



# GEM UK: West Midlands Summary 2008

Mark Hart and Jonathan Levie

The Global Entrepreneurship Monitor (GEM) is an international project involving 43 countries in 2008 which seeks to provide information on the entrepreneurial landscape of countries. Many studies have shown that that entrepreneurship is an important driver for economic growth, competitiveness and job creation. The results of the GEM data analysis are used as key benchmarking indicators by regional and national authorities around the world. This is the seventh year that Advantage West Midlands has participated in GEM. The sample size in the West Midlands was 2,995 adults aged over 16 years of age in 2008.

## Main Findings

- **The level of early stage entrepreneurial activity (TEA) in the West Midlands was 6.35 per cent in 2008 compared to 6.21 per cent in 2007. The TEA rate for the UK as a whole in 2008 was 5.5 per cent.**
- **The West Midlands remains in a group of UK regions with the highest level of early stage entrepreneurial activity in 2008. However, the regional differences in 2008 are much narrower than in previous years and the rate in the West Midlands is only statistically significant from Yorkshire and Humberside.**
- **Despite this relatively high level of the proportion of the non-entrepreneurial population reporting that there are good opportunities for start-up in their local areas in the next 6 months has fallen sharply in the West Midlands since 2007 – a continuation of the trend since 2005. Future start-up expectation rates in the West Midlands have also fallen since 2005. This falling confidence has yet to translate itself into actual start-up activity.**
- **The level of *high-growth expectation early-stage entrepreneurial activity* (HEA) in the West Midlands is 0.6 per cent which is significantly lower than in the UK (0.7%) - pooled data over the period 2002-08. More importantly, early-stage entrepreneurs in the West Midlands are half as likely to report that they have high growth aspirations (in terms of jobs).**
- **Female entrepreneurship in the West Midlands is slightly above the UK average (3.9%) while the level of entrepreneurial activity for males is more than double at 8.9 per cent and is 1.5 percentage points above the UK average.**
- **There is a higher proportion of 18-34 year olds who are engaged in early-stage entrepreneurial activity compared to the UK average.**
- **Graduates in the West Midlands are more likely to be involved in early-stage entrepreneurial activity.**

## Background

Advantage West Midlands (AWM) sponsored the West Midlands component of the Global Entrepreneurship Monitor (GEM UK) research project. Stimulating entrepreneurship remains an important challenge for the region and AWM has taken the lead in ensuring that it is embedded within its core activities. This is the seventh year in which AWM 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 2002-2008. Where appropriate, we draw upon this pooled dataset of c160,000 respondents for the UK (c12,000 in the West Midlands) to provide trend analysis. Participation in the GEM project is providing valuable evidence regarding the level of early stage entrepreneurship within the West Midlands.

The results from GEM data analysis are used as key benchmarking indicators by regional and national authorities around the world. It also enables 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 to September.
- The TEA index is the sum of those respondents classified as nascent<sup>1</sup> entrepreneurs and new firm entrepreneurs<sup>2</sup>.
- 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.

One way of distinguishing between different types of entrepreneurial activity is the extent to which the activity is based on necessity (i.e. there are no better alternatives for work) or opportunity (where entrepreneurs may be exploiting the potential for new market creation).

The following presents a summary of the headline results, and key themes arising from the GEM survey in 2008 and the analysis of the seven years of GEM data (2002-08).

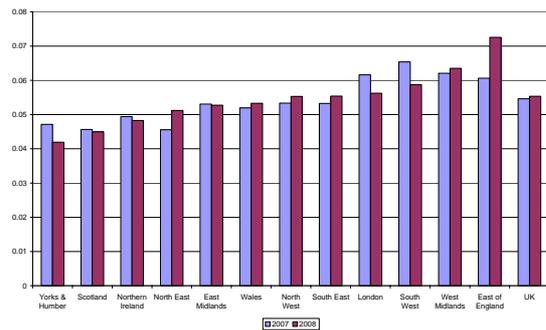
---

<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 own.

<sup>2</sup> The second phase is the first 42 months after the new venture begins to trade. 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 firm entrepreneurs.

