Acknowledgements and Future Plans

In July 2005, approval was received for the expansion of the GEM project across Wales. This involved applications under the EU Structural Funds to undertake research in both the Objective 1 and 3 regions of Wales until 2008. In practical terms, the expanded project had the overarching aim of creating a critical mass of entrepreneurship researchers as a key resource to whom academics and policymakers could turn to for the most comprehensive source of information about this crucial area of economic activity. To facilitate the working relationship between the two universities in this project, we launched the National Entrepreneurship Observatory (NEO) for Wales and began the process of building our team.

Over the next twelve months, NEO will produce a series of reports to supplement this executive summary, building towards the most comprehensive assessment of enterprise activity ever undertaken in Wales. These reports, scheduled for release at intervals in 2006 and accessible from the NEO website (www.neo-wales.com), include:

- Youth Entrepreneurship in Wales
- Entrepreneurship and Age
- Female Entrepreneurship
- Enterprise Education
- Finance and Enterprise
- Entrepreneurship and the Welsh Language
- Entrepreneurship and Firm Growth
- Rural v Urban Entrepreneurship in Wales
- Regional Entrepreneurship in Wales

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- the Universities of Glamorgan and Cardiff and the Wales European Funding Office for providing funding for the expanded GEM project.

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Data for this study were provided by the 2005 Global Entrepreneurship Monitor (GEM), which is a consortium that includes research teams from the following countries: Argentina, Austria, Australia, Belgium, Brazil, Canada, Chile, China, Croatia, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Jamaica, Japan, Latvia, Mexico, Netherlands, New Zealand, Norway, Singapore, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, UK, USA and Venezuela.

Names of the members of national teams, the global coordination team, and the financial sponsors are published in the Global Entrepreneurship Monitor 2005 Report, which can be downloaded at www.gemconsortium.org. We thank all the researchers and their financial supporters who made this research possible.

Although data used in this work are collected by the GEM consortium, the analysis and interpretation are the sole responsibility of the authors.

INTRODUCTION

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

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

Since 1999, the primary output of GEM has been a comparable measure of entrepreneurial activity. This is not only measured across countries each year - allowing a ranking of nations to be established - but also across time - allowing individual countries to chart their progress against a reliable benchmark. Whilst there can be different debates between academics and policy-makers about the meaning of entrepreneurship, the participants within the GEM project have one clear definition. For the purposes of the study, GEM defines early-stage entrepreneurship: “Any attempt at new business or new venture creation, such as self-employment, a new business organisation, or the expansion of an existing business by an individual, teams of individuals, or established businesses.” This means that we are considering people who are either in the process of start-up or who have actually recently started a new business.

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

By combining these two measures (nascent and new firm entrepreneurship), we can define the main output index, namely the Total Early-Stage Entrepreneurial Activity (TEA) rate. Care is taken when compiling this measure not to double-count individuals who may be both nascent and new firm entrepreneurs and for this reason the TEA index will not always equal the exact sum of the other two measures. Clearly, a project of GEM’s scale and scope is an ongoing work in progress and it requires continuous improvements with respect to both the quality of the data and the way the data are interpreted.
In the past, GEM has focused on the study of early-stage entrepreneurial activity. However, entrepreneurship is a complex and multifaceted phenomenon. Although GEM will continue collecting data and documenting the behaviour of potential entrepreneurs, its data provide a broad range of information on many of the various phases of the entrepreneurial process. This year’s GEM Wales Executive Report therefore analyzes the existence and characteristics of established business owners (EBO).

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

**THE SCOPE OF ENTREPRENEURIAL ACTIVITY IN WALES, 2005**

**Total Early-Stage Entrepreneurial Activity**

In 2005, TEA index for Wales was measured at 5.3 per cent (Figure 1), a slight reduction from the 5.5 per cent recorded in 2004 (although the difference is not statistically significant). Welsh entrepreneurial activity is statistically higher than three other nations namely Hungary (1.9 per cent), Japan (2.2 per cent), and Belgium (3.9 per cent), although below a number of other small industrialised nations such as New Zealand (17.6 per cent), Iceland (10.7 per cent), Ireland (9.8 per cent), and Norway (9.3 per cent).

In terms of relative change during the period 2004-2005, TEA in Wales has declined by 0.25 per cent. This suggests that after a strong growth during the period 2000-2003, early-stage entrepreneurial activity may have found a natural ‘level’ as it has in the majority of European nations. This has considerable implications for enterprise policy in Wales because it suggests that, without further economic or fiscal stimuli, TEA may stay at this level for the foreseeable future. Across the other GEM nations, New Zealand experienced the largest increase in early-stage entrepreneurial activity, with a growth of 2.9 per cent.

According to the GEM 2005 report, an estimated total of 78,414,430 adults are involved in early-stage entrepreneurial activities during 2005. In Wales, it is estimated that 94,605 adults are early-stage entrepreneurs, which accounts for 7.1 per cent of the total labour force.

The 2005 TEA rate for Wales (5.3 per cent) is slightly below the UK national average of 6.0 per cent, although the difference is not significant. When compared with the rest of the UK, Wales is currently ranked 8th out of 12 UK regions. London and the South East - which have the two highest regional

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1 The others being Argentina, Australia, Belgium, Brazil, Canada, Canada, Denmark, Finland, France, Germany, Italy, Japan, Norway, Singapore, Spain, Sweden, UK and US
incomes in the UK - continue to have the highest TEA, at 8.3 per cent and 6.9 per cent respectively. The relative performance of Wales against the UK as a whole has increased (from 94 per cent to 95 per cent) although the relative performance of Wales against London has declined, from 76 per cent to 63 per cent.

