



# GEM UK: West Midlands Summary 2009

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The Global Entrepreneurship Monitor (GEM) is an international project involving 54 countries in 2009 which seeks to provide information on the entrepreneurial landscape of countries. Many studies have shown that that entrepreneurship is an important driver for economic growth, competitiveness and job creation. The results of the GEM data analysis are used as key benchmarking indicators by regional and national authorities around the world. The sample size in the West Midlands was 4,000 adults aged over 16 years of age in 2009 as a result of support from Advantage West Midlands (AWM) and for the first time Birmingham City Council.

## Main Findings

- **As the economy was struggling to emerge from the recession in the third quarter of 2009 the level of early stage entrepreneurial activity (TEA) in the West Midlands was 5.2 per cent compared to 6.4 per cent 12 months earlier – but this is not a statistically significant fall. The TEA rate for the UK as a whole in 2009 was 5.8 per cent which was broadly the same as 12 months earlier (5.3%).**
- **The TEA rate for Birmingham is higher than in the rest of the West Midlands: 6.8 per cent compared to 4.6 per cent but this is not a significant difference. The level of early-stage entrepreneurial activity in Birmingham is similar to that observed in London.**
- **The West Midlands has now slipped to 8<sup>th</sup> position in a group of UK regions in 2009. However, the regional differences in 2009 are much narrower than in previous years and the rate in the West Midlands is significantly higher than only one other region: Scotland.**
- **Female entrepreneurship in the West Midlands is again slightly above the UK average (4.3%) while the level of entrepreneurial activity for males has declined sharply from 8.9 to 6.1 per cent and is now 1.7 percentage points below the UK average.**
- **There is a higher proportion of 18-24 year olds who are engaged in early-stage entrepreneurial activity compared to the UK average. Graduates in the East of England and West Midlands top the regional rankings on graduate TEA rates.**
- **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 again in the West Midlands since 2009 – a continuation of the trend since 2005. However, the fall was not as stark as between 2007 and 2008.**
- **The falling confidence in the region since 2007 has now clearly manifested itself in lower actual start-up activity in the region - especially among men. However, future start-up expectation rates in the West Midlands is the same as 12 months ago – and have risen for women - and reverses the downward trend since 2005.**
- **A quarter of early-stage entrepreneurs and a sixth of established business owner-managers thought there were more opportunities for their business as a result of the global slowdown.**
- **Almost one in three entrepreneurs (nascent and new business owners) in the West Midlands in 2009 were more positive about their prospects for growth than they were before the global slowdown.**

## Background

Advantage West Midlands (AWM) and Birmingham City Council 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 eighth 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 2002-2009. Where appropriate, we draw upon this pooled dataset of ~180,000 respondents for the UK (~16,000 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 and for the first time we can provide more detailed analysis for the city of Birmingham.

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

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

## How GEM Measures Entrepreneurial Activity

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

- A telephone survey of a random sample of the adult population is conducted between May and September.
- The 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 2009 and the analysis of the eight years of GEM data (2002-09).

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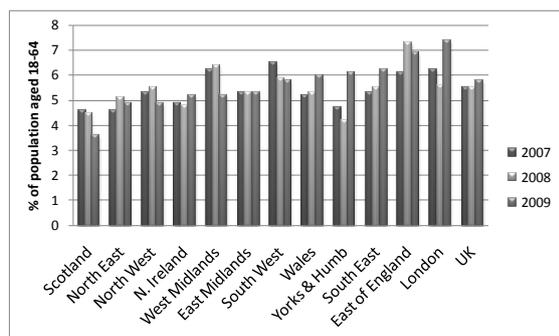
<sup>1</sup> The active planning phase in which the entrepreneur has done something during the past 12 months to help start a new business, a new business that he/she will at least part own.

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

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

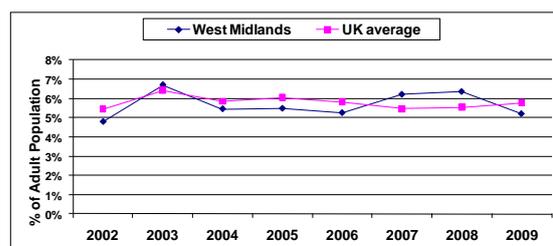
Figure 1 shows the level of total early-stage entrepreneurial activity (TEA) for the UK regions between 2007 and 2009. The rate of early stage entrepreneurship in the West Midlands for 2009 has fallen to 5.2 per cent compared to just over 6 per cent in the previous two years. However, this one per cent fall is not statistically significant. By contrast the TEA rate for the UK was 5.8 per cent in 2009 which was almost identical to the previous two years.

