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Knocking Down Barriers

Empowering business builders in
the UK's most deprived communities

SAM DUMITRIU



THE ENTREPRENEURS NETWORK IS A THINK TANK FOR BRITAIN'S MOST AMBITIOUS ENTREPRENEURS.

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“Either out of necessity or a desire to take control in uncertain times, many furloughed workers have turned their hobbies and passions into side hustles.”

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FOREWORD



STEVE HARE
CEO, Sage

Sage works with millions of SMEs around the world. We see every day the opportunity, sense of fulfilment and stability that taking control of your life can create. But we are kidding ourselves if we believe that opportunity is within easy reach for everyone.

The global COVID pandemic has highlighted and in some cases worsened economic inequality, particularly affecting those that already suffered hardship or discrimination.

Take the UK's most deprived communities. Half of the people we engaged with for this report earned less than £15,000 a year pre-pandemic. Around a third had experienced more than 6 months' unemployment in the last 5 years. As a result of the crisis, 42% said their health and wellbeing had worsened yet further.

Planning for a fair and sustainable recovery will inevitably require effective and targeted support for these groups and this report suggests how we should do just that, tapping into exciting potential for a generation of new start-ups and SMEs.

Starting an SME is found to be a route to a more positive financial outlook and greater work life balance for those doing low paid, low skilled work. Three quarters of SME leaders in deprived communities had seen an uplift in their career satisfaction and two thirds in their income since taking the leap.

If the four-in-ten (43%) who could, unprompted, name an idea for a business or side-hustle took that leap we could see 1 million new businesses in the 10% most deprived communities across the UK.

Companies like Sage, government and those providing business support must lean in now and ensure the barriers to becoming potential independent earners - low cost finance to get started, understanding compliance and taxes, access to support from mentors – are removed.

I am delighted that alongside this report, Sage is setting up a new programme with MyKindaFuture and Jobcentre Plus to help benefit claimants looking for work to access the most useful advice and mentoring if they want to start a business.

The insight and the steps recommended in this report to tackle societal and economic inequality could help form the foundations for a new generation of diverse and sustainable businesses.

EXECUTIVE SUMMARY

New business creation will play a vital role in post-pandemic economic recovery and the wider levelling up agenda.

It also represents a powerful opportunity to strengthen and support people in some of Britain's most deprived communities and increase their earnings through more fulfilling work.

- To understand and quantify the opportunity, The Entrepreneurs Network and Sage partnered with Portland Communications **to speak to 1,202 people and SMEs in London's three most deprived boroughs (Barking & Dagenham, Hackney and Tower Hamlets) and six of Newcastle's most deprived wards (Walker, Byker, Elswick, Benwell & Scotswood, Westgate, Kenton, Woolsington and Fawdon). They included 705 people open to the idea of starting a business as well as an additional 497 SMEs.**
- The people we polled represent a unique sample who face disadvantage in a number of key ways.
 - The vast majority (86%) earned less than £30,000 per year and almost half (45%) earned less than £15,000 a year.
 - Only one in four are homeowners, less than half the national average of 66%.
 - Many had faced significant hardships in the past 5 years – one fifth had relied on benefits, 29% were unemployed for more than 6 months, and a fifth had been furloughed.
- We asked them about their attitudes, ambitions, and fears relating to starting their own business. We also discussed the impact the coronavirus pandemic had on their income, wellbeing, and prospects.

Our polling revealed that the coronavirus pandemic has devastated their already fragile finances and had a significant impact on their wellbeing.

- **Two-fifths (39%) saw their income fall and most do not feel confident about their personal finances.**
- Their wellbeing and mental health have been particularly hard-hit with as many as 43% saying it has got worse during the pandemic, while 35% have seen their physical health worsen.
- Looking to the future, many felt their employment prospects and the opportunities available to them in their community have worsened. But SME leaders had a more positive outlook for the future.

Levelling up the communities that have been hit hardest by the pandemic will require new thinking and significant measures. In this report we reveal evidence that within these communities starting a business and becoming your own boss is seen as a route to a better life, both in terms of income and wellbeing.

- Potential business owners saw the top three benefits of starting a business as having a better quality of life (64%), a higher income (62%), and better career satisfaction (61%).
- For people in deprived communities, having more control over their lives and the ability to do something they love were seen to be as important as making more money.
- SME leaders in the same deprived communities agreed saying the key benefits of becoming an entrepreneur were related to wellbeing, not income. The top three they listed were being their own boss, doing something they love and having a better work life balance. By contrast, the wider population we polled were much less likely to say they were doing something they love or that they had a good work-life balance at the moment.

We uncovered that amidst the wider population in deprived communities there is huge untapped potential for people to start to earn independently, to be their own boss and potentially create new businesses.

- **More than four-in-ten (43%) could, unprompted, name an idea for a business or side-hustle, a key first step in the road to working for yourself. Put differently, within the deprived communities we talked to there are 234,000 people with business ideas. Extrapolating this trend across the 10% most deprived communities in the UK reveals there are over a million people living in deprived communities with business ideas.**
- Many of the ideas were influenced by the recent e-commerce revolution and involved selling products online. There was also a focus on handmade and eco-friendly products.
- Importantly, **most who have already gone down this route view their communities as a great place to start or run a business – having access to customers that they understand (48%) and being able to engage with local business owners (35%) were listed as key reasons why.**



- If we can tap into their ambitions and ideas, it would expand employment opportunities within deprived communities. It would also enable more people to take control of their future and move into fulfilling work that fits around their priorities.
- In the long term, it could create valuable community assets which can support future local businesses with mentoring and investment.

