

# ERC *Insights*

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## Explaining the US-UK Ambition Gap

Data from the Global Entrepreneurship Monitor highlights a persistent gap between the US and the UK in the proportion of business owner-managers with high growth expectations. Professor Jonathan Levie examines the evidence and finds that employers in the UK and the US are in fact equally likely to be ambitious. He concludes that the ambition gap is a result of a rising proportion of new self-employed with no employees and relatively low growth ambition in the UK and a significant increase in the number of established business owners with employees in the US.

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### The big picture

The Global Entrepreneurship Monitor (GEM) annual survey provides data on both new and established business owner-managers, i.e. adults who are running their own business that was started within the last 3½ years ('new'), or adults running their own business started before this ('established'). Using GEM, we can compare the proportion of the UK and US working age population who are new business owner-managers with high growth expectations (measured as expecting to take on at least 10 more employees and grow employment by at least 50%). Between 2002 and 2012, we see a consistent gap between the US and the UK. What's more, the proportion of new business owners with high growth expectations has steadily declined in the UK from about 15% to about 9%, while it has stayed relatively stable in the US at about 15%.

### Explaining the ambition gap

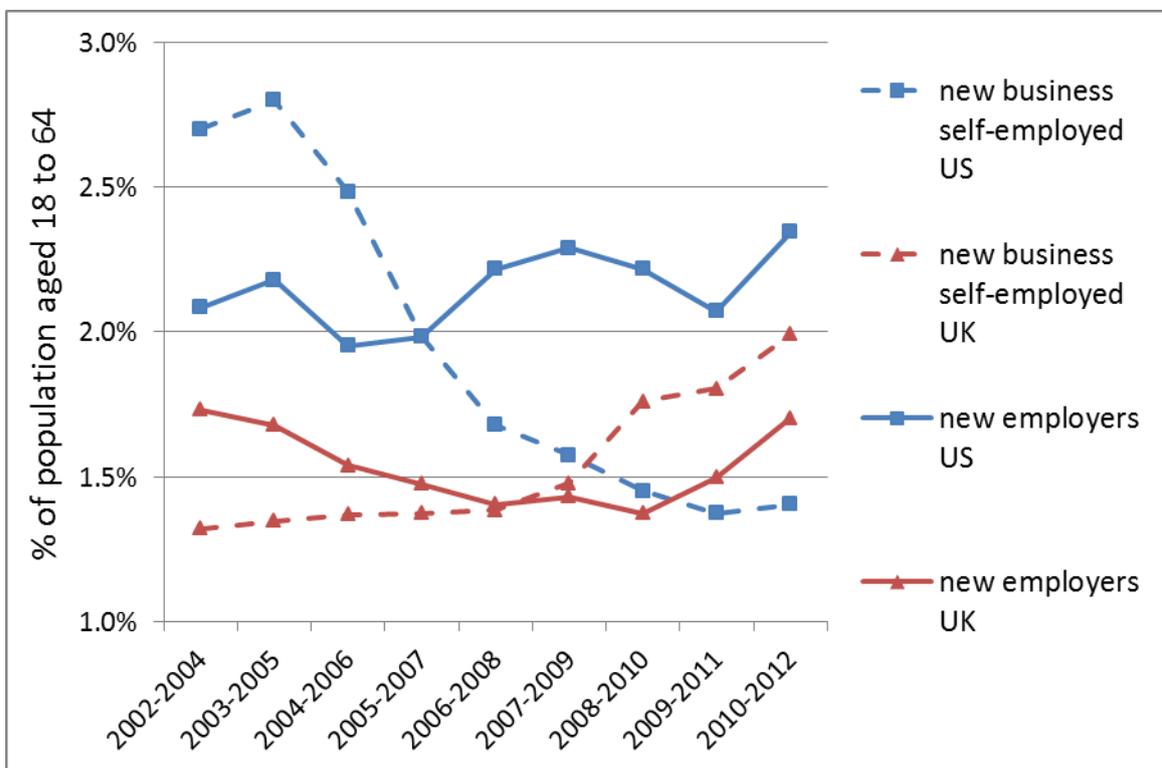
If we distinguish between business owner-managers with employees ("employers") and those without ("self-employed"), then it becomes evident that the proportion of new and established employers and self-employed has shifted considerably in the past

decade, in the UK and the US. Figures 1 and 2 show two main differences between trends in the UK and US over this period:

- In the UK, there are nearly twice as many new self-employed without employees as in the early 2000's, while in the US there are only half as many.
- Established employer numbers have increased by a quarter in the UK but have almost doubled in number in the US.

