

Venturing Forth

Increasing high value entrepreneurship

Nida Broughton

Kitty Ussher

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by Nida Broughton
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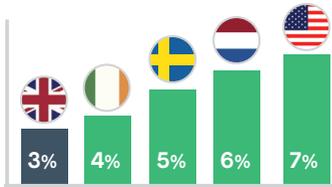
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The UK has a low proportion of high-value entrepreneurs in its working-age population compared to other developed economies



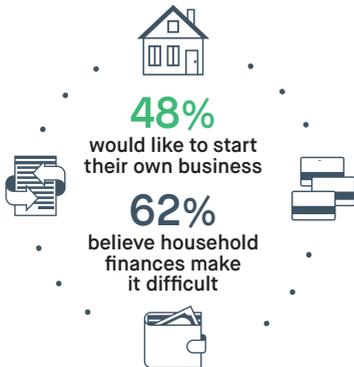
Men heavily dominate the ranks of high-value entrepreneurs, making up 74% of the total - women just 26%



Those educated to degree level or above are twice as likely to become high-value entrepreneurs

At least 50%

of all start up ideas come from experience gained in previous employment



Top barriers to potential high value entrepreneurs

46%

Risk to income

27%

Difficulty accessing finance

21%

Lack of knowledge or skills

18%

Concerns about future employment prospects

SUMMARY

We need entrepreneurship to boost productivity

After five years of disappointing growth following the financial crisis, the UK economy is finally recovering, and forecasts of future GDP growth are promising. But this positive news hides worrying structural weaknesses. The recovery has been slow: productivity growth has been weak and GDP per capita is not expected to return to its pre-crisis peak until 2017. Bank of England analysis suggests that the financial crisis and downturn has reduced the economy's long-run potential to grow.

In the long-run, economic growth is driven by rises in productivity and key to this is entrepreneurship: entrepreneurs who set up new businesses can challenge incumbents, driving down costs and incentivising the creation of better products and services. More broadly, they allow new ideas to be tested on a small scale and brought to market, driving innovation and job creation.

But not all entrepreneurship is equal in its contribution to economic growth

People who set up their own businesses do so for a myriad of different reasons, including potential profitability, lifestyle choice or the chance to undertake something genuinely new. These reasons are all valid. However that is not the same as saying that each new legal entity – from a self-employed craftsman, to a niche professional services firm or a specialist manufacturing business – has the potential to contribute the same in macroeconomic terms.

This report focuses on what more can be done by policymakers to encourage more of the type of entrepreneurial activity that has the widest positive effect on the UK economy – what we term “high value entrepreneurship”. This research aims to plot a path from the type of activity undertaken by start-up businesses to that which most affects a country's overall prosperity, as measured by Gross Domestic Product (GDP). We explore ways in which the activity of a new business can affect

the wider economy, and analyse existing datasets to understand the characteristics of individuals involved in start-ups.

From this we are able to understand more about the individuals who – on average – are more likely to establish businesses that have a larger effect on the country’s economic strength, and explore the barriers faced by this group when deciding whether to do so. We term these people “potential high value entrepreneurs”. In writing this report, we focus not so much on barriers to growth once individuals have set up a business, but instead, look at the reasons why individuals – and especially those with attractive existing career opportunities – do not consider entrepreneurship as a viable career choice in the first place.

None of this is to imply that entrepreneurial activity of some groups is somehow more important than others. People start new businesses for different reasons and have differing levels of ambition. But just as voters urge politicians to try to create better jobs, so we are starting to break down the differences between types of entrepreneurship, so that real choices can be made about how best to allocate limited government resources.

The UK has fewer high value entrepreneurs

If policymakers are to try focusing policy on encouraging entrepreneurship that is likely to be high value, we need to find a way of identifying *potential* high value entrepreneurship. The evidence demonstrates that entrepreneurs that go on to be “high value” tend to be driven by opportunity. They are more likely to come from highly skilled and experienced backgrounds, and indeed, previous work experience often helps these entrepreneurs spot and exploit gaps in the market.

While the UK has a high level of entrepreneurship generally, it is outperformed by other countries on measures of high value entrepreneurship. This is because more of its entrepreneurs are motivated by necessity – by having limited or no other choices for work – and fewer are motivated by having found an opportunity to exploit. The Netherlands, Switzerland, Singapore, Norway, Ireland, Israel and Sweden all perform better on this measure: they have fewer necessity-driven entrepreneurs and more entrepreneurs driven by having spotted an opportunity, the chance to

increase their incomes and more independence. On this “opportunity” measure, rates of high value entrepreneurship in the Netherlands are double that of the UK; rates of high value entrepreneurship in Sweden are 50% higher: this alone leads us to suppose there is a missing high value entrepreneurship opportunity in the UK.

Analysis of existing datasets of nascent opportunity-driven entrepreneurs in the UK, those on the cusp of setting up their own business, shows that these individuals are more highly educated and are more likely to be employed than their necessity-driven counterparts. They come from across the age range, with a peak at age 25-34, and a lesser peak among 45-54 year old men. In addition, they are significantly more likely to come from the top third of household incomes. Men heavily dominate the ranks of opportunity-driven entrepreneurs, making up 74% of the total. To put this into perspective, if we could increase the number of female opportunity-driven entrepreneurs to that of men, opportunity-driven entrepreneurship in the UK would rise by almost 50%.

Those with the greatest potential are least likely to see entrepreneurship as desirable

There are many different dimensions to the decision to become an entrepreneur for the highly skilled and experienced, many of whom will have attractive employment opportunities. These dimensions include financial gain, risk and job preferences. Individuals in the UK are less likely to see entrepreneurship as a desirable career compared to other developed countries. The attractiveness of entrepreneurship is lowest among the very group that are most likely to have the potential to be high value entrepreneurs – those with higher levels of skills and experience. Overall, the top barriers among these potential high value entrepreneurs are:

- Concerns about the risk to household income
- Perception that access to finance is too difficult
- Belief in lack of skills and knowledge, especially so for women
- Concern about impact of potential failure on future career, especially so for women

Of these, the concern about the risk to household income is the most severe. 48% among those in employment, with a degree and from the top third of household incomes say they would like to start a business. But despite the fact that this group is – on the surface of it – fairly financially secure, 62% say that their current financial household situation would make it difficult for them to take on the risk of starting a new business. Among those aged 35-44, likely to have both dependents and a mortgage, and among women, worry about risk is even higher. Whilst in principle, those who are highly skilled and experienced should be more likely to be able to obtain a job should their business fail, in practice, many worry that a business failure could damage their future career prospects.

Potential high value entrepreneurs see the risk of starting a business as too high

Risk to household income and future career prospects is the one barrier that is most urgent to address, having received little attention from policymakers. This barrier is felt especially strongly by women. Beyond this, there are of course other potential factors that may limit the growth of new businesses, including the tax and regulatory regime; wider investment in innovation in the economy, which creates opportunities for entrepreneurship; access to finance and support and advice. However, in this report, we seek to focus on removing barriers that prevent individuals – and especially those with attractive employment opportunities – from considering entrepreneurship as a viable career option at all. This first hurdle needs to be overcome if we are to increase the numbers of high value entrepreneurs in the UK.

Clearly, policy cannot, and should not try to eliminate all the risk related to starting a business. But, given the potential rewards of more entrepreneurship that benefits economic growth, we need to ensure that unnecessary barriers that increase the risk of moving from employment to setting up a business are removed.

We need to remove barriers that stop potential entrepreneurs from managing the risk to starting a business

We need to make sure the market works in a way that helps individuals to “help themselves” to manage risk. Reforms to welfare and savings policy could make a substantial difference to rates of entrepreneurship by reducing the risk to income from starting a business. In other countries, where welfare entitlements are more closely related to previous earnings, entrepreneurship rates are higher. Our evidence also shows that having assets and savings can act as a buffer to help cope with transition from stable employment to the greater unpredictability of starting a business. However, such issues are part of a much broader question of the appropriate role of the state, the private sector and individuals in smoothing income over the lifecycle, supporting those on low incomes and providing incentives for work.

In this report, we therefore set out a package of recommendations, focusing on the relationship between employer and employee. Our aim is to change the terms of the decision to move from employment to starting a business, helping individuals to more easily manage the risk they are taking on.

We propose a package of recommendations

Firstly, there are compelling reasons to set out a clear prohibition on non-competes in employment contracts. Such clauses restrict ex-employees’ ability to work in areas that compete with their previous employer for a period of time after they leave. They create greater risk for potential entrepreneurs: being found in breach could mean they are faced with the costs of damages. And as there is no legal requirement for the ex-employee to be paid during the period in which a non-compete is in force, it creates a gap in time during which the ex-employee earns no wages from their previous employer but is also unable to start earning money from their new business.

Studies on the wider effects of non-competes are clear. Such restrictions reduce innovation, investment and growth. Faced with such evidence,

there is a strong rationale to prohibit such contracts. We recommend that the Government does so.

Secondly, we need to create more entrepreneurship-friendly companies where it is easier for employees to start their own business in way that minimises risks to income and career prospects. The Government has introduced a new expanded right to request flexible working from June 2014 for all employees, rather than only employees with caring responsibilities. This could be hugely beneficial in helping current employees manage the risky, early stages of developing a business idea alongside their current job. Government should promote this new right as a way for employees to become entrepreneurs, and lead by example as an employer itself. It should also monitor the effectiveness of this new right and be vigilant for any signs that employers are biased against granting requests where the employee has requested flexible working to start a new business, as opposed to any other reason.

Thirdly, the ability to obtain another job should a business fail should – in theory – mitigate the risk for employees starting a business. But in practice, this does not work. Instead, employees worry that a business failure would put their hard-earned reputations at stake, and narrow their future career prospects. The ability to return to work with their previous employer could substantially reduce the risk for departing employees wishing to start a business.

There are a number of questions that would need to be resolved before Government could impose such a “right to return” for employees. These include potential costs to employers, especially smaller businesses; how to ensure the right is used only by those genuinely starting a business; and the specifics of whether the right should extend to being able to return to the same or a similar role. However, given the strength of the potential benefits in reducing the risk of starting a business, and the experience that has been acquired over recent years through introducing similar provisions for parental leave, we recommend that Government should legislate to introduce a “right to return” for people leaving work to start a new business, with the details subject to the results of a feasibility study on how to maximise its effectiveness.

Finally, we recommend that the Government reinstates the Corporate Venturing Scheme, which provided tax reliefs on investment against corporation tax to companies that invest in start-ups. Such tax reliefs are already available to private investors. Tax reliefs should be comparable to those available for private investors under similar schemes.

Reinvigorating corporate venturing in the UK could have a number of benefits. Encouraging more existing companies to invest in start-ups will provide greater opportunities for existing employees to gain experience of the start-up world. It will expand access to finance for new start-ups. It will create incentives for existing firms to provide vital support to new start-ups – support that they are in a good position to offer, such as HR, legal and accountancy expertise, and other back office support functions. Firms could even invest in the start-ups of their departing employees, thus providing the company with a way of mitigating any downside aspects of the individual's choice to leave. More broadly, it will help garner wider support for our full package of recommendations: overall, we think that these proposals will create a more vibrant entrepreneurial and business environment that boosts innovation and growth, but making this a reality will require action not just from Government and individuals, but also from employers.

Our recommendations should be seen as a package of measures, which taken together, should substantially change the terms of the decision to leave employment and start a business, reducing the risk to income and risk of damage to career prospects. In doing so, we have the potential to boost the ranks of high value entrepreneurs in the UK, including female entrepreneurs, who are especially held back by worries over risk.

Unleashing high value entrepreneurship is vital if we want to create sustainable economic growth in the UK. The performance of other countries shows that there is a huge opportunity to boost our numbers of high value entrepreneurs. But to do so, we need to address the fundamental barriers that hold people back from starting their own business. Making it easier to manage the risk of moving from employment to starting a business could make a substantial difference. Government cannot do this alone:

companies, individuals and the charitable sector all have a role to play. But Government can and should use its legislative and fiscal powers to kick-start this change.

Our full package of recommendations to Government

- Ban non-competes in employment contracts.
- Champion the use of flexible working to start a business.
- Monitor for any signs of bias in the granting of flexible working requests linked to whether the employee intends to start a business.
- Legislate to introduce a “right to return” for employees leaving a company to start a business, with the detail subject to the results of a feasibility study on how to maximise the policy’s effectiveness.
- Reinstate tax reliefs for corporate venturing, at a comparable level to reliefs available under other investment schemes.

INTRODUCTION: THE NEED FOR MORE HIGH VALUE ENTREPRENEURSHIP

After five years of disappointing growth following the financial crisis, the UK economy is finally recovering. The economy grew by 1.7% in 2013 and forecasters are expecting growth to return to between 2 and 3% a year over the next five years.ⁱ But this positive news hides some worrying structural weaknesses. The recovery has been slow: productivity growth has been weak and GDP per capita is not expected to return to its pre-crisis peak until 2017.ⁱⁱ The OBR's recent upgrades to its economic forecasts reflect a quicker recovery than expected rather than expectations of better underlying economic health. And there are signs that the long-term fallout of the financial crisis is having a persistent effect on productivity.ⁱⁱⁱ

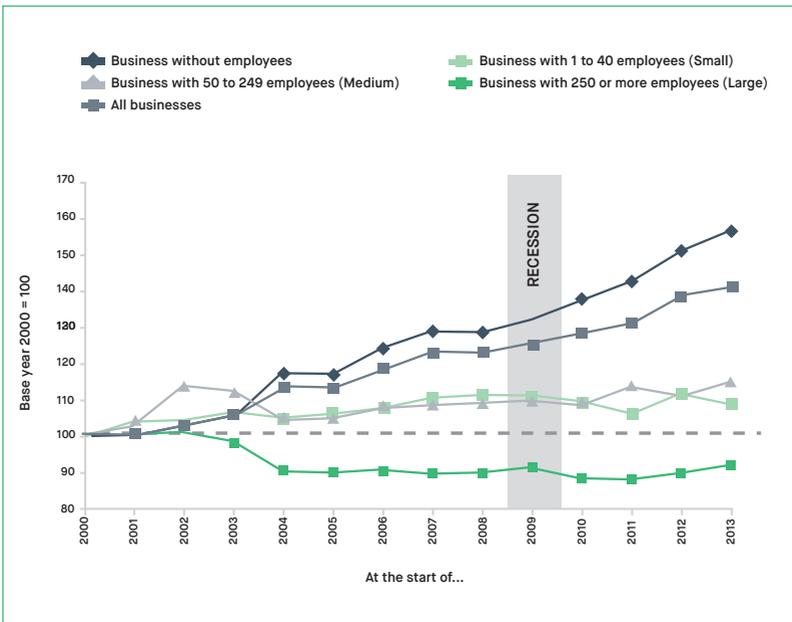
Long-term economic growth is driven by rises in productivity – the ability to create more or better outputs with fewer inputs. Key to this is entrepreneurship: entrepreneurs who set up new firms can challenge incumbents, driving down costs and incentivising the creation of better products and services. More broadly, they can provide an avenue for new ideas to be tested on a small scale and brought to market,^{iv} driving structural change and job creation in an economy^v as resources are reallocated to more productive areas.

The UK does relatively well on broad measures of total entrepreneurship activity. In recent years, self-employment and business formation have been rising. From 2000 to 2013, the number of private sector businesses in the UK grew by 41%. However, as shown in Figure 1 below, the majority of this growth has been among businesses with no employees, which grew by 56% over the same period. And this growth in small businesses has not translated into growth in the number of larger firms, which has remained relatively static. This is concerning, because it suggests that the majority of new businesses that the UK is producing have little growth potential.

As we explore later in this report, it is not necessarily the case that only high growth companies make a significant contribution to economic growth. But even on broader measures, the UK has room to improve. The

Global Entrepreneurship and Development Index (GEINDEX), which takes into account entrepreneurship “quality”, ranks the UK lower than the total entrepreneurial activity figures would suggest. This index attempts to capture information such as the potential of new firms to grow, skill levels of entrepreneurs and ambition. Analysis based on this index suggests that, compared to other countries, the UK’s small businesses have a lower capacity to innovate, grow beyond a certain size and expand internationally.^{vi}

Figure 1: Change in the number of UK private sector businesses by size band, 2000-2013



Source: Department for Business, Innovation and Skills, Business Population Estimates for the UK and Regions, 2013

There are a plethora of different Government initiatives designed to incentivise start-ups and entrepreneurs, including funding schemes, tax reliefs, advice and mentoring. But entrepreneurship has many meanings

to different people; and not all types are equal in generating economic growth. Entrepreneurship is sometimes equated with self-employment; sometimes with the generation of high growth start-up businesses. By better understanding what types of entrepreneurship are best for overall economic growth, we can maximise the economic benefits of entrepreneurship policy by focusing on encouraging the types of entrepreneurship that deliver the greatest economic gains – what we term “high value entrepreneurship”.

So what can we do to boost our levels of high value entrepreneurship? This report sets out the evidence on the types of entrepreneurs that generate the most economic value. We then look at who goes into entrepreneurship in the UK, and how the UK performs compared to other countries in the proportion of entrepreneurs likely to be high value. We look at the barriers to engaging in entrepreneurship among those who have the potential to be high value entrepreneurs. Finally, we look at what Government can do to boost high value entrepreneurship in the UK.

Research methodology and focus

Our research is based on the following elements:

- **Literature review** exploring existing evidence from the UK and internationally, firstly, on the type of entrepreneurship that contributes the most to economic growth; and secondly motivations and influences on the decision to become an entrepreneur.
- **Analysis of secondary data** to show the educational, employment, gender and age profile of entrepreneurs in the UK and attitudes to entrepreneurship among the UK public; and how this differs compared to other countries. Data is primarily drawn from the Global Entrepreneurship Monitor (GEM).
- **Entrepreneur roundtable discussion** event with a group of successful entrepreneurs past and present to discuss the secondary data findings and help develop a theoretical model of the decision to become an entrepreneur.

- **Focus groups and follow-up interviews** with employees to discuss attitudes to entrepreneurship and gain insights into factors that would encourage or discourage individuals from starting a business.
- **Public polling** to examine the most important barriers to starting a business among different groups of the population.
- **Expert roundtable** attended by academics, policymakers, business representatives and entrepreneurs, to discuss the research findings and implications for Government.

