005



If the relationship between income and entrepreneurial activity is examined (Figure SF2.6), then there are a higher proportion of start-ups emerging from the lower income tier in the Valleys (3.6 per cent) than in he M4 corridor (2.8 per cent). This suggests, along with the other findings in this study, that potential entrepreneurs in the Valleys will attempt business start-ups in order to gain or secure an income, whilst individuals based in the M4 corridor region are more likely to attempt a start-up if they have the finances to pursue an opportunity.

Figure SF2.6: Income Tier and Entrepreneurship, South Wales Valleys, M4 Corridor, 2005



Therefore, this study indicates that entrepreneurial activity in the Valleys is depressed compared to the rest of South East Wales. Where entrepreneurs are active, there is a greater necessity element to the decision to become an entrepreneur, with greater involvement of those in lower income bands and the unemployed. The main barriers appear to be related to individuals' perceptions, with a lack of opportunities envisaged by adults in the region, and a lack of confidence in having the skills to undertake a business start.