

Research Note

Entrepreneurship & Growth of Business Start-Ups in NI

September 2017

Background

Entrepreneurship is:

“an action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets”.

Organisation for Economic Co-operation and Development

Levels of entrepreneurship, business start-up and growth rates are important drivers for economic growth, innovation, competitiveness and job creation.

This Research Note aims to provide an overview of current entrepreneurial activity and intentions and start-up growth rates in Northern Ireland. It draws upon evidence provided by the Global Entrepreneurship Monitor and other research undertaken by the Enterprise Research Centre.

The Global Entrepreneurship Monitor

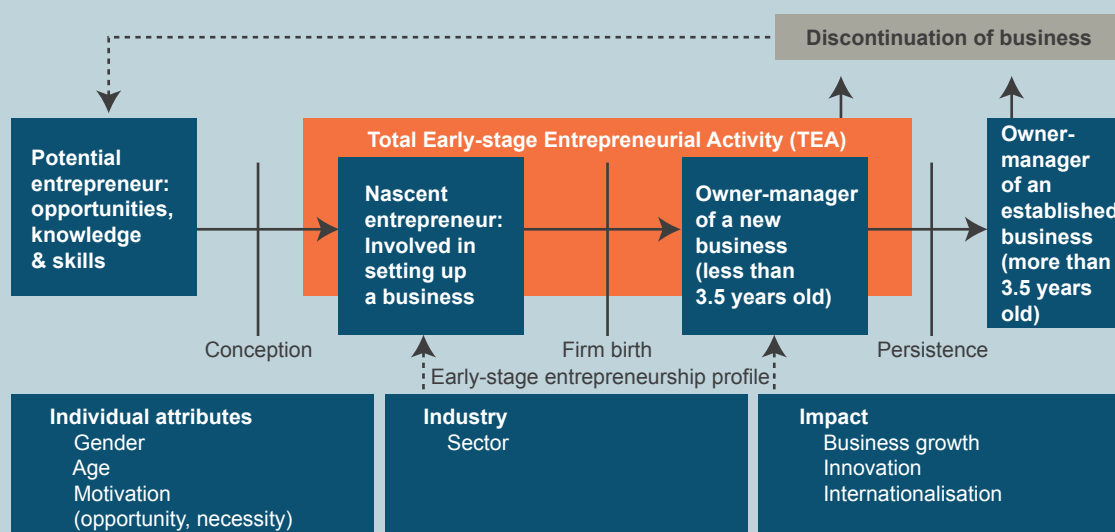
The Global Entrepreneurship Monitor (GEM) research consortium has been measuring the entrepreneurship activity of working-age adults across a wide range of countries since 1988. The 2016 GEM global study was based on results from 182,000 adults from 65 countries. Invest NI has sponsored the Northern Ireland (NI) component of the GEM UK research project resulting in a large longitudinal database for the period 2002-2016.

GEM Measures of Entrepreneurship

Total Early-stage Entrepreneurial Activity (TEA) represents the percentage of the population aged 18-64 who are either nascent (in process of starting a business) or new entrepreneurs (running a business not older than 42).

In addition to activity, the GEM collects data from (1) the **non-entrepreneurial population** on self-perceptions about entrepreneurship (opportunities and intentions) and from (2) the **entrepreneurial population** about their motivations and growth aspirations.

Entrepreneurial Process and GEM Operational Definitions

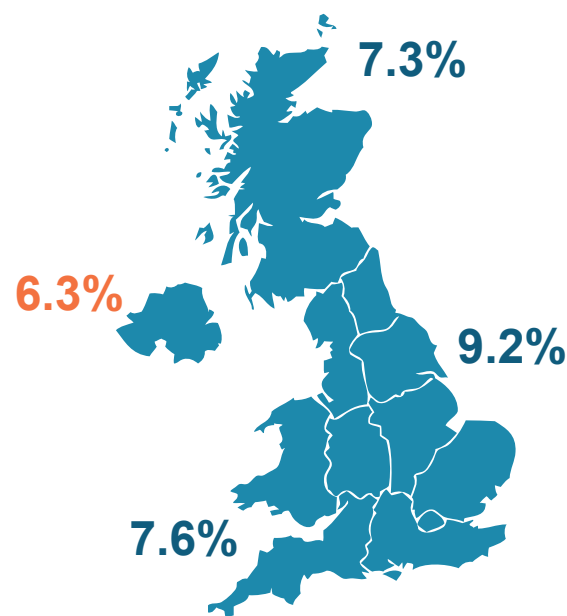


Total Early-Stage Entrepreneurial Activity (TEA)

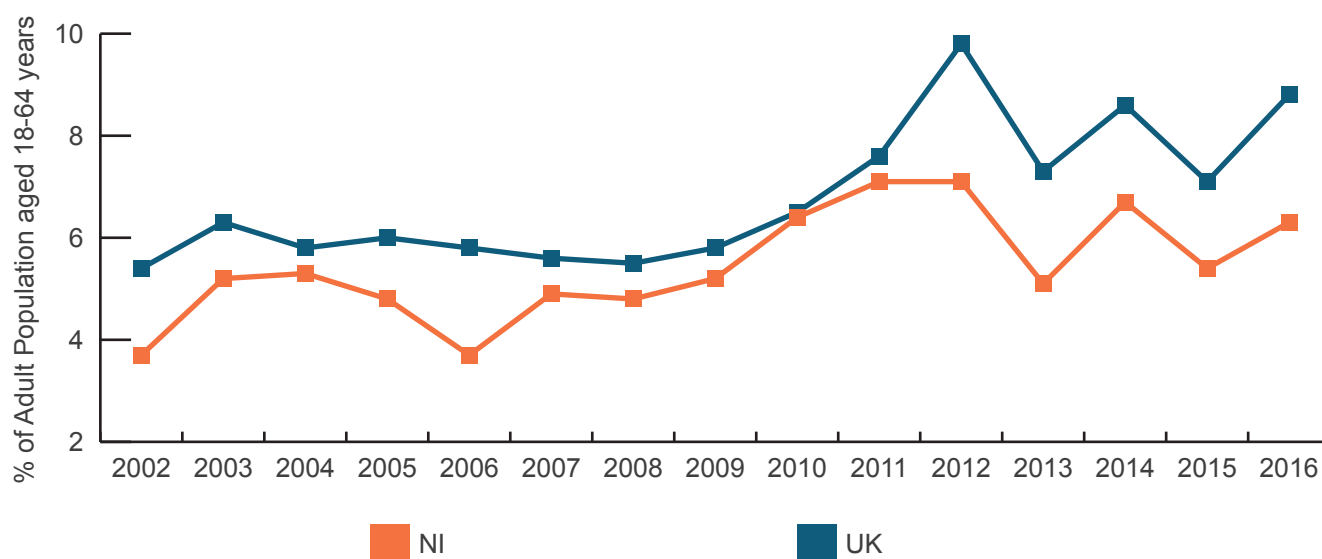
Levels of entrepreneurial activity are a vital sign of any economy however, despite recent increases in start-up activity in the UK, there remains a clear 'entrepreneurial deficit' in an international context. The GEM Global Report (2017) has shown that overall Europe reports lower average regional TEA rates than other regions.