The SMF commissioned Populus to carry out the focus groups, follow-up interviews and public polling. The detailed methodology is set out in Annex 1.

The rest of this report is set out as follows:

- **Chapter 1** discusses how entrepreneurship increases economic growth, and the type of entrepreneurship that contributes the most, what we term “high value”.
- **Chapter 2** sets out the profile of a UK opportunity-driven entrepreneur, based on analysis of GEM data, and discusses issues of importance to individuals making the choice to start a business. Findings are illustrated through the views of entrepreneurs that attended our roundtable event.
- **Chapter 3** sets out the attitudes to entrepreneurship that hold people back from starting their own business, focusing on those that have the most potential to become high value entrepreneurs. This is based on analysis of GEM data and our own commissioned public polling. Findings are illustrated through the views of employees gathered through focus groups and follow-up interviews.
- **Chapter 4** summarises Government policy relating to entrepreneurship, and highlights the current gaps in policy that need to be addressed, based on our evidence of the barriers to entrepreneurship.
- **Chapter 5** concludes and sets out our policy recommendations designed to encourage more high value entrepreneurs in the UK.

CHAPTER 1: HOW ENTREPRENEURSHIP CONTRIBUTES TO ECONOMIC GROWTH

The chapter sets out the existing literature on how, and what type of, entrepreneurship increases economic growth. Not all entrepreneurship is equal. We call entrepreneurship that contributes most to economic growth “high value”. If policy is to better focus on using entrepreneurship to boost growth, it is essential that we gain a better understanding of what high value entrepreneurship looks like.

The evidence shows that entrepreneurs that go on to be “high value” tend to be driven by opportunity. They are more likely to come from highly skilled and experienced backgrounds. While the UK has a high level of entrepreneurship generally, it is outperformed by other countries on measures of high value entrepreneurship.

ENTREPRENEURSHIP BOOSTS PRODUCTIVITY

As set out in the introduction, entrepreneurs can provide an avenue for new ideas to be tested on a small scale and brought to market,^{vii} driving productivity and job creation. More specifically, entrepreneurship can bring several types of direct innovation to market. These could include:

- Introducing a new product or service that previously had not been available on the market, for example, commercialising a new invention.
- Introducing a new process which reduces costs or raises productivity compared to existing firms, and which therefore allows an existing product or service to be provided more cheaply.
- Introducing a new way of delivering an existing product or service that creates value, for example, offering products online that were previously only available offline.

Research shows that compared to established firms, new firms are more innovative, with more innovations per employee in small and young firms. The quality of their innovations is also higher, and entrepreneurs tend

to derive greater revenue from the commercialisation of innovations compared to existing firms.^{viii}

In addition to bringing innovations to market, entrepreneurs can boost competition in existing markets. This can drive down prices and increase consumer choice. But perhaps more importantly, increased competition can spur on direct innovation by other firms in the market, or firms in related markets. Entry by new firms encourages innovation by incumbent firms – especially in cases where incumbents are already technologically advanced – and thereby increases sector productivity.^{ix} The spillover effects of innovation can far outstrip direct innovation benefits, with some research suggesting that the spillover benefits associated with research and development investment can be double the private benefit to the investing firm.^x

Entrepreneurial activity also has the potential to create jobs. Evidence shows positive effects on total employment from increases in both start-up rates and self-employment in the short and long-term, although this varies by type of entrepreneurship as explored later in this paper. The jobs created by entrepreneurs tend to be less secure and lower paid, although employees in these firms tend to report higher levels of job satisfaction.^{xi} The majority of job creation comes from a small number of high growth firms: for example, in the UK, high growth businesses generated half of new jobs created by firms of ten or more employees between 2007 and 2010.^{xii} But entrepreneurs and new entrants do not have to create jobs directly for there to be a positive impact on employment: research finds that the larger, longer-term effects of new entry come from the impact on the market as a whole, as increased competitiveness drives up total labour demand – not just from entrant firms.^{xiii}

WHAT DOES HIGH VALUE ENTREPRENEURSHIP LOOK LIKE?

The impacts of entrepreneurship set out above are highly dependent on the specific type of activity involved. Overall, benefits are likely to depend on market size, the type of innovation and competition in the market. In

particular, the benefits of entrepreneurship are likely to be larger in the following circumstances:

- There is a large potential market that could benefit from the innovation. There may already be a large market, or the innovation itself may increase the addressable market. It could involve a new way of delivering the service that means that more customers can be reached, or it could create demand that did not previously exist, for example for something that people did not know they wanted until it was there. If the new entry is at the wholesale level, the number of consumers who will benefit will depend on the size of the consumer retail market that wholesale products and services feed into.
- The innovation is scalable and/or replicable (by the entrepreneur or an existing firm) so that the benefits can actually be realised across a large market of customers. This may be more likely if it is a capital or knowledge-based innovation, for example, new equipment or a new product idea, or if it is a labour-based innovation that can be replicated, for example, if it is a skill that can be taught or a new way of working or structuring a business.
- The innovation is likely to give rise to spillovers and spin-off innovations. This may be more likely in some sectors (e.g. capital intensive, high tech) and where there are likely to be complementary products, or if it is a “platform” or enabling product (e.g. a new broadband service could allow further innovation in the services or products delivered over it).
- In the case of general competition benefits, and indirect effects on the market as a whole, the benefits of a new entrant are likely to be higher when there is currently little competition in the market.

This suggests that the benefits of entrepreneurship activity are likely to be especially large when it involves entry into sectors that have potential for high productivity growth due to spin-off innovations and the ability to scale up new innovations. In addition, a larger market size – or potential for growth in the size of the addressable market – is likely to result in larger benefits as it increases the number of customers who benefit from any innovations.

For benefits to be realised, the firm itself does not have to be high growth, as long as the sector it is in has growth potential. However, it is likely that higher growth firms are likely to result in greater benefits because they are more likely to pose a competitive threat to existing firms and so have a wider effect on competition and innovation. The relationship between economic growth and entrepreneurship per se is mixed, but the evidence shows that there is a strong link between “growth oriented entrepreneurship” and economic growth. “Growth-oriented entrepreneurs” are defined as entrepreneurs who expect to increase the number of individuals they employ in future years.^{xiv}

In retrospect, it is possible to at least attempt to measure the macroeconomic impact of a particular entrepreneurship activity. But if policymakers are to try focusing policy on encouraging entrepreneurship that is likely to be high value, we need to find a way of identifying potential high value entrepreneurship, before being able to observe the outcomes of entrepreneurial activity.

One approach is to take a sector-based approach, matching characteristics of particular sectors to the criteria set out above to attempt to decide whether an entrepreneurial activity is likely to be high value. This is likely to provide some insights, however, the very nature of innovation and entrepreneurship makes this a difficult and imprecise task. The likely values of two types of entrepreneurship within a given sector are likely to differ substantially depending on the specific details of each type of product, service or innovation that is being brought to market. The most valuable innovations may well be difficult to categorise in a sector-specific way. It is possible to look at sectors that have seen large increases in productivity in the past or have seen the emergence of high growth firms,^{xv} but it is not clear whether past historic experience will necessarily be a good guide to the future. Whilst taking a sector-based approach may have some merit in principle, we therefore focus on analysing the characteristics and motivations of entrepreneurs themselves, and how this links to economic growth.

If entrepreneurship is to be a mechanism for increasing economic growth, then it must involve identifying and exploiting a new commercial

opportunity. The motivations and background of an individual becoming an entrepreneur will influence how well they are able to do this. In particular, some entrepreneurs, who are “necessity-driven” because they have few other employment options are, by definition, less likely to become involved in entrepreneurship to exploit an opportunity, and therefore less likely to be high value from an economic growth perspective. And this is supported by evidence on outcomes too: the opportunities exploited by individuals who say they have become entrepreneurs to take advantage of an opportunity are more profitable compared to those exploited by necessity-driven entrepreneurs.^{xvi}

Existing research shows that most of this advantage is related to the fact that many opportunity-driven entrepreneurs start their ventures in sectors that they have expertise in.^{xvii} Previous sector experience can help entrepreneurs spot and exploit more profitable opportunities. More specific research finds that prior knowledge of markets and customer problems in those markets is likely to help individuals spot where there is a gap to be exploited,^{xviii} and that between 50% and 90% of start-up ideas come from prior work experience.^{xix} In addition, the level of education that an entrepreneur has increases the likely profitability of an endeavour: in fact, the returns to education are higher for entrepreneurs than for employees, most likely because entrepreneurship provides more opportunities to fully capture the potential rewards provided by more education.^{xx}

At the wider economy level, empirical analysis shows that there is a link between opportunity-based entrepreneurship and macroeconomic growth, but not between necessity-driven entrepreneurship and growth.^{xxi} This means that public policies to encourage entrepreneurship are likely to have only a limited effect on economic growth if they only incentivise necessity-driven entrepreneurs with few other employment options, and lower skill levels (although the effects of the policy may still be beneficial to the individuals concerned).^{xxii}

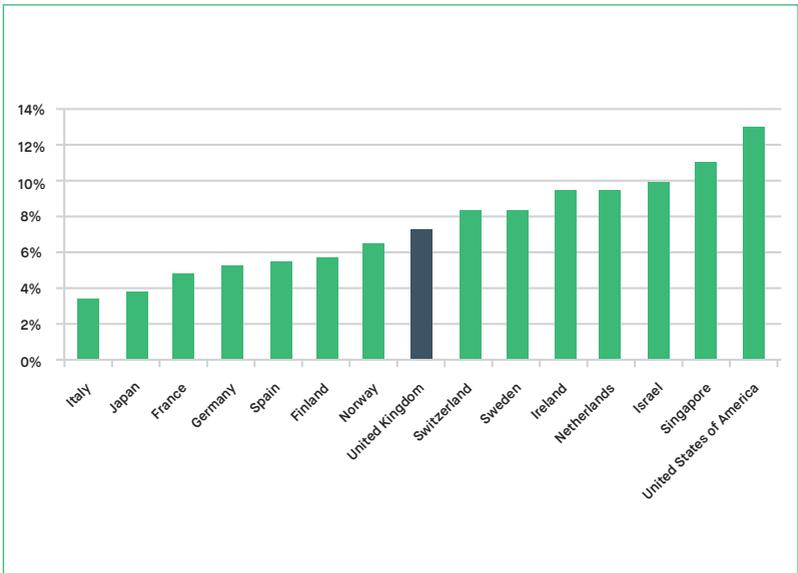
In summary, whilst entrepreneurs do not have to set up high growth firms to be “high value”, those who do have high growth aspirations are

more likely to create value. And in fact, there is substantial overlap in the characteristics of opportunity-driven entrepreneurs and entrepreneurs who go on to create high growth firms – especially in attitudes to failure and levels of education. Evidence suggests that in fact entrepreneurs who set up high growth firms – or “gazelles” – are more likely to have started their business to increase their incomes and exploit a perceived opportunity, rather than being driven by necessity. ^{xxiii}

HOW DOES THE UK COMPARE ON HIGH VALUE ENTREPRENEURSHIP?

The UK compares moderately well to other countries in terms of the proportion of individuals in the process of starting up new businesses or having recently started up a new business, as shown in Figure 2, taken from Global Entrepreneurship Monitor (GEM) data.

Figure 2: Proportion of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business, 2013



Source: Global Entrepreneurship Monitor

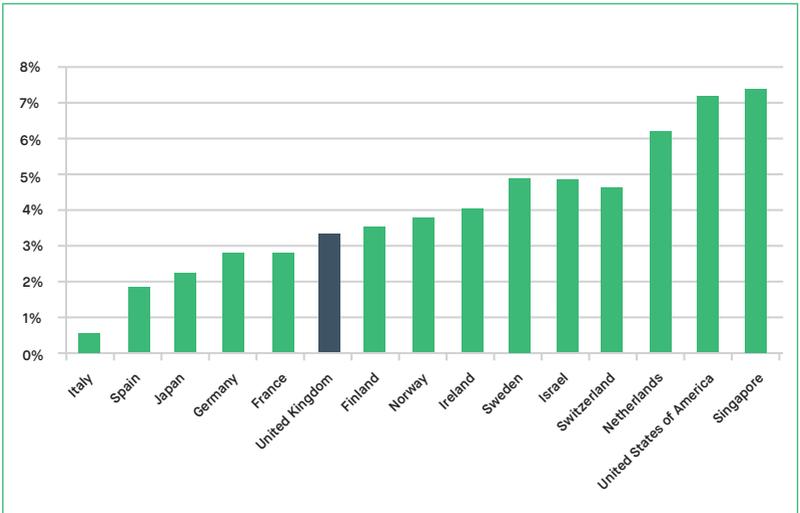
However, around 16% of these entrepreneurs say that the primary reason why they are engaged in entrepreneurship is that they have no options for work and are therefore driven by necessity. The available GEM data from 2013 does not show how the remainder are split, but data from previous years suggests that many also say they are driven by a combination of “no other options” and opportunity, and some state other reasons. The Global Entrepreneurship Monitor also provides data on “improvement-driven opportunity entrepreneurship”, which measures the number of individuals motivated by opportunity and the ability to be more independent and increase their incomes, rather than simply maintain their incomes at current levels. This can be interpreted as a stricter measure of opportunity-driven entrepreneurship. On this measure, 45% of those involved in early stage entrepreneurship in the UK reported that they were involved in “improvement-driven opportunity entrepreneurship”.

Figure 3 shows the proportion of those engaged in improvement and opportunity-driven early stage entrepreneurship as a proportion of the total population. The UK has a relatively high rate of necessity-driven entrepreneurship and a relatively low rate of improvement-driven opportunity entrepreneurship. This suggests that, in addition to those engaged in entrepreneurship because they have no other options for work, a further relatively large proportion of UK entrepreneurs are engaged in early stage entrepreneurship just to maintain their incomes, rather than to improve their incomes or to achieve greater job independence. Levels of higher value entrepreneurship are greater in several other countries.

The Netherlands, Switzerland, Singapore, Norway, Ireland, Israel and Sweden all combine relatively high rates of total entrepreneurship activity with lower rates of necessity driven entrepreneurship and higher rates of improvement-driven opportunity entrepreneurship compared to the UK. On this measure, rates of high value entrepreneurship in the Netherlands are double that of the UK; rates of high value entrepreneurship in Sweden are 50% higher: this fact alone leads us to suppose there is a missing high value entrepreneurship opportunity in the UK.

And although the US has a relatively high proportion of necessity-driven entrepreneurs, its dramatically higher level of entrepreneurship more generally means that over 7% of its total 18-64 population say they are involved in improvement and opportunity-driven early stage entrepreneurship, versus just over 3% in the UK.

Figure 3: Proportion of improvement and opportunity-driven early stage entrepreneurs, as a percentage of 18-64 population, 2013



Source: *Global Entrepreneurship Monitor*.

Definition: Percentage of population involved in early stage entrepreneurial activity who (i) claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income

In summary, the highest value entrepreneurs are likely to come from highly skilled and experienced backgrounds, and most importantly, they are driven by opportunity. But the UK’s mix and number of entrepreneurs suggests that there is significant room to improve. The next chapter in this report goes on to look at the profile of high value entrepreneurs in the UK and develop a framework for the influences on and motivations of people considering whether to leave employment to start a business.

CHAPTER 2: HIGH VALUE ENTREPRENEURSHIP IN THE UK

This chapter looks at the typical profile of an opportunity-driven nascent entrepreneur in the UK and explores the journeys taken to entrepreneurship based on analysis of public datasets. We illustrate findings through the views of successful entrepreneurs past and present, gathered from a roundtable discussion. ^{xxiv}

We find that the typical nascent opportunity-driven entrepreneur is more highly educated and is more likely to be employed than their necessity-driven counterpart. The ranks of opportunity-driven entrepreneurs are heavily dominated by men. They come from across the age groups, with a peak at age 25-34, and tend to come from the top third of incomes. There are many different dimensions to the decision to become an entrepreneur for those with alternative employment opportunities. These dimensions include potential financial gain, risk, and job preferences.

WHAT DO HIGH VALUE ENTREPRENEURS IN THE UK LOOK LIKE?

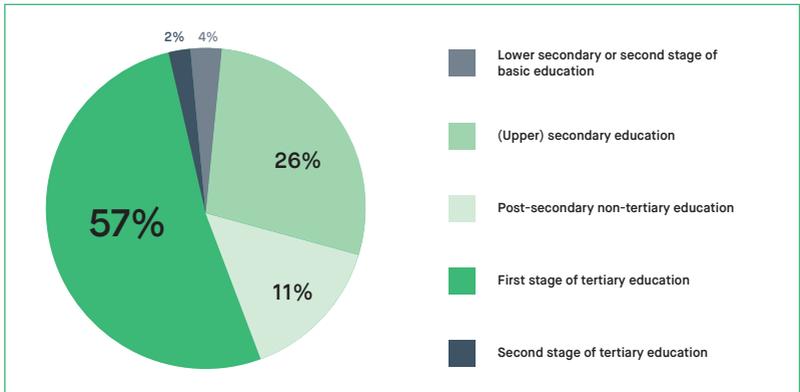
In this section, we draw on data from the Global Entrepreneurship Monitor (GEM) to show the typical profile and journey of a “nascent entrepreneur” – an individual on the cusp of becoming a new entrepreneur. ^{xxv} We focus on this measure, rather than the total number of early-stage entrepreneurs shown in the international comparisons in Chapter 1. This is to better understand the characteristics of individuals that are on the point of making the transition to entrepreneurship. Where we quote results based on regression analysis, full tables are included in the annex. We also provide insights from a roundtable discussion event with entrepreneurs to show their perspectives on why and how they made the decision to become entrepreneurs.

This analysis draws on GEM data from 2009, which was unusual in surveying a very large sample of the UK population – around 30,000 – allowing detailed breakdowns and analysis within sub-groups. In this year, 2.7% of the working age population sample said they were nascent

entrepreneurs. This proportion is in line with the longer term trend during the decade beginning 2000, although the nascent entrepreneurship rate has spiked in more recent years: the latest figure, for 2013 stands at 3.6%. The percentage of the population saying that they were opportunity-driven nascent entrepreneurs – the more important figure for measuring entrepreneurship likely to be high value – was just over 1% in our dataset.