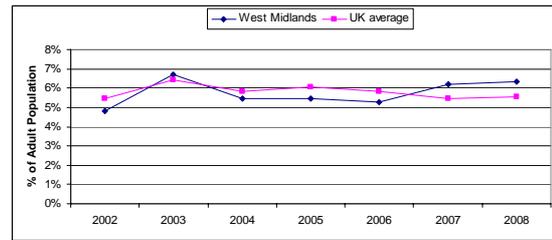
## Early Stage Entrepreneurial Activity (the TEA Index)

Figure 1 shows the level of early stage entrepreneurial activity (TEA) for the UK regions between 2007 and 2008. The rate of early stage entrepreneurship in the West Midlands for 2008 is 6.3 per cent compared to 5.5 per cent in the UK – this difference is not statistically significant. Overall, a TEA rate of 6.3 per cent equates to around one in every sixteen adults or just over 200,000 individuals which were divided between those individuals in the very early stages of starting a business (nascent entrepreneurs – 43.2%) and those who had a new business which was between 3 and 42 months old (56.7%).



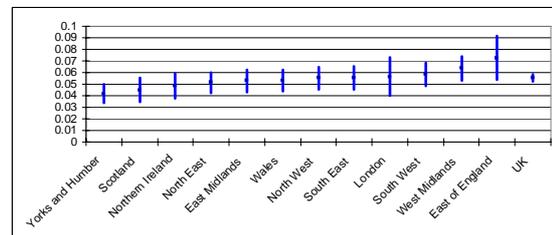
**Figure 1: Early-stage entrepreneurial activity in the UK Regions in 2007 and 2008** (Source: GEM APS, 2008)

Looking at the 2002-2008 period we can now see an increase in early stage entrepreneurial activity in the West Midlands from 4.8 per cent in 2002 (Figure 2). However, this increase over the seven years is not statistically significant. The level of early stage entrepreneurial activity in the West Midlands has tracked the UK trend very closely and in 2007 and 2008 it has moved slightly ahead of the national trend but this gap is not statistically significant.



**Figure 2: Early Stage Entrepreneurial Activity in the West Midlands and the UK (2002-08).** (Source: GEM APS)

The West Midlands ranks in the top three of the 12 UK regions, a position it occupied for the first time in 2007 after a number of years below the national average. However, it is important to note that the distribution of TEA rates across the UK regions in 2008 was narrower than in 2002 and there was only one statistically significant difference in the regional TEA rates in 2008 – Yorkshire and Humberside is significantly lower than the level of entrepreneurial activity in the West Midlands, East of England and the UK (Figure 3).



**Figure 3: Early-Stage Entrepreneurial Activity in the UK Regions in 2008.** (Source: GEM APS)

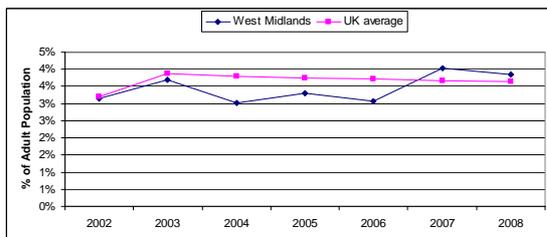
We can observe that the West Midland's higher TEA rate in 2008 is a function of the significantly higher levels of opportunity entrepreneurial activity in the region (4.8%) compared to the UK overall (4.4%). The only regions with higher levels of opportunity entrepreneurial activity are London, East of England and the South East.

The GEM survey also asks how long an individual has lived in the region and it is possible to identify in-migrants to the region. Across all the UK regions levels of early stage entrepreneurial activity for

in-migrants are higher than for life-long residents. In the West Midlands, for example, the TEA rate for in-migrants is 7.8 per cent compared to 5.5 per cent for life-long residents and 6.3 per cent for in-migrants in the UK as a whole. These differences are not statistically significant. However, the distinction is less pronounced between immigrants and life-long residents in the West Midlands: 6.0 compared to 4.3 per cent. The TEA rate for immigrants in the UK is 6.5 per cent.

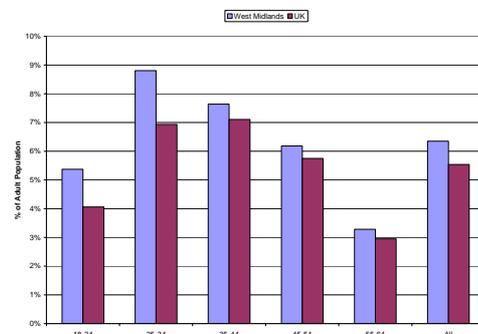
## Who are the Entrepreneurs in the West Midlands?