But their ideas and ambitions to start a business are held back by a lack of confidence and finance.

- Despite having a clear business idea, almost two-thirds (62%) are doubtful they could start a business – **their lack of confidence is compounded by not sharing their idea and asking for advice.** Even though most potential business owners knew someone who they could turn to for advice, less than half had reached out.
- The key barrier to asking for advice was a fear that their idea would fail. Others were afraid to take up someone's time, while some thought their idea would be seen as too silly. By contrast, 73% of people running an SME had access to a mentor and more than half took advantage of the opportunity to receive advice.
- On average potential business owners believed that starting a business would cost £12,000 and over two-thirds (70%) did not feel close to having enough money. This was an overestimate according to SME leaders who believed the figure was closer to £5,000 in practice.



- The majority of potential business owners surveyed believed they would need to access external financing, **but only a third felt comfortable taking out a loan.** Half saw rejection as the most likely outcome, with a quarter believing they would definitely be rejected. Only around a third thought they would most likely be approved. Low credit scores and a history of bad credit were the most common reasons given for expecting rejection.
- Lack of confidence was a recurring theme in our polling. In particular, a significant proportion of potential business owners lacked confidence in handling the administrative side of the business. **Almost a third felt unconfident about opening a physical business. Similar numbers lacked confidence in accessing finance and paying and filing taxes.**

Access to the right support could be transformative.

- Our polling found that if the right support was available, potential business owners would be, on average, 17% more likely to take the leap.
- This would translate to 38,000 more people working for themselves in the 12 deprived boroughs and wards we polled alone.
- If this impact were replicated across the most deprived 10% of communities in the UK, then it would mean 188,000 more people becoming their own bosses and finding more fulfilling work.



- This would also have positive knock-on effects for employment, creating between 50,000 and 210,000 additional jobs.

Effective support needs to target both financial and confidence barriers.

- **To tap into the potential for growth and wellbeing in deprived communities, and as a core part of the Government's strategy for 'levelling up' the New Enterprise Allowance should be expanded to £100 a week for up to a year and allow recipients to access more of it immediately as a lump-sum.**
- Under the status quo, a majority of potential business owners felt New Enterprise Allowance payments were too low and most would not consider using it (79%). The £100 a week payment would be worth £5,200 over a year, equivalent to the amount SME leaders believe, on average, it cost to start their business.
- The revised scheme should be open to a wider range of people, including people who have been furloughed in the past 12 months and under 23 year-olds earning less than the National Living Wage. It should be aggressively marketed towards young people in communities with high levels of deprivation.
- **The Government should incorporate entrepreneurship into the Government's lifelong learning programme and fund SME mentoring.**
- Existing support often misses early stage businesses and further education often neglects enterprise as a career path despite widespread appetite for it.
- New support could leverage peer-learning and allow people to access advice from SME owners who can draw on real-life experiences. Existing schemes such as Peer Networks, which rely on businesses learning from other-businesses, should be expanded and targeted at people in the earliest stages of starting a business.
- Businesses should also be given the flexibility to use their unspent Apprenticeship Levy funds to fund mentoring programmes targeted at early-stage entrepreneurs.
- **The Government should deploy resources to new entrepreneurs aimed at demystifying the administrative side of entrepreneurship.**
- The new resources should be delivered through social networks such as YouTube and Instagram, which our polling revealed is a more effective way to reach deprived communities compared with LEPs or other business support organisations.
- This should be combined with simplifying business interactions with the Government through better use of technology. Projects such as the Government Digital Service's work to map out the process of starting a business and create an online hub should be championed and prioritised.



INTRODUCTION

Across the world, there is a recognition that the coronavirus pandemic should act as a catalyst for positive change in the years to come. The slogan ‘Build Back Better’ has been inescapable for the past year. Yet, if it is to be more than empty rhetoric, it will require a focus on the individuals and communities who before the pandemic faced deprivation on multiple fronts and lacked opportunity in the traditional labour market.

The ambition to ‘level up’ the UK is a noble one, but we must recognise that within the most productive and prosperous parts of the UK exist severely deprived communities. For instance: one in five people in Hackney and Barking & Dagenham (in London) live in low-income households and receive income support from the state. Similarly, Tower Hamlets and Hackney have the highest levels of over 60s living in low-income households in the country.

There is a case for looking deeper too. In some local authorities, there are wards where high levels of deprivation are common. For example, in the Elswick area of Newcastle almost half of all children (48%) live in absolute poverty, while parts of Benwell & Scotswood are in the bottom 1% of the UK in terms of access to higher education and educational attainment.

Supporting entrepreneurship and self-employment has the potential to transform these communities. It offers a way of not only creating new employment opportunities for the entrepreneur themselves but also creating jobs for others in the community as well. Independent earning is also a route to

greater fulfilment. Research shows that the ability to choose your own hours and to be your own boss can have major benefits for wellbeing.

As the UK attempts to ‘build back better’, The Entrepreneurs Network has partnered with Sage to understand both the role that entrepreneurship can play in the UK’s post-coronavirus recovery and the wider social benefits in unlocking entrepreneurial talent from all backgrounds. To develop that understanding, we commissioned Portland Communications to conduct in-depth interviews and hold focus groups with early-stage business owners and potential business owners from some of the hardest-hit communities in the UK. We selected the communities on the basis of their scores on the Index of Multiple Deprivation. They include London’s three most deprived boroughs (Barking & Dagenham, Hackney and Tower Hamlets) and six of Newcastle’s most deprived wards (Walker, Byker, Elswick, Benwell & Scotswood, Westgate, Kenton, Woolsington and Fawdon).