As would be expected from the existing evidence on high value entrepreneurship, the rate of opportunity-driven entrepreneurship among those with tertiary-level education was over double the rate among those without – 1.8% compared to 0.7%. The effect is especially strong among women: although only 0.4% of women in the sample were opportunity-driven nascent entrepreneurs, having a degree increased the likelihood of becoming an opportunity-driven entrepreneur among women by 1.1 percentage points compared to not having any qualifications. ^{xxvi}

Figure 4: Qualification levels of opportunity-driven nascent entrepreneurs, 2009



Source: SMF analysis of GEM 2009 data

In addition, the majority (85%) of opportunity-driven entrepreneurs said they were currently employed in some capacity – whether employed full-time, part-time or self-employed. This was double the proportion of necessity-driven entrepreneurs who said they were employed, unsurprising as necessity-driven entrepreneurs are those who said they had few other options for work.

The GEM data does not contain information on individual income levels, which would provide an indication of likely overall levels of skills and experience – which qualifications and employment status alone do not fully reflect. It does however contain data on household income. This shows that a disproportionate number of opportunity-driven entrepreneurs come from the top third of incomes, and fewer come from middle income groups. 1.5% of individuals from the top third of household incomes say they are opportunity-driven nascent entrepreneurs. This is over double the rate among individuals from the bottom and middle third of incomes.

This pattern holds across both men and women, and holds after controlling for a range of factors, including qualification level, employment status and age. This could be a reflection of the fact that those who have experience and skills are more likely to earn more in their current employment; and this is the very group that the evidence suggests are best placed to spot and exploit opportunities for entrepreneurship, given their prior work experience. Their high levels of skills may perform a similar role, and ambition in their career so far may have helped them progress as well as pushed them towards entrepreneurship. But it may also reflect the fact that higher household incomes mean there is more likely to be a financial cushion that allows risk-taking entrepreneurship to take place. This may be because those with high household incomes are more likely to have savings; or because it reflects the fact that there is an additional earner in the household.

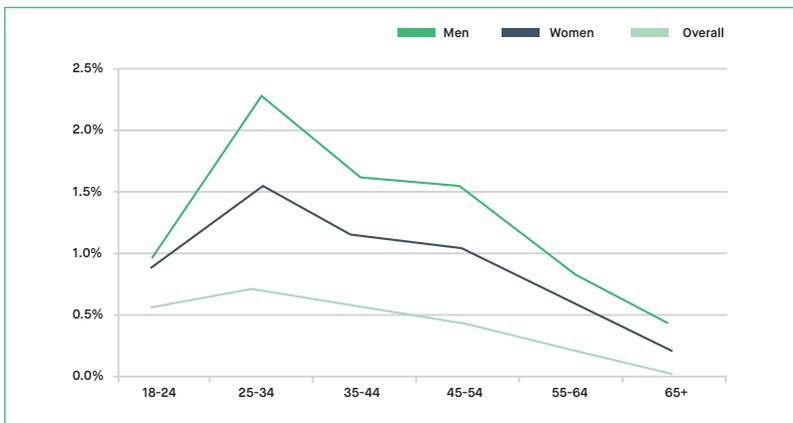
There is a heavy skew among opportunity-driven entrepreneurs towards men: this is true of entrepreneurship generally, but the gap is even sharper for opportunity-driven entrepreneurship. Of those who were opportunity-driven entrepreneurs in the 2009 survey, 74% were men. Among all nascent entrepreneurs, the proportion was 68%.

The average age of an opportunity-driven nascent entrepreneur in the UK is around 39 years old. This is largely a reflection of the fact that individuals across all age groups of the working population become entrepreneurs; the average age is close to the average age of all workers. As a proportion of their age group, 25-34 year olds have the highest rates of opportunity-driven entrepreneurship, as shown in Figure 5. This peak is especially pronounced among men. This pattern holds even after controlling for qualification levels

(which are higher in this group compared to the 18-24 group), employment and household income. Among men, rates of entrepreneurship then decline with age but with a suggestion of a countervailing pressure for people in the 45-54 age range: after controlling for other factors, there is a slight peak at this age group, which is not immediately apparent from the absolute numbers. For women, who have lower levels of entrepreneurship generally, there is no corresponding suggestion of a middle-age revival in entrepreneurial activity. Across both genders, rates of entrepreneurship drop off sharply among those in their fifties.

More recent data suggests that there has been sharp increase in self-employment since the downturn in 2008, and just over 70% of the rise is accounted for increases in self-employment among those aged over 50.^{xxvii} It is too early to tell what the motivation behind this is: whether it is opportunity-driven, necessity-driven, or the beginning of a new trend of flexible employment as a way of phasing retirement. This trend is reflected in overall employment patterns,^{xxix} indicating that it is part of a wider trend of individuals staying in the labour market for longer, suggesting that it is not necessarily indicative of a longer-term rebalancing of attitudes towards paid employment versus self-employment or running a business.

Figure 5: Proportion of age group involved in nascent opportunity-driven entrepreneurship, 2009



Source: SMF analysis of GEM 2009 data

Box 1: Why do we use 2009 data from GEM?

Our analysis of what a UK entrepreneur looks like is based on publically available individual-level data from the Global Entrepreneurship Monitor (GEM). The value of using this dataset is that it asks a wide variety of factual and attitudinal questions, which are asked consistently across a large number of countries, allowing international comparisons. In addition, it does not suffer from some of the definitional problems that other datasets do. For example, some national official surveys classify working directors as “employees”. The definition of entrepreneur in GEM is based on starting and owning a business.

GEM data becomes publically available three years after it is collected. At the time of writing this report, 2009 and 2010 data was available. The sample size in 2009 was over 30,000, of which around 1% were opportunity-driven nascent entrepreneurs. This meant that we were able to conduct detailed analysis of sub-groups. In contrast, in 2010, the sample size surveyed was much smaller, around 3,000 individuals, of which a much smaller proportion would be opportunity-driven nascent entrepreneurs. ^{xxviii}

However, it is possible that findings from 2009 may be an unreliable guide to current and future trends given its proximity to the financial crisis. To check our results, we have also run similar analysis for 2006 as a comparison, and to provide an indication of potential changes once the economy returns to a more “normalised” state. The 2006 sample contained 43,000 individuals. Our results suggest – as might be expected – that there were more opportunity-driven entrepreneurs in 2006. Crucially though, the profile of these opportunity-driven entrepreneurs is little different, with a similar proportion coming from employment, high skilled backgrounds, and with a similar age and gender profile.

In Chapter 3, where we look at attitudes and perceptions more broadly (not just among nascent opportunity-driven entrepreneurs), we primarily rely on 2009 data, but also look at 2010 data as a check.

WHAT AFFECTS THE DECISION TO BECOME AN ENTREPRENEUR?

The results set out above reflect the finding from previous evidence and literature that higher value opportunity-driven entrepreneurs are likely to come from highly skilled and experienced backgrounds: this ability and knowledge helps them identify and exploit opportunities. Those with greater levels of experience are also likely to have useful networks, which may make it easier to find potential customers, experienced partners, employees, mentors or board members that can bring useful skills to the start-up process. This factor was reflected in our roundtable discussion with entrepreneurs and individuals that have been successful entrepreneurs in the past.

What entrepreneurs say: networks

“Those with experience had networks – it was ‘easy to put the band together’.”

Nigel Kershaw, CEO, Big Issue Invest

Those with greater skills and experience are however likely to have to give up attractive employment options to become an entrepreneur. This factor pulls in both directions. On the one hand, those coming from this type of background are likely to have to give up large secure incomes in return for taking a risk on a new business. In some cases, leaving an existing employer may be made even more difficult by clauses in employment contracts that restrict departing employees’ ability to compete in the same market for a certain period of time, effectively resulting in a period of lost income.

But on the other hand, having had a secure job in the past protects entrepreneurs from some of the downside risk. Firstly, those on higher incomes are likely to have had the ability to save more in the past. They are also more likely to own their own home. These assets can be used to start a business or as a cushion if the business fails, and may be one reason why those on higher incomes are more likely to become opportunity-

driven entrepreneurs as shown in the last section. In the case of the entrepreneurs we interviewed, some had taken advantage of money from redundancy schemes to help start their own business.

What entrepreneurs say: the employment alternative

“I worked for someone until I was 46 years old and took a large pay cut to become an entrepreneur.”

Entrepreneur, ex-employee

“One of the deterrents that would have stopped me was getting an employee contract that was anti-competitive.”

Troy Collins, Co-founder, Secret Escapes

“When I decided to become an entrepreneur, I was 41 years old with two kids. I took a cut in salary and used my redundancy money in the business. The independence factor was a huge factor for me.”

David Hosking, CEO, Tusker

Secondly, the skills and experience gained through past employment also improves the likelihood of obtaining a job with an employer should the business fail. This may lower the perceived risk of entrepreneurship. However, this assumes a business failure does not materially damage future career prospects. Depending on employers’ attitudes, a business failure could put potential entrepreneurs’ hard-earned reputations at risk: so although a would-be entrepreneur may be confident of being able to secure a job, it may be more difficult to secure one after a failed entrepreneurial attempt.

What entrepreneurs say: career prospects after failure

“If it hadn’t worked out, I would have got a job in sales somewhere else, in a sector where I wasn’t known.”

David Hosking, CEO, Tusker

“I cashed in £8,000 worth of shares after leaving the LDA and set up in Croydon. I was really worried about my reputation and feared that I wouldn’t work again if the business didn’t succeed because the fashion industry is small – everyone knows everyone.”

Jenny Holloway, Founder and Director, Fashion Enter

And whilst incomes and income security are a concern, it is clear that for many entrepreneurs, a wider sense of achievement is an important reason for starting a business. The need for achievement is likely to be important to them^{xxx} and they tend to have a slightly higher locus of control (i.e. they are more likely to believe that they can control and influence what happens in their lives).^{xxxi} In addition, they are likely to be innovative, competitive and autonomous.^{xxxii} Independence is likely to be an important motivator: in the GEM survey, over half of nascent opportunity-driven entrepreneurs cite greater independence as the most important motivator.

What entrepreneurs say: motivations for entrepreneurship

“Often, the main motivation for entrepreneurs is wanting to change the world and make a difference.”

Robin Klein, Venture Partner Index

“There is a similarity between tech entrepreneurs and social entrepreneurs – they both have a desire to solve a problem.”

Nigel Kershaw, CEO, Big Issue Invest

“I went to university in Brisbane around the time of dial up...the internet was exciting. I just had this urge to do something with the internet.”

Troy Collins, Co-founder, Secret Escapes

“I wanted to be part of something that no one had done before.”

Robin Grant, Co-founder and Global Managing Director, We are Social

Those with skills and experience interested in entrepreneurship are faced with a difficult decision with a number of trade-offs. They are likely to have high wage and secure job opportunities open to them, and this is likely to be an especially relevant consideration for those with dependents. This makes entrepreneurship a potentially less attractive option, but also means that if they do decide to set up a business, they are likely to have fall-back employment options should the business fail. They are also more likely to have savings and assets to reduce the downside risk of business failure. And their experience and skills increases the upside gain – as it increases their ability to spot opportunities and exploit them profitably.

Which effect dominates is likely to vary over the course of individuals' life stages and careers, and may be one explanation for the pattern observed across age groups in the previous section. Those in the earlier stages of their careers may have less to lose: they are less likely to have dependents, and with fewer years of experience, are less likely to be giving up high wage job offers to start a business. This may explain the peak in opportunity-driven entrepreneurship among 25-34 year olds.

What entrepreneurs say: family

“If I was going to do something, I better do it before I had kids because if I screwed it up, it was me that had to deal with it.”

Troy Collins, Co-founder, Secret Escapes

But whilst older age groups are more likely to have dependents, they are also more likely to have built up assets and own a home, increasing their ability to take a risk to household income. Other studies find a similar pattern, whereby having savings, owning a home and having high income increase the likelihood of starting a new business.^{xxxiii} More specifically, one study also found that employed individuals who owned homes that substantially appreciated in value were more likely to become entrepreneurs than non-homeowners or homeowners in areas with lower levels of house price inflation.^{xxxiv} At the very least, those who own homes outright or own equity in their homes have a choice over whether to

leverage that asset or not; and have the benefit of reduced outgoings on housing costs that may allow them to take a risk to income.

What entrepreneurs say: homes and mortgages

“I took a decision when I went to my investor that I was not going to put the house at risk.”

Entrepreneur, ex-employee

More broadly, other members of the household are likely to have a strong role in the decision-making process, given the risk to household income, and other potential changes to household circumstances that setting up a business is likely to entail. Having an additional earner may reduce the risk to household income. But several entrepreneurs also mentioned the importance of emotional support.

What entrepreneurs say: the role of a partner

“I never thought my business would fail. I knew I was going to do whatever it took to make it a success. I had the support of my husband.”

Jenny Holloway, Founder and Director, Fashion Enter

“At the time of setting up, I was living with my now wife. Part of the deal was that we would have to move to Brixton. She was working in hospitality, so not earning a huge amount. But it was a joint decision.”

Troy Collins, Co-founder, Secret Escapes

“For me it was the emotional support of my wife that helped me to make the business a success.”

Nigel Kershaw, CEO, Big Issue Invest

“I knew I would work hard, that I would even do waitressing in the evening if I had to, to put food on the table. My husband was a teacher. But there is an emerging pattern of entrepreneurs with partners earning higher salaries that allows them to take more risk.”

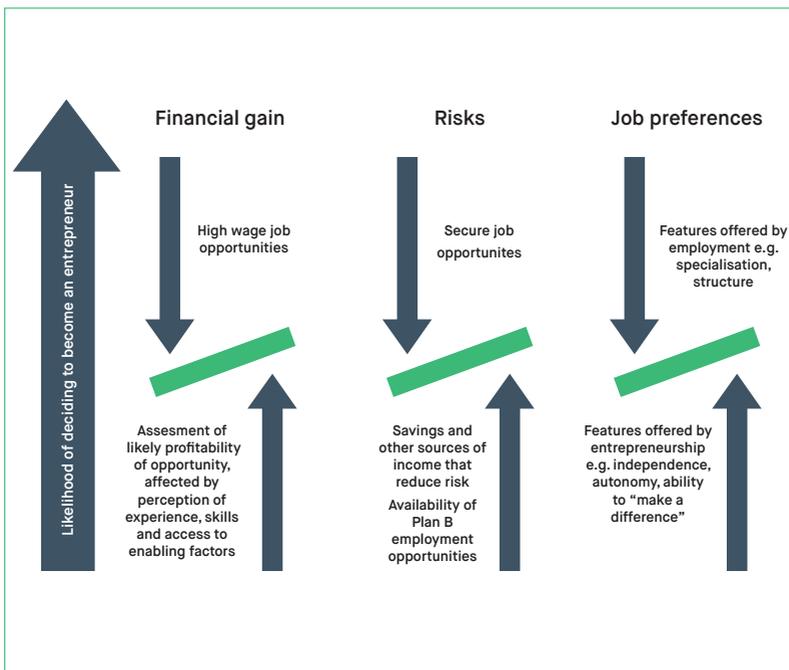
June O’Sullivan, CEO, London Early Years Foundation

Overall, the data analysis and insights from speaking to entrepreneurs suggest that the decision to become an entrepreneur is a complex one – especially for those with the skills and experience that mean they have the potential to be high value entrepreneurs but also have other employment opportunities. As shown in Figure 6, there are three key dimensions to the trade-off:

1. **Financial gain:** attractive, high wage job opportunities compete with entrepreneurship as a career option. The draw of high wage job opportunities can be overcome by the fact that entrepreneurship itself may deliver higher income and wealth, if successful. And skills and experience and perception of the ability to access enabling factors such as access to finance can increase the perceived likelihood of a profitable venture.
2. **Risks:** the relative security of paid employment opportunities is likely to be an important factor for many potential entrepreneurs, and may be particularly important for those with dependents. This may make entrepreneurship less attractive in comparison. But those who do have the potential to be high value entrepreneurs are likely to benefit from factors that mitigate this risk. Firstly, the presence of other sources of household income, as well as assets and savings can help cushion any losses in income. Secondly, the option of obtaining a job in paid employment should the venture fail, also reduces the downside risk – and having skills and experience is likely to increase the viability of this Plan B option.
3. **Job preferences:** Employment and entrepreneurship offer different types of job and lifestyle features. Entrepreneurship may offer greater autonomy, independence, and the freedom to implement ideas that individuals believe are truly novel and “make a difference”. But others may value the types of features that employment provides, for example, the ability to specialise in a particular skill, a more structured way of working or more stability in the number of hours worked. Different individuals will have different preferences; these may relate to their intrinsic preferences, as well as to their household circumstances.

The next chapter looks at where there is scope to increase the number of high value entrepreneurs in the UK, by examining in more detail how barriers stop those with the potential to be high value from starting their own businesses.

Figure 6: Decision to become an entrepreneur for those with high value potential



CHAPTER 3: WHERE ARE THERE MISSED OPPORTUNITIES TO INCREASE HIGH VALUE ENTREPRENEURSHIP?

As shown in Chapter 1, the UK tends to do well in encouraging entrepreneurship in general. But it does less well on measures of higher value entrepreneurship – specifically, it tends to have fewer opportunity-driven entrepreneurs compared to other countries. In this section, we look at how attitudes to entrepreneurship may act as a barrier, with a specific focus on people that the evidence suggests have the most potential to be high value entrepreneurs – those with existing skills and experience. We set out findings from our analysis of the GEM survey, and supplement this with results from other sources, including our own commissioned polling and qualitative insights from focus groups and follow-up interviews. Where we quote results based on regression analysis, full tables are included in the annex.

We find that individuals in the UK are less likely to see entrepreneurship as a desirable career compared to other developed countries. The attractiveness of entrepreneurship is lowest among the very group that are most likely to have the potential to be high value entrepreneurs – those with higher levels of skills and experience. This is due to range of factors, but the most important factor stopping these potential high value entrepreneurs is concern about the risk to household income.