Overall, a TEA rate of 5.2 per cent in the West Midlands equates to around one in every twenty adults or just over 170,000 individuals equally divided between those individuals in the very early stages of starting a business (nascent entrepreneurs 2.8%) and those who had a new business which was between 3 and 42 months old (2.4%). We note that the rate of new business owners (NBOs) in the West Midlands is lower in 2009: falling from 3.9 per cent to 2.4 per cent (marginally not significant), while the nascent entrepreneurial rate remained the same (2.7% in 2008). This is different from the UK overall where the nascent rate has fallen while there has been a corresponding increase of 10 per cent in new business owners.



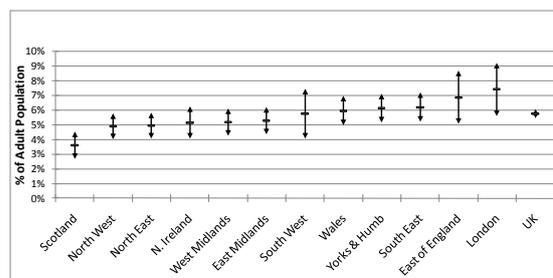
**Figure 1: Total early-stage entrepreneurial activity (TEA) in the UK Regions in 2007, 2008 and 2009** (Source: GEM APS)

Looking at the 2002-2009 period we observe after the rate of early-stage entrepreneurial activity in the West Midlands as the economy continued to suffer from the economic downturn is just above what it was in 2002 (Figure 2). The level of early-stage entrepreneurial activity in the West Midlands has tracked the UK trend very closely and in 2007 and 2008 it moved slightly ahead of the national trend but this gap was not statistically significant.



**Figure 2: Total Early-Stage Entrepreneurial Activity in the West Midlands and the UK (2002-09).** (Source: GEM APS)

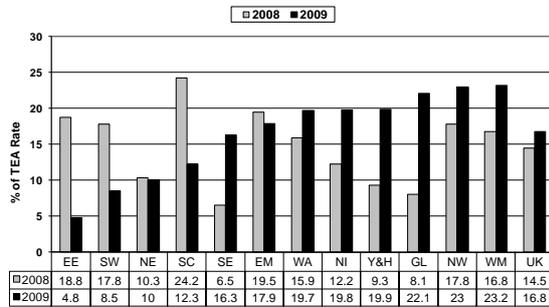
The West Midlands is now ranked 8<sup>th</sup> of the 12 UK regions and nations. However, it is important to note that the distribution of TEA rates across the UK regions in 2009 was narrower than in 2002 and there was only one statistically significant difference in the regional TEA rates in 2009 – Scotland is significantly lower than the level of entrepreneurial activity in Wales, Yorkshire & Humberside, South East, East of England and London (Figure 3).



**Figure 3: Early-Stage Entrepreneurial Activity in the UK Regions in 2009.** (Source: GEM APS)

As the recession deepened in the region the falling TEA rate in 2009 was also associated with increasing levels of ‘necessity’ entrepreneurship. This now

stands at 23 per cent in 2009 which was an increase on the already high levels observed last year (Figure 4). So as fewer people are starting a business in the West Midlands those that are doing so are more likely to report that it is because they have no better choices for work. Along with the North West and London the West Midlands has the highest level of necessity entrepreneurship in 2009.