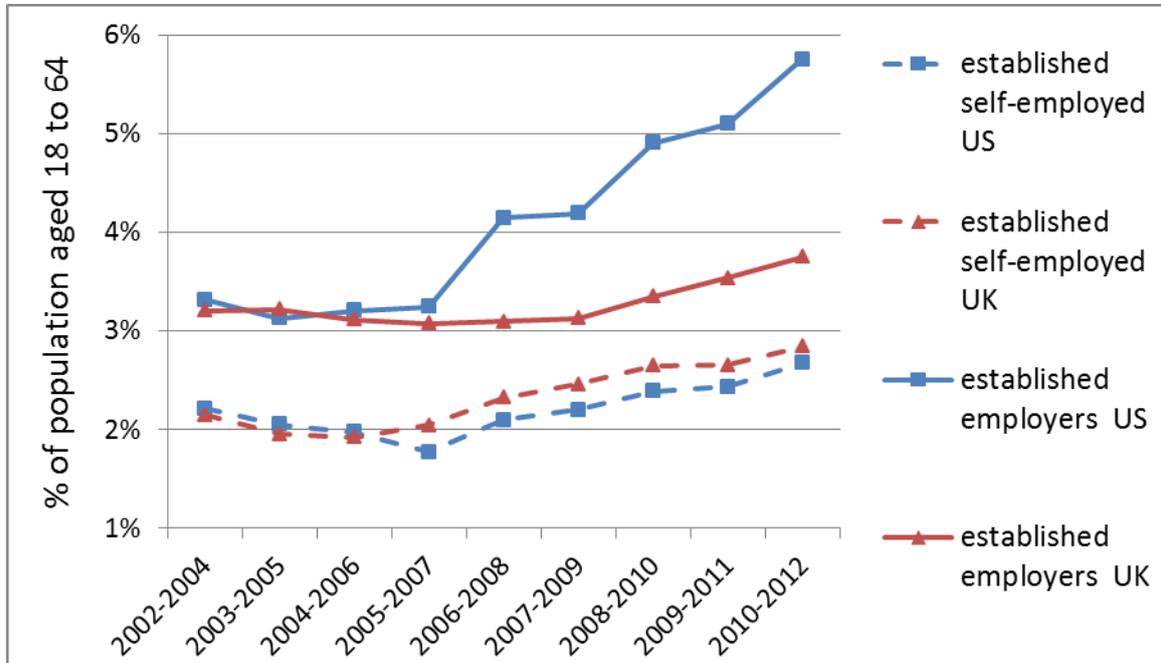
The net effect of this is that there are now fewer employers in the UK as a proportion of all business owner-managers, but more in the US.

**Figure 1: Prevalence of new business owners with and without employees in UK and US**



Source: GEM Adult Population Surveys, 2002-2012. Data 3 year moving averages

**Figure 2: Prevalence of established business owners with and without employees in UK and US**

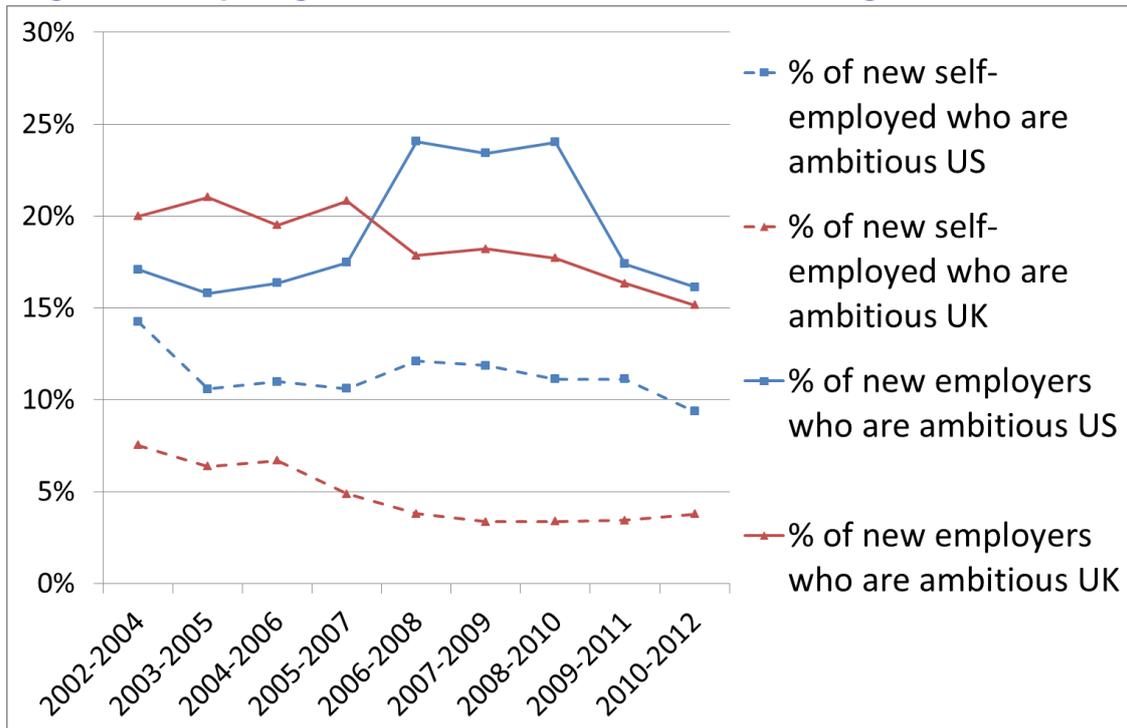


*Source: GEM Adult Population Surveys, 2002-2012. Data 3 year moving averages*

Comparing levels of ambition among new employers and new self-employed

Levels of ambition among new employers and self-employed in the US and UK are shown in Figure 3. In the UK, less than 5% of the new self-employed are ambitious, compared with 10% in the US. However, there is little difference between the proportion of new employers with ambition in the US and UK.