ATTITUDES TO ENTREPRENEURSHIP DIFFER IN THE UK

In this section, we provide international comparisons of public attitudes towards and perceptions of entrepreneurship. Where the data allows, we focus specifically on countries highlighted in Chapter 1 as ones which produce high numbers of opportunity-driven entrepreneurs.

In the 2013 GEM survey of public attitudes, 54% of UK respondents said that most people considered starting a business a desirable career choice, a figure that has been rising as the economy has begun to recover.

However, the general trend over time has been for entrepreneurship to be seen less favourably in the UK compared to other countries that have high numbers of opportunity-driven entrepreneurs. Where the UK does stand out is in the consistently high proportion of people who think that successful entrepreneurs have high status in their country – this stood at 79% in 2013.

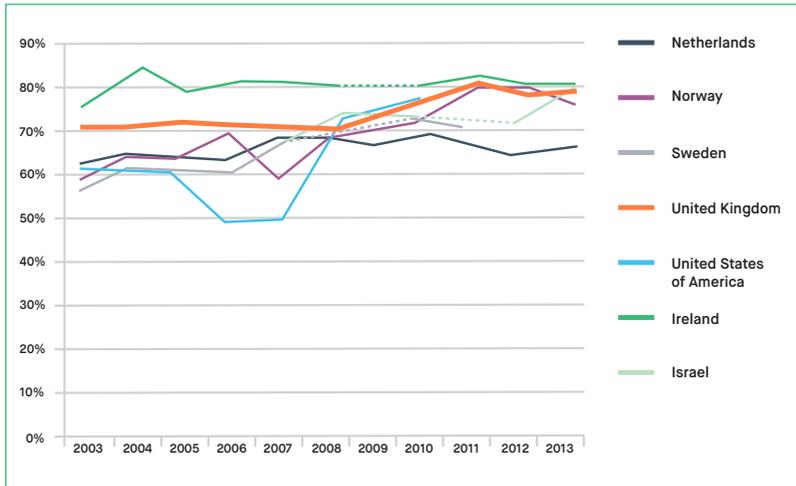
Figure 7: Proportion who say that starting a business is seen as desirable



Source: Global Entrepreneurship Monitor.

Note: Data is incomplete for some countries in some years. Specifically, the chart shows the proportion of the 18-64 population who agree with the statement that in their country, most people consider starting a business as a desirable career choice.

Figure 8: Proportion who say that successful entrepreneurs have high status

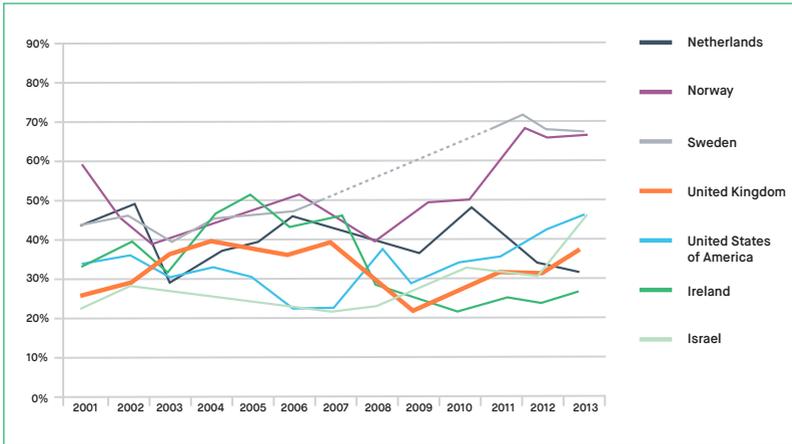


Source: Global Entrepreneurship Monitor.

Note: Data is incomplete for some countries in some years. Specifically, the chart shows the proportion of the 18-64 population who agree with the statement that in their country, successful entrepreneurs receive high status.

Individuals in the UK are generally more pessimistic that there are good opportunities to start a firm in the area where they live – a pattern that held even before the economic downturn. And of those, a relatively high proportion – 36% say that they would be put off starting a business by fear of failure.

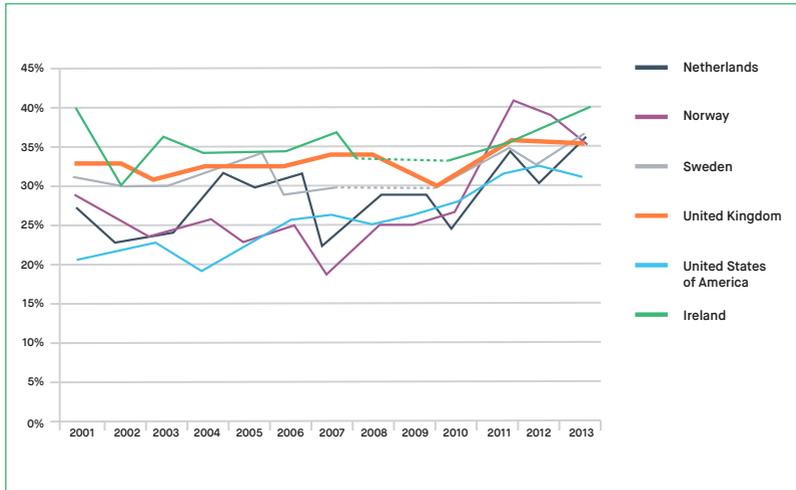
Figure 9: Proportion who say that there are good opportunities to start a firm



Source: Global Entrepreneurship Monitor.

Note: Data is incomplete for some countries in some years. Specifically, the chart shows the proportion of the 18-64 population who see good opportunities to start a firm in the area where they live

Figure 10: Proportion who say that fear of failure would prevent them from setting up a business



Source: Global Entrepreneurship Monitor.

Note: Data is incomplete for some countries in some years. Specifically, the chart shows the proportion of the 18-64 population with positive perceived opportunities who indicate that fear of failure would prevent them from setting up a business.

What emerges from the international comparisons is that in the UK, successful entrepreneurship is given high social recognition and status; but many individuals do not see it as a potential career path for them. It is seen as less desirable; there is a perception that there are few good opportunities for new businesses, and fear of failure would put many off from starting a firm.

The next section looks specifically at potential high value entrepreneurs: those with higher level skills and experience who are likely to currently be in paid employment. We look at what the data says about this group's attitudes towards and perceptions of entrepreneurship, and draw on insights from our qualitative research and existing literature to explain these patterns.

WHERE ARE ALL THE HIGH VALUE ENTREPRENEURS?

What matters most from the perspective of increasing economic growth are the attitudes and perceived barriers to entrepreneurship of those that have the most potential to become high value entrepreneurs. In this section, we focus on analysing the reasons why those with the potential to be high value entrepreneurs do not in fact go on to set up their own businesses. The existing literature summarised in Chapter 1 indicates that high value entrepreneurs are likely to be highly skilled and have previous employment experience. High value entrepreneurs are also generally driven by opportunity.

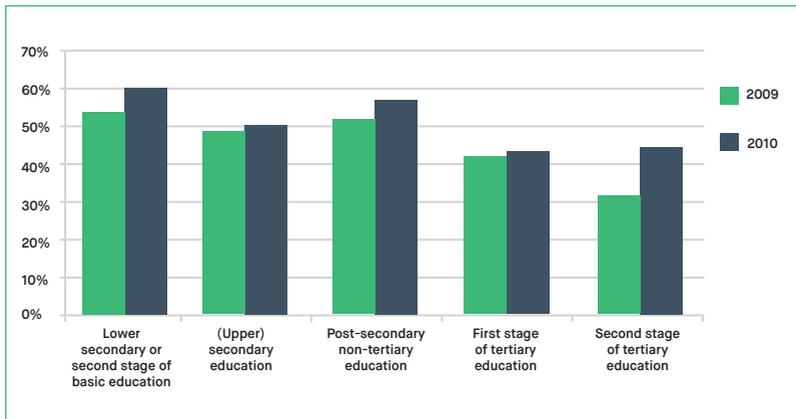
This finding accords with our results presented in Chapter 2, on the profile of opportunity-driven entrepreneurs in the UK, who are more likely to have a degree and come from employment than their necessity-driven counterparts. In our analysis of the GEM data on attitudes, we therefore focus specifically on whether attitudes differ across skill level and employment status. We also look at income levels as an indicator of likely skills and experience. As set out in Chapter 2, opportunity-driven entrepreneurs tend to come from high income backgrounds. In principle, it would be helpful to differentiate any patterns across individual and household income, but the only indicator of income in the GEM dataset is at the household level.

To look in detail at the attitudes and perceptions among specific groups in the UK, we look at GEM data from 2009 and 2010, and provide international comparisons where relevant. Whilst the 2010 data is the most recent, the 2009 data is based on a substantially larger sample size, and so is more reliable at the sub-group level. For completeness, we report both in the charts displayed, but rely primarily on the 2009 data. Data allowing, we focus on those countries highlighted in Chapter 1 as producing a high proportion of opportunity-driven entrepreneurs. To seek to explain our findings from the data, we supplement this with quantitative data from our own up-to-date commissioned poll from 2014. To ensure consistency, we use similar definitions and indicators as the GEM data, so that we are able to compare groups of individuals in different qualification, employment status and income groups on a like-for-like basis across the two surveys.

We also use qualitative insights from focus groups and follow-up interviews with individuals whose skills, employment and income level fit the profile of those likely to have the greatest potential to be high value entrepreneurs. ^{xxxv}

Overall, the GEM data suggests that those with the potential to be high value entrepreneurs are less likely to agree with the statement that entrepreneurship is seen as a desirable career. 43% of those with a first degree compared to 56% of those with GCSE level qualifications agree with the statement. Similarly, those in the top third of the household incomes are less likely to agree. Around 45% of individuals from these types of households agree, compared to 52% of the bottom third and around 50% of the middle third. As we saw in the previous section, on average, those in the UK see entrepreneurship as less desirable compared to individuals living in other countries; that the attractiveness is even lower among the group most likely to be high value entrepreneurs is of concern.

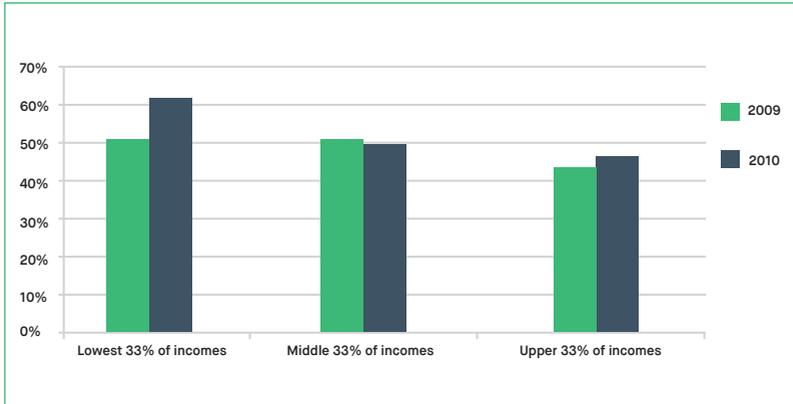
Figure 11: Proportion of qualification group that agree that entrepreneurship is seen as a desirable career



Source: SMF analysis of GEM data, 2009, 2010

Note: Specifically, the chart shows the proportion of the 18-64 population who agree with the statement that in their country, most people consider starting a business as a desirable career choice.

Figure 12: Proportion of income group that agree that entrepreneurship is seen as a desirable career



Source: SMF analysis of GEM data, 2009, 2010

Note: Specifically, the chart shows the proportion of the 18-64 population who agree with the statement that in their country, most people consider starting a business as a desirable career choice.

As set out in Chapter 2, the decision to become an entrepreneur is a complex trade-off between financial factors, income security and the ability to limit the downside risk and other factors that make entrepreneurship more or less attractive such as independence and autonomy. The importance of these different factors and how they may act as a barrier to more high value entrepreneurship is explored below.

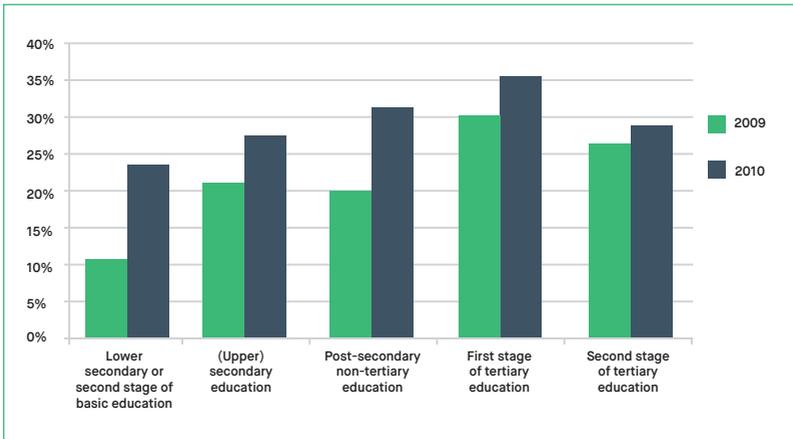
Financial gain

As discussed earlier, the perception of the profitability of an entrepreneurship opportunity compared to the amount that can be earned through paid employment is likely to be a key consideration for potential entrepreneurs. Even the reality of this question is not clear-cut. UK data suggests that those who are self-employed earn less than employees.^{xxxvi} But self-employment is not the same as high value entrepreneurship. UK data is sparse, but a study in the US found that whilst the self-employed

group earned less than employees, those self-employed that owned companies earned significantly more per hour than employees. ^{xxxvii}

For the purposes of understanding motivation, however, perceptions of the financial trade-off are just as important as the reality. Analysis of the GEM survey shows that those with higher qualification levels are more likely to agree that there are good opportunities for starting a new business in their area, which may indicate that this group is more likely to spot potentially profitable opportunities. A similar pattern holds for household income, with those in the higher income brackets more likely to agree with this statement. This is unsurprising, given that previous evidence shows there to be a strong link between previous work experience and being able to spot opportunities.

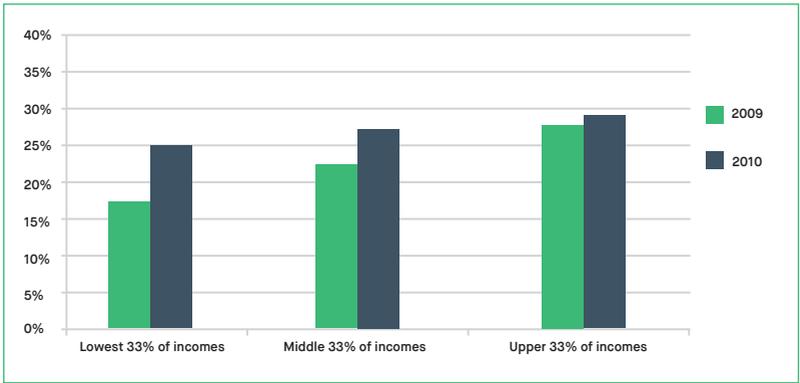
Figure 13: Proportion of qualification group that think there are good opportunities to start a business



Source: SMF analysis of GEM data, 2009, 2010

Note: Specifically, the chart shows the proportion of the 18-64 population who see good opportunities to start a firm in the area where they live

Figure 14: Proportion of income group that think there are good opportunities to start a business



Source: SMF analysis of GEM data, 2009, 2010

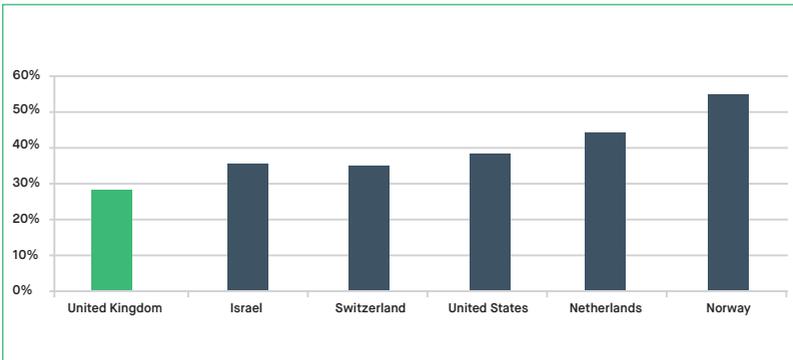
Note: Specifically, the chart shows the proportion of the 18-64 population who see good opportunities to start a firm in the area where they live

But – as set out earlier – in general, fewer individuals in the UK think there are good opportunities to start a firm compared to individuals in other countries. This applies even when comparing the top income groups in each country respectively, as shown in Figure 15. Individuals in the top third of household incomes in the UK are less likely to think there are good opportunities to start a business than their counterparts in other countries.^{xxxviii} It is difficult to say definitively whether this perception is grounded in reality or not. It is certainly the case that the UK economy performed poorly over the period 2009 to 2012, potentially affecting the number of good opportunities to start businesses that focus on the domestic market. However, even during periods of economic growth in the early 2000s, individuals in the UK were pessimistic about the quality of opportunities to start businesses compared to those in other countries.

This suggests that the difference relates to longer-term trends and perceptions. One possibility may be that high employment wages in some UK sectors make opportunities to start businesses look less attractive in comparison amongst higher earners. Inequality in earnings

from employment in the UK is higher than in countries such as Norway, Netherlands and Sweden, ^{xxxix} implying that in the UK, there are larger gains to be made at the top in the UK labour market for some by simply staying in employment rather than starting a business. If this is the case, this means that one reason why we have fewer high value entrepreneurs is the fact that entrepreneurship could be seen as less lucrative than paid employment in the UK for those who are already on higher wages.

Figure 15: Proportion who say that there are good opportunities to start a firm – top third of incomes only



Source: SMF analysis of GEM data, 2009

Note: Data is from 2009. Results for non-UK countries should be interpreted with caution as sample sizes are small.

What employees say: financial rewards from employment versus starting a business

“I was living in London, paying London prices for everything. I wasn’t drawing much of a salary back then, as it was still early days for the company... I stopped that and then moved into the City.”