In 2005, East Wales\(^1\) has a slightly higher TEA than West Wales and the Valleys\(^2\) (5.4 per cent versus 5.2 per cent). This is a slight improvement in the East Wales TEA from 5.1 per cent in 2004, although West Wales and the Valleys TEA has dropped from 5.8 per cent in 2004 to 5.2 per cent this year.

### Figure 1: Total Early-Stage Entrepreneurial Activity by Country (TEA Index) 2005

![Graph showing TEA by country](image)

#### Nascent Entrepreneurship

Nascent entrepreneurship is defined as those individuals between the ages of 18 and 64 years who have taken some action toward creating a new business in the past year. This is an important group for policy-makers given the resources currently geared towards encouraging more people to consider self-employment and improving the number of new start-ups in Wales.

In 2005, the proportion of the working age population in Wales who are actively participating in the process of start-up was **2.6 per cent**. This represents a decrease on last year’s measure of 3.2 per cent, although it is considerably higher than the level of 1.0 per cent recorded in the first GEM Wales study of 2000.

Therefore, considerable progress is still needed to reach the nascent entrepreneurship levels of other small industrialised nations such as New Zealand (9.4 per cent), Iceland (8.5 per cent) and Ireland (5.6 per cent)

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\(^1\) East Wales: Cardiff, Flintshire, Monmouthshire, Powys, Newport, Vale of Glamorgan and Wrexham.

\(^2\) West Wales and the Valleys: Blaenau Gwent, Bridgend, Caerphilly, Carmarthenshire, Ceredigion, Conwy, Denbighshire, Gwynedd, Merthyr Tydfil, Neath Port Talbot, Pembrokeshire, Rhondda Cynon Taff, Swansea, Torfaen and Isle of Anglesey.
Welsh nascent entrepreneurship is slightly below the UK national average of 3.1 per cent (although the difference is not statistically significant). London has the highest start-up activity rate of 4.7 per cent whilst the North East has the lowest at 1.9 per cent. Wales ranks 8th in the UK in terms of nascent entrepreneurial activity

**Established Business Ownership**

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

**In Wales, the rate of established business ownership is 4.6 per cent, or approximately 82,000 people.** This rate is similar to a range of other countries, including Denmark, the United States, Singapore, Argentina, Latvia, the United Kingdom, Japan, Belgium, and the Netherlands.

In the UK, the Welsh figure (4.6 per cent) is slightly below the UK national average of 5.0 per cent. This ranks Wales 6th out of 12 UK regions. West Midlands has the highest established ownership rates in the UK (6.7 per cent), while the North East has the lowest (2.9 per cent).

Table 1 provides an overview of the different stages of entrepreneurial activity measured by GEM. The total early-stage-entrepreneurial rate (or TEA index) is the combined count of nascent entrepreneurs and new business owners, while the overall rate of entrepreneurial activity is the count of early-stage plus established entrepreneurs. A small number of individuals qualify for more than one of the entrepreneurial stages because they are involved in more than one venture. In terms of policy-making, these results are relatively important in developing approaches to supporting entrepreneurship.

**Table 1: Prevalence Rates of Entrepreneurial Activity, 2005, by UK Regions**

<table>
<thead>
<tr>
<th>Region</th>
<th>Nascent Entrepreneurial Activity</th>
<th>New Business Owners</th>
<th>Total Early-Stage Entrepreneurial Activity (Nascent+New)</th>
<th>Established Business Owners</th>
<th>Overall Business Owners (Nascent+New + Established)</th>
<th>Number of Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Midlands</td>
<td>2.3</td>
<td>3.1</td>
<td>5.3</td>
<td>4.5</td>
<td>9.6</td>
<td>2455</td>
</tr>
<tr>
<td>East of England</td>
<td>3.0</td>
<td>3.6</td>
<td>6.6</td>
<td>4.8</td>
<td>11.2</td>
<td>809</td>
</tr>
<tr>
<td>London</td>
<td>4.7</td>
<td>3.6</td>
<td>8.3</td>
<td>4.7</td>
<td>12.7</td>
<td>1266</td>
</tr>
<tr>
<td>North East</td>
<td>1.9</td>
<td>2.0</td>
<td>3.9</td>
<td>2.9</td>
<td>6.6</td>
<td>798</td>
</tr>
<tr>
<td>North West</td>
<td>2.7</td>
<td>1.9</td>
<td>4.5</td>
<td>3.6</td>
<td>8.0</td>
<td>2422</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>2.6</td>
<td>2.2</td>
<td>4.8</td>
<td>4.3</td>
<td>8.9</td>
<td>4207</td>
</tr>
<tr>
<td>Scotland</td>
<td>3.0</td>
<td>2.8</td>
<td>5.8</td>
<td>4.1</td>
<td>9.4</td>
<td>1647</td>
</tr>
<tr>
<td>South East</td>
<td>3.6</td>
<td>3.3</td>
<td>6.9</td>
<td>5.6</td>
<td>12.1</td>
<td>2413</td>
</tr>
<tr>
<td>South West</td>
<td>4.0</td>
<td>2.8</td>
<td>6.9</td>
<td>6.7</td>
<td>13.5</td>
<td>815</td>
</tr>
<tr>
<td><strong>Wales</strong></td>
<td><strong>2.6</strong></td>
<td><strong>2.6</strong></td>
<td><strong>5.2</strong></td>
<td><strong>4.6</strong></td>
<td><strong>9.7</strong></td>
<td><strong>7144</strong></td>
</tr>
<tr>
<td>West Midlands</td>
<td>2.5</td>
<td>2.9</td>
<td>5.4</td>
<td>6.7</td>
<td>11.9</td>
<td>850</td>
</tr>
<tr>
<td>Yorkshire/Humber</td>
<td>3.1</td>
<td>2.6</td>
<td>5.7</td>
<td>4.2</td>
<td>9.8</td>
<td>2464</td>
</tr>
<tr>
<td>UK</td>
<td>2.9</td>
<td>2.7</td>
<td>5.5</td>
<td>5.0</td>
<td>9.9</td>
<td>27296</td>
</tr>
</tbody>
</table>
Wales’ overall business ownership rate is at 9.7 per cent, which is slightly below the UK average of 9.9 per cent. Wales ranks 8th in the UK in terms of overall business owner rate. South West has the highest overall business owner rate of 13.5 per cent, followed by London (12.7 per cent), South East (12.1 per cent), and West Midlands (11.9 per cent). The rates for Scotland (9.4 per cent), Northern Ireland (8.9 per cent), North West (8.0 per cent), and North East (6.6 per cent) are lower than Wales.