**Gender:** In 2008, the female level of entrepreneurial activity in the West Midlands is 3.9 per cent compared to 8.9 per cent for males. This is almost the same as the level in 2007. Women are just over two-fifths (44%) as likely to be entrepreneurs as males in the region. Looking at the 2002-08 period we observe that the level of female entrepreneurial activity has mirrored the UK trend until 2006 since when it has been marginally above the UK average (Figure 4). The West Midlands is still ranked in the top 4 UK regions in 2008 in terms of the rate of early stage entrepreneurial activity among women. The highest levels are found in the East of England (5.8%), the North East (4.3%) and Wales (4.0%).



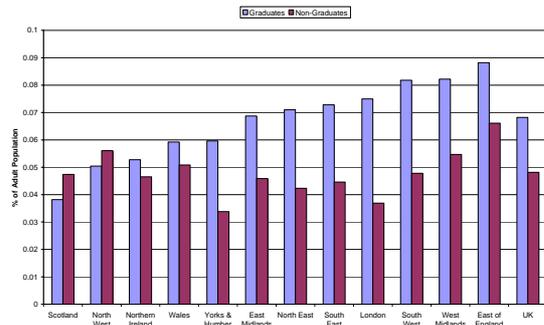
**Figure 4: Early Stage Female Entrepreneurial Activity in the West Midlands and the UK, 2002-2008.** (Source: GEM APS)

**Age:** In the West Midlands, 5.4 per cent of young people (aged 18 to 24) are engaged in early stage entrepreneurial activity compared to 4.1 per cent for the UK as a whole (Figure 5). Early stage entrepreneurial activity in the West Midlands peaks for 25-34 age group while for the UK as a whole the highest levels are found among those aged 35 to 44 (7.1%). Only Wales (6.3%) has a higher level of early-stage entrepreneurial activity in this youngest age group than the West Midlands. Overall, therefore, those involved in nascent or new business activity in the West Midlands are much younger than the UK average.



**Figure 5: Early Stage Entrepreneurial Activity in the West Midlands and the UK by Age, 2008.** (Source: GEM APS, 2008)

**Education:** The average level of early stage entrepreneurial activity for graduates in the UK in 2008 is 6.8 per cent (7.2% in 2007). The level of graduate entrepreneurship in the West Midlands is 8.2 per cent of graduates currently residing in the region (Figure 6). There is a great deal of variation across the UK regions and the West Midlands is ranked second after the East of England (8.8%). However, the only significant difference is between the West Midlands and Scotland (3.8%).



**Figure 6: Early Stage Entrepreneurial Activity in the UK Regions by Graduate Status, 2008.** (Source: GEM APS, 2008)

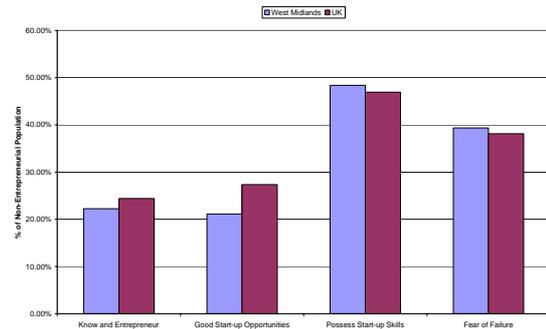
## Entrepreneurial Attitudes and Perceptions

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.

It is increasingly being realised that 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, in a departure from previous years, we report attitudinal data only for that portion of the population who are not already entrepreneurs.

In the West Midlands, 22.2 per cent of individuals state that they know an entrepreneur, similar to the UK as a whole (Figure 7). In the West Midlands a slightly higher proportion of non-entrepreneurs believe they have the skills to set up in business compared to the UK average. Only London and the South East have marginally higher proportions reporting they have the skills to set up a business.

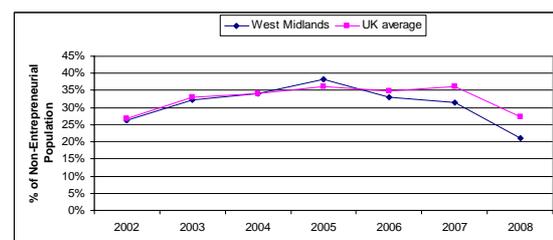
Fear of failure is the same in the West Midlands as in the UK overall.



**Figure 7: Entrepreneurial Attitudes and Perceptions in the West Midlands and the UK (2008).** (Source: GEM APS, 2008)

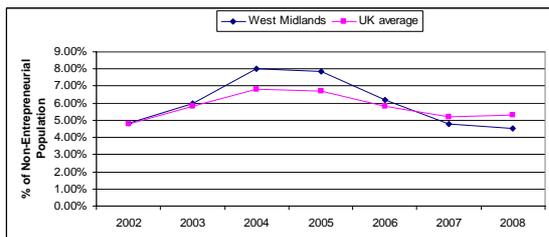
The perception of start-up opportunities in the West Midlands is lower than the UK average (21.1% and 27.4% respectively) but significantly lower than the level reported in 2007 (i.e., 31.4%).