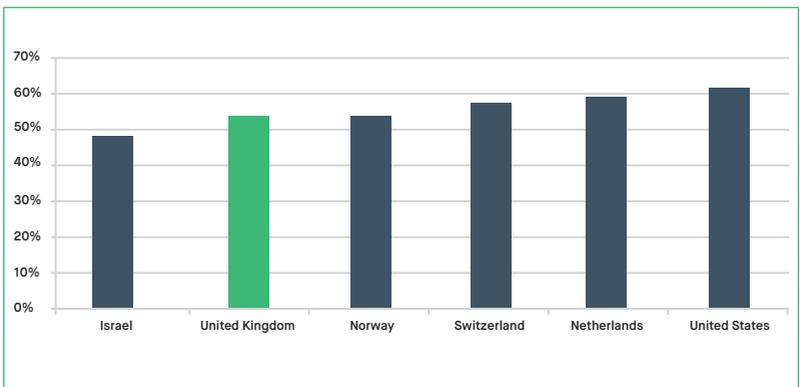
Employee, previously co-founded a business

“When you’re working with a corporate organisation you might bring in £100,000 and then see none of it because it goes on a fancy office, IT, all the rest of it.”

As set out earlier, individuals' assessment of the likely profitability of setting up a business will also depend on their perceptions as to whether they have the right set of skills and their perception of enabling factors, such as the ability to access finance. As would be expected, those with skills and experience are more likely to think they have the skills and knowledge to set up a business: 54% of those with degree level education compared to an average of 47%. Those from higher income groups are also more likely to think they have the right skills and experience: 53% of those from the top household incomes compared to 36% of those from the bottom third of incomes.

And those in the UK are more confident that they have the right skills and experience than individuals in other countries: overall, around 44% of individuals think they have the right skills and experience, the second highest among the comparator countries. Among the top third of household incomes specifically, the proportion is higher in other countries, although differences are not very large.

Figure 16: Proportion who think they have the right skills and knowledge - top third of incomes only



Source: SMF analysis of GEM data, 2009

Note: Data is from 2009. Results for non-UK countries should be interpreted with caution as sample sizes are small.

Of course, this does leave many highly skilled and experienced individuals who do not have the business-specific skills they need, a fact that was highlighted in our qualitative work. However, equally, those who have no intention of starting a business are less likely to acquire these skills, whereas those that do have interest are more likely to take the steps that they need to.

What employees say: whether lack of skills and knowledge are a constraint on starting a business

“Finances, accountants... How do you market yourself? You might know about one area of that, but you might not know about all areas of that.”

[On how the participant would find out the information they needed to start a business] “I’d do my research and...do all I can on the internet and I’d be speaking to people, friends of friends, things like that, and then maybe look to get in an outside team to consult with me.”

“I’m quite resourceful. I don’t want to say I’m wonderful, but I’m quite a fast learner as well. I know where to find information, I have a bit of a network of people that I know I can ask things, too.”

The GEM data does not capture international comparisons of the perceptions of access to enabling factors, that is, wider external factors that affect how easy it is likely to be to develop and grow a business. However, these are potentially important; if individuals assume that these factors are not in place, their assessment of the likely profitability of entrepreneurship will be likely lower, even if their perceptions do not fit with the reality.

Our polling highlights lack of access to finance as the main barrier among the enabling factors chosen by respondents. 30% said that one of the main factors holding them back from starting a business was that they thought it would be difficult to access finance needed. This was 25% for those in the AB social group; 29% of those with a degree; and 28% of those with a degree, in the top third of household incomes and in employment. Given the legacy of the financial crisis and economic downturn, this is unsurprising.

What employees say: access to finance as a constraint on starting a business

"It's the capital, at the end of the day, that is restricting me. I'm not really risk averse."

"I don't think it's necessarily difficult to get financing but it's something that you have to think about in terms of your own personal finances, how you live, and also making sure that the business is appropriately capitalised to be successful."

"It feels like an okay time to me, apart from access to credit. It's not as bad as we were five years ago when the banks were failing."

Only 11% said that not having the right networks to find customers acted as a barrier; and 4% said they would not be able to find suitable partners, mentors or employees. This proportion is similar across socio-economic groups, qualification levels, employment status and household income.

Overall, potential high value entrepreneurs in the UK appear to consider the relative profitability of entrepreneurship to be lower compared to other countries. They are confident in their skills and ability to set up a business. But many see difficulties in access to finance as a major barrier, which may be one reason why they discount the likely relative profitability of setting up their own business.

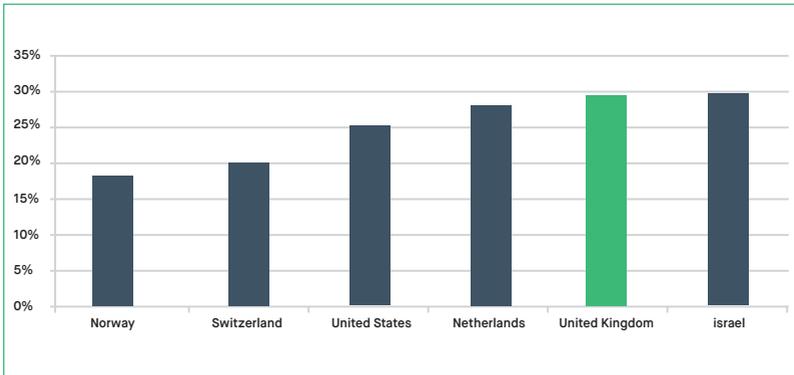
Risks

As set out in the last chapter, a key part of the decision over whether to start a new business is the trade-off between the risks of giving up a secure income in paid employment versus the benefits of entrepreneurship. The data from GEM suggests that those in the UK put more weight on this risk compared to those in other countries.

Those from higher income groups are less likely to be put off starting a business in areas where they see good opportunities by fear of failure,

compared to those on lower incomes. This is unsurprising, given that those in the top income bracket are more likely to have assets that can help mitigate the effect of lost income from paid employment and even out volatility. But comparing individuals in the top third of household incomes across countries reveals that those in the top income bracket in the UK are more likely to be put off by fear of failure than those in other countries.

Figure 17: Proportion who say fear of failure would prevent them from starting a business - top third of incomes only



Source: SMF analysis of GEM data, 2009

Note: Results for non-UK countries should be interpreted with caution as sample sizes are small.

The GEM data does not allow a more in-depth analysis of exactly what this fear of failure constitutes. However, our specially commissioned Populus survey provides some insights. According to our survey, 38% of the British population say they would like to set up their own business.

This rises to 48% among those in employment, with a degree and from the top third of household incomes. But despite the fact that this group is – on the surface of it – fairly financially secure, 62% say that their current financial household situation would make it difficult for them to take on the risk of starting a new business. This is likely to be at least partly because this group has access to stable employment.

What employees say: the security of employment versus the risk of starting a business

“If you work for yourself, you pay yourself. If you succeed, you succeed for yourself. But the cost of failure when set against the advantages of a constant income stream are quite great. And I think certainly for me that would be the biggest thing that would prey on my mind, the financial implications of failure.”

“[If you start your own business], through no fault of your own, you could be working twice as hard and... there could be a recession and it's gone. It doesn't matter what you've done. It can be wiped out by something else. [If you are employed], you've got a little protection from being in a bigger organisation.”

“In a job, when you're not in the area of three months' paid trial, you'd have to really mess it up to [be sacked]...”

Those with financial assets are less likely to say they are unable to take on this risk, for example, a lower, but still significant proportion, of those in the same group who own a home outright - 49% compared to an average of 62% - agree with the statement that their current financial household situation would make it difficult for them to take on the risk of starting a new business. This highlights the potential importance of housing as an asset, although of course other assets and savings could be equally important. In our focus groups, the ability of earnings from the new business to pay for the mortgage was a substantial concern.

What employees say: the role of assets, savings and debt

“I own a second property which has got tenants in there, and we will own it mortgage free quite soon – that would be the time to sell it and do something with the money, risk free, still working.”

“I'd have to build up quite a bit of money to even think about quitting my job.”

“I guess the biggest problem is that I have a mortgage to pay, every month. Regardless of whether or not I have an income, that needs to come out, and it’s a big gamble.”

“I think it’s an age thing to an extent. Now I’ve got a mortgage, and my whole fear factor would be a lot higher.”

It is possible for those starting a business to try to reduce risk by starting to research and develop their ideas, and even start trading whilst still working for their current employer. In fact, some of the employees in our focus groups had clearly started to do this. Others had tried to in the past, but encountered difficulties due to time constraints, often related to family circumstances.

In fact, family circumstances, as might be expected, appeared to be a strong influence on attitude to risk more generally. Firstly, individuals were conscious that leaving a stable job to set up a business would effectively impose financial risk that could impact other family members, including a partner and/or children. But at the same time, a partner that was in employment might reduce the risk to household income, allowing an individual to take a greater risk to their individual income. Secondly, time constraints, particularly in relation to caring responsibilities can make it harder to reduce the risk in the early stages by working as an employee whilst also developing a business.

What employees say: the influence of the household

“You might be willing to sort of risk everything for yourself but when you think about it...what I’m going to be putting people through, if it doesn’t work out, my wife and my children, and that can be an impediment sometimes.”

“You need a support network. If you’ve got a husband who, push come to shove, you could rely on for their wage while there’s teething problems or it’s getting off the ground.”

“I set up my own consultancy business...I was working fulltime and then going home and working very hard on building up this other work as well... with the idea that after a year or so I'd drop down my hours at my fulltime job and then eventually stop working fulltime altogether... With a baby it was becoming increasingly difficult to go and network and to go to evening events or quite often I'd be in meetings pitching for a contract and they'd go on forever or I just didn't have time to prep, so it was safer to give up the more exciting interesting thing that I had built up myself and just keep going in a regular way.”

Theoretically, those with higher levels of skills and experience may feel better able to take on the risk of entrepreneurship as they would be able to access other job opportunities should their venture fail. But in fact this group is more likely to cite the concern that a failed business venture could affect their career prospects as a reason holding them back from setting up their own business. Whilst 10% of the total survey sample picked this as one of the five main barriers holding them back, 18% of those from a background of being in employment, having a degree and coming from the top third of household incomes said it would hold them back. In fact, other studies show that the potential stigma of failure can affect future employment opportunities.^{xI} Other evidence suggests that in the UK, business failure is less likely to be seen as an experience that may enhance an individual's skills, compared to other countries: only 13% of entrepreneurs in the UK say that business failure is seen as a learning opportunity in the UK, compared to a G20 average of 23%.^{xii}

What employees say: the social stigma of failure

“I would have to move in with my parents or my grandparents, and then I won't have any money, and then I won't have a job and all my friends would have jobs and they'd be like: ‘Oh, she didn't do that right’”.

What employees say: the consequence of failure on future career prospects

“I’d be very much out of the market, in terms of my current job, if I left. Things move on very quickly, and it’s very competitive. I’d probably struggle to get back in.”

“If you start a business, you fail, and then you decide I’m going to work for someone else, having been out of work for three or four years, you might struggle.”

Fear of failure could also be related to fear of the consequences of bankruptcy specifically. Research across countries suggests that this is an important factor preventing people from starting their own business internationally.^{xliii} Bankruptcy law in the UK changed: restrictions on those declared bankrupt, such as being unable to act as a director of a company, now end after one year instead of three, a change that happened in 2004. However, an individual’s credit record may be affected beyond this period, potentially limiting their ability to borrow in the future, and there are some areas where UK law is stricter.^{xliii}

Overall, individuals in the UK appear to be more concerned by the downside risks of entrepreneurship compared to other countries. The concern is partly financial, especially among those that do not have housing assets that they own outright. But it is also partly a concern about the impact of potential failure on future career prospects. Whilst in theory those with higher skills may be better able to secure a job should a business fail, in reality, they are also more likely to have more to lose in terms of their existing reputation.

Job preferences

As set out earlier, as well as financial and security considerations, individuals will also be more or less attracted to setting up a business depending on how they weight different features of being an entrepreneur

versus being an employee. As shown in Chapter 2, the ability to realise goals such as doing something new and making a difference can be the driving motivator behind those who do enter entrepreneurship. But employment can offer benefits too: such as greater job structure and less volatility in the number of hours worked.^{xliv} In fact, whilst in principle, starting a business might offer more flexibility, many of those interviewed in our qualitative fieldwork thought that in practice, the hours of work required to make a new business a success would reduce the amount the flexibility they had in their lives. Some also highlighted the fact that employment entailed “ready-made” teams of colleagues; in contrast, setting up a business could a lonely endeavour.

What employees say: benefits of starting a business

“It’s however you want to run it, and if you want to change something, you have the ability to change it because it’s your business. You don’t have to knock on somebody else’s door.”

“Flexibility in terms of your hours, what you can wear to work, where you work, with whom you work. You have control over all of them.”

What employees say: disadvantages of starting a business

“You have no freedom. You have no flexibility because you have to work 365 days a year.”

“Jobs really give you a job role. When you create your own business, you’re setting the role. Also you read what a job wants you to do, what are its expectations, and you say: I feel I can commit to that. Whereas with a business you’re the one setting the expectations, and I think that’s quite hard.”

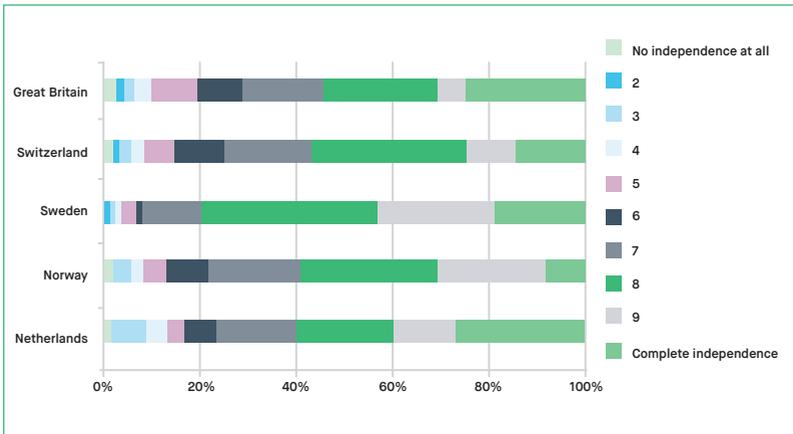
“There’s also a social aspect to it... Unless you have a partner or you employ other people, you will be on your own.”

These attitudes and perceptions are not captured in the GEM survey, so instead, we focus here on results from our own polling, supplemented with statistics from the World Values Survey to provide an international comparison.

Across the entire sample in our poll, only 14% said that they were held back from setting up their own business because they were happy in their current job. However, this proportion was higher in the groups likely to include potential high value entrepreneurs: 31% in the group made up of those in employment, with a degree and from the top third of household incomes. This means that entrepreneurship competes with paid employment not only in terms of potential financial gain, but also in attractiveness of other features.

The quality and features of available employment jobs matter, and those with a high level of skills and ability may already benefit from some of the features of entrepreneurship – such as the ability to exercise independence – even in paid employment. Figure 18 shows that the UK has a high proportion of individuals who say that they have complete independence in performing their tasks at work. However, the picture is relatively similar across other comparator countries, suggesting that the UK is not especially different in this regard.

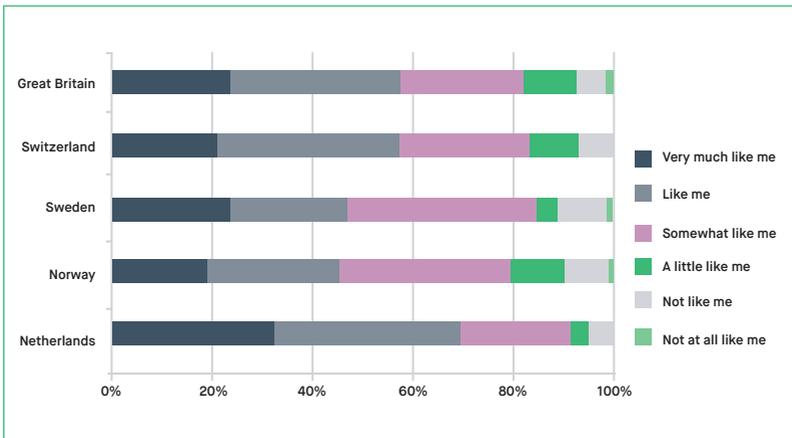
Figure 18: How much independence do you have in performing your tasks at work? (scale from 1 to 10, those with university-level qualifications only)



Source: World Values Survey wave 2005-2009

Cross-country data on attitudes finds no evidence to suggest that individuals in the UK put less weight on the types of advantages that are likely to come from entrepreneurship. For example, on attitudes such as belief in the importance of coming up with new ideas, being creative and “doing things in one’s own way”, the UK looks similar to comparator countries.

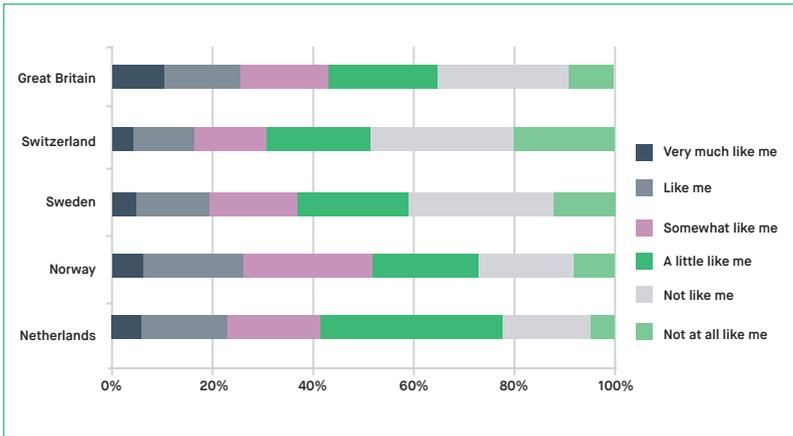
Figure 19: “It is important to this person to think up new ideas and be creative; to do things one’s own way.” (Those with university-level qualifications only)



Source: World Values Survey wave 2005-2009

Neither does the UK stand out as being especially averse to taking risks – in principle – as shown in Figure 20.

Figure 20: “Adventure and taking risks are important to this person; to have an exciting life”: (Those with university-level qualifications only)



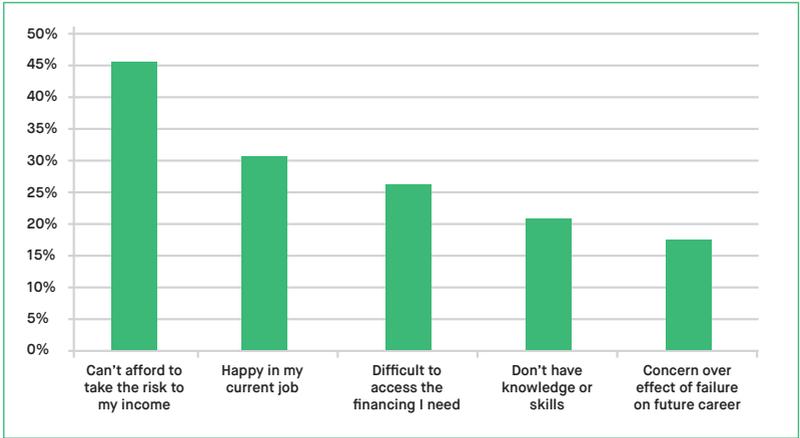
Source: World Values Survey wave 2005-2009

This suggests that individuals in the UK do not intrinsically prefer paid employment to entrepreneurship: they are just as likely to place weight on the types of benefits that entrepreneurship provides, such as being able to explore new ideas in an autonomous way and are not – in principle – less predisposed to taking risks. However, the findings set out earlier suggest that concern over income security may overcome these intrinsic preferences.

Trading off the different effects

Of the factors that individuals say pose a barrier to setting up a business, our polling suggests that the most important is the inability to take a risk to current income. This is especially true of those likely to be potential high value entrepreneurs. For these people, the second largest barrier is satisfaction with current job, followed by the perception that it would be difficult to access financing. Although not the largest barrier, concern about the effect of a business failure on future career prospects is also a worry. Figure 21 shows the top five barriers among those from the top third of household incomes, who are in employment and have a degree.

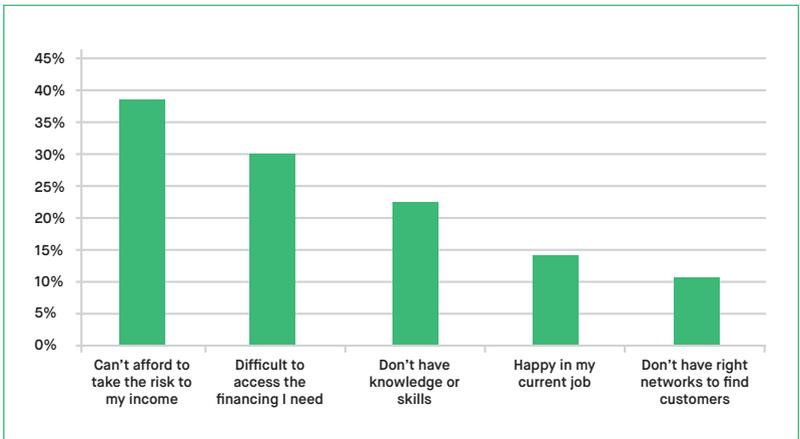
Figure 21: Top 5 barriers - those from top third of household incomes, in employment, with a degree



Source: SMF commissioned survey by Populus

For comparison, Figure 22 shows the top five barriers for the total sample. As can be seen, happiness with current job, although still an important factor, is less important for the general population. More important for this group overall is the lack of networks.

Figure 22: Top 5 barriers - all sample



Source: SMF commissioned survey by Populus

The evidence suggests that concerns over the risk to income and career prospects, as well as concerns over lack of skills and knowledge and the perception that accessing finance is difficult is holding back the number of potential high value entrepreneurs in the UK across the board.

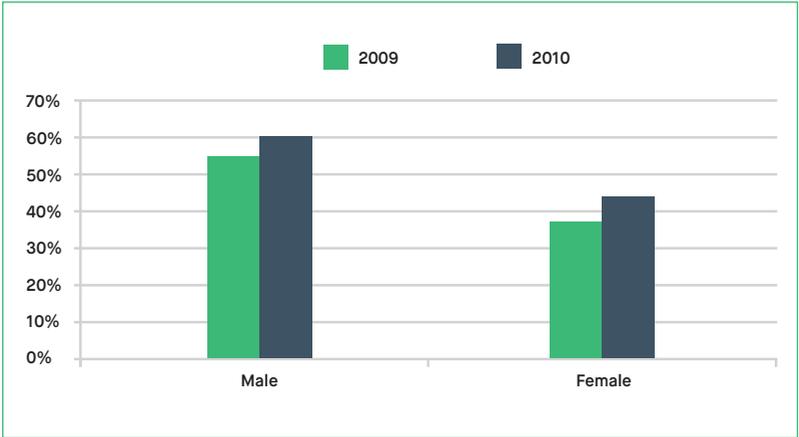
Within the group of potential high value entrepreneurs, however, there are specific groups where the missed opportunity is potentially even larger. These include women and older individuals. These under-represented groups are explored in more detail below.

Missed opportunities: women

As set out in the last chapter, entrepreneurship generally, and opportunity-driven entrepreneurship specifically is heavily skewed towards men: 74% of opportunity-driven entrepreneurs are men. To put this into perspective, if we could increase the number of female opportunity-driven entrepreneurs to that of men, opportunity-driven entrepreneurship in the UK would rise by almost 50%. This effect is present even after controlling for factors such as qualifications, household income, size of household and current employment. This suggests that there are likely to be specific factors holding women back.

The GEM data on attitudes shows that women are only slightly less likely to think that entrepreneurship is a desirable career. However, they are much less likely to think that they have the skills and knowledge to start a business, as shown in Figure 23. This effect is significant even after controlling for actual level of qualifications and employment status. Even after controlling for these factors, women are 14 percentage points less likely to think they have the skills and knowledge to start a business. This means that they may be less able – or at least think they are less able – to make a financial gain from starting a business, compared to staying in paid employment.

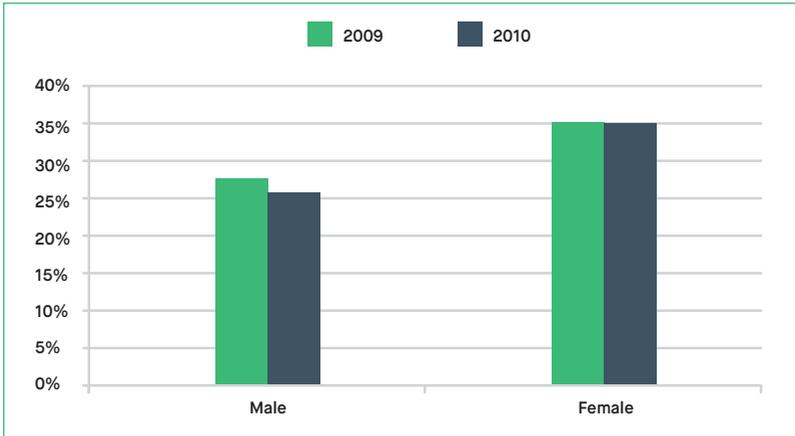
Figure 23: Proportion of men and women who think they have the skills and knowledge to start a business



Source: SMF analysis of GEM data, 2009 and 2010

The data also suggests that women are more likely to be put off by fear of failure than men. This means that they effectively weight the downside risks of entrepreneurship more heavily than men do, potentially explaining why fewer take up the opportunity to start a business over the alternative of paid employment. Our polling suggests that women are slightly more likely than men to say that not being able to afford to take a risk to current income is a barrier to setting up a business. This applies across the board. Among the specific group of individuals with a degree, in employment and from the top third of household incomes, women are more concerned than men about the impact of a business failure on their future career prospects: 23% of women compared to 15% of men cite this as a main barrier to setting up a business.

Figure 24: Proportion of men and women who say that fear of failure would prevent them from setting up a business



Source: SMF analysis of GEM data, 2009 and 2010

What female employees say: concern about fear of failure and lack of skills

“What if it goes wrong? Who’s going to pay my mortgage? Who’s going to pay my bills? How would I get out of it if it didn’t go according to plan?”

“I think you can come up with a great idea, but I don’t think I am that business minded. I would need guidance and someone to assist and help me... there are so many hidden roles in setting up a business that I just wouldn’t have a clue where to start.”

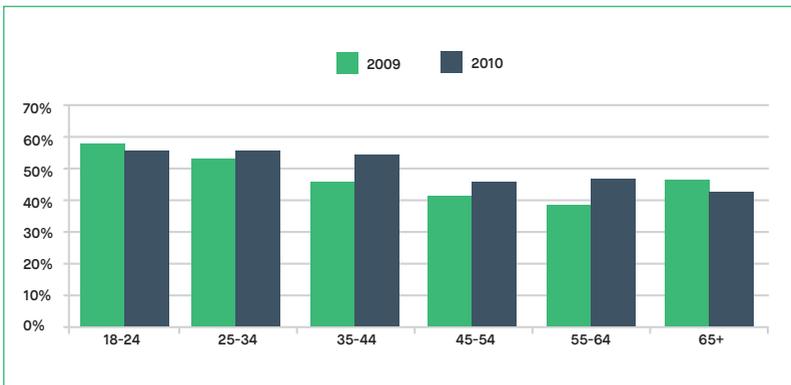
Overall, female potential high value entrepreneurs appear to be even more likely to worry about the financial and career risk associated with starting a business; in addition, they tend to be less confident in their skills and ability.

Missed opportunities: older individuals

As set out in the last chapter, entrepreneurship is highest among 25-34 year olds. There are many entrepreneurs older than this; in fact the average age is 39. However, rates of opportunity-driven entrepreneurship tend to drop more sharply among individuals in their 50s.

Part of the reason for this is likely to be that entrepreneurship is viewed less positively by those in older age groups, as shown in Figure 25. Given the role that experience can play in helping individuals spot potential business opportunities, this suggests that encouraging older individuals from the pool of high value entrepreneurs to start businesses could be especially valuable.

Figure 25: Proportion of different age groups who say that entrepreneurship is seen as a desirable career



Source: SMF analysis of GEM data, 2009 and 2010

Our commissioned polling suggests that the 35-44 age group tends to be more worried about the risk to income of setting up a business: 48% of this group cited it as a main barrier compared to an average of 39% across the whole sample. Within the group with degrees, in employment and from the top third of incomes, the proportion stood at 52% against an average of 46%.

Concern about risk to current income drops in older age groups, perhaps reflecting changes in household circumstances and having had more time to build up financial assets. Instead, individuals in the 45+ age group who are employed, from the top third of household incomes and with a degree are more likely to say that they are happy in their current job, reducing the relative attractiveness of entrepreneurship.

What older employees say:

“When you get older, potentially you’re getting a good salary ... [but] I think your knowledge has increased as well so you might then have the opportunity to take on a business...”

“I suppose... your income’s more than you’ve got [in outgoings], ... your mortgage term goes down and down... 20 years ago you were struggling to just basically live and now... I spend more on petrol and diesel a month than I do on the mortgage.”

“I suppose kind of when you get to our age, you’ve probably got a much better income than you had in your 20s.”

Overall, there may be gains from encouraging those older than 25-34 to enter entrepreneurship. But those in their mid-thirties to mid-forties tend to be even more worried about the potential risk to income. Those in older categories tend to be less worried; but are also happier in their current jobs.

CHAPTER 4: HOW DOES CURRENT GOVERNMENT POLICY ADDRESS THE BARRIERS TO HIGH VALUE ENTREPRENEURSHIP?

The previous chapter concludes that for potential high value entrepreneurs, the following factors constitute the main barriers to setting up a business:

- Concerns about the risk to household income
- Perception that access to finance is too difficult
- Belief in lack of skills and knowledge, especially so for women
- Concern about impact of potential failure on future career, especially so for women

This chapter firstly outlines how Government policy relating to entrepreneurship has developed, what Government support and initiatives are in place today, and concludes by setting out the important gaps in policy that need to be filled if the barriers we have identified are to be addressed. We conclude that the main policy gap that needs to be urgently addressed relates to concern about risk to household income and future career prospects; this problem constitutes a substantial gap in Government policy.

IS SATISFACTION WITH EMPLOYMENT A BARRIER?

In addition to the factors set out above, satisfaction with current employment is another important reason why many of those with higher levels of skills and experience do not want to set up their own business. As set out in the last chapter, individuals in this category may already benefit from high quality jobs that offer the types of attributes, such as autonomy and flexibility that entrepreneurship might otherwise provide. Evidence suggests that companies that offer autonomy and independence are themselves likely to be more productive and grow faster. ^{xiv}

Attempting to attract the high skilled away from innovative companies to start their own businesses could well have the downside of reducing the

amount of innovation that takes place within existing firms. Existing large firms are likely to be better able to develop some types of innovation, for example the type that requires significant levels of capital investment to develop and commercialise. Set against this is the fact that innovation that takes place in the form of new start-up businesses has the additional market-level effect of increasing competition: potentially spurring on further innovation in incumbents and existing firms, as set out in chapter 1.

There are strong reasons to believe that a healthy level of entrepreneurial activity is complementary to innovation within existing firms. More entrepreneurship could spur on greater levels of innovation in existing firms. And, greater levels of innovation in existing firms could, in turn, drive greater levels of entrepreneurship, creating a virtuous circle. A number of studies show that entrepreneurial employees often go on to set up their own independent businesses.^{xlvi} Further, research suggests that the UK under-performs other developed countries both in its level of employee entrepreneurial activity and its independent entrepreneurial activity.^{xlvii} So whilst satisfaction with current job should not be seen as a “barrier” to be overcome through entrepreneurship policy, neither should it be a reason not to promote greater levels of entrepreneurial activity in the UK.

ENTREPRENEURSHIP POLICY AND SUPPORT OVER THE YEARS

The last three decades in the UK have seen shifts in how the Government promotes entrepreneurship, starting with an emphasis on reducing tax and regulation, to greater emphasis on support and advice, and finally attempts to fill gaps in the market for financing of new business. Today, there is a mix of different policy initiatives covering all these areas.

In the 1980s, there was strong focus on using monetary incentives, for example, through tax incentives to small businesses and tax reliefs for investments in small businesses. In addition, there was a focus on reducing regulatory costs that might disincentivise entrepreneurs. Tax incentives and reducing the burden of regulation continue to be a part of entrepreneurship policy, but over the years, have been supplemented by initiatives in other areas.

Programmes providing support and advice to entrepreneurs began to be set up in the 1990s. The Government still provides business support helplines and information for those who want to set up a business. In addition, there are mentoring programmes set up to provide support and advise new entrepreneurs. Recently, the Government has tried to provide more focused support to firms with high growth potential.

The 1990s also saw greater emphasis on trying to fill the funding gap for small, growing firms by increasing venture capital investment. Policies in this area expanded over the late 1990s and early 2000s, with specific funds focusing on areas such as high technology products. Today, there are a number of policies and schemes designed to increase access to finance for start-ups. These consist broadly of measures to reduce the cost of borrowing and tax reliefs for investors.

More recently, there has been a greater emphasis on creating links between research and business, and commercialising new research, effectively helping to create more opportunities for entrepreneurship. This includes encouraging technology hubs to develop around universities and providing financial support to universities working to commercialise their research. The Technology Strategy Board was established in 2004 to support and invest in technology research and commercialisation.

ENTREPRENEURSHIP POLICY AND SUPPORT TODAY

Support for entrepreneurs and entrepreneurship can be broadly divided into four categories: finance; advice and support; reducing regulation and taxation; and entrepreneurial culture and recognition. Beyond these specific types of support, there are of course many broader aspects of Government policy that are likely to affect entrepreneurship, such as wider levels of investment in research and development (which in turn may be incentivised by Government, for example, through tax incentives),^{xlviii} savings policy and employment policy. Employment policy in particular is relevant because it affects the attractiveness of working as an employee instead of starting a business. And in many areas, the existing support provided by Government is complemented by support provided by the private or charitable sector.

Finance

There are a number of Government initiatives designed to increase lending to, and investment in small businesses. In terms of bank lending, these include the Funding for Lending scheme, under which the Bank of England offers lower interest rates to banks lending to small and medium sized businesses (SMEs) until 2015. In addition, under the Enterprise Finance Guarantee, lenders can offer loans partly guaranteed by Government, allowing them to lend to businesses that lack collateral or a proven track record to offer. Over the longer-term, the Government is setting up a British Business Bank to house and manage Government programmes designed to encourage lending to smaller businesses.^{xlix}

There is also a range of Government measures focused on making private investment in small businesses more attractive. These include the Business Finance Partnership, which provides funding to fund managers that invest in SMEs and a Business Angel Co-Investment fund, focusing on small businesses. Finally, the Seed Enterprise Investment Scheme (SEIS) offers investors tax reliefs for those who invest in early-stage companies.

The state also lends directly through its Start-Up Loans programme, although the amount on offer is relatively small (loans of around £2,500 each). Government also offers some direct funding. The Technology Strategy Board offers grants for research and development. The New Enterprise Allowance provides a weekly sum of money to those on certain benefits who wish to start a business.^l

Advice and support

The Government provides advice on setting up a business on its own .gov.uk website and runs a helpline offering advice. In addition, it also provides more targeted advice through UKTI, for businesses wishing to export, and the GrowthAccelerator programme, targeted at businesses that already have a track record and growth potential. The Growth Vouchers programme offers £2,000 vouchers that businesses can spend on specialist advice such as finance, marketing, technology and staff recruitment. There are also a range of private sector and charitable

initiatives, including mentoring networks; and incubators and accelerators that provide both funding and support.

Regulation and taxation

In theory, because regulation can increase costs to businesses and reduce flexibility, the level of regulation could affect how attractive it is to start a business. The current Government introduced a Red Tape Challenge to help it identify regulation that could be simplified or removed, potentially reducing the costs to businesses. Perhaps one of the more contentious policies was the introduction of “shares for rights”, under which in return for shares in the business, employees give up specific rights, including the right to request flexible working, statutory redundancy pay and certain types of protection against unfair dismissal.ⁱⁱ

There have been a range of recent measures to reduce taxation for small businesses, including an employment allowance that reduces the level of national insurance contributions that businesses must pay; reductions in corporation tax; and providing relief on business rates for small businesses. Entrepreneurs’ Relief reduces the amount of capital gains tax that would otherwise be paid on closing or selling a business.ⁱⁱⁱ

Entrepreneurial culture and recognition

Government has also focused on trying to raise the profile of entrepreneurship, especially among young people. This has included recruiting “enterprise champions” to give talks in schools about running a business, and running competitions such as “Enterprising Britain”.ⁱⁱⁱⁱ There are also many initiatives that are not state-led. Examples include the National Centre for Entrepreneurship in Education designed to encourage links between businesses and universities; Entrepreneur First designed to support graduates into entrepreneurship; and Young Enterprise, focused on encouraging young people to learn about business.