The discussions allowed us to tap into the motivations and fears of individuals who we believe could play a pivotal role in the UK’s post-coronavirus economic recovery.

Insights gleaned from the interviews and focus groups were then tested by polling 497 SME leaders and 705 potential business owners¹ from the same parts of the UK. Our survey reached a wide range of people who face deprivation in a number of ways. Almost half the potential business owners we polled (45%) earned less than £15,000 a year. Only 25% were homeowners – well below the national average – 31% rented privately and 22% were in social housing. Over half our sample was educated below A-Level or equivalent and 8% lack any formal qualifications. Only 36% were employed full time and nearly as many had been unemployed for more than 6 months in the last five years.

The pandemic has devastated fragile finances and set back progress.

The potential business owners we surveyed from the most deprived parts of London and Newcastle were particularly hard hit. Almost four-fifths (78%) experienced at least one major negative impact from the pandemic on their life. Nearly two-fifths (39%) experienced a fall in their personal income and less than half (49%) do not feel confident in their personal finances. Additionally, many surveyed (35%) felt their future employment prospects have got worse and marginally more (38%) believed the opportunities available to them in their community have also got worse.

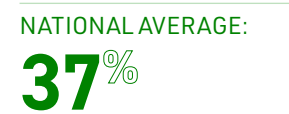
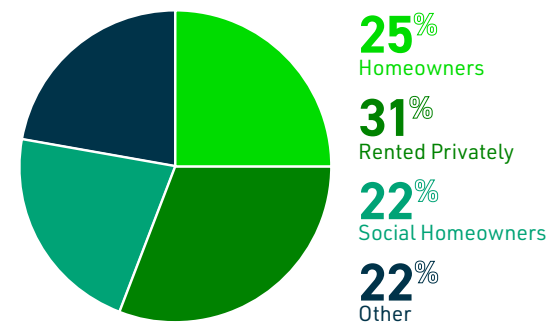
Progress on race and gender has been set back

It is helpful to understand the wider economic context. In many areas relating to employment, pay, and investment, steady progress was being made before the pandemic. For example, the ethnicity employment gap has fallen by almost a third over the past fifteen years and the proportion of equity funding going to startups with at least one female founder has more than doubled. But the pandemic threatens to set back recent progress.

For example, female founded equity-backed businesses were disproportionately impacted by the crisis and took longer to recover. Women were hit significantly harder than men in terms of income. Of the female potential business owners we polled, 65% had seen their household income fall. They were nearly twice as likely to experience a fall in household income compared to male potential business owners (35%).

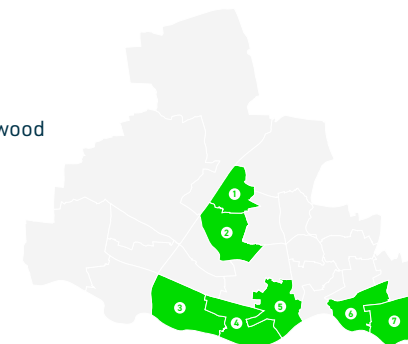
Along the same lines, the pandemic has set back progress on the racial employment gap. The unemployment rate for Black 16-24 year-olds increased by more than four times as much as it did for White 16-24 year-olds (9pp vs 2pp).²

Our unique sample faced deprivation on multiple fronts.



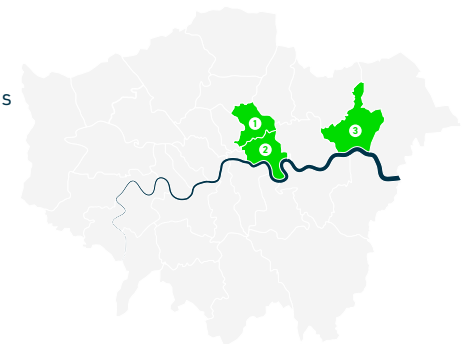
NEWCASTLE

- 1 Fawdon
- 2 Kenton
- 3 Benwell & Scotswood
- 4 Elswick
- 5 Westgate
- 6 Byker
- 7 Walker



LONDON

- 1 Hackney
- 2 Tower Hamlets
- 3 Barking & Dagenham



1 Please note, for the purposes of brevity, we use the term potential business owners to include potential freelancers/self-employed as well as those who want to set up a registered limited company.
2 Henehan, K. (2020) Uneven steps: Changes in youth unemployment and study since the onset of Covid-19. The Resolution Foundation.

“Women were nearly twice as likely to experience a fall in household income compared to male potential business owners (35%).”

SMEs were hit hard, but there is reason for optimism

Our survey of SMEs found that business owners experienced a significant financial hit with almost half (47%) saying their personal income has worsened, and almost as many saying their household income has worsened (40%). A third of SME leaders (33%) say their wellbeing and mental health have been worsened by the pandemic. However, their future outlook is more positive than potential business owners. More than seven out of ten (71%) feel confident about their personal financial situation.

Recent data from the Global Entrepreneurship Monitor finds cause for optimism. Although the UK saw total early-stage entrepreneurial activity fall from 9.3% of the adult population in 2019 to 7.8% in 2020, there were signs that entrepreneurship levels will recover across the wider population. More adults expect to create a new business in the next three years – up from 7.6% in 2019 to 8.2% in 2020. Importantly, four-fifths (80%) of people with entrepreneurial intentions said their decision was influenced by the pandemic to some extent.³ However, with inequalities exacerbated by the pandemic, there is a real concern that the recovery will continue to be weighted towards more prosperous areas and better represented groups. In other words, we still not fully utilise the entrepreneurial talents of the whole of the UK.