**Figure 3: Comparing ambition of new business owner-managers in US and UK**

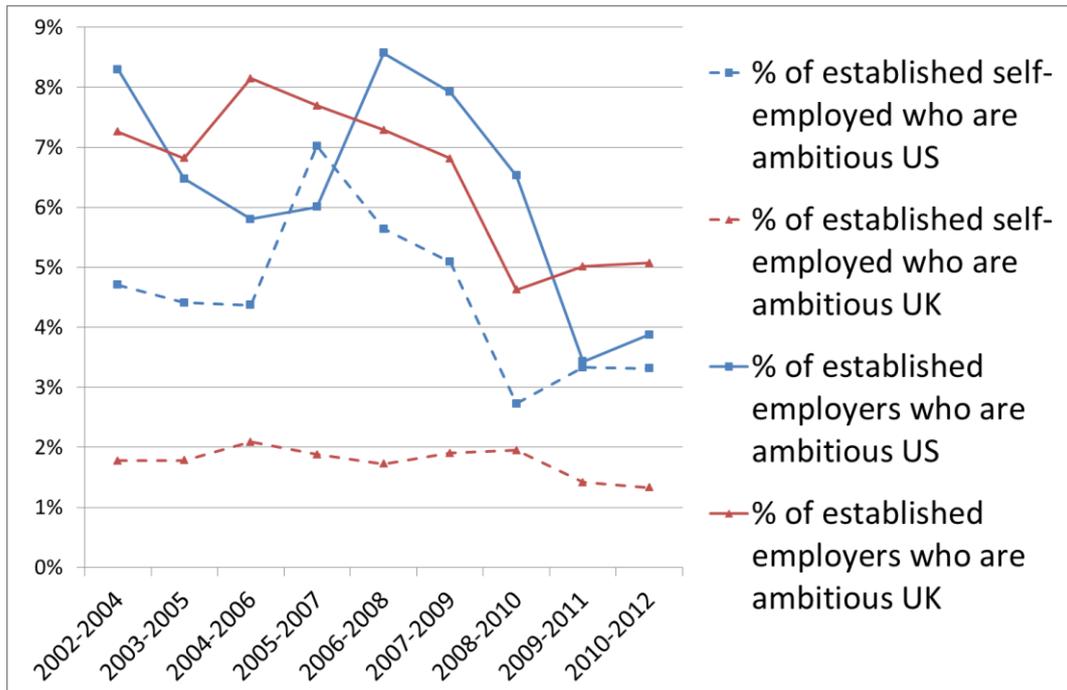


Source: GEM Adult Population Surveys, 2002-2012. Data 3 year moving averages

### Comparing ambition in established employers and established self-employed

Levels of ambition among established employers and self-employed in the US and UK are shown in Figure 4. The same features are apparent as we saw with newer firms: the UK self-employed have least ambition, and there is little difference in the proportion of established employers with ambition in the UK and the US. The decline in proportions of ambitious owner-managers over time is more marked among established than new owner-managers. The effect of the severe economic downturn in 2008 is clearly evident in these trends and especially in the US.

**Figure 4: Comparing ambition in established businesses: UK and US**



Source: GEM Adult Population Surveys, 2002-2012. Data 3 year moving averages

### To conclude

There are three main reasons for the growing ambition gap between the UK and US. First, there has been an increase in the UK and a decrease in the US in the number of new self-employed (with no employees). With little change in the number of new employers in both countries, this means that the proportion of new business owner-managers that are employers has declined in the UK but increased in the US.

Second, the number of established employers has almost doubled in the US but increased by only a quarter in the UK. Again, this has the effect of increasing the relative proportion of employers among the pool of established business owner-managers in the US, since the number of established self-employed is similar in both countries.

Third, although employers in the US and the UK are equally likely to be ambitious, employers are much more likely to be ambitious than the self-employed, particularly in the UK.

Business owners in the UK who employ people are just as likely to be ambitious as their counterparts in the US. It is the combination of rising self-employment in the UK, declining self-employment in the US, and a much faster rise in the number of employers in the US that has caused the ambition gap. Future research will consider why people in the UK are more likely to choose self-employment rather than become an employer.

**Professor Jonathan Levie**