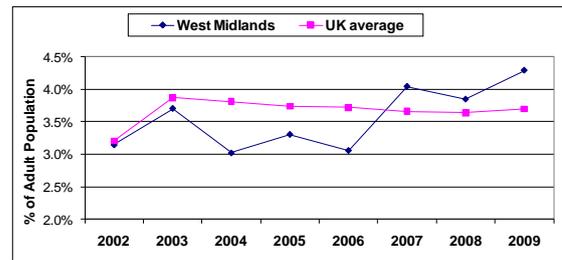
**Figure 4: Necessity Entrepreneurship in the UK Regions in 2008 and 2009.** (Source: GEM APS)

## Who are the Entrepreneurs in the West Midlands?

**Gender:** In 2009, the female level of entrepreneurial activity in the West Midlands is 4.3 per cent compared to 6.1 per cent for males. Women are now just over two-thirds as likely (70%) to be entrepreneurs as males in the region. The gap has closed markedly since 2008 due to a combination of a rise in female entrepreneurial activity and a marked fall in the number of men in the region – a fall of 2.7 percentage points.

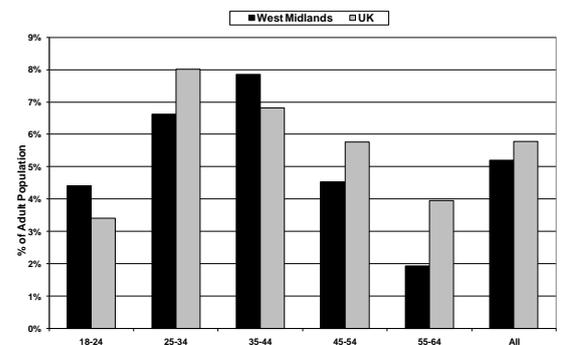
Looking at the 2002-09 period we observe that the level of female entrepreneurial activity has mirrored the UK trend until 2006 since when it has been marginally above the UK average (Figure 5). The West Midlands is still ranked in the top 4 UK regions in 2009 in terms of the rate of early-stage entrepreneurial activity among women. The regions with higher levels of

female entrepreneurship are London (5.5%), the East of England (4.5%) and Wales (4.4%).



**Figure 5: Total Early-Stage Female Entrepreneurial Activity in the West Midlands and the UK, 2002-2009.** (Source: GEM APS)

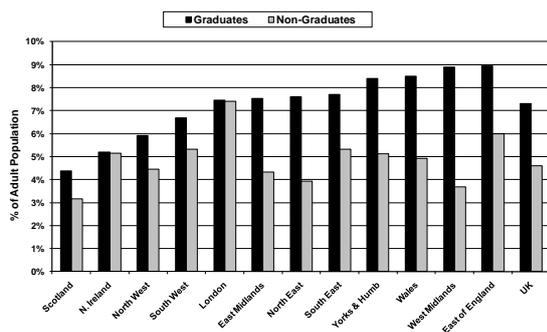
**Age:** In the West Midlands, 4.4 per cent of young adults (aged 18 to 24) are engaged in total early-stage entrepreneurial activity compared to 3.4 per cent for the UK as a whole (Figure 6). Early-stage entrepreneurial activity in the West Midlands peaks for the 35-44 age group (7.9%) while for the UK as a whole the highest levels are found among those aged 25 to 34 (8%). Only London (7.6%) and Yorkshire & Humberside (5.6%) had higher levels of early-stage entrepreneurial activity in this youngest age group than the West Midlands. At the other end of the age spectrum there were significantly fewer individuals in the West Midlands aged between 55 and 64 years involved in nascent or new businesses compared to the UK overall: 1.9 per cent compared to 3.9 per cent.



**Figure 6: Total Early-Stage Entrepreneurial Activity in the West Midlands and the UK by Age, 2009.** (Source: GEM APS, 2009)

**Education:** The average level of total early-stage entrepreneurial activity for

graduates in the UK in 2009 is 7.3 per cent (6.8% in 2008). The level of graduate entrepreneurship in the West Midlands is 8.9 per cent of graduates currently residing in the region – a slight increase since 12 months ago (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 (9%) – the same top two regions as 12 months ago. However, the only significant difference again in 2009 is between the West Midlands and Scotland (4.4%).