Table 2 shows the ratio of early-stage to established entrepreneurs. This ratio can be interpreted as a proxy for the survival chances of early-stage entrepreneurs in a country, under the assumption that both the early-stage rate and the established business owners rate remain constant over time. The higher the ratio of established business owners to early-stage entrepreneurs, the higher are the approximated chances of early-stage entrepreneurs succeeding with their business venture in the sense of surviving in the market for longer than 42 months.

The chances that early-stage entrepreneurs will survive the first turbulent years of business ownership varies between regions. Therefore, having high early-stage rates of entrepreneurship is not a sufficient condition for high rates of established business ownership. Wales ranks 4th in the UK in the transition ratio measurement (0.88). This suggests that the probability of survival for early-stage Welsh enterprises is higher than many higher income regions such as London (0.56), South East (0.82), but below Northern Ireland (0.89), South West (0.98), and West Midlands (1.24).

Table 2.- Transition Ratios (Established Business Owners/ Early-stage Entrepreneurs), 2005, by UK Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Ratio</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Midlands</td>
<td>1.24</td>
<td>1</td>
</tr>
<tr>
<td>South West</td>
<td>0.98</td>
<td>2</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>0.89</td>
<td>3</td>
</tr>
<tr>
<td>Wales</td>
<td>0.88</td>
<td>4</td>
</tr>
<tr>
<td>East Midlands</td>
<td>0.85</td>
<td>5</td>
</tr>
<tr>
<td>South East</td>
<td>0.82</td>
<td>6</td>
</tr>
<tr>
<td>North West</td>
<td>0.78</td>
<td>7</td>
</tr>
<tr>
<td>North East</td>
<td>0.75</td>
<td>8</td>
</tr>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>0.75</td>
<td>9</td>
</tr>
<tr>
<td>East of England</td>
<td>0.74</td>
<td>10</td>
</tr>
<tr>
<td>Scotland</td>
<td>0.71</td>
<td>11</td>
</tr>
<tr>
<td>London</td>
<td>0.56</td>
<td>12</td>
</tr>
<tr>
<td>UK</td>
<td>0.90</td>
<td></td>
</tr>
</tbody>
</table>
Opportunity and Necessity Entrepreneurship

The GEM study measures individual participation in entrepreneurial activities in two ways - individuals either start a new business to exploit a perceived business opportunity or they are pushed into entrepreneurship because all other options to work are either absent or unsatisfactory.

In terms of opportunity entrepreneurship, Wales has an opportunity TEA of 4.4 per cent in 2005, a decrease from 4.6 per cent last year, although this is not statistically significant. In comparison with the rest of the world, Wales is placed below the world average of 6.1 per cent. Within the UK, the opportunity TEA for Wales is significantly below the UK national average, which is 5.2 per cent this year. Indeed, there seems to be a correlation between regions’ income and opportunity TEA. The regions with highest opportunity TEA are London and South East, with 7.1 per cent and 6.2 per cent respectively, whilst the regions with the lowest opportunity TEA are North East (2.8 per cent), North West (4.0 per cent), and Northern Ireland (4.1 per cent).

In terms of necessity entrepreneurship - where individuals perceived they have no choice but to enter into entrepreneurial activity - Wales has a necessity TEA of 0.8 per cent in 2005, which is less than half of the world average figure (1.9 per cent). This suggests that only around one in 125 of the labour force in Wales actually participates in entrepreneurship because of the lack of better alternatives and reflects the situation in most of the developed nations in the world. The UK necessity entrepreneurship rate is 0.7 per cent.

Independent and corporate start-ups

In 2005, GEM estimates that 4.9 per cent of the Welsh population are involved in start-up activities either independently or as part of their normal jobs. In terms of independent start-ups, the Wales figure is 3.6 per cent, down from 4.4 per cent in 2004. The Welsh 2005 figure ranked 5th out of 12 UK regions, and is identical to the UK 2005 figure of 3.6 per cent.

In terms of corporate start-ups, 1.3 per cent of the population are involved in starting a new business for their employer. This represents a reduction from 2.0 per cent in 2004 although the difference is not statistically significant and the Welsh figure this year is slightly above the UK figure of 1.2 per cent. The two start-up figures suggest that the environment for ‘doing business’ in Wales is no different to the UK average.

The Welsh total start-up figure of 4.9 per cent is down from 6.5 per cent in 2004, and 7.6 per cent in 2003, although this is slightly above the UK national average, which stands at 4.8 per cent in 2005. This decline in business start-up activities in Wales follows the overall trend in the UK. The figure for the UK as a whole, for example, has fallen from 6.9 per cent in 2003 and 6.5 per cent in 2004. In general, the level of start-up activities has fallen in the majority of UK regions.
ENTREPRENEURIAL CHARACTERISTICS

Entrepreneurship and Gender

In 2005, female early-stage entrepreneurial activity in Wales was measured at 3.6 per cent. Disappointingly, this represents a decrease from the high level of 4.5 per cent achieved in 2004 and is the first time since the GEM Wales was initiated that the TEA rate for women has declined. In contrast, male TEA in Wales has increased from 6.5 per cent in 2004 to 6.9 per cent in 2005. This inevitably suggests that the gender gap between male and female entrepreneurial activity has widened, and there needs to be further research to examine the reasons behind this, given the focus of various enterprise programmes on encouraging greater participation by women.

Figure 2 shows the female to male entrepreneurial activity ratio. The average female prevalence rate among the GEM nations is 36.2 per cent. In other words, there are almost twice as many men who are active entrepreneurs than women. Nevertheless, the Welsh figure is very close to the World’s average, with 34.4 per cent of entrepreneurs being female. In the majority of cases, male entrepreneurial activity is higher than that of female.

The female TEA rate in Wales in 2005 is slightly below the UK average figure of 3.8 per cent, although the difference is not significant. Wales now ranks 6th out of 12 UK regions with the highest level of female entrepreneurship in 2005 found in London with 5.7 per cent of the adult population. This is followed by South West (5.6 per cent), East of England (3.9 per cent), South East (3.9 per cent) and Scotland (3.8 per cent).

Figure 2 - Female to Male Total Early-Stage Entrepreneurial Activity, 2005, by Country

\[ \text{The decrease in female ESE in Wales is not statistically significant at 5 per cent level (} t = 0.9208). \]
Entrepreneurship and Age

The age group in Wales with the highest level of early-stage entrepreneurial activity are those aged between 35-44 years, with a TEA of 7.4 per cent. This is followed by the 25-34 year olds (6.2 per cent), 45-54 year olds (5.3 per cent), 18-24 year olds (3.7 per cent), and 55-64 year olds (2.9 per cent). This suggests that the relation between age and TEA is a skew shape rather than linear distribution. The UK follows a similar pattern, with the peak for early-stage entrepreneurial activity by age is found amongst the 35-44 year olds (7.7 per cent). This is closely followed by the 25-34 year olds (7.0 per cent). A similar skew shape can be found in ten out of twelve UK regions.

In both Wales and the UK, the oldest and the youngest age brackets tend to be the least entrepreneurially active groups, reflecting the findings of last year’s GEM report. Not surprisingly, the reluctance of the 18-24 age group to engage in entrepreneurial activities is due to both difficulties in obtaining finance and knowledge they need to set up entrepreneurial activities. This is an important finding, especially given the fact that this age group has the highest interest in starting a new business. Certainly, there needs to be a more concerted effort to focus on addressing these two key barriers, possibly through low cost loans and more relevant training programmes. At the other end of the spectrum, the reluctance of the 55-64 age group to engage in early-stage entrepreneurial activity seems not to be influenced by a lack of finance, but because of perceived lack of interest.

Entrepreneurship and Income

In terms of income, those with an annual salary within the upper 33 per cent tile have the highest participation rates in entrepreneurial activity (6.6 per cent). This is followed by those in the middle 33 per cent tile (5.1 per cent), with the lowest 33 per cent having the lowest participation rates in entrepreneurial activity (3.7 per cent). These differences are statistically significant. This mirrors the UK situation, where participation rates are 7.0 per cent, 5.9 per cent and 4.3 per cent for the respective groups. Again, the difference between upper 33 per cent and the rest is statistically significant. This suggests that the higher the income an individual has, the more likely he/she is to be involved in entrepreneurial activity. On the other hand, those with lower income may have problems financing their businesses. Given the issues surrounding low incomes and economic inactivity in Wales, this may be a policy area that requires further focus i.e. entrepreneurial activity amongst low income groups.

Entrepreneurship and Employment Status

In both Wales and the UK, the greatest proportion of those starting new entrepreneurial activity do so from a position of employment (6.5 per cent in Wales and 7.1 per cent in the UK). Notably, entrepreneurial activity of those who started from the position of employment is significantly higher than those from a position of unemployment, both in the UK and in Wales. They also have a higher TEA rate than those who are either students or retired, which supports the notion that most entrepreneurs in both Wales and the UK are opportunity entrepreneurs rather than necessity entrepreneurs.

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5 Statistics show that participants with age between 35 and 44 are significantly more likely to engage in entrepreneurial activity than participants with age between 55 and 64 (t = 5.85), 18-24 (t = 4.40), 45-54 (t = 2.45) at 1 per cent level, but the difference between 35-44 and 25-34 is not statistically significant at 5 per cent level (t = 1.26).
Entrepreneurship, Job Creation and Turnover

The number of jobs created in Wales by start-up enterprises is expected to double over the next five years, which is the same as the figure for the UK. In terms of sales, the median expected annual turnover for Welsh start-up companies is £40,000, which is the same as the UK national average.

Welsh start-ups are more optimistic about the future than their UK counterparts, with a median expected turnover of £100,000 in 3 years compared to £75,000 in the UK. This represents a 250 per cent increase in Wales, and 162.5 per cent increase in the UK. However, there is a question of whether such expectations can be justified, given that existing enterprises in Wales had only increased their annual turnovers median by £7,500 in 3 years, from £42,500 to £50,000.

Entrepreneurship and Export Orientation

In terms of export orientation, 67.9 per cent of start-up enterprises in Wales are expecting to have no export activities i.e. a third of start-ups enterprises are expecting to be involved in some level of exporting. However, the GEM study also suggests that only 18.5 per cent owner-managed enterprises are export-orientated, which suggests that there may be a gap between export expectation and the actual ability to conduct export. Essential qualities for export (such as sales, marketing, and administrative skills) may be lacking in many start-up enterprises. Given this, there may be a need for the Assembly to provide technical support (such as training and advice services) to these start-up enterprises in order to give them the 'know-how' and realistic expectations in export.

Entrepreneurial Attitudes

In 2005, there has been a small annual increase in the number of people expecting to start a business in Wales in the next three years, to 7.4 per cent. London remains the region with the highest percentage of respondents expecting to start a business in the next three years by a considerable margin, but sees a decline from 15.8 per cent in 2004 to 14.6 per cent in 2005.

The attitudes towards entrepreneurship in Wales and the UK are set out in Table 3. The initial four questions are primarily a gauge of an individual’s assessment of their own capacity to start a business. The first question relates in part to the research data on networks of entrepreneurs - knowing an entrepreneur can provide a role model to follow if, of course, the relationship with the entrepreneur is positive. In the second question, the ability to recognise and then exploit opportunities is at the heart of a dynamic economy. Thirdly, having the skills to actually start a firm, linked with the fourth element of not fearing failure, is crucial.

In general, the figures for Wales do not suggest any great difference from the UK averages, with a slightly lower number of respondents replying that they know an entrepreneur, and feel that there are good start-up opportunities in Wales. However, 2005 finds that there is a lower fear of failure in Wales than the UK and this is statistically significant.

If we compare the results to the other UK regions, we see that whilst the percentage of the respondents saying that they personally knew an entrepreneur has risen, Wales is still around 5 to 6 per cent behind the ‘leading regions' for percentage of population who personally know an entrepreneur. Last year, it seemed that the ‘northern regions' tended to lag behind in the proportion of positive
replies to this question. However, the North East, North West and Yorkshire and Humberside observed large increases in the number of positive responses in 2005, which suggests a degree of convergence within the results as no regions now report less than 25 per cent of respondents saying that they know an entrepreneur personally.

Table 3 - Attitudes towards Entrepreneurship: UK Regions Compared

<table>
<thead>
<tr>
<th>Region</th>
<th>I personally know an entrepreneur</th>
<th>There are good start-up opportunities</th>
<th>I have the skills to start a business</th>
<th>Fear of failure would prevent me from starting a business</th>
<th>Setting up a business is a good career choice</th>
<th>Entrepreneurs have a high status</th>
<th>There is good coverage of e/ship in the media</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Midlands</td>
<td>25.1</td>
<td>35.2</td>
<td>49.5</td>
<td>31.2</td>
<td>50.8</td>
<td>74.0</td>
<td>55.4</td>
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<td>41.5</td>
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<td>34.2</td>
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The next three questions relate to the cultural environment within which entrepreneurship exists in the economy. The ‘fear of failure’ measure differs from the other attitudinal questions in the respect that it looks at the down rather than upside of entrepreneurship, and may therefore pick up differences in the levels of risk aversion present in the different regions’ populations. In 2004, there was a ‘north-south divide’ in relation to ‘fear of failure’, and whilst Northern Ireland still has the highest ‘fear of failure’ rating in our survey, it has fallen from 43 per cent to 41.5 per cent, with many ‘southern regions’ seeing an increase in the ‘fear of failure’ for 2005.

Generally, there does seem to be a more positive outlook towards ‘start-up’ opportunities, and the confidence in having the skills required to take up these opportunities. In Wales, entrepreneurship is still seen by the majority of respondents as being a position in society with ‘high status’, and there has also been an increase in the number of respondents who feel that being an entrepreneur is a good career choice.

Entrepreneurship: Barriers and Motivations

Last year, the GEM survey introduced questions relating to the perceived barriers to, and motivations for, entrepreneurship. This is a crucial area for investigation when designing policies and programmes, and knowledge of these factors should be of great use to the Welsh Assembly Government in the future.
As in 2004, the most important barriers relate to finance, with \textit{47.6 per cent of respondents identifying getting finance for the firm as an important barrier to becoming an entrepreneur}. A ‘lack of interest in starting a business’ remains the second largest barrier in Wales, although the percentage of respondents citing this factor as a barrier has fallen from 17 per cent last year in 2004 to 15 per cent in 2005. The third most important factor also relates to finance, but in terms of personal factors i.e. the problems of not earning enough or debt worries rather than financing the firm in the first place.

In terms of the main motivations for starting a business, there is a considerable change from last year when ‘making money’ was the main motivational factor for Welsh respondents. \textit{In 2005, this has fallen to fifth place in the ranking of importance, with only 20.7 per cent selecting this factor. Instead, more ‘lifestyle’ factors were selected as being the key stimuli for entrepreneurship, including a desire for more ‘independence and freedom’, ‘the challenge of being your own boss’ and the aim to ‘pursue an idea, innovation or hobby’}.

Although similar motivations in starting a business are identified by respondents in Wales and the UK as a whole, this may not be the case for both sexes. Indeed, it appears that women are more likely to start a business either for the independence it provides or to pursue a hobby than their male counterparts. One result that shows a big difference between Wales and the UK is that Welsh women are much more likely to start a business for the challenge of leadership compared to Welsh men.

**ACCESS TO FINANCE**

\textit{As in 2004, the bank overdraft is the most common source of funding for business start-ups, with 31.9 per cent of Welsh firms using an overdraft as a source of funding}. This is a higher figure than for the UK as a whole (29.7 per cent), although the gap between Wales and the UK has narrowed since 2004 with the use of bank overdrafts falling in Wales (34.5 per cent in 2004) and rising in the UK (28.4 per cent in 2004). ‘Friends and family’ are the second most common source of funding used in Wales and the UK.

A significant difference is the proportion of start-ups that use mortgages and secured loans, with 20.7 per cent of respondents using these in Wales as compared to 13.2 per cent in the UK.

\textit{Government grants still remain an important source of enterprise funding in Wales with 16.4 per cent of respondents identifying it as a source of funding in 2005}, which represents an increase from the 2004 figure of 12.8 per cent. A much greater proportion of Welsh business starts access government grants for funding than the UK as a whole, which could reflect the availability of Objective 1 funding in West Wales and the Valleys area.

One source that is used less intensively in Wales is individual investors, with ‘Business Angel’ investment remaining at a significantly lower rate for Wales - 5.3 per cent as compared to 8.3 per cent for the UK as a whole. \textit{It is perplexing that the percentages of those making use of ‘Business Angel’ investment remains relatively low, given the continued coverage of this type of activity within the media, and there may be a role for government here in highlighting the positive aspects of involving experienced informal investors in business starts}.

The main reasons cited for failing to access funding remain relatively constant, and include ‘nature of the business’, ‘business is too small’, and ‘the cost of finance is too high.’
There is a higher fear of debt found for the UK (29.1 per cent) as compared to Wales (25.9 per cent), which is the opposite of what was reported in last year’s GEM report. However, Welsh entrepreneurs do tend to have less of a problem in sharing the ownership of their businesses than entrepreneurs in the rest of the UK, and fewer suggest that there was a problem with ‘being investor ready’ in Wales.

Whilst around half of the UK respondents suggested that there are inadequate funds available in all regions of the UK, this is less of an issue in Wales than any other region, with 47.6 per cent suggesting there is a shortage of funds as compared to a UK result of 51.3 per cent.

**SPECIAL FOCUS 1: ENTREPRENEURSHIP AND EDUCATION**

The influence of education on entrepreneurship has been a key part of the GEM study since its initiation in 1999. In Wales, the 2005 GEM report demonstrates that 8.5 per cent of those with masters level educational background are involved in early-stage entrepreneurial activity (Figure SF1.1). This is followed by those with undergraduate degrees (6.7 per cent), vocational qualifications (6.2 per cent), and PhD (6.0 per cent) degrees. The least active groups are those with no qualification (2.6 per cent), followed by those with GCSEs (4.4 per cent) and A-level (5.1 per cent) qualifications.

In the UK as a whole, the most entrepreneurially active group is also those with masters level educational background (with 10.5 per cent involved in enterprise activities), followed by those with doctoral qualifications, (10.2 per cent). This is followed by those with undergraduate degrees (7.5 per cent), vocational (5.9 per cent), A-Level (5.3 per cent) and GCSE (5.0 per cent) qualifications. As in Wales, the least active group is those with no qualification, with only 3.0 per cent involved in enterprise activities. This may suggest that the provision of vocational training may be an effective way to encourage people with low academic qualifications into entrepreneurial activities, as it has a positive effect on the likelihood to participate in entrepreneurial activity.

![Figure SF1.1: TEA 2005: by Education, Wales and UK](image)

*Interestingly, the difference between ESE of those with vocational training and those with no qualification is statistically significant at 1 per cent level in both Wales (t = 3.7466) and the UK (t = 5.6297).*
Figures SF1.2 and SF1.3 show the effect of different types of enterprise training and experiences (at school and university) on TEA, future start-up, and nascent entrepreneurial activity in the Wales. As demonstrated, the data suggests that all types of education and training will increase the level of business start-up, the level of TEA activity and nascent entrepreneurial activity. This finding can be applied to both male and female entrepreneurs.

In particular, the effect of school level enterprise training on the level of entrepreneurial activity is positive (Figure SF1.2), with those who received enterprise training at school significantly more likely to expect to be involved in a start-up and to start a business in the next three years than those without training. They also have higher TEA activity rate (although this is not statistically significant at the 5 per cent level).

Those who received enterprise training at school are also significantly more likely to believe that they have the skills to start-up a business, to identify good start-up opportunities and to perceive entrepreneurship as a good career, than those without enterprise training. They are also more likely to perceive entrepreneurship as having high status, and are less likely to fear failure (although the latter is not statistically significant).

Figure SF1.3 shows that the effect of enterprise training on the level of entrepreneurial activity at university is also highly significant. **Those who received enterprise training at university have a higher TEA rate (8.2 per cent) than those without (4.5 per cent)**, and are more likely to be involved in a start-up and to expect to start a business in the next three years.

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The difference is statistically significant at 1 per cent level (t = 4.230).
Similarly, enterprise trained graduates are significantly more likely to believe that they have the skills to start-up a business, to perceive start-up opportunities, to consider entrepreneurship as having high status and are less likely to fear failure. Interestingly, those who received training at university are less likely to perceive entrepreneurship as a good career choice, which probably reflects the greater range of alternative employment opportunities available for graduates when compared with school graduates.