We wanted to understand attitudes towards starting businesses because new businesses are the key driver of job growth.⁴

Either out of necessity or a desire to take control in uncertain times, many furloughed workers have turned their hobbies and passions into side hustles. Data from Companies House shows a 13% increase in the number of businesses incorporating in 2020 compared to the year before. Online retailing was the key driver in the growth of new businesses, which reflects both the necessity of trading under lockdown, but also how digital technology has cut the cost of starting a new business.

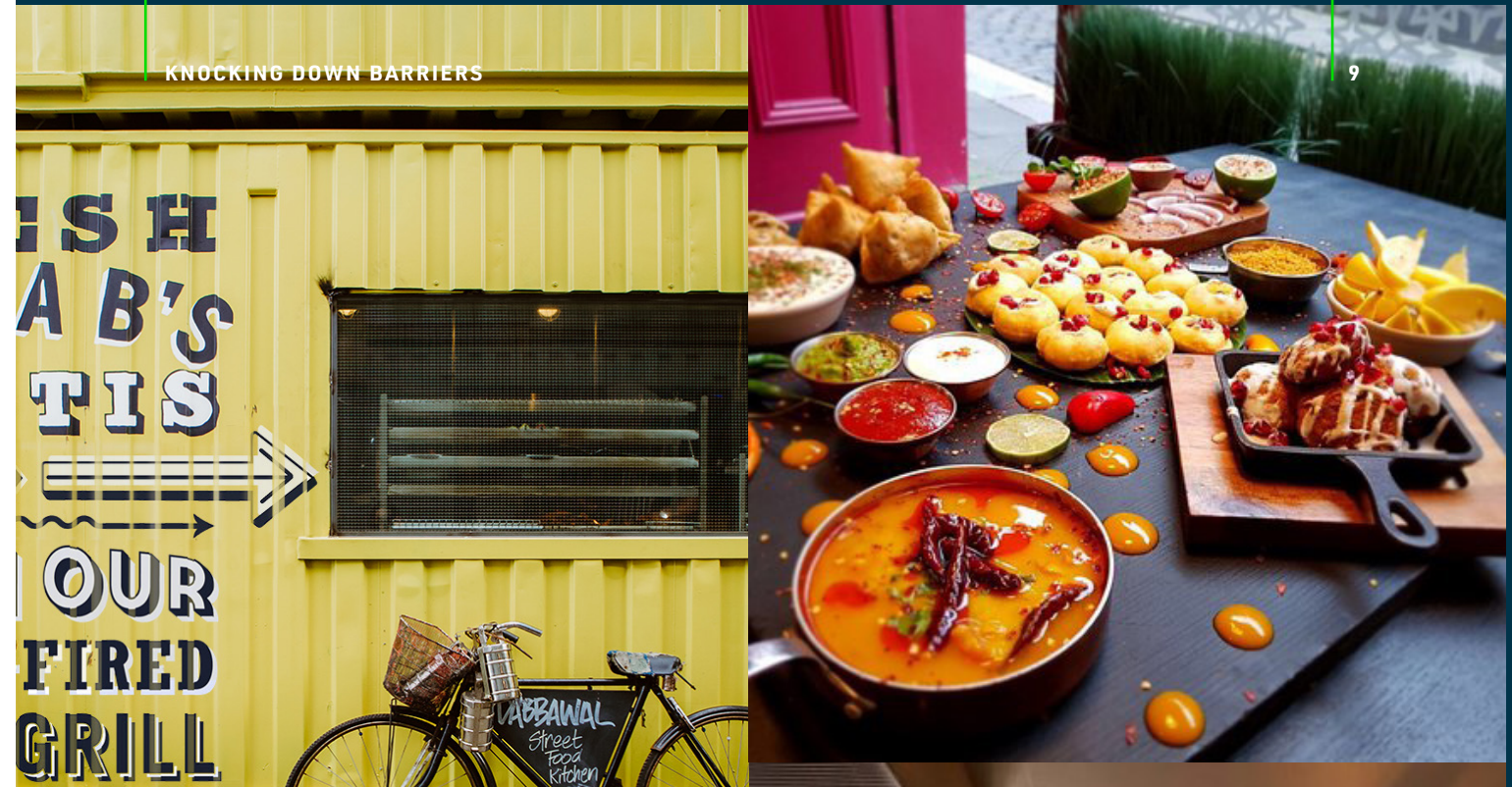
The key economic questions are: how many of these new side hustles will become long-term viable businesses, and what steps can the government and the wider business community take to help people in deprived communities succeed in their ambitions?

Deprived communities were hard hit, but SMEs are optimistic about the future.

	Potential Business Owners	SME Leaders
Experienced a fall in personal income	39%	47%
Do not feel comfortable in their personal finances	49%	35%
Felt future employment prospects were worse	35%	35%
Mental Health impacted	43%	33%
Feel confident about financial situation	49%	71%

³ Global Entrepreneurship Monitor (GEM) 2020/2021 Global Report.

⁴ Ibid.



CASE STUDY ADITYA, NEWCASTLE

The pandemic hit many business owners hard, but twenty-five-year-old restaurant owner Aditya was particularly impacted. Aditya's award winning business aims to fill a gap in the market for authentic Indian street food.