Current policy does not fully address the barriers

There is a very large range of programmes and policy initiatives, some led by Government, some led by the private or charitable sector, and some led

in partnership between sectors. However, many of these either focus on start-ups once already established, rather than addressing the reasons why entrepreneurship is not seen as a career option, or are not focused on the specific reasons and barriers relevant to those with the potential to be high value entrepreneurs.

Below, we outline the extent to which Government policy addresses the four main barriers identified at the start of this chapter.

Table 1: Barriers and summary of Government policy

Barrier	State of Government policy
Concerns about the risk to household income	Few specific policies in this area, with the exception of the Government’s overarching welfare policy, and the New Enterprise Allowance. However, these are unlikely to address the concerns of those with high levels of skills and experience, who are likely to be coming from well-paid jobs in employment.
Perception that access to finance is too difficult	As set out above, there is a large range of initiatives designed to make access to finance easier. This leaves questions as to the efficacy of current schemes and/or whether better communication is required to ensure that potential entrepreneurs are aware of the options available to them. In the case of many of the schemes, it is too early to conclude on their longer-term success
Belief in lack of skills and knowledge	There is a range of mentoring schemes and advice designed to help those wanting to start a business, or in the early stages of starting a business. Some of these are relatively new, and so it is difficult to assess their impact. There are potential questions as to whether these initiatives are sufficiently visible, and whether they are adequately targeted.
Concern about impact of potential failure on future career	No specific policies in this area.

As can be seen in the table above, concerns around the risk to household income and around the potential consequences of failure constitute significant policy gaps. Whilst the other barriers relating to access to finance and skills are important, and there is no doubt more to be done, there have at least been some attempts to address these problems. It would be sensible to first evaluate the success of these attempts before introducing new initiatives, not least because continually changing the policy landscape can create more uncertainty and confusion for entrepreneurs and potential entrepreneurs.

In contrast, little has been done to address concerns around the risk to household income and around the potential consequences of failure, which are felt especially strongly among women. Clearly, policy cannot and should not try to eliminate the risk of a new business. Attempting to remove completely the “downside” risk of business failure would be a serious and unwelcome distortion to the incentives for new business creation. The risk of failure is important to ensure that only the better business ideas are taken forward; and once an entrepreneur has embarked on a business, the fear of failure can be an important driver for success.^{liv} We need the possibility of failure to create the productivity gains that can be harnessed by more high value entrepreneurship.

But, given the potential rewards of more entrepreneurship that benefits economic growth, we need to ensure that unnecessary barriers that increase the risk of moving from employment to setting up a business are removed. Over the years there has rightly been considerable policy focus on the need to improve the security of employment. However a side effect of this progress has been to increase the level of risk taken on by those who move from employment to starting a business and widen the differential in risk between being an employee and being an entrepreneur.

There is limited policy or support that addresses the barrier of risk to income and future career prospects from embarking on an entrepreneurial endeavour. For this reason, we see this barrier as the most urgent to address. Our final chapter on policy recommendations sets out what can be done.

CHAPTER 5: WHAT SHOULD BE DONE?

Our research has found a number of important factors that stop many individuals with skills and experience from starting a business. Of these, the most important to address is the concern around risk – both to income and future careers, which is felt especially strongly by women. Policy past and present has failed to address these barriers. Beyond these, there are of course other potential factors that may limit the growth of new businesses, including the tax and regulatory regime; wider investment in innovation in the economy, which creates opportunities for entrepreneurship; access to finance and support and advice. However, in this report, we seek to focus on removing barriers that prevent individuals – and especially those with attractive employment opportunities, who are also likely to have the most potential to be high value entrepreneurs – from considering entrepreneurship as a viable career option at all.

In summary, we need to make sure the market works in a way that helps individuals to “help themselves” to manage risk. Individuals can do this through savings and financial products; they can also do this through carefully managing the transition from employment to starting a business so as to minimise periods of lost income. Government can help remove any barriers to individuals wishing to start a business taking these steps for themselves.

Reforms to welfare and savings policy could make a substantial difference to rates of entrepreneurship by reducing the risk to income from starting a business. However, such issues are part of a much broader question of the appropriate role of the state, the private sector and individuals in smoothing income over the lifecycle, supporting those on low incomes and providing incentives for work.

We therefore set out a package of recommendations focusing on the relationship between employees and employers, designed to change the terms of the decision to leave employment and start a business, and in the process create a vibrant start-up sector.

THE BROADER PICTURE: ASSETS, WELFARE AND INSURANCE

Entrepreneurship policy does not exist in a vacuum. As our research shows, the decision to set up a business is affected by a wide range of factors, including other employment opportunities, savings and assets, and the time required for an individual to devote themselves to developing a successful business, which in turn is related to factors such as employment conditions and childcare. This means that there are many aspects of Government policy which are not directly driven by the need to increase entrepreneurship, but could still make a substantial difference to how attractive the option of setting up a business is.

Of these, the factor that comes out most strongly in its potential ability to help manage the risk to income is the role of savings and assets. The concern about the potential risk to income of giving up a job in employment to start a business is the most severe of all the barriers we looked at. Employees wishing to set up a business have to give up a stable and predictable income. They are likely to face a period of time in the early stages of setting up a business when earnings are lower. They may also forgo benefits provided by their employer such as health and income protection insurance that can help manage costs during periods of sickness. And if the business fails, they could be left with no income at all, until they find other work. This risk is felt most severely among those who have fewer assets, such as lacking a home that is owned outright.

To some extent, the current welfare system can provide some level of insurance against low income from starting a business, or business failure. For example, depending on specific circumstances, self-employed individuals on low incomes can be eligible for tax credits and benefits including income-related employment and support allowance and housing benefit. The new Universal Credit includes a “minimum income floor” per month, rather than annually as was the case under tax credits, and so can better help smooth income.^{iv} If the business fails, individuals could claim Jobseeker’s Allowance, whilst looking for alternative employment. But with most benefits subject to a total cap of £18,200 per year for single

adults, and £26,000 per year for families, the welfare system is unlikely to be seen as a substantial way of mitigating the risk of moving away from secure employment, especially for the highly skilled and experienced group that we are trying to target.

It is clear from our research and polling results that whilst the welfare system may act as some form of insurance system, the majority of households still think that the current financial situation in their household would make it difficult to take on the risk of starting a new business. Individuals might be helped to manage this risk in a number of ways. As explored in Box 2, a more generous insurance system, provided by either the State through the welfare system or through better private sector-provided insurance could play a role. Being encouraged to simply save more and build up assets could also make a difference.

Box 2: Could a more generous insurance system promote entrepreneurship?

There are a number of studies that look at the effect of welfare provision (whether provided solely by the state or by a mix of the private and state sector) on the level of entrepreneurship. Many of them find that there is a negative correlation between the generosity of benefits and entrepreneurship.^{lvi} However, this is often due to an incomplete characterisation of the type of entrepreneurship being considered. For example, lower levels of unemployment benefit are likely to result in higher levels of necessity-driven entrepreneurship as individuals with few other options for work start their own businesses as an alternative. As seen in chapter 1, the majority of these are unlikely to be the types of enterprises that make a significant contribution to economic growth. We are interested in entrepreneurship by choice.

One study that looks specifically at changes in entitlements for unemployment insurance in Denmark, having access to access to unemployment insurance increases start-up rates among employees by 1.2 to 1.8 percentage points per year, compared to an average transition

rate into entrepreneurship of just under 1% per year. This positive effect of unemployment insurance is likely to be strongly driven by the generosity of entitlements in Denmark. Entitlements under the scheme are directly related to previous levels of income: specifically, the benefit level is around 90% of previous earnings (or in the case of entrepreneurs, 90% of profits), subject to some restrictions.^{lvii}

There is no equivalent of this type of system in the UK. State-provided welfare entitlements are much lower. Private sector insurance products, such as income protection insurance, generally cover income losses due to ill health rather than income losses from other sources of risk.

It would, in any case, be difficult to envisage a well-functioning private sector market for insurance that covered wider sources of income risk. Where uptake of the insurance was voluntary, it is likely that only those engaging on the riskiest ventures would want to insure themselves, pushing up average premia, and reducing the attractiveness of the scheme to those in less risky positions. The Danish system set out above is voluntary, but is not provided purely by the private sector, and is instead backed by substantial government subsidies. However, such schemes are not unprecedented. There are examples of non-state organisations that specialise in providing support, including insurance to the self-employed, in both the United States and France.^{lviii}

As part of the broader question of reforms to welfare, a number of proposals and policies have been put forward, many of which could also encourage more entrepreneurship. These include proposals for individualised “lifecycle accounts” that sit on top of the current welfare system, and effectively allow individuals to save in a tax-advantaged way.^{lix} The system works in a similar way to saving for a pension, but savings could instead be used to manage fluctuations in income during the course of a career, potentially including starting a business.

Another option is simply to encourage more saving in general. Savings rates are low in the UK by international standards, and there has been

a broad recognition that individuals in the UK need to be encouraged to save more, both for the long-term (e.g. for retirement) and for the short-term (e.g. to help manage unexpected drops in income).^{ix} This has provided the rationale for a range of policy changes, and proposals. The recent implementation of auto-enrolment to encourage individuals to save more for retirement is perhaps the most high-profile of the current Government's policies on saving. As auto-enrolment becomes more established, there may be a case for expanding the scheme to short-term savings. In the same way as employees are by default entered into a pensions contribution scheme, they could also be enrolled into schemes that automatically invest a certain amount of their salary in a savings account. Over time, those who remain the scheme may be able to build up sufficient savings to reduce the risk to income of starting a business.

Finally, measures such as the Child Trust Fund (CTF), Junior ISAs (which replaced the CTF), and tax-advantaged savings accounts for those over 18 could all play an important long-term role in building financial resilience among individuals and households. Among the many benefits of increased financial resilience is the potential for more individuals to trade-off the security of employment against the potential rewards of entrepreneurship.

It is beyond the scope of this paper to suggest recommendations in the areas of welfare and savings policy. Reforms in this area are part of a much larger question on the role of Government, individuals, employers and markets in helping to smooth income over the lifecycle, supporting those on low income and providing incentives for work. These policy areas have undergone significant reform and changes in recent years, as Government has sought both to cut spending, and encourage individuals to save more. The effect of recent changes and the direction of policy in the future could have substantial implications for entrepreneurship in the years ahead. And whilst these decisions will be driven by the wider question set out above, it is important that policymakers take into account the potential effect of changes on new business formation.

In this report, we focus on more specific areas of Government action that can help individuals to help themselves in managing the risk of shifting from employee to entrepreneur. Below, we set out the reasoning behind a package of recommendations to reduce the risk of starting a business and boost high value entrepreneurship. These cover non-competes in employment contracts, championing flexible working, a “right to return” to employment and a reinstatement of the corporate venturing scheme.

EMPLOYMENT CONTRACTS AND ENTREPRENEURSHIP

How employment contracts can increase risk

There are a range of restrictive covenants that can be placed in employment contracts that limit employees’ ability to leave a company to start their own business in the same field. They effectively enforce a gap in income by forcing ex-employees to wait a certain period of time before their new business can start trading, and as such exacerbate the risk to income that we have found to be the most important barrier to starting a business.

As well as clauses around confidential information and intellectual property, these restrictive covenants include ^{ixi}:

- Specific non-competes, which restrict an ex-employee’s ability to work for a competing company.
- Contract prohibition clauses, which prevent an ex-employee from having dealings with the employer’s customers or clients. These can broadly be considered to be a type of non-compete, in that they reduce the ability of an ex-employee to compete with their previous employer.
- Non-solicitation of employees, preventing an ex-employee from hiring employees of the former employer.

Ex-employees found in breach of such clauses can face injunctions relating to their business activities as well as being faced with the cost of damages. Whilst courts will judge whether the clauses are reasonable in deciding whether they should be upheld (based on whether the clauses

cover a reasonable period of time, for example), they clearly create an additional financial risk for a potential entrepreneur, and not just through the risk of having to pay damages. As there is no legal requirement for the ex-employee to be paid during the period in which the covenant is in force, it effectively creates a gap of time, in which the ex-employee is unable to earn wages from the previous employer, but also unable to start earning money from the new business. Recent cases have seen clauses covering periods of 12 months upheld by courts.^{lxii} Departing employees are also less likely than their employer to have access to legal resources and advice to help fight a claim.

It may be argued that the types of new businesses that restrictive covenants prevent are unlikely to be the most innovative if they are competing with their ex-employer. But such covenants effectively restrict the activities of potential entrepreneurs who – whilst wishing to serve the same market – have come up with product or service improvements or found a more effective or less costly way of providing those services or products. This is important because direct product innovation – in the form of introducing brand new products – is in fact not the most valuable contributor to labour productivity growth, as set out in chapter 1. Introducing new ways of doing things, that is, increasing organisational effectiveness, was actually the largest direct contributor to UK productivity growth in the 2000s. And broader spillover effects of innovation on the wider market is the largest contributor of all.^{lxiii}

Evidence shows non-competes are bad for innovation and growth

A variety of studies in the United States have measured the impact of restrictive covenants on entrepreneurship, exploiting the fact that different states' approaches to such clauses varies, and has changed over time. California's stance, which effectively bans all non-competes, has been credited with giving the state a growth advantage in its high tech industries compared to other states.^{lxiv} A study looking at all fifty states finds that tougher enforcement of non-competes actually reduces overall research and development spending and capital spending per employee.^{lxv} Another study finds that increasing the amount of venture

capital in states where non-competes are not enforced, or only weakly enforced, is much more effective in generating patents and creating start-ups and jobs. A one percentage point increase in venture capital in a state with no enforcement creates over three time more jobs than in a state where non-competes are enforced.^{lxvi} These jobs are created both in start-ups and incumbents, demonstrating the potentially large spillover effect of more start-ups on the wider market and economy, in spurring on innovation and growth across the market. This is despite the fact that in theory, non-competes could be a way of protecting intellectual property and thereby promote innovation.

A potential counterargument to this is that non-compete clauses may encourage more investment by the employer in training, as employees are less likely to leave. However, the same factor can reduce the incentive of employees to invest in their own human capital, as their career options, and effectively the return that they would see on their investment is limited. Studies show that in areas of non-enforcement, salaries tend to be higher, and pay is more likely to be performance-related. By contrast, the career limitations in areas where non-competes are enforced are reflected in lower salaries and the fact that employees who do leave are more likely to move to lower-ranked positions. It has therefore been argued that, in fact, the disincentive of employees to invest in their own human capital is likely to outweigh the incentive for employees to invest when they can enforce non-competes.^{lxvii}

Given the overwhelming evidence on the disadvantages of non-competes for innovation and growth, there is a strong rationale to set out a clear prohibition on non-competes in employment contracts. Such a move would both reduce the risk of transition from employee to entrepreneur as well as increase overall innovation. Existing companies would still be able to manage the risk of competition through paid notice periods or shares in the company to align incentives: the important point is that this eliminates the important gap in income that otherwise increases the financial risk of setting up a business.

Recommendation: ban non-competes in employment contracts

USING FLEXIBLE WORKING TO START A BUSINESS

Individuals do not stop being employees on one day and start being entrepreneurs the next. An important way of managing the risk to income is to use any spare time to start the early stages of researching and developing a new idea whilst still employed. This potentially shortens the period during which an individual may have no income coming in, and provides time to fully research and assess the potential risk of a new business before embarking on it. But this can be a time-consuming process.

The Government has introduced a new expanded right to request flexible working from June 2014, which covers all employees, rather than just those with caring responsibilities. Employers will have a duty to consider requests in a “reasonable” manner. This could be hugely beneficial in helping current employees manage the risky, early stages of developing a business idea alongside their current job. Government should promote this new right as a way for employees to become entrepreneurs, and should also lead by example as an employer itself. It should also monitor the effectiveness of this new right and be vigilant for any signs of bias in the granting of such requests based on whether the employee has requested flexible working to start a new business, as opposed to requesting flexible working for other reasons

Recommendation:

- **Champion the use of flexible working to start a business.**
- **Monitor for any signs of bias in the granting of flexible working requests linked to whether the employee intends to start a business.**

KEEPING OPEN THE ROUTE BACK TO EMPLOYMENT

The ability to obtain another job should a venture fail can also mitigate the risk of starting a business. But as set out in chapter 3, individuals are often

pessimistic about this potential option. The reputational consequences of a business failure, especially in relatively small, specialised sectors, may make it difficult to find another job. Prospective employers will not necessarily be able to distinguish between failure due to the level of effort and competence on behalf of the owner as opposed to failure due to external factors. This factor is an important one in preventing the highly skilled and experienced, who are likely to have spent time building up a reputation with their current and previous employers, from starting their own business. Going into entrepreneurship can effectively be seen as putting this hard-earned reputation at stake.

From this perspective, the option of being able to return to a previous employer that has first-hand experience of the individual's ability could be very valuable. There could therefore be strong advantages to implementing a "right to return" to work for all employees leaving to start a business, where the right would apply for a specified time period, to be determined, such as a year.

However, there are a number of issues that would need to be taken into account. These include:

- the potential cost incurred by businesses, for example, in recruiting temporary cover. For this reason, depending on an assessment of costs, it may be sensible to consider a phased roll-out based on company size where small and medium-sized companies are initially exempt.
- how to ensure that only those employees genuinely seeking to start a business are able to take advantage of the right. Certain conditions may need to be attached to the right to ensure this is the case.
- the details of how the right should be implemented in practice. For example, there are questions as to whether the right should extend to being able to return to the same or similar role, as is the case with parental leave. The effect on pension contributions and holiday entitlement would also need to be considered, as well as whether the period of time away from the employer should include "keeping in touch" days.^{lxviii}

There are a number of questions to be answered as to the exact form a “right to return” should take. However, given the strength of the potential benefits in reducing the risk of starting a business, and the experience that has been acquired over recent years through introducing similar provisions for parental leave for both fathers and mothers, we recommend that Government should legislate to introduce a “right to return” for people leaving work to start a new business, with the details subject to the results of a feasibility study on how to maximise its effectiveness. This feasibility exercise should include a consideration of the issues set out above.

Recommendation:

Legislate to introduce a “right to return” for employees leaving a company to start a business, with the detail subject to the results of a feasibility study on how to maximise the policy’s effectiveness.

THE ROLE OF CORPORATE VENTURING

The recommendations set out above will require action by employers. The employee’s new start-up may compete with the previous employer, and the previous employer may also face losing a valuable staff member. There may be recruitment and other short-term administrative costs. Overall, we think the proposals will be beneficial for entrepreneurship in the UK, and therefore for innovation and growth, and that these improvements to the overall business environment will on aggregate outweigh any costs faced by individual firms. But in the short-run we understand that our proposed changes may not be welcome to current incumbent firms; the firms who stand to benefit the most do not currently exist.

For this reason, there is a strong argument to ensure that existing companies have the ability to share in the success of a more vibrant start-up sector. Doing so will not only help garner wider support for the measures we set out, but also – and crucially – could create greater incentives for existing firms to provide support to new start-ups that could make the difference between success and failure at the early stages. For example, existing firms are in a good position to provide low-cost incubation services to

start-ups where there is a shared interest in success – for example through providing HR, legal and accountancy expertise, and other back office support functions.

Corporate venturing, whereby existing firms take a stake in start-up businesses is one way of doing this. Where an existing firm has such a stake, it has incentives to provide these general forms of support. In some cases, depending on the specific circumstances, firms could even invest in the start-ups of their departing employees thus providing the company with a way of mitigating any downside aspects of the individual's choice to leave.

It is, of course, already possible for existing firms to take stakes in start-ups, including those of its employees. But currently, as argued in recent papers by the RSA and BVCA, corporate venturing is not incentivised in the same way as independent private venture capital is.^{lxix} The same tax reliefs are not available, either for the corporate undertaking the investment, or for the start-up (for example R&D tax credits). The RSA has called for the reinstatement of the Corporate Venturing Scheme, which was ended in 2010. This scheme allowed investment relief against corporation tax, as well as relief when the shares were sold. Reinstating this scheme could expand the range of potential investors in new start-ups. It could also play a role in creating organisations that are more start-up friendly, and allow greater opportunities for employees to gain experience of the start-up world.^{lxx} We would therefore agree that there are strong benefits to reinstating this scheme.

As can be seen in the table below, the Corporate Venturing Scheme, if reinstated as it was, would be less generous than the equivalent regime for individual investors taking stakes in venture capital trusts and companies, offering tax relief of 20% of the cost of investment against corporation tax. Since the abolition of the Corporate Venturing Scheme, tax reliefs available on other schemes have increased, and now 30-50% reliefs are available against income tax under other investment schemes. In its paper, the RSA argued that a new reinstated Corporate Venturing Scheme should be more generous, offering reliefs that match those available in other schemes of 30-50%.

A potential rationale for the differential in tax reliefs this is that existing companies can have additional strategic incentives to invest in a new company, for example if that company is in a related business area or in part of the supply chain. By contrast, individual investors do not have these additional incentives, and so arguably need greater fiscal incentives to invest in small businesses.

However, as set out above, there are broader reasons to encourage more corporate investing by existing companies, because of the potential role this could have in creating more entrepreneurship-friendly companies. For this reason, in reinstating the Corporate Venturing Scheme, the Government should ensure that reliefs are set at a comparable level to those available under other investment schemes.

Table 2: Summary of tax reliefs available under different investment schemes

Scheme	Target	Reliefs related to amount invested	Reliefs related to return on investment
Corporate Venturing Scheme (now expired)	Companies investing as a minor shareholder in smaller companies	Relief against corporation tax of up to 20% of investment in shares	Deferral reliefs on gains, if gains are reinvested in shares Reliefs against income on capital losses arising on disposal of shares
Venture Capital Trust	Individuals investing in venture capital trusts, that in turn invest in smaller companies	Relief against income tax of 30% of investment in shares	Exemptions from capital gains tax on the disposal of shares Exemption from income tax on dividends
Enterprise Investment Scheme	Individuals investing in small companies	Relief against income tax of 30% of investment in shares	Exemptions from capital gains tax Losses on share disposals can be offset against income
Seed Enterprise Investment Scheme	Individuals investing in small early-stage companies	Relief against income tax of 50% of investment in shares	Exemptions from capital gains tax

Note: Restrictions and limits on the total amount of investments that relief can be claimed on vary, and for brevity are not included here

Source: HMRC website

Recommendation: Reinstate tax reliefs for corporate venturing, at a comparable level to reliefs available under other investment schemes.

Our recommendations should be seen as a package of measures, which, taken together, are designed to change the terms of the decision to leave employment and start a business, and in the process create vibrant ecosystem of start-ups and entrepreneurship-friendly companies.

Unleashing high value entrepreneurship is vital if we want to create substantial economic growth in the UK. The performance of other countries shows that there is a huge opportunity to boost our numbers of high value entrepreneurs. But to do so, we need to address the fundamental barriers that hold people back from starting their own business. Making it easier to manage the risk of moving from employment to starting a business could make a substantial difference – especially among the ranks of our missing female entrepreneurs. Government cannot do this alone: companies, individuals and the charitable sector all have a role to play. But Government can and should use its legislative and fiscal powers to kick-start this change.

OUR FULL PACKAGE OF RECOMMENDATIONS TO GOVERNMENT

- Ban non-competes in employment contracts.
- Champion the use of flexible working to start a business.
- Monitor for any signs of bias in the granting of flexible working requests linked to whether the employee intends to start a business.
- Legislate to introduce a “right to return” for employees leaving a company to start a business, with the detail subject to the results of a feasibility study on how to maximise the policy’s effectiveness.
- Reinstate tax reliefs for corporate venturing, at a comparable level to reliefs available under other investment schemes.

ANNEX 1: PRIMARY RESEARCH METHODOLOGY

In this annex, we set out the methodology for commissioned primary research, conducted by Populus. This research comprised two components, the first a qualitative study of employees to understand attitudes towards and barriers to entrepreneurship; and the second, a public poll to understand the most important factors preventing individuals from deciding to start a business.

QUALITATIVE RESEARCH: FOCUS GROUPS AND FOLLOW-UP INTERVIEWS

The purpose of the qualitative research was to help us illustrate the findings of our quantitative analysis through the views of those who are not entrepreneurs in the main report.

Overall, we commissioned three focus groups, with a total of 30 participants. After each focus group, participants with more detailed stories to tell were selected for follow-up interviews to explore their views and attitudes in more depth. In total, 10 follow-up interviews were conducted. The research took place during April 2014.

Sampling

This piece of qualitative research was designed to illustrate the findings of the quantitative research on barriers to entrepreneurship among groups likely to have potential to be high value entrepreneurs, that is, those with skills and experience. More specifically, the evidence suggested that high value entrepreneurs are more likely to come from employment, have a degree, and come from the top third of household incomes.

Rather than trying to recruit a representative sample, our qualitative work was designed to reflect the diversity among the population in their attitudes to entrepreneurship, based on our existing evidence. As such, the sampling approach was based on the results of our quantitative analysis of the GEM data, which showed that there were substantial differences in

levels of opportunity-driven entrepreneurship across both age and gender. Specifically, among men, levels of opportunity-driven entrepreneurship peaked at age 25-34, with a smaller secondary peak at 45-54 (once income, education, and employment status) was controlled for. Among women, levels of opportunity-driven entrepreneurship are almost uniformly low in comparison, and differences across the age profile are relatively small.

An important decision related to whether to recruit individuals that had some previous interest in starting a business in the future. Those with an existing interest would be more likely to have thought in more detail about the advantages and disadvantages of starting a business, and therefore had the potential to provide more insight about the deciding factors that had contributed to their decision to remain an employee. But we also wanted to understand the reasons why those who displayed no previous interest had never considered the option of starting a business. To ensure that we captured views from both types of individual, each focus group included a mix of the two types.

The table below summarises the characteristics of participants in each of the focus groups.

	Focus group 1	Focus group 2	Focus group 3
Gender	Male	Male	Female
Age	45-54	25-34	25+
Qualification level	Degree level minimum	Degree level minimum	Degree level minimum
Employment experience	15 or more years	3-10 years	3 or more years
Household income	Top third of household incomes (based on ONS data)	Top third of household incomes (based on ONS data)	Top third of household incomes (based on ONS data)
Previous interest in starting a business	Half with stated current/previous interest in starting a business, half without	Half with stated current/previous interest in starting a business, half without	Half with stated current/previous interest in starting a business, half without
Location	Nottingham	London	London

Recruitment and discussion guides

Recruitment was conducted by professional recruiters from Populus, based on recruitment criteria decided jointly by SMF and Populus. The focus group and follow-up interviews were based on discussion guides designed jointly by SMF and Populus. Each focus group lasted 1.5 hours, and follow-up interviews lasted 10 minutes. Individuals were offered a financial incentive to take part.

Research analysis

SMF discussed emerging findings and themes with researchers from Populus. The SMF then read through the transcripts to identify patterns and relationships that helped illustrate and explain findings from the quantitative analysis.

Throughout the report, the SMF reports verbatim evidence from participants to help illustrate the findings from our quantitative research.

PUBLIC POLLING

The polling was designed to complement the quantitative analysis of the publically available GEM data, by providing an up-to-date view of attitudes to entrepreneurship, and providing data on the relative importance of different factors in preventing individuals from starting a business.

The polling was conducted over four waves of the Populus Online Omnibus, which surveys a nationally representative sample of around 2000 GB adults per wave. In total, across the four waves, our questions were answered by 8,220 individuals. This large sample meant that we were able to analyse the specific sub-group of individuals that our existing evidence suggested are the source of higher-value entrepreneurs. 783 individuals in the sample met all three criteria of having a degree, being in employment and coming from the top third of household incomes. We were also able to segment by other characteristics, such as socio-economic group, age, gender and tenure.

The polling was conducted over the period 17th April 2014 to 1st May 2014. The specific questions included in the omnibus were as follows.

1. To what extent do you agree or disagree with the following statements?

[Strongly agree / agree a little / neither agree nor disagree / disagree a little / strongly disagree / don't know]

[RANDOMISE:]

1. I would like to set up and run my own business
2. I would like to set up and run my own business but I don't feel able to
3. The current financial situation in my household would make it difficult for me to take on the risk of starting a new business
4. When I was growing up setting up and running a business was a realistic career option
5. Britain is a country in which people are encouraged to set up and run their own business

2. Which, if any, of the following factors would most hold you back from setting up and running your own business?

Please tick up to three.

[RANDOMISE:]

1. I can't afford to take the risk to my income
2. Concern over the effect on my career prospects if the business failed
3. I'm happy in my current job
4. Other members of my household would not be supportive
5. I don't have the knowledge or skills to do this
6. I don't have the right networks to find customers

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7. I would not be able to find suitable partners, mentors or employees
8. I don't like the reputation of business people
9. I don't think I'd be good at it
10. I have caring responsibilities that mean I don't have time
11. I think there are few good opportunities for new businesses
12. I think it would be difficult to access the financing I would need
13. Not applicable - I already work for myself or run my own business
[ANCHOR]
14. Other – specify [ANCHOR]
15. None of the above [ANCHOR]
16. Don't know [ANCHOR]

ANNEX 2: REGRESSION TABLES

This annex details regression tables for results quoted in the main text.

CHARACTERISTICS OF OPPORTUNITY-DRIVEN ENTREPRENEURS

Our dependent variable is a binary variable, equal to 1 if the individual is an opportunity-driven nascent entrepreneur, and 0 otherwise. Our independent variables are all discrete, and so are coded as dummy variables. This means that coefficients should be interpreted as relative to the baseline category. These baseline categories are marked as “dropped” in the tables below. We estimate a linear probability model. We estimate models for the whole sample, men only, and women only. Results from these tables are used in Chapter 2 of the main report.

All sample

		Coefficient		Standard error
Age categories	Age 18-24	0.8%	**	0.003538
	Age 25-34	1.2%	**	0.003012
	Age 35-44	0.7%	**	0.002996
	Age 45-54	0.7%	**	0.002938
	Age 55-64	(dropped)		
Employment status categories	Full time worker	(dropped)		
	Part time worker	-0.2%		0.002613
	Retired worker	-0.2%		0.003537
	Homemaker	-0.3%		0.004075
	Student	-1.0%	**	0.004547
	Not working	1.0%	**	0.003427
	Self-employed	9.0%	**	0.006043

Table continues >

Table continued >

		Coefficient	Standard error
Household composition categories	Single person household	(dropped)	
	Two person in household	0.3%	0.002746
	More than two people in household	-0.2%	0.002722
Gender	Male	(dropped)	
	Female	-0.7% **	0.001806
Education categories	Lower secondary	(dropped)	
	Upper secondary	-0.2%	0.003352
	Post secondary	0.1%	0.004003
	First stage tertiary	0.5%	0.003535
	Second stage tertiary	-0.8%	0.007082
Income categories	Bottom third of incomes	(dropped)	
	Mid third of incomes	-0.3%	0.002574
	Top third of incomes	0.4%	0.002471
	Constant	0.4%	0.004298

** indicates significance at 5% level; * indicates significance at 10% level.

Men only

		Coefficient		Standard error
Age categories	Age 18-24	0.4%		0.0068
	Age 25-34	1.8%	**	0.0057
	Age 35-44	0.5%		0.0057
	Age 45-54	1.0%	*	0.0056
	Age 55-64	(dropped)		
Employment status categories	Full time worker	(dropped)		
	Part time worker	-0.1%		0.0077
	Retired worker	-0.7%		0.0067
	Homemaker	-0.2%		0.0195
	Student	-1.2%		0.0091
	Not working	0.7%		0.0061
	Self-employed	10.2%	**	0.0100
Household composition categories	Single person household	(dropped)		
	Two person in household	0.8%		0.0050
	More than two people in household	0.7%		0.0048
Education categories	Lower secondary	(dropped)		
	Upper secondary	-0.4%		0.0064
	Post secondary	0.2%		0.0074
	First stage tertiary	0.0%		0.0066
	Second stage tertiary	-1.4%		0.0118
Income categories	Bottom third of incomes	(dropped)		
	Mid third of incomes	-1.0%	*	0.0053
	Top third of incomes	0.3%		0.0051
	Constant	0.3%		0.0082

** indicates significance at 5% level; * indicates significance at 10% level.

Women only

		Coefficient		Standard error
Age categories	Age 18-24	1.3%	**	0.0035
	Age 25-34	0.9%	**	0.0030
	Age 35-44	1.0%	**	0.0030
	Age 45-54	0.6%	*	0.0029
	Age 55-64	(dropped)		
Employment status categories	Full time worker	(dropped)		
	Part time worker	0.1%		0.0021
	Retired worker	0.4%		0.0035
	Homemaker	0.1%		0.0030
	Student	-0.6%		0.0043
	Not working	1.6%	**	0.0037
	Self-employed	6.5%	**	0.0072
Household composition categories	Single person household	(dropped)		
	Two person in household	-0.5%		0.0050
	More than two people in household	-1.3%	**	0.0030
Education categories	Lower secondary	(dropped)		
	Upper secondary	0.1%		0.0064
	Post secondary	0.0%		0.0074
	First stage tertiary	1.1%	**	0.0035
	Second stage tertiary	0.4%		0.0118
Income categories	Bottom third of incomes	(dropped)		
	Mid third of incomes	0.3%		0.0053
	Top third of incomes	0.4%	*	0.0023
	Constant	-0.1%		0.0082

** indicates significance at 5% level; * indicates significance at 10% level.

WHETHER INDIVIDUALS THINK THEY HAVE THE SKILLS AND KNOWLEDGE TO START A BUSINESS

Our dependent variable is a binary variable, equal to 1 if the individual thinks they have the skills and knowledge to start a business nascent entrepreneur, and 0 otherwise. Our independent variables are all discrete, and so are coded as dummy variables. This means that coefficients should be interpreted as relative to the baseline category. These baseline categories are marked as “dropped” in the table below. We estimate a linear probability model. Results from this table are used in Chapter 3 of the main report.

		Coefficient		Standard error
	Age 18-24	(dropped)		
Age categories	Age 25-34	8%	**	0.018638
	Age 35-44	14%	**	0.018381
	Age 45-54	10%	**	0.018863
	Age 55-64	14%	**	0.021144
		Full time worker	(dropped)	
Employment status categories	Part time worker	-11%	**	0.016234
	Retired worker	-3%		0.021834
	Homemaker	-7%	**	0.025625
	Student	-8%	**	0.027757
	Not working	-4%	*	0.020497
	Self-employed	32%	**	0.021661
	Single person household	(dropped)		
Household composition categories	Two person in household	2%		0.016583
	More than two people in household	3%	*	0.016425

Table continues >

Table continued >

		Coefficient		Standard error
Gender	Male	(dropped)		
	Female	-14%	**	0.010869
Education categories	Lower secondary	(dropped)		
	Upper secondary	15%	**	0.020334
	Post secondary	20%	**	0.024216
	First stage tertiary	21%	**	0.021199
	Second stage tertiary	15%	**	0.042625
Income categories	Bottom third of incomes	(dropped)		
	Mid third of incomes	6%	**	0.015572
	Top third of incomes	8%	**	0.014764
	Constant	20%	**	0.029571

** indicates significance at 5% level; * indicates significance at 10% level.

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Venturing Forth

Increasing high value entrepreneurship

Entrepreneurship is vital to boost productivity growth in the UK. But not all entrepreneurship is equal in generating macroeconomic growth. This report focuses on what more can be done by policymakers to encourage more of the type of entrepreneurial activity that has the widest positive effect on the UK economy – what we term “high value entrepreneurship”.

The UK has fewer high value entrepreneurs compared to other countries. Those most likely to have the potential to be high value entrepreneurs are among the least likely to see it as a desirable career option. We explore the reasons that hold these types of individuals back from starting their own businesses, and make recommendations to increase high value entrepreneurship in the UK.

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