Figure SF1.3: Effect of Enterprise Training on Entrepreneurial Activity in Wales

SPECIAL FOCUS 2: ENTREPRENEURSHIP AND IMMIGRATION

The impact of immigrants on Wales’s entrepreneurial activities is generally higher than from those that were born in Wales. Only 3.9 per cent of the Welsh born population still resident in Wales are engaging in entrepreneurial activity, compared with 14.4 per cent from Northern Irish immigrants, 12 per cent from outside the EU, 7.8 per cent from England, and 6.2 per cent from within the EU (Figure SF2.1). Therefore, there may still be a scope for policy to attract more Welsh-born into entrepreneurial activities. Only those who were born in Scotland have a lesser impact on entrepreneurial activity in Wales (3.5 per cent) than the Welsh themselves, although the difference is not statistically significant.

The data indicates that 4 per cent of those who were Welsh-born, but who are now living elsewhere in the UK, are entrepreneurially active as a group. This is slightly above the Welsh-born figure in Wales although this is not statistically significant. Immigrants from outside the UK are more entrepreneurially active in Wales than in the UK as a whole (5.3 per cent for those who born in the EU and 9.5 per cent from outside the EU).
In addition, we have also coded respondents into those that have spent their entire lives in one region (lifelong Residents); people born in the UK, but moving into another region (in-migrants); and those born outside the UK (immigrants). The importance that these groups play in the economy of each region obviously varies according to the levels of in-migration and immigration these regions experience. In the case of Wales, immigrants make up a relatively small portion of the population, with only 4.5 per cent of respondents falling into this category as compared with 10.6 per cent of UK respondents as a whole (although this figure is boosted by a particularly high number of immigrants in London - 32.8 per cent).

Wales does not have the highest percentage of life-long residents in the population, and there is a relatively low mobility of the population when compared to regions such as London and the South East. Figure SF2.2 shows the TEA values for the UK regions when examined by immigration status.

For the UK as a whole (and for most regions when examined separately), TEA rates appear to be higher for those classed as immigrants, followed by in-migrants. Those living within a region all their lives are the least likely to be involved in entrepreneurial activity. Wales follows the general UK pattern, but if anything it is more pronounced with life-residents TEA at 3.4 per cent (4.3 per cent for UK), in-migrants TEA of 6.7 per cent (UK 6.8 per cent), and immigrants’ TEA of 10.1 per cent (UK 8.5 per cent). One worry with these results is that only a relatively small proportion of the population of Wales had immigrated to the region, and therefore the high TEA of immigrants will have little impact upon the overall TEA of Wales. **The disparity between life-residents and in-migrants does suggest that Wales is quite reliant on new blood moving into the region to drive new business creation.**

Immigrants have often been observed to be more heavily involved in entrepreneurial activities, with possible reasons coming from either a self selection argument (those who make the effort to move to another country and are prepared to accept the risks and challenges involved are likely to be willing to take on the smaller risks associated with the setting up of a new business), or alternatively that it is an issue of necessity, as immigrants may possess lower English language skills and face prejudice, and therefore find entry into the conventional work place blocked.
Figure SF2.1: TEA by Place of Birth, 2005, Wales and UK

Figure SF2.2: TEA for Lifelong Residents, In-migrants, and Immigrants for UK regions, 2005
To a lesser extent, a similar argument may be applied to in-migrants in terms of self-selection, with those willing to move away from ‘home’ also willing to take on the challenge of starting a business. On the other hand, it could be that TEA rates are low for those who are lifelong residents because they may already be an entrepreneur. One reason to be attached to an area in which you are born is that your family may own a business in the area, and this suggests that many lifelong residents are actually in the category precisely because their business is based in the area that they were born in. Although a group of entrepreneurs - known as portfolio entrepreneurs - will start more than one business, those who come into business ownership through inheritance may not be inclined to start another business. Therefore, figure SF2.3 presents established business owner (EBO) prevalence for the UK regions by immigration status to determine if this is a factor in the low TEA prevalence rates for lifelong residents.

Figure SF2.3: EBO for Wales and the UK by Immigration Status 2005

When EBO is examined by immigration status, there is a much smaller difference between the results found than when examining TEA. For the UK as a whole, life-residents have a slightly higher EBO prevalence than immigrants, but EBO prevalence is considerably higher for in-migrants than either of the other two immigration status categories. For Wales, life-residents have the lowest EBO prevalence of the three immigration status categories, which means that this is unlikely to be the cause of the very low TEA for lifelong residents.

Whilst we have differentiated between the respondents of the survey, the three immigration classes we have used may not be appropriate because there can be very different reasons for being an immigrant or in-migrant. It is also true that cultural differences have been found between people of different ethnic backgrounds in relation to their TEA prevalence rates. Unfortunately for many regions (including Wales), the small numbers of ethnic minority groups within the region means that it is not a viable option for the survey to split respondents into a large number of ethnic background categories, (although previous work has found that this can be very revealing). Instead, a crude division of respondents into white and non-white ethnic groups is utilised, and figure SF2.4 presents the TEA results for the three immigration states further sub-divided into whites and non-whites.
For life-long residents and in-migrants in the UK, the study shows that non-white respondents are more likely to be involved in TEA activities. This is particularly the case for in-migrants, where TEA for white in-migrants is 6.5 per cent compared with 13.7 per cent for non-white in-migrants.