**Figure 7: Total Early-Stage Entrepreneurial Activity in the UK Regions by Graduate Status, 2009.** (Source: GEM APS, 2009)

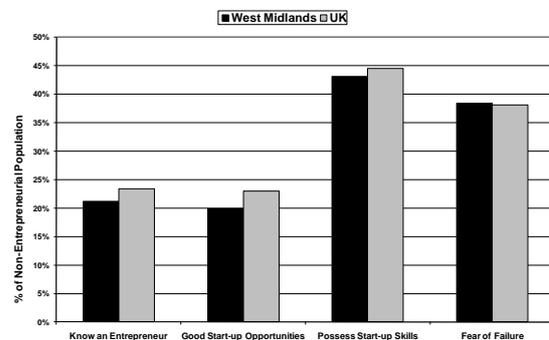
## Entrepreneurial Attitudes and Intentions

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

GEM attitudinal data is best treated at the group rather than individual level, because individuals who are already entrepreneurs may feel compelled to provide positive answers in the Adult Population Survey (APS). Here, as in 2008, we report attitudinal data only for that portion of the

population who are not already entrepreneurs.

In the West Midlands, 21.2 per cent of individuals state that they know an entrepreneur, similar to the UK as a whole (Figure 8). In the West Midlands two-fifths (43.1%) of non-entrepreneurs believe they have the skills to set up in business compared – again similar to the UK average. Only London has higher proportions (just over half) reporting they have the skills to set up a business. The proportion of the population reporting that the fear of failure would prevent them starting a business is the same in the West Midlands as in the UK overall – around two-fifths. This is a proportion that has not changed significantly throughout the recession.

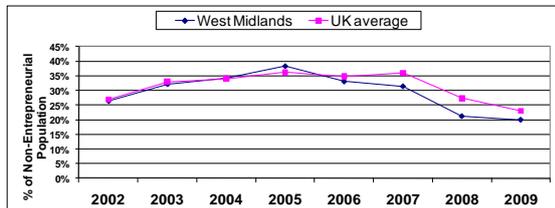


**Figure 8: Entrepreneurial Attitudes and Perceptions in the West Midlands and the UK (2009).** (Source: GEM APS, 2009)

The perception of start-up opportunities in the West Midlands is slightly lower than the UK average (19.9% and 23% respectively) and still significantly lower than the level reported in by respondents in the West Midlands in 2007 (i.e., 31.4%).

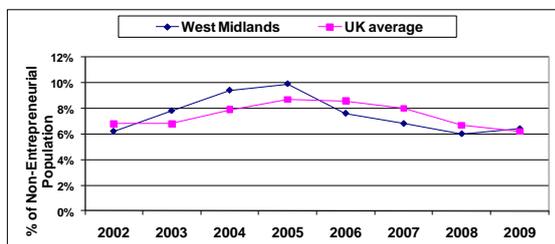
Between 2002 and 2005 the proportion of the adult non-entrepreneurial population reporting there were good start-up opportunities in the West Midlands had increased by 12 percentage points: from 26.3 to 38.3 per cent. This mirrored the overall UK trend which registered an increase of 9 percentage points.

Figure 9 shows that since 2007 the fall of 11 percentage points in the West Midlands has matched that in the UK overall (12%). However, the sharp fall between 2007 and 2008 in the West Midlands is not repeated in the last 12 months and the small decline between 2008 and 2009 is negligible.



**Figure 9: Perception of Start-up Opportunities in the West Midlands and the UK, 2002-09.** (Source: GEM APS)

Looking to the future, the proportion of adults in the West Midlands who expect to start a business within the next three years remains the same in 2009 compared to 12 months earlier: 6.4 per cent compared to 6.2 per cent in the UK (Figure 10). This suggests that the significant decline in future start-up intentions between 2005 and 2008 has arrested and might indicate that confidence is beginning to rise. We have also seen in Figure 9 that the sharp fall in the perception of good opportunities for start-up between 2007 and 2008 seems to have stabilised in the last 12 months.

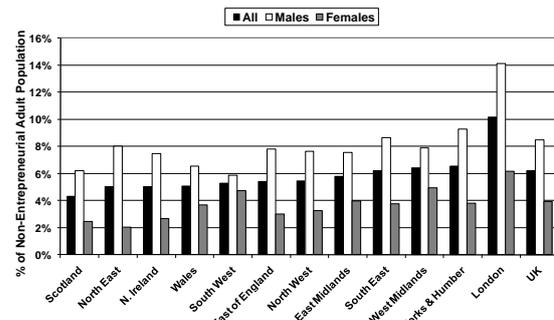


**Figure 10: Future Start-up Expectations (within 3 years) in the West Midlands and the UK, 2002-09.** (Source: GEM APS)

Men are more likely than women to report that they intend to start a business in the next three years in the West Midlands (Figure 11). In 2009, 5 per cent of women in the West Midlands are expecting to start a business in the next 3 years (double the rate reported in 2008) compared to 7.9 per

cent of men (a more modest rise of 1.3% since 2008).