The NI TEA rate is 6.3% of the adult population. Whilst this remains lower than the UK rate (8.8%), there has been an upward trend since 2002 when the rate was 3.7%.

TEA Rates across UK 2016



TEA Rates in NI and UK 2002-2016

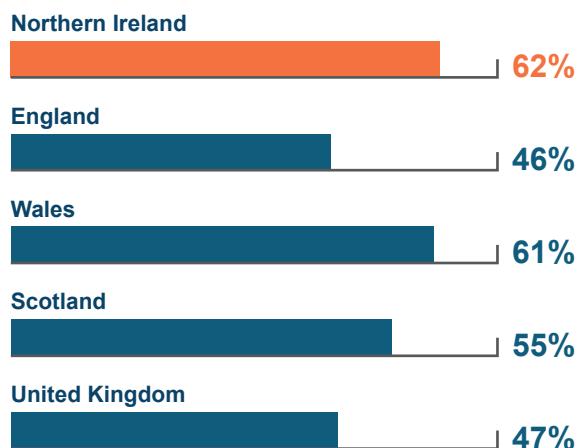


Gender

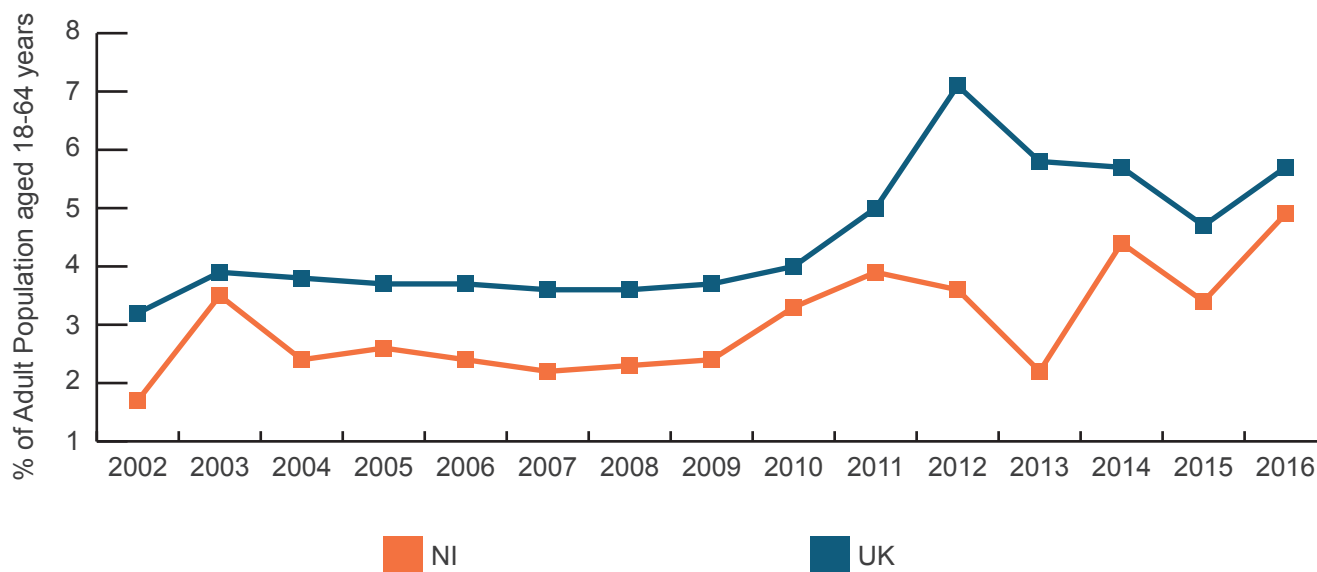
Since 2002 there has been a general upward trend in female entrepreneurship. The female TEA rate in NI in 2016 increased to 4.9% (the highest NI female TEA rate on record).

Unlike previous years, NI had the highest female to male TEA ratio at 62%, compared to 47% for the UK. However, this is mainly due to the male TEA rate (7.8%) being significantly lower than that for the UK.

TEA Female to Male Ratio across UK 2016



Female TEA Rates in NI and UK 2002-2016

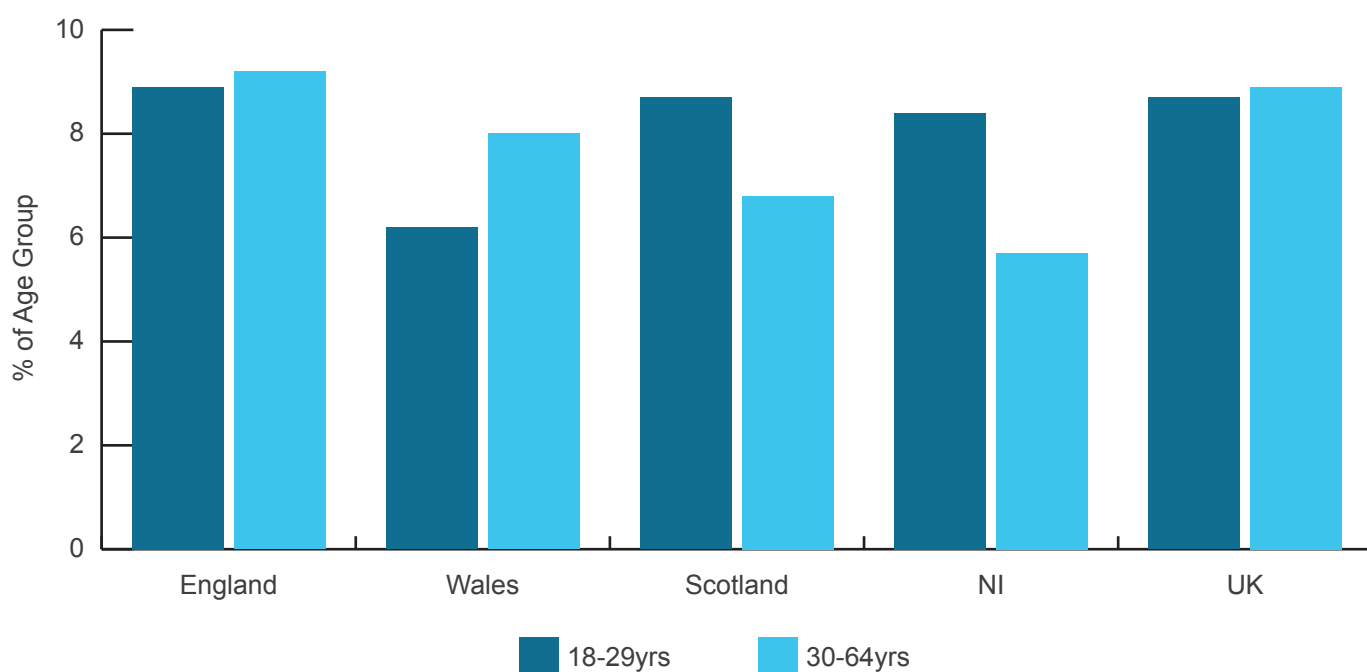


Age

TEA rates globally tend to vary by age with those over 30 generally more likely to be engaged in entrepreneurial activity.

However, in NI the TEA rate for the 30-64 group (5.7%) in 2016 was significantly lower than the UK whilst the TEA rate of young adults aged 18-29 in NI is 8.4% (UK 8.7%).

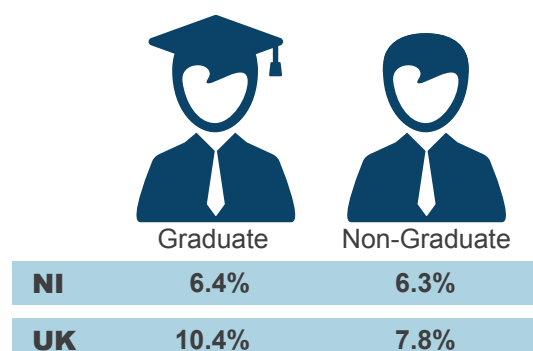
TEA Rates in NI and UK by Age Group 2016



Education

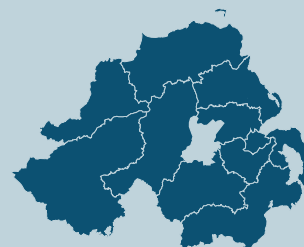
In 2016, the TEA rate for graduates in the UK (10.4%) is significantly higher than for non-graduates (7.8%). However, in NI the graduate rate of 6.4% is not significantly higher than the non-graduate rate of 6.3%.

TEA Rates by Education in NI and UK 2016



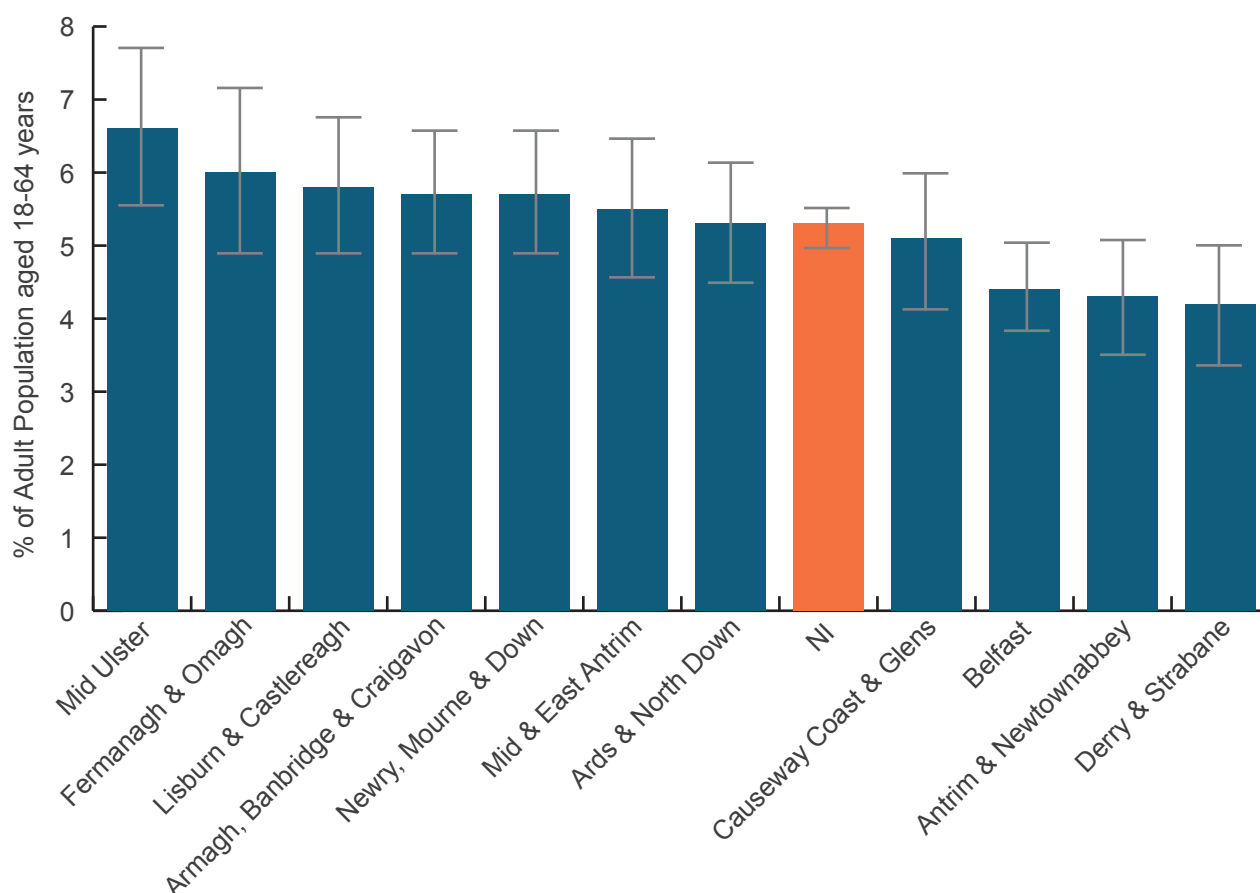
Sub-regional

Sub-regional analysis is based on Local Government Districts in NI (council areas). TEA rates by council areas are pooled as one year observations may be unreliable due to small sample sizes – pooled rates average out any random annual fluctuations.



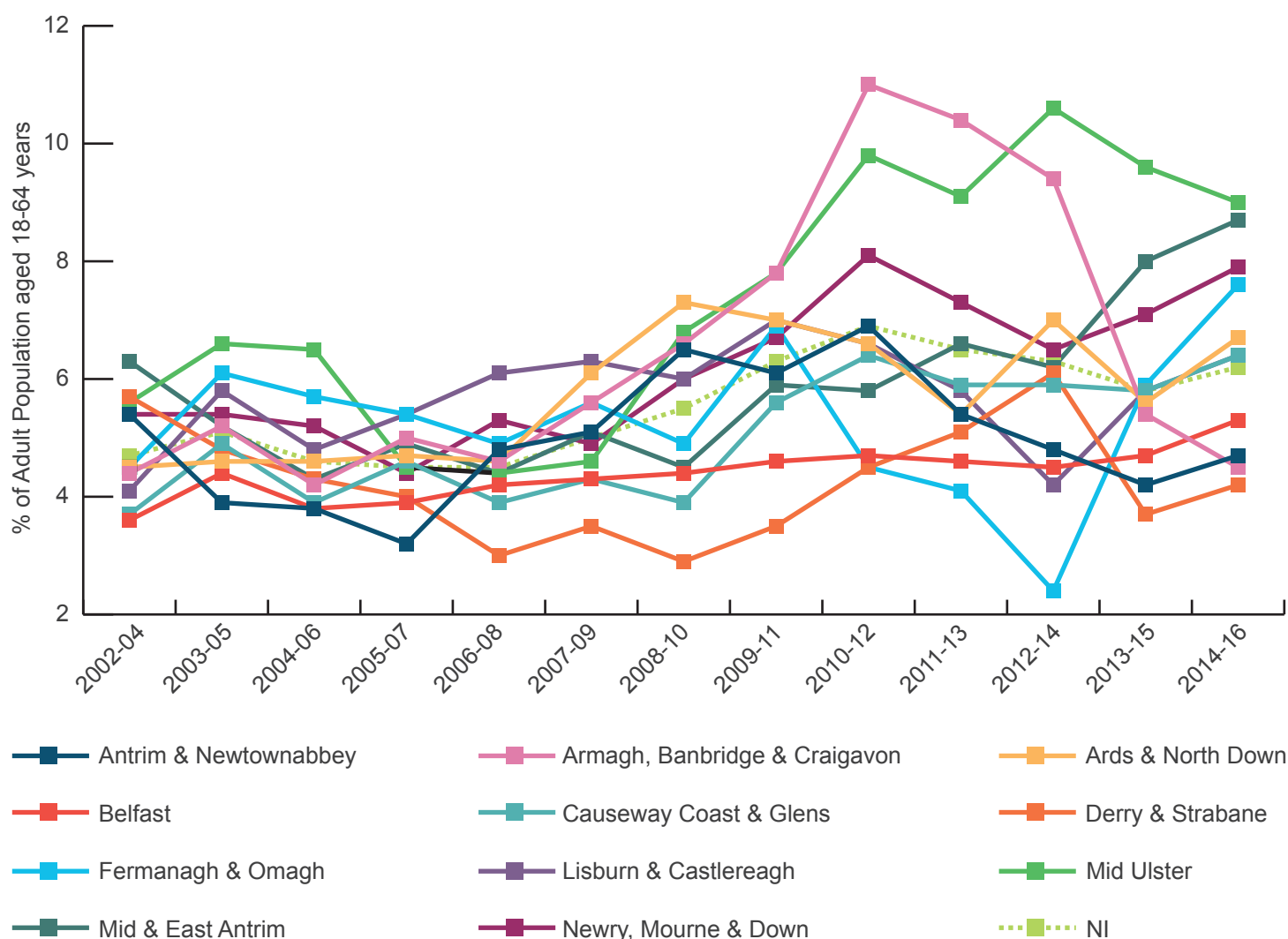
Entrepreneurial activity varies considerably between the council areas within Northern Ireland. Based on average TEA rates recorded over 2002-2016, the highest rate of entrepreneurial activity was in Mid Ulster (6.6%) whilst the lowest was in Derry and Strabane (4.2%).

Average TEA Rates across Council Areas in NI 2002-2016



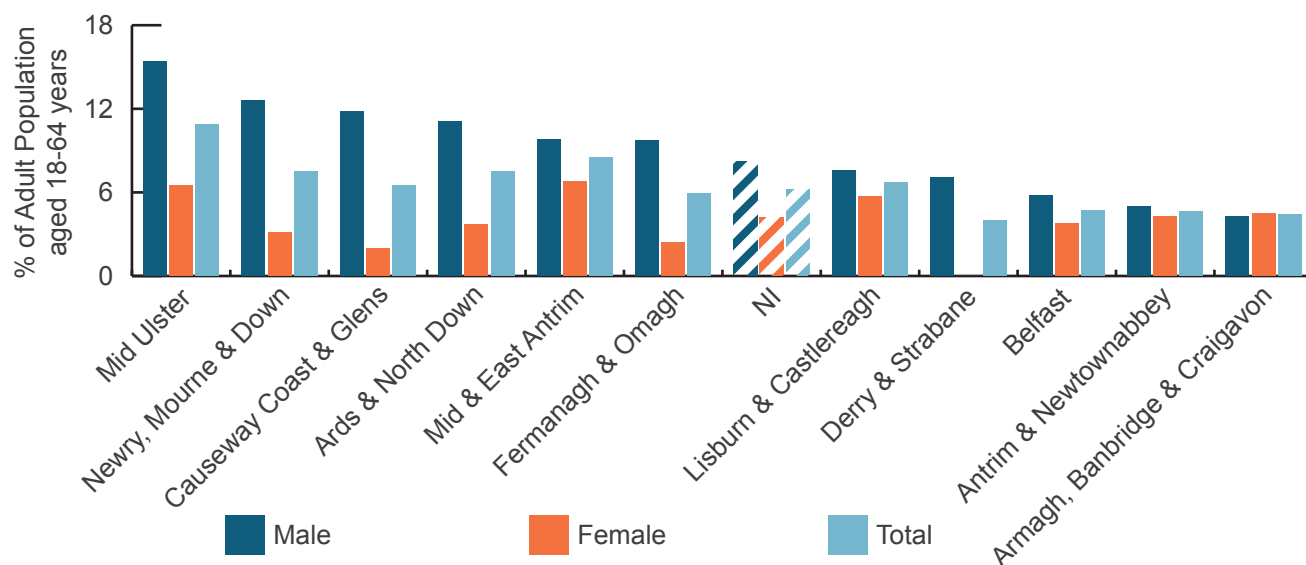
Another perspective is gained by looking at 3-year rolling averages from 2002-04 to 2014-16. At the start of the period, and for several years, there was little difference in the TEA rates across council areas. Over time some divergent trends have emerged; from the late 2000s entrepreneurial activity surged in Mid Ulster; Armagh, Banbridge and Craigavon followed a similar but shorter trend. Fermanagh and Omagh saw a drop in its entrepreneurial activity rates over the same period but by 2014-16 had recovered to exceed the NI average rate.