Wales follows a very similar pattern to the UK as a whole, although the difference between white and non-white in-migrants is smaller. However, it should be noted that non-white in-migrants make up 0.5 per cent of the Welsh respondents compared to 2.1 per cent of the UK as a whole. Therefore, not only does Wales’ TEA suffer from not having a high level of immigrants moving to the region, but also the in-migrants are of an ethnic mix which is less entrepreneurially minded. Another influence could be the gender mix, as women have been found to have a lower TEA propensity than men. This could be extenuated for certain immigrant status groups, as the reasons for immigration could differ between genders.

Figure SF2.4: TEA for Wales and the UK by Immigration Status and Ethnic Origin, 2005

SPECIAL FOCUS 3: INFORMAL VENTURE CAPITAL

A number of questions present themselves with relation to informal investments made by individuals within the UK to entrepreneurs or aspiring entrepreneurs, namely (a) what percentage of the population undertakes such ‘business angel’ activities? (b) what size of investment is being made overall by these business angels within their regions? (c) how does this quantity of investment relate to the wealth of the region?

Given that business angels are likely to be wealthier and perhaps older, those regions with more retirees and higher average incomes might be expected to have higher levels of business angel activity, it is expected that business angel activity will vary between regions. Figure SF3.1 shows the informal investment prevalence rate in each of the UK regions.
Business angel activity in Wales is relatively low in terms of percentage of the population making informal investments. Only 1.1 per cent of Welsh respondents have indicated that they have made an informal investment in the last three years, which compares with a prevalence rate of over 2.2 per cent for London. As with a majority of regions, men are found to be more likely to be business angels than women in Wales, prevalence rates of 1.38 per cent and 0.83 per cent respectively, although this gender gap is not as substantial as some regions such as London and the South East. It is noticeable that a majority of the regions with the lower business angel prevalence rates are also the poorest according to prosperity data.

Whilst the differing prevalence rates are interesting, this does not tell the whole story as there is potential for informal investments to be made in a large range of values ranging from a few hundred pounds to over £200,000. Figure SF3.2 shows the average total of investments made by individual business angels over the last three years for the UK regions. The distribution of investments is positively skewed and with this in mind, not only is the mean investment calculated, but also the median.

**Figure SF3.1: Business Angel Investors, 2005: by UK Region**

![Business Angel Investors Chart](image)

The positive skewness is evident with a majority of the regions having a higher mean investment by business angels than median investment. Little variation is visible around the median investment amount with most regions seeing investments for the past three years of around £10,000. Two regions stand out as exceptions - Scotland and the North West - with the median Scottish investment being £18,500, and the median investment by North West business angels being £2,500. This suggests a greater clustering of the majority of North investments in smaller amounts in the North West, while Scottish investors are spread more evenly.

*Although the values used to calculate the mean are weighted to ensure that the sample for each region is representative of the population of the region, the values reported in the median are unweighted. This is because the mean utilises all values in the relevant sample, and therefore the contribution from individual groups determined by gender, ethnic background etc needs to be controlled for. The median, however, simply takes the middle value of the distribution. Weighting of this value would either raise or lower this value with no statistical reason for doing this, as informal investment amounts may unrelated to the different groupings.*
Prevalence rates and mean investments seem to have little in common. Whilst Scotland has the second highest mean investment rate, regions such as the East of England, and London observe the opposite. This means that informal investment in these particular regions is characterised by the presence of many small investments, whilst Scotland observes only a few larger investments. This may be characteristic of the capital requirements of those start-up opportunities available in each of these regions.

In estimating the amount of informal investment taking place in each region, we calculate an estimate of the number of business angels present by multiplying the population (18 years or older) by the prevalence rate. The number of business angels is shown in the right-hand column of Table SF3.1 below.

Due to the high prevalence of the business angels and large populations in London and the South East, table SF3.1 shows that these regions have the largest numbers of business angels, 129,715 and 93,513 respectively. Wales - with a relatively small population and low prevalence rate, obviously has a relatively small number of business angels.

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Figure SF3.2 shows the estimated total amount invested over the last three years by business angels in each region (assuming that prevalence rates and mean investments have remained constant). Although some of the regions that have low business angel prevalence rates remain towards the lower end of the range of results, regions such as Scotland have relatively large amounts of informal investment. In Wales, informal investment in Wales may be dwarfed by the estimated £2.5 billion of investment in the South East over the proceeding three years, but the £595 million invested by Welsh business angels is a substantial level of investment.

Figure SF3.2: Average Investment by Investors over last three years

![Average Investment by Investors](image)

Figure SF3.3: Distribution of Informal Investment Amounts by Business Angels Over the Last Three Years for the UK

![Distribution Chart](image)

*Whilst calculations could have been made using the median investment, calculations using the mean investment is likely to be more appropriate as it is likely that a relatively large proportion of a region’s informal investments will be from the larger one off informal investments.*
Figure SF3.3 shows the distribution of investment amounts for UK as a whole, demonstrating that the majority of business angels are making small commitments. 46 per cent of business angels invested less than £10,000 over the three years, with another 48 per cent investing between £10,000 and £100,000. Only 6 per cent of business angels have invested over £100,000 in the last three years. For the UK as a whole, there are obviously a large number of business angels making small investments, although there is potential for a large percentage of informal investment to be derived from a relatively small number of investors. Indeed, it is clear from Figure SF3.4 that whilst only 6 per cent of business angels invested £100,000 or more, these investments contributed 40 per cent of total informal investment in the UK.