Before the pandemic, his two gourmet Indian street food restaurants were 'hustling and bustling', but the Newcastle-based entrepreneur describes the last year as 'gloomy'. His eateries, which used to be packed with people, were now empty.

Aditya didn't have the luxury of falling back on his partner's income as they had both invested in the business.

"It was hard, but we tried to make it out of the situation".

Focused on the future and the long-term goal of having his own chain of restaurants, Aditya and his partner used the time to renovate one of his restaurants. Their idea of using the pandemic as a long staycation was fun at first, but soon "became more and more challenging".

He believes support from the local community was key to getting through the pandemic. When he and his partner contracted Covid-19, he said "it was the people in the community who helped us get through that phase."

Aditya is undeterred and still sees running his own restaurant as a way of doing something he is passionate about at work.



UNTAPPED POTENTIAL

The majority of the people we polled see working for themselves as a way to improve their quality of life (64%), to earn more (62%), to be satisfied in the work they do (61%), and to have greater opportunities to learn (59%).

While many people are held back from achieving their ambition by a fear of failure and a lack of financial security, there appears to be no shortage of entrepreneurial ideas from people living in deprived communities. **More than four-in-ten (43%) of the potential business owners we polled had business ideas they could imagine pursuing**, which is in line with the wider population despite our sample having lower incomes, less educational attainment and higher representation of underrepresented groups in business.⁵

When asked about their business ideas, two key themes emerged from our sample. First, many ideas involved selling a product online. This likely reflects the massive growth in e-commerce we have seen over the last year. Second, many of the ideas involved selling handmade products, in some cases with a focus on sustainability. For instance, handmade jewellery, making bath bombs, and revamping old furniture for resale, all featured. Interestingly, we found that social media was often a source of inspiration for entrepreneurial ambitions.

43%

OF POTENTIAL BUSINESS OWNERS WE POLLED HAD BUSINESS IDEAS THEY COULD IMAGINE PURSUING



⁵ Hart, M., Bonner, K., Prashar, N., Ri, A., Levie, J., & Mwaura, S. (2020). Global Entrepreneurship Monitor: United Kingdom 2019 Monitoring Report.



Yet, while entrepreneurial ambition and ideas are widespread, there is evidence that the UK is not utilising the full range of entrepreneurial talent.

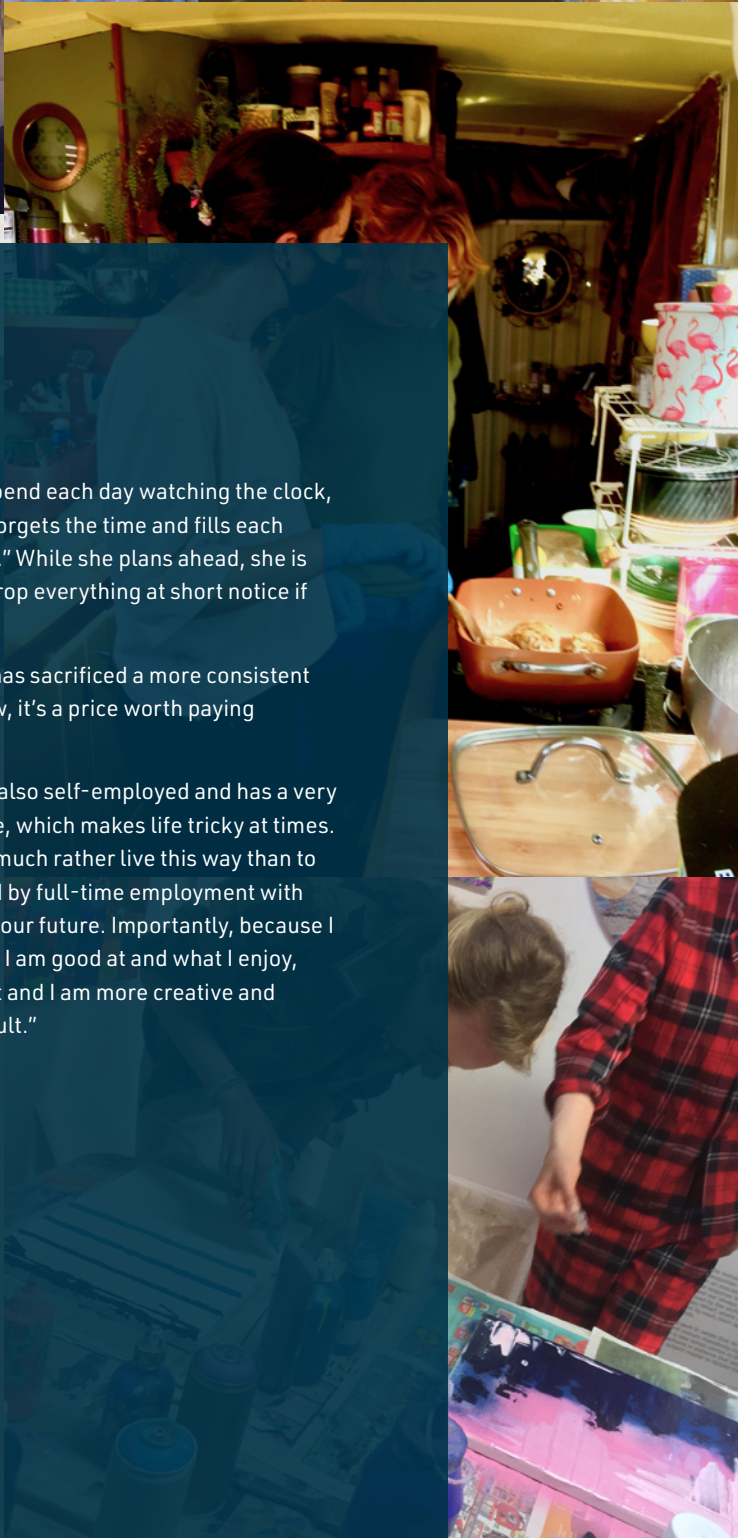
Although recent strides have been made towards gender equality, women still start businesses at less than two-thirds the rate as men (7.7% versus 12.1%).⁶ Where you are born also affects whether or not you start a business. Data from the Enterprise Research Centre's Local Growth Dashboard highlights that rates of startup activity vary across the country. London and the South East have the highest number of startups per 100,000 people, but some parts of the Midlands (Worcestershire, South East Midlands and Greater Birmingham and Solihull) and North West (Greater Manchester) also show high rates. While the rates in the West of England and North East England were lower. For instance, the number of startups per 100,000 was four times higher in London compared to the North East.⁷