Between 2002 and 2005 the proportion of the adult non-entrepreneurial population reporting there were good start-up opportunities in the West Midlands had increased by 12 percentage points: from 26.3 to 38.3 per cent. This mirrored the overall UK trend which registered an increase of 9 percentage points. Since 2005, and pre-dating the effects of the economic downturn on confidence since 2007, the proportion of respondents reporting good start-up opportunities in the West Midlands has fallen to below the levels reported in 2002 (Figure 8). Since 2007 the fall in the West Midlands of 10 percentage points has matched that in the UK overall (9%).



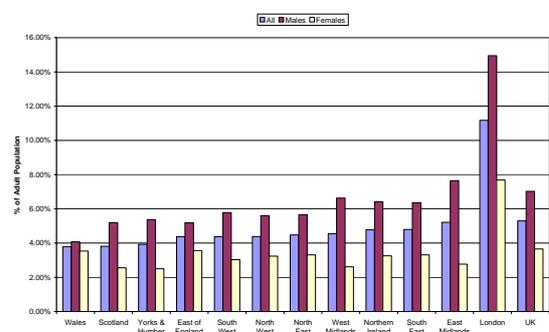
**Figure 8: Perception of Start-up Opportunities in the West Midlands and the UK, 2002-08.** (Source: GEM APS)

Looking to the future, 4.6 per cent of adults in the West Midlands expect to start a business within the next three years compared to 5.3 per cent in the UK (Figure 9). This represents a significant fall since 2004/05, when it was above the UK average, and it is now back to below the level in 2002 (4.8%). Interestingly, the fall in future start-up intentions in the West Midlands mirrors the fall in the perception of good opportunities for start-up – that is, 2005.



**Figure 9: Future Start-up Expectations (within 3 years) in Northern Ireland and the UK, 2002-08.** (Source: GEM APS)

Men are two and a half times more likely as women to report that they intend to start a business in the next three years in the West Midlands (Figure 10). In 2008 2.6 per cent of women in Northern Ireland are expecting to start a business in the next 3 years compared to 6.6 per cent of men. Only the East Midlands has a gap between males and females which is larger than in the West Midlands. In the UK 7.0 per cent of males and 3.7 per cent of females reported that they expected to start a business in the next three years.



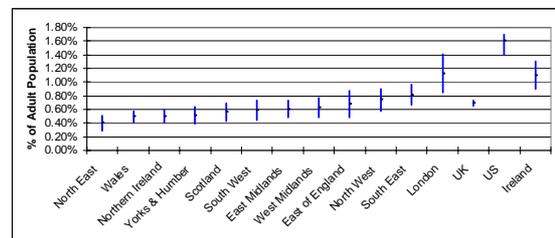
**Figure 10: Future Start-up Expectations (within 3 years) in the UK Regions by Gender, 2008.** (Source: GEM APS, 2008)

## Growth Potential of Entrepreneurial Activity

Across the world, the majority of businesses expect little or no growth<sup>3</sup>. The GEM method enables the categorization of early-stage start-up attempts according to their growth ambition. GEM asks all identified early-stage entrepreneurs how many employees they expect to have within five years' time.

Initially, we focus on the prevalence of new and nascent entrepreneurs who expect their business will employ at least 20 people in five years' time. This is known as *high-growth expectation early-stage entrepreneurial activity*, or HEA. In the following analysis, seven years of GEM data (years 2002-2008) are combined to take a closer look at how growth ambitions differ among early-stage entrepreneurs in the UK regions.

In the UK, the HEA rate is 0.7 per cent which is significantly less than in the US and Ireland (Figure 11). The HEA rate for the West Midlands is 0.6 per cent. Overall, there is a great deal of variation across the UK regions with the lowest HEA rates found in the 'northern' regions and countries. The West Midlands has a HEA rate significantly lower than in London.



**Figure 11: Prevalence Rates of High-Growth Expectation Early-Stage Entrepreneurship (HEA) in the UK Regions 2002-08** (Source: GEM APS)

<sup>3</sup> Expectations of high growth are rare among nascent and new entrepreneurs. Only 70% of all start-up attempts expected any job creation at all. Only 8% of all start-up attempts expected to create 20 or more jobs.