In the UK 8.5 per cent of males and 3.9 per cent of females reported that they expected to start a business in the next three years. Only London recorded a higher rate of future start-up intentions than respondents in the West Midlands. After London, the rate of future start-up intentions by women in the region is the next highest.



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

## Impact of Recession on Entrepreneurial Activity

In 2009 the GEM survey carried questions on the attitudes of entrepreneurs to start-up and growth in the recession. Whilst starting a business in the UK has got tougher for most people since 2007, almost one in three early-stage entrepreneurs (nascent and new business owners) in the West Midlands in 2009 were more positive about their prospects for growth than they were before the global slowdown (Figure 12).

Established business owners (EBOs) in the West Midlands are less positive than those involved in start-ups but still almost one in five (18.1%) of these owner-managers were more positive about their prospects for growth. The comparable figures for the UK were 22 and 15 per cent

respectively. These two groups of people have the potential to be the job and wealth creators of tomorrow.

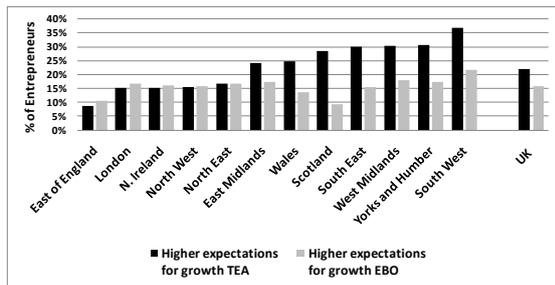


Figure 12: Prospects for Growth in the UK Regions, 2009. (Source: GEM APS 2009)

In the West Midlands, a quarter (25.8%) of early-stage entrepreneurs and 17.2 per cent of established business owner-managers thought there were more opportunities for their business as a result of the global slowdown (Figure 13). The comparable figures for the UK were 20 per cent and 14 per cent.

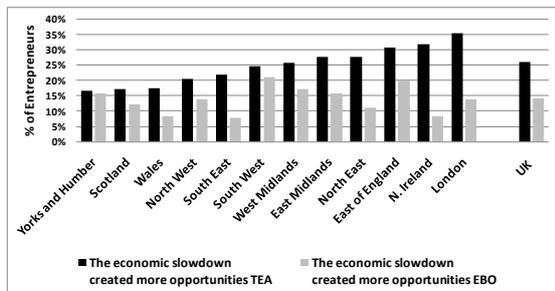


Figure 13: Opportunities in a Recession in the UK Regions, 2009. (Source: GEM APS 2009)

Almost one in ten (9.4%) of established business owner-managers in the West Midlands thought that starting a business was less difficult than a year ago (Figure 14). Only one in 20 (5.5%) of early-stage entrepreneurs in the region thought that starting a business was less difficult than a year ago. Entrepreneurs in the West Midlands are less optimistic than their counterparts in the other UK regions except Scotland. The comparable figures for the UK were 13 and 8 per cent respectively.

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

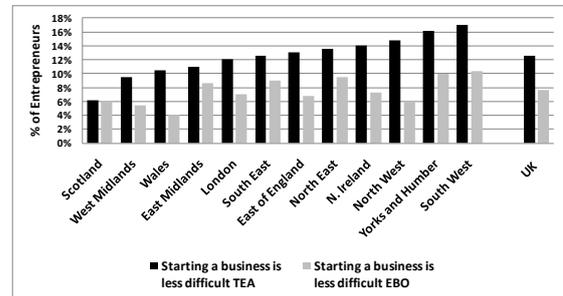


Figure 14: Ease of Starting a Business in the UK Regions, 2009. (Source: GEM APS 2009)

## Birmingham – an Entrepreneurial City?

This is the first year we undertook a boost in Birmingham to provide detailed analysis of entrepreneurial activity, intention and perceptions for the City Council<sup>3</sup>.