Average Three-Year TEA Rates across Council Areas in NI 2002-04 to 2014-16



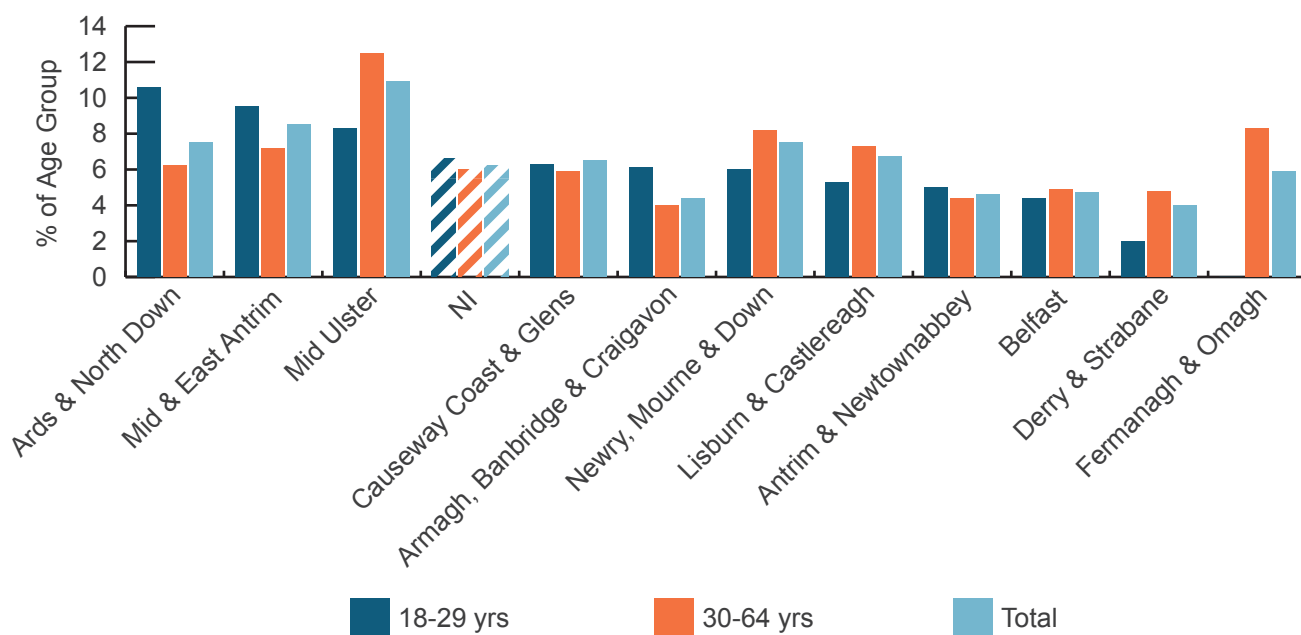
Mid Ulster also has the highest male TEA rate (more than double that of the male rate in Derry and Strabane) and the second highest female TEA rate. On average female TEA rates over 2014-2016 are around half those for males. However, this varies considerably from a female to male ratio of 17% in Causeway Coast and Glens to 103% in Armagh, Banbridge and Craigavon.

TEA Rates by Gender across Council Areas in NI 2014-16



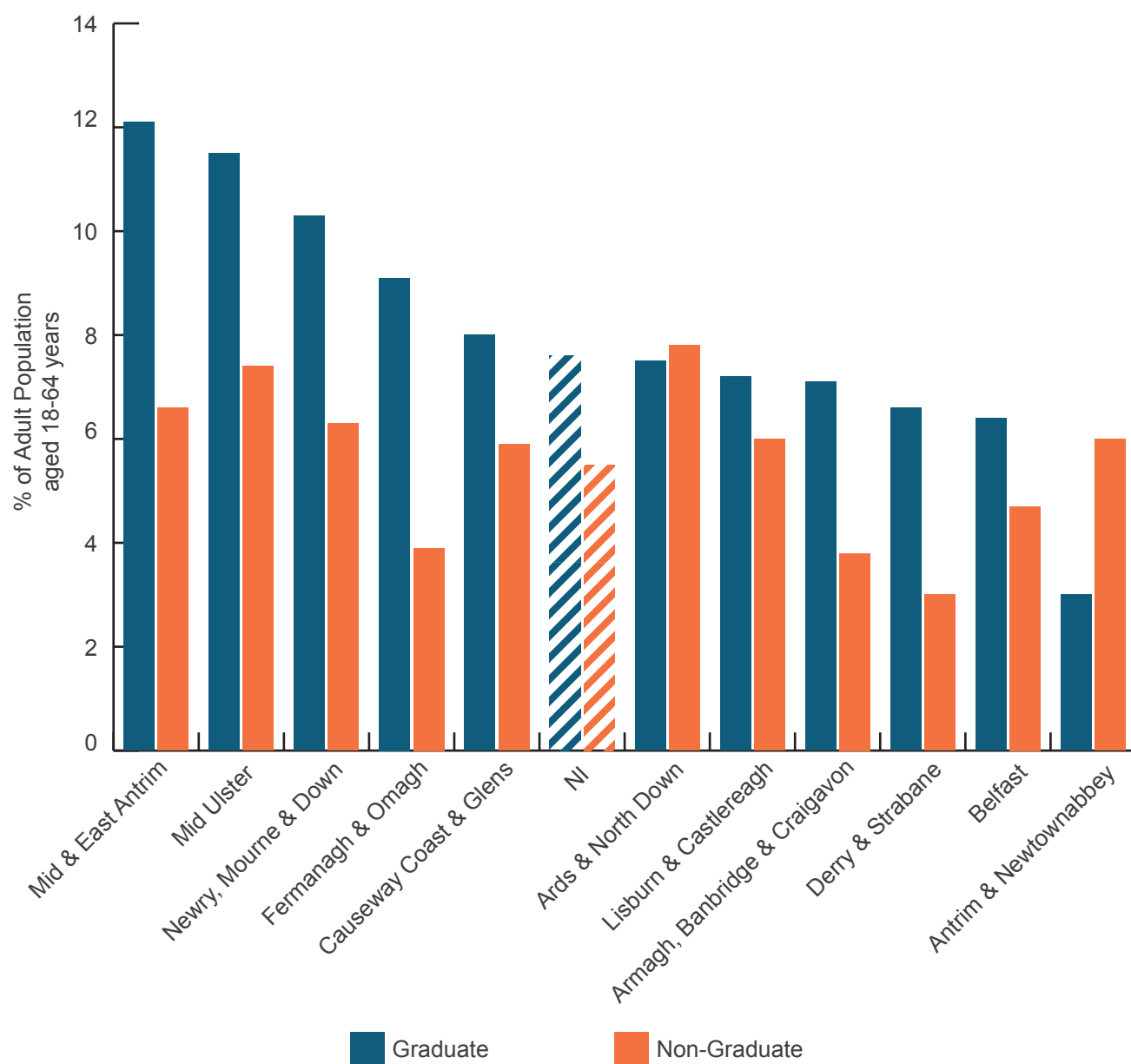
During 2014-16 there were above average TEA rates for 18-29 year olds and for 30-64 year olds in Ards and North Down, Mid and East Antrim and Mid Ulster. The most notable gaps by age are in Derry and Strabane where the TEA rate of 18-29 year olds is around two fifths that of 30-64 year olds, and conversely, in Mid Ulster where the TEA rate of 30-64 year olds is 150% that of 18-29 year olds.

TEA Rates by Age Group across Council Areas in NI 2014-2016



For the 2014-16 period, graduate TEA rates are generally higher than non-graduate rates although rates are similar in Ards and North Down while in Antrim and Newtownabbey non-graduates have higher TEA rates.

TEA Rates by Education across Council Areas in NI 2014-2016



Entrepreneurial Self-Perception: Attitudes & Intention

Entrepreneurial Potential

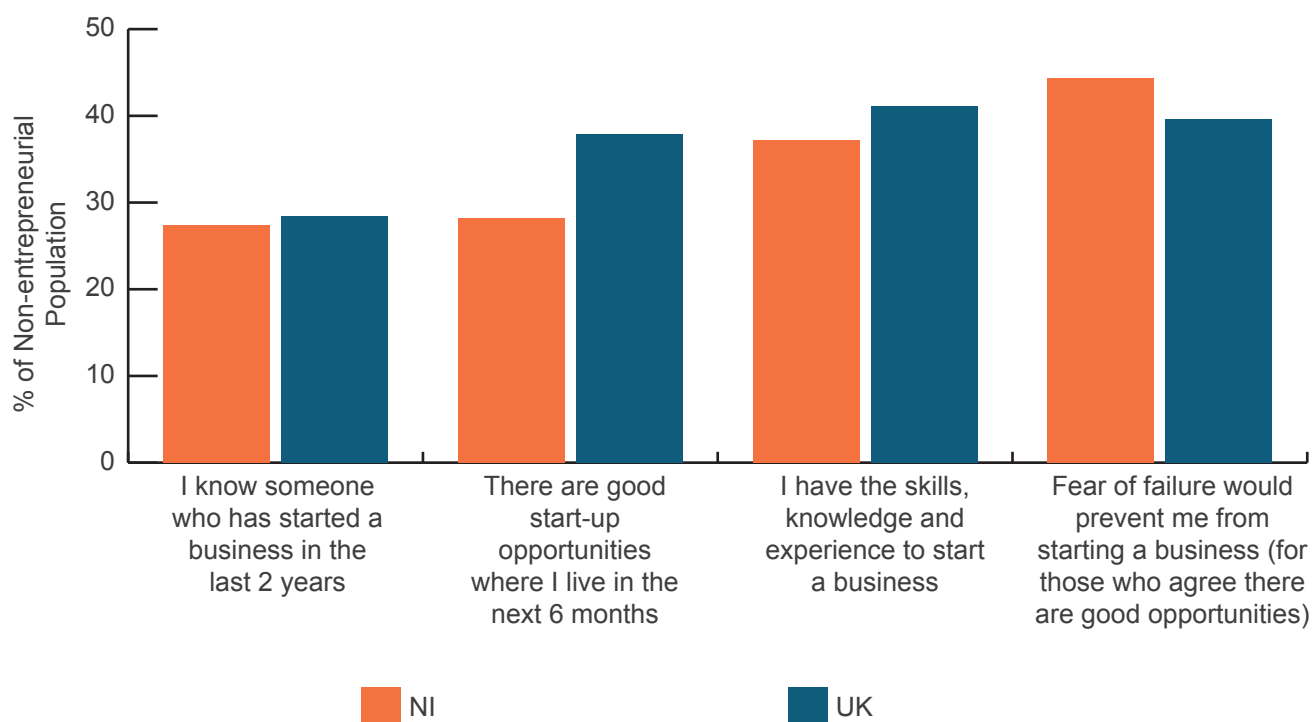
GEM has developed a number of attitudinal statements which provide a proxy for entrepreneurial potential such as perception of opportunity, capacity (skills) and prevalence of fear of failure as a deterrent to setting-up in business. Attitudinal data is only reported for the population who are not already entrepreneurs.



In 2016, 28.2% of the non-entrepreneurial population in NI agreed there were good opportunities for starting a business in their local area, compared to an average of 37.9% in the UK. This is in contrast to trends up unto 2007 where the perception of start-up opportunities was broadly similar.

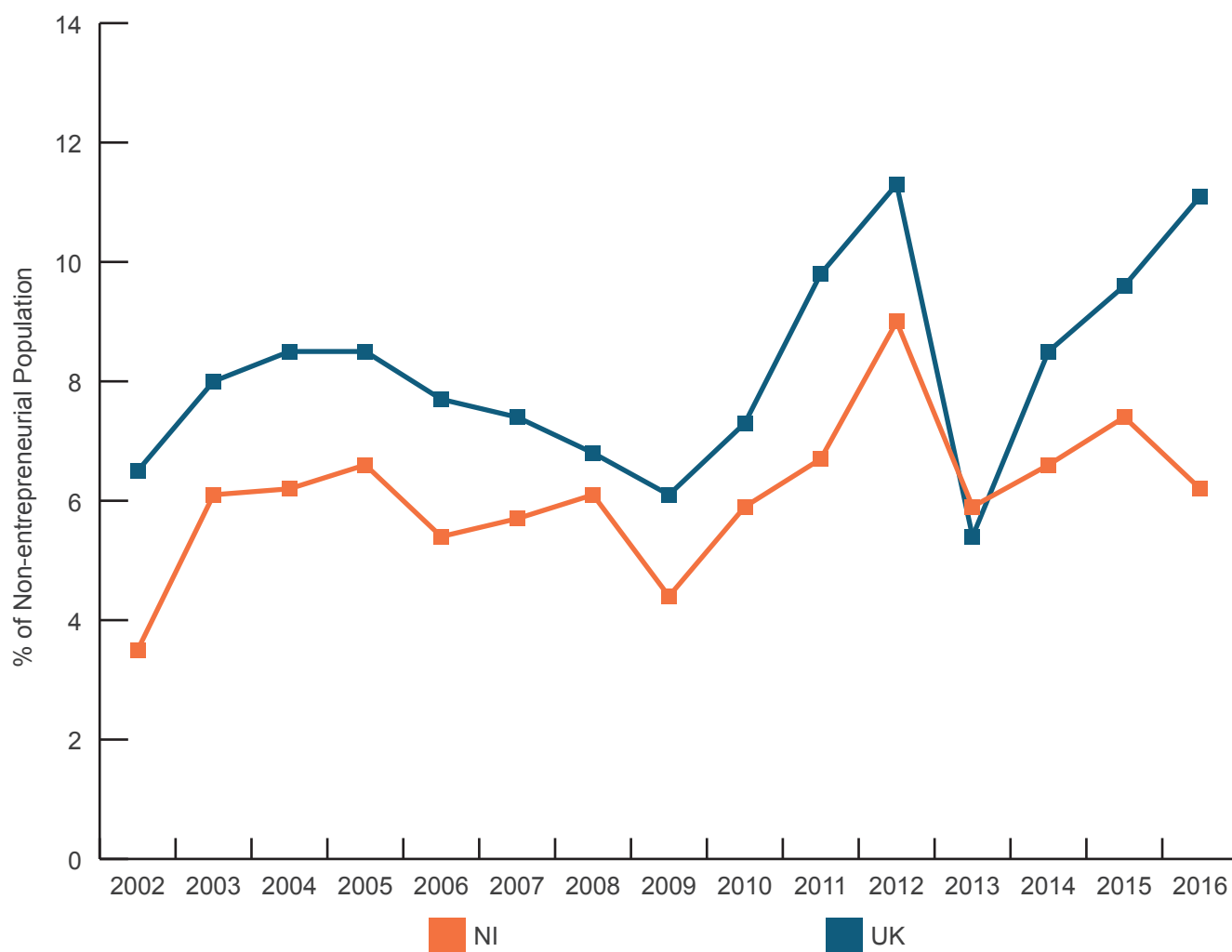
Over one in four (27.4%) individuals state that they know an entrepreneur (similar to the UK), and over one-third (37.2%) believe they have the skills to set-up in business (UK 41.1%). There are no significant differences between those reporting fear of failure across the UK regions (NI 44.3%, UK 39.6%) where historically there had been higher proportions in NI.

Entrepreneurial Attitudes and Perceptions 2016



For the non-entrepreneurial population the rate of future start-up expectations (starting a business within the next three years) in NI is 6.2%, significantly lower than the UK rate at 11.1%.

Future Start-Up Expectations 2002-2016



Motivation & Expectations within Total Early-Stage Entrepreneurship

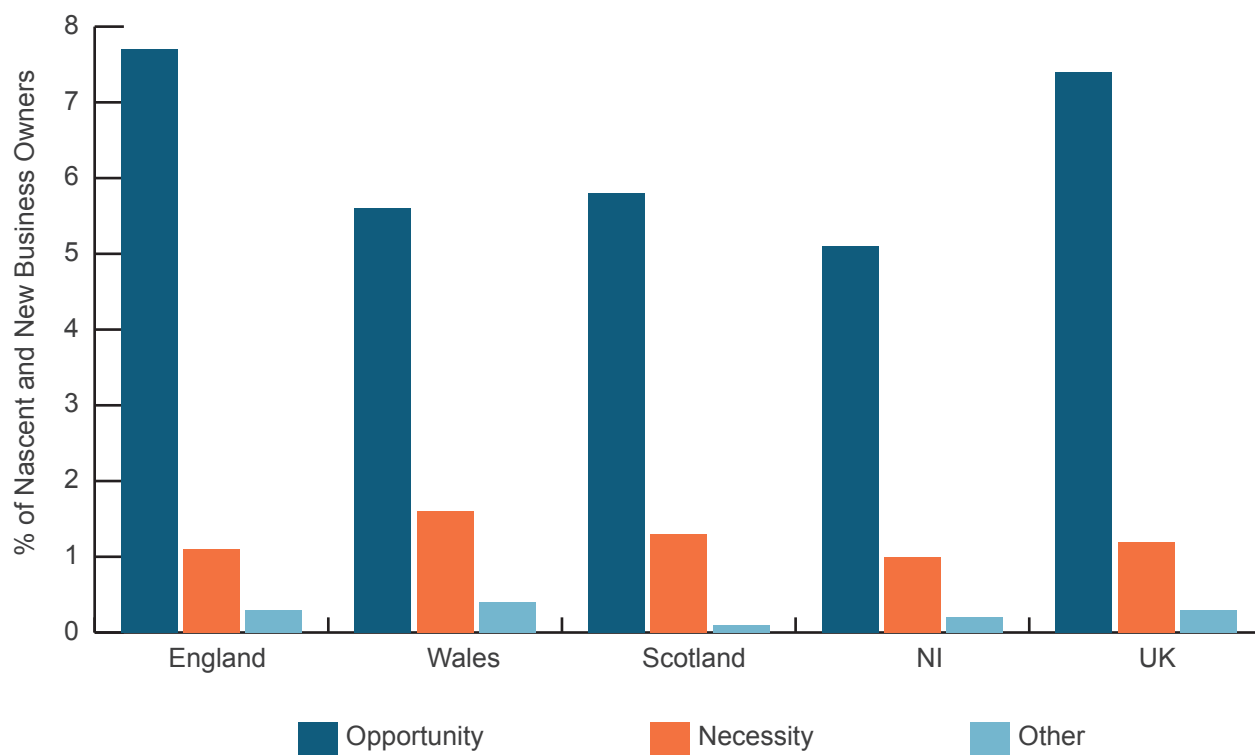
Entrepreneurship Motivation

Entrepreneurial motivations are classified as driven by necessity (there are no better alternatives for work) or opportunity (where entrepreneurs may be exploiting the potential for new market creation).



In 2016, opportunity TEA rates in NI and Wales are significantly lower than in England and the UK, however the rate of necessity based entrepreneurship across the regions is similar.

Entrepreneurship Motivation 2016



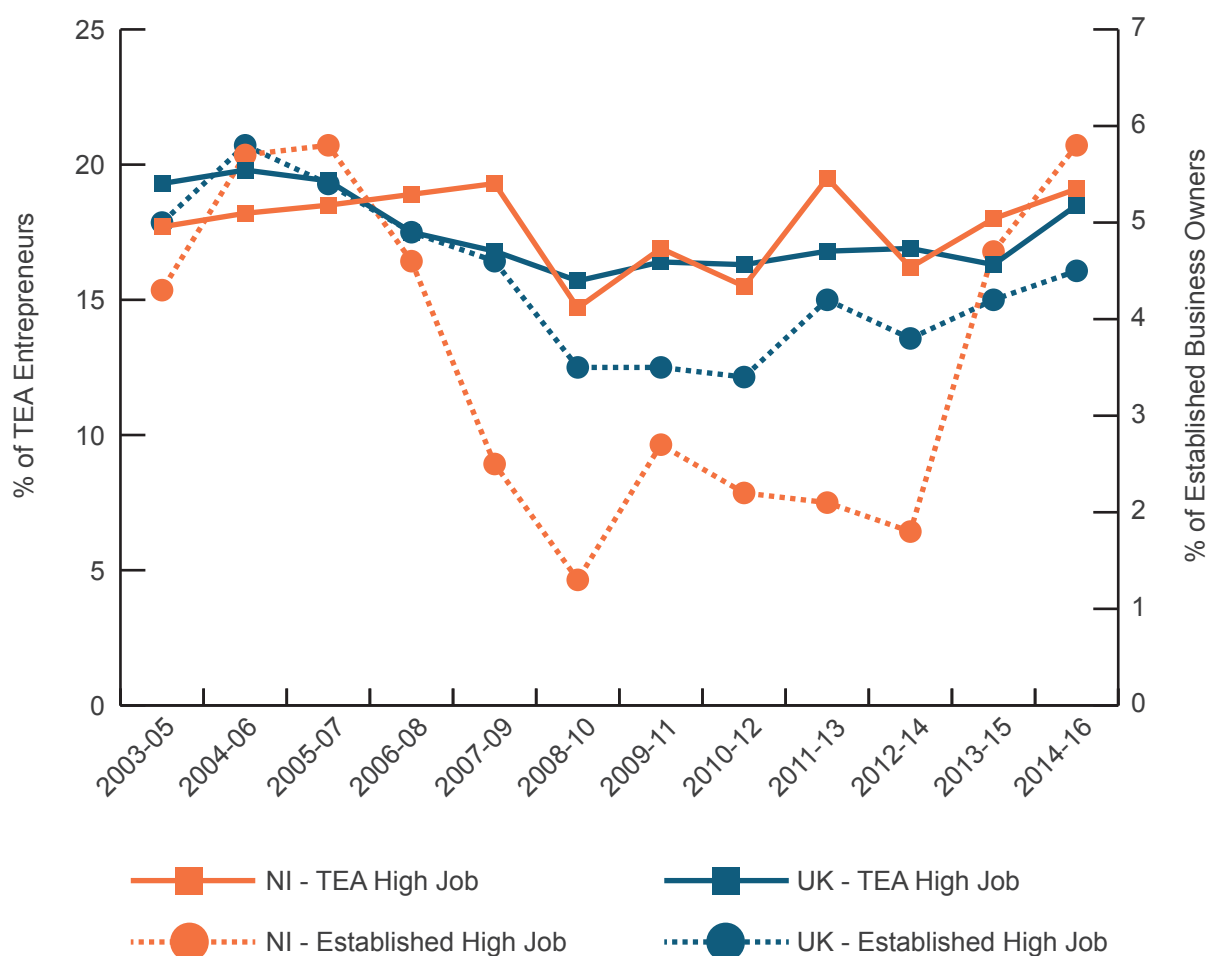
High-Growth Expectations Rates

GEM measures the percentage of all early-stage entrepreneurs (and separately established business owners) who have created more than ten jobs and who expect more than 50% growth in jobs in the next five years.



If an entrepreneur expects to create a large number of jobs, then his or her potential contribution to growth and regeneration may be greater. Between 2003-2016 high-growth expectation rates have been broadly similar for NI and UK early-stage entrepreneurs with a recent average of 17%. For established business owners these rates are less consistent, however since 2012-14 there has been considerable improvement where the expectation rate in NI at 6% in 2014-16, exceeded the UK rate.

High-Growth Expectation Rates 2016

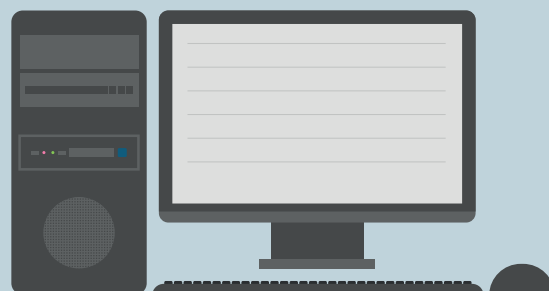


UK Local Growth Dashboard

The UK Local Growth Dashboard report by the Enterprise Research Centre contains a set of growth metrics for start-ups and existing firms. The key focus is on births and survival rates and indications of high-growth firms (HGFs) i.e. the relatively small proportion of firms that contribute disproportionately to job creation. The latest results for 2016 enable the performance of NI to be compared with the other regions of the UK.

The dataset used for start-up and growth data uses the Business Structure Database which is based on the Inter-Departmental Business Register, complemented by ONS business surveys.

NI sub-regional geographies are presented at NUTS3 (Nomenclature of Units for Territorial Statistics) classification.



The number of start-ups in an economy is often viewed as a key indicator of enterprise and entrepreneurial ability. Whilst the number of start-ups have increased in recent years, there is variation across the UK, with lower start-up rates recorded in NI and Wales.

Number of Start-Ups per 10,000 Population in the UK 2016

England	49
Scotland	16
Wales	56
NI	22
UK	46

Belfast	27
Outer Belfast	19
East NI	18
North NI	22
West & South NI	25

The growth of start-ups is of particular interest as a small number of start-ups have a disproportionate impact on business growth metrics. 'Initial Scaling' measures the proportion of start-ups reaching at least £1m revenue within 3 years and the 2016 data shows that NI has the highest rates in the UK (2.8%). In particular, Belfast and North, West and South NI have the highest rates of any local area in the UK.

2013 Start-Ups that Reached £1 million Turnover in 2016

England	2.0
Scotland	1.3
Wales	1.7
NI	2.8
UK	2.0

Belfast	3.5
Outer Belfast & East NI	1.9
North, West & South NI	3.4

Overall there are very few firms in the UK that can be categorised as high-growth or scaling and this cohort are crucial to the growth of the economy. Some identified limitations are a shortage of skilled staff, lack of a cohesive sales and marketing strategy and poor access to finance. Rather than solely focus on HGFs (which does not reflect the growth patterns of the majority of businesses) it may be more useful for policy-makers to create a growth pipeline at local level and monitor its development over time.

Sources

Enterprise Research Centre (2017) UK Local Growth Dashboard

<https://www.enterpriseresearch.ac.uk/uk-local-growth-dashboard-2017/>

Global Entrepreneurship Monitor (2017) 2016/17 Global Report

<http://gemconsortium.org/>

Organisation for Economic Co-operation and Development, Eurostat Entrepreneurship Indicators Programme

<http://www.oecd.org/std/business-stats/>

If you would like further information
regarding this report please contact:

Corporate Information Team

E-Mail: CIT@investni.com

investni.com

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