GEM has another more restrictive growth potential variable which measures the percentage of all early-stage entrepreneurs who have created more than ten jobs and who expect more than 50 per cent growth in jobs in the next five years. The results for 2008 are illustrated in Table 1 for early-stage entrepreneurs (TEA) and established business owner-managers (EBO)<sup>4</sup>.

Around one-tenth of early-stage entrepreneurs in the West Midlands described themselves as having high job expectations compared to 15.2 per cent in the UK and 29 per cent in the US. The proportion of established business owners with high job expectation in the West Midlands is similar to that in the UK and the US.

	High Job Expectation (% TEA or EBO greater than ten jobs and growth >50%)		New Product Market (% of all TEA or EBO)		High or Medium tech sectors (% of all TEA or EBO)	
	TEA	EBO	TEA	EBO	TEA	EBO
<b>WM</b>	<b>8.4</b>	<b>5.4</b>	<b>20.8</b>	<b>1.0</b>	<b>11.1</b>	<b>8.8</b>
UK	15.2	4.6	22.0	2.0	12.0	8.9
US	29.2	8.5	20.2	4.2	7.3	4.7

**Table 1: Growth Potential of Entrepreneurial Activity in the West Midlands, UK and the US, 2008** (Source: GEM APS 2008)

The anatomy of early-stage entrepreneurial activity can also be examined through two other GEM variables. GEM assesses innovation in entrepreneurial businesses in a variety of ways. First, there are assessments of early-stage entrepreneurs and established business owner-managers concerning the novelty (or unfamiliarity) of their products or services relative to customers' current experience. A second way that GEM assesses the innovativeness of entrepreneurial businesses is by measuring the degree of competition faced

<sup>4</sup> All three variables reported in Table 1 are currently being constructed in the GEM UK pooled dataset for the seven years 2002-08 and will be reported at a later date.

by the business, or whether the owner-manager perceives that many, few, or no other businesses offer similar products or services.

Table 1 also shows the proportion of early-stage entrepreneurs and established business owner-managers who state they operate in new product markets<sup>5</sup>. The proportion of early-stage entrepreneurs who are engaged in a combination of new products and new markets in the West Midlands is similar to that reported in the other comparator countries. In essence, this index measures the percentage of early-stage entrepreneurs with novel product-market combinations. These entrepreneurs offer a product or service they believe is new to some or all customers and they also believe that there are few or no businesses offering the same product.

Finally, Table 1 indicates whether early-stage entrepreneurs and established business owners operate in "high" or "medium" technology sectors (according to OECD definitions). The West Midlands has similar proportions of early-stage entrepreneurs in high or medium technology sectors as in the UK, although significantly more than in the US.

## Policy Observations

Developing enterprise and an enterprise culture remain key policy objectives within the West Midlands. 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

<sup>5</sup> Where the product is new to all or most customers and where there is little or no competition.

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 2008 survey (conducted in the period May-September) about the effects of the developing economic crisis can be summarised as follows:

- The level of early-stage entrepreneurial activity in the West Midlands, as in the rest of the UK remains unchanged in 2008 – most individuals who planned to start a business just before the crisis emerged are unlikely to change these intentions, especially if they are driven by the wish to work independently.
- However, the perception of good opportunities for start-up has declined markedly throughout the UK in 2008. The West Midlands was no exception, although it is clear that perceptions were falling since 2005.
- Further, residents in the West Midlands also report that start-up expectation rates have been falling since 2006. This has not yet translated into lower levels of early-stage entrepreneurial activity in the region. This may be because nascent entrepreneurship requires some commitment, and the nascent entrepreneurs in our sample were committed before the economic events of the last two years.
- There is no evidence to suggest that as the economic downturn

intensified in the middle of 2008 there was any decrease in the level of innovative entrepreneurship in the West Midlands.

- The West Midlands has half the level of early-stage entrepreneurs who expect high job growth compared to the UK average. The implication is that while the West Midlands has an above average TEA rate they are less likely to have high growth expectations.

## Disclaimer

This report is based on data collected by the GEM consortium and the GEM UK team; responsibility for analysis and interpretation of the data is the sole responsibility of the authors.

### **For further information on the GEM UK project, contact:**

Professor Mark Hart  
Economics & Strategy Group  
Aston Business School, Aston University  
Aston Triangle, Birmingham, B4 7ET  
Email: [mark.hart@aston.ac.uk](mailto:mark.hart@aston.ac.uk)



Aston Business School

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