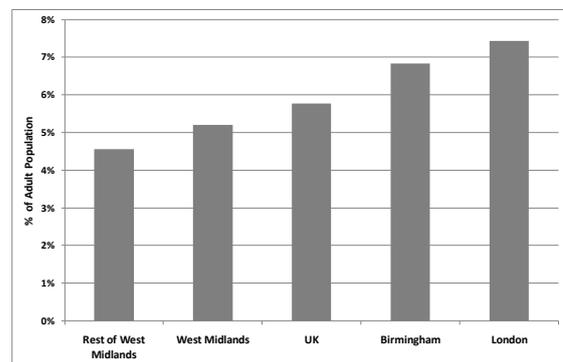


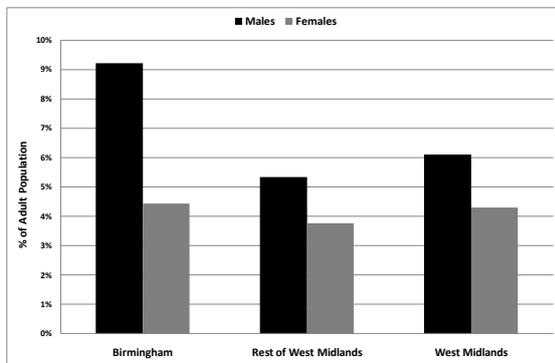
Figure 15: Total Early-Stage Entrepreneurial Activity in Birmingham, 2009. (Source: GEM APS, 2009)

Figure 15 shows that the level of total early-stage entrepreneurial activity in Birmingham was higher than for the

<sup>3</sup> A detailed report is currently being prepared for Birmingham City Council and will be available in early April 2010.

region overall: 6.8 per cent compared to 4.6 per cent (c.f. 5.2% for the West Midlands overall). However this difference was marginally insignificant. Birmingham (6.8% and London (7.4%) have similar levels of early-stage entrepreneurial activity: there is no significant difference in the TEA rates in these two cities (Figure 15).

Women are no more likely to be nascent or new business owners in Birmingham than in the rest of the West Midlands (Figure 16): 4.4 per cent compared to 3.8 per cent (c.f. 4.3% in the West Midlands overall). However, men in Birmingham have a TEA rate (9.2%) twice that found in the rest of the West Midlands region (4.4%). However, this difference is marginally insignificant.



**Figure 16: Total Early-Stage Entrepreneurial Activity in Birmingham by Gender, 2009.** (Source: GEM APS, 2009)

Graduates in Birmingham are amongst the most entrepreneurial in the UK. The TEA rate for graduates resident in Birmingham in 2009 is almost three times the rate for non-graduates: 11.8 per cent compared to 4.3 per cent which is a statistical significant difference. Graduates in the rest of the West Midlands also record a relatively high TEA rate (7.8%) which, as we saw earlier, means that the region tops the regional rankings in 2009 alongside the East of England.

## Concluding 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 negative and positive trends in activity. Entrepreneurship is thought to be one of the mechanisms that helps turn around recessions by reallocating resources in such a way that promising new activities replace obsolete economic activities. This, of course, is dependent upon the institutional context found within each country and region.

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

- The previous sharp fall in start-up expectation rates in the West Midlands has now been translated into lower levels of early-stage entrepreneurial activity in the region.
- The level of total early-stage entrepreneurial activity in the West Midlands, unlike the UK overall, has fallen since 2008.
- However, Birmingham recorded similar levels of early-stage entrepreneurial activity as London. Graduates residing in the city are amongst the most entrepreneurial in the UK.

- The number of women starting up their own business and expecting to do so in the next three years in the West Midlands has increased in the last 12 months.
- The perception of good opportunities for start-up in the local area has declined again in 2009 but only slightly. This is combined with a marginal rise in future start-up rates and perhaps points to a more positive outcome for future entrepreneurial actions.
- This is reinforced by the fact that almost one in three entrepreneurs (nascent and new business owners) in the West Midlands were more positive about their prospects for growth than they were before the global slowdown.
- A quarter of early-stage entrepreneurs and a sixth of established business owner-managers in the West Midlands thought there were more opportunities for their business as a result of the global slowdown.

## Disclaimer

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

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