The data is even starker when you look at access to growth capital. For instance, only ten black female entrepreneurs received VC funding between 2009 and 2019.⁸

⁶ Ibid.

⁷ Enterprise Research Centre. (2018) UK Local Growth Dashboard.

⁸ Brodnock, E. (2020) Diversity Beyond Gender: The State of the Nation for Diverse Entrepreneurs. Extend Ventures.



CASE STUDY TERE, LONDON

Losing a job is rarely a welcome experience, but sometimes it can be a wake-up call. It certainly was for Tere who runs a leisure and tourism business in London. "I decided to work for myself when I 'lost' my full time Office Manager job. It was a relief as I was unhappy so I decided I wouldn't take another full-time job again."

After a brief period working as a freelancer, Tere worked for a local entrepreneur who helped her with contacts enabling her to start her own business. Although lockdown has meant she was not able to make the progress she hoped, she is fully sold on the idea of earning money independently. Running a business has given her a major psychological boost.

"Making an income from my own talents and abilities has made a huge difference to my self-esteem, and it's only since I took the plunge to become self-employed that I realise how miserable I was working for someone else."

Flexibility has been another key benefit for Tere.

"I have never been a person who enjoys a rigid routine, nor do I like to be forced to work during specific hours or days and it's perhaps this element I struggled with most of my working life."

Tere used to spend each day watching the clock, but now she "forgets the time and fills each day as needed." While she plans ahead, she is now able to "drop everything at short notice if necessary."

Although she has sacrificed a more consistent income for now, it's a price worth paying for Tere."

"My partner is also self-employed and has a very uneven income, which makes life tricky at times. But we would much rather live this way than to feel suffocated by full-time employment with no power over our future. Importantly, because I am doing what I am good at and what I enjoy, I don't resent it and I am more creative and happy as a result."

MOTIVATIONS AND ASPIRATIONS

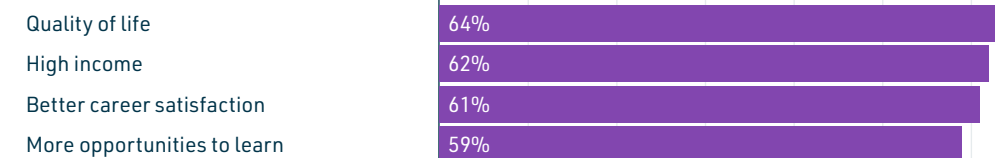
What drives people to want to work for themselves? As mentioned before, we have seen a dramatic shift in both attitudes towards entrepreneurship and rates of self-employment. However, entrepreneurship and self-employment carry risk and there is no guarantee of higher incomes. For instance, the solo self-employed earn, on average, less than employees.⁹ Yet, for many, the added flexibility and freedom is associated with higher wellbeing.

Looking at self-reported measures of wellbeing the self-employed exhibit higher levels of happiness and were more likely to state that their life is worthwhile.¹⁰ This is a well-established finding. A number of surveys find that the self-employed are happier than employees even when they earn less and work more. For example, a survey of self-employed workers on low incomes commissioned by the think tank Bright Blue found 80% were satisfied with their job even though on average they work for 12 hours a week more.¹¹ Along similar lines, an Oxford Martin Business School survey into Uber drivers found that despite being at the lower-end of the income spectrum, drivers had higher levels of life satisfaction.¹²

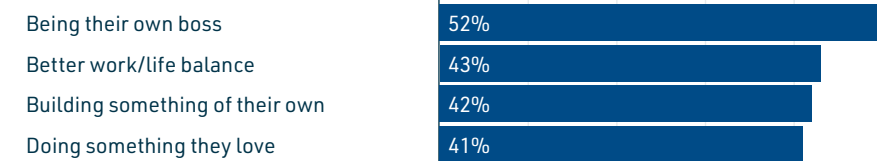
This suggests that money is not the key, or at least not the only, motivator for independent earners. When we polled young people about their attitudes to entrepreneurship and self-employment, the top three motivations cited were 'a desire to be one's own boss', 'the freedom to do what I want', and 'being passionate about a particular idea or cause'.¹³

Our polling of 705 potential business owners living in deprived communities shows that they see entrepreneurship as a way of finding more satisfying work, more opportunities to advance long term, and improve their overall quality of life. When asked about the potential benefits of becoming

TOP PERCEIVED BENEFITS OF ENTREPRENEURSHIP



TOP BENEFITS OF ENTREPRENEURSHIP ACCORDING TO SME LEADERS



9 Giupponi, G., & Xu, X. (2020). What Does the Rise of Self-Employment Tell Us About the UK Labour Market. Institute of Fiscal Studies.

10 Ibid.

11 Kirkby, D. (2016) Standing alone? Self-employment for those on low income. Bright Blue.

12 Berger, T., Frey, C. B., Levin, G., & Danda, S. R. (2019). Uber happy? Work and well-being in the 'gig economy'. Economic Policy, 34(99), 429-477.

13 Dumitriu, S. (2019) Future Founders. The Entrepreneurs Network.



an independent earner, they named on average 3.5 benefits. The most common was quality of life (64%), followed by higher incomes (62%), better career satisfaction (61%), and more opportunities to learn (59%). In their view, the most important benefit was having a passion for and pride in what they do.

In order to understand the attraction of entrepreneurship to people from deprived communities, it is helpful to look at what they think success means. There was a financial element for most, but it was less driven by making loads of money, and more about increased security. The most popular answers were 'having extra money at the end of the month' (53%) and 'being able to comfortably support themselves and their family' (44%).

But non-financial motivations were important too and a large proportion of respondents saw success as linked to autonomy and quality of life. Just under half (44%) saw wider success as having a good work-life balance and 38% thought it would mean being their own boss and being able to decide how they want to work.

Expectations mostly match reality for people running a business. Of the 497 SME leaders we polled, 61% anticipated that being their own boss would be the key benefit, and in reality, this was the case for 52%. The other key benefits they anticipated were doing something that they love (43% vs 41% in reality), having a better work/life balance (43%) and building something of their own (42%). Again, the reality was similar to their expectations.

SME leaders generally saw success in personal, not financial terms. Success for them meant doing what they love (41%), working when they want (36%), working where they want

(33%) and having the freedom to choose what work they do (32%).

“There was a financial element for most, but it was less driven by making as much money as possible, and more about increased security.”

Our polling revealed gender differences in entrepreneurial motivations and experiences. Setting up a business was seen by women in particular as a way to gain more flexibility. For instance, 41% of women stated that they thought working when they want would be a significant benefit, versus 29% of men. Similarly, women were more likely to say they believed doing something they loved would be a significant benefit of working for themselves (38% vs 23% of men). This is also the case for women who run businesses. Female SME leaders were more likely to say that choosing where and when they work were benefits of working independently.

In practice, becoming an entrepreneur brings with it a range of benefits. Three quarters (76%) of SME leaders have seen improvements in their career satisfaction. Additionally, two-thirds (67%) have benefited from more opportunities to learn and almost as many (64%) have seen their income rise.



CASE STUDY JAMIE, LONDON

After being made redundant from one of London's five star hotels in October, Jamie decided to use his expertise to set up a consultancy specialising in commercial guidance, systems and training for the hospitality industry. He wanted to have control over his own earning potential and use his experience to generate income from multiple sources.

It has been a quiet start for Jamie as the sector has been all but shut down for the start of 2021. Starting a business from home was not easy. "Initially, being at home for most of the time was fine but it became more challenging from a sense of isolation as once I started my own business I didn't have a work environment and colleagues for stimulation and discussion."

It has given Jamie a new perspective on work.

"It has made me realise the importance of having a routine and structure to my days and the importance of having regular interactions with clients and industry peers for mental stimulation."

Yet, Jamie believes that escaping the office environment has been on balance, positive.

"When I consider that my last role was in a particularly caustic environment with too many individuals focussed on self-preservation and not on collective commercial impact, working from home and no longer being in an office environment has had a positive impact"

It takes a fair degree of bravery to start a hospitality business in 2021, but the rewards outweigh the risks in Jamie's eyes.

"While there is uncertainty over my future income, I do at least feel I have greater control over my own destiny. It has been an enjoyable process so far and the connections I have made and assistance I've received from my peers in the industry has been hugely motivational."

Starting a business has been a valuable learning experience for Jamie too.

"I have learnt a lot so far in my brief journey, about setting up a new business, website, and picked up soft skills such as networking and prospecting."



WHAT'S STOPPING THEM?

If people believe entrepreneurship is a route to a better life, both in terms of finance and wellbeing, it prompts the question: what is stopping them from taking the leap? To try to understand, we asked potential business owners about what they perceive to be the largest barriers preventing them from starting a business.

Broadly speaking, they fit into two categories. On the one hand, you have a lack of access to finance. Most of the people we asked felt they lacked the financial resources to start a business and a significant proportion did not believe they could access the funds through a bank loan. On the other hand, you have the question of knowledge and confidence. Many would-be founders were deterred by a fear of failure and concerns they lacked the knowhow to manage the administrative aspects of running a business.

Access to finance

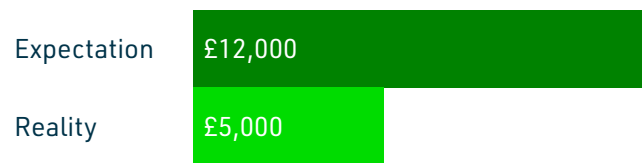
Attitudes to money among potential business owners are mixed. Just under half felt confident about their finances. Almost one fifth (17%) felt not very confident and 7% felt not at all confident. This is a problem for entrepreneurship as the potential business owners we surveyed believed, on average (median), it would cost £12,000 to start a business. This suggests they have realistic expectations of the cost of founding a business. When we polled SME leaders, they reported that it only cost roughly £5,000.

Unsurprisingly, given the higher than average rates of deprivation in our sample, under a third (30%) had or were close to having enough money to start a business. While almost two-thirds (60%) believed they would need to access some form of finance to transition to independent earning. This group was split evenly between people who believed they needed to access a small loan and those who felt they would need a large loan.

However, attitudes to borrowing were mixed. While over a third (34%) felt either very comfortable or somewhat comfortable taking out a loan, almost as many (33%) felt either somewhat uncomfortable or very uncomfortable about going into debt. By contrast, nearly half the SME leaders we surveyed felt comfortable taking out a loan, and less than a quarter felt uncomfortable in any way.

Nonetheless, it is one thing to be comfortable with taking out a loan, it is another getting approved for it. Half of the potential business owners we surveyed (49%) saw rejection as the most likely outcome, with a quarter (25%) believing

HOW MUCH WOULD IT COST TO START A BUSINESS



Potential Business Owners expect starting a business to cost £12,000, but in reality it costs £5,000 according to SME owners.

they would definitely be rejected. Only around a third (36%) thought they would most likely be approved. Low credit scores and a history of bad credit were the most common reasons given for expecting rejection.

Ethnicity was a factor in how confident potential business owners were about applying for a loan. People from a Black or Asian background were almost twice as likely to believe their application for a loan would be definitely approved.

Regional differences in access to capital are well-documented and reflected in our polling. For instance, the SMEs in London we polled were more likely to have used external finance to fund their business. This was the case for both private bank loans (37% vs 31% in Newcastle) and government-backed Start Up Loans (21% vs 11% in Newcastle.)

Research from the British Business Bank suggests that such beliefs are common among SME owners, yet often overblown.¹⁴ Around one in ten SMEs have a clear need for additional finance, but fail to apply for loans due to a belief that their application would be rejected, or that the raising capital would simply be too expensive. However, a British Business Bank analysis found that over half of discouraged borrowers would be successful if they applied. It is estimated that discouraged borrowing depresses investment levels in the UK by around £1.5bn. Our polling seems to fit with the idea that potential business owners have a better chance of

getting approved for a loan than they expect in advance. Three-quarters of SME leaders were approved for loans when they applied. When they were rejected it was more likely to be the result of having a weak business plan rather than due to their own personal credit score.

It is important to consider the gender angle in terms of access to finance. Our polling found that while men and women took out loans at similar rates, female SME leaders felt more uncomfortable when borrowing money. Less than half (46%) of female SME leaders who took out a loan felt comfortable doing it, while over half (58%) of male SME leaders felt comfortable taking out a loan. Women were also less likely in general to feel comfortable with borrowing money.

Existing support on the financial side seems insufficient. A plurality of potential business owners felt New Enterprise Allowance payments were too low and most would not consider using it (79%). Similarly, only a quarter (26%) would consider taking out a Start Up Loan, the government's flagship entrepreneurship initiative, fitting with a broader reluctance to take on debt.

The impact of the pandemic on finances could have thrown up new barriers to entrepreneurship. Two-fifths of the potential business owners we surveyed experienced a fall in income. Of course, not everyone's income was hit by the pandemic. Just over half of the people we surveyed did not see their income change over the last year. Some workers, such as those able to work from home, may have even seen their financial situation improve as expenditures fell during the lockdown period. Savings accumulated as a result could be used as startup capital. This is one way in which the pandemic threatens to exacerbate existing inequalities of opportunity.

When we asked potential business owners to list the key benefits of their current job, income came top. There is a possibility that the economic devastation caused by coronavirus may have made some more reluctant to try their hand at entrepreneurship and give up a stable paycheck when there is a risk that if they fail they may be unable to return to a similar role. In this case, financial support will need to provide both security as well as working capital.

Knowledge and confidence

Lack of confidence was a recurring theme in our polling. In particular, a significant proportion of potential business owners lacked confidence in handling the administrative side of the business. While half (50%) felt confident about registering a business and slightly more felt confident they could follow laws addressing employment and health and safety, some tasks stood out as particularly daunting. Almost a third (30%) felt unconfident about opening a physical



business. Similar numbers lacked confidence in accessing finance (27%) and paying and filing taxes (26%).

Fears around administration were widespread. Only 14% said they would not worry about completing administrative tasks, the vast majority (86%) did worry. The biggest concerns were around getting fined or penalised for accidentally doing something illegal and making a financially costly mistake. This is likely to be a particularly pressing concern for those on low incomes, such as the people from deprived communities we spoke to. Past research has found a general appetite from SMEs to simplify the regulatory process. For instance, a Federation of Small Businesses poll found that three-quarters of businesses could identify at least one regulatory barrier and 73% wanted to see simplified regulatory requirements for SMEs. A further 41% thought that clearer and simple guidance on compliance was essential.¹⁵

There was also a significant minority who lacked confidence in working with technology. While half felt confident in using digital marketing, one fifth did not. Confidence levels were even lower for building a business website. Although there are major marketing campaigns designed to promote new user-friendly website creation services, a significant proportion still thought it would be one of the harder aspects of starting a business. One participant in a focus group told us that creating a website was harder than she expected. In light of this, there may be a strong case for the Government to actively promote free initiatives such as TechNation's Digital Business Academy, Google's Digital Garage and FutureLearn, all of which provide online courses on how to start a digital-focused business.

SME leaders appear to have shared the concerns of potential business owners when they started a business. For instance, building a website, filing taxes, and accessing finance were all top issues. In fact, the challenge of dealing with paperwork and admin was second only to finding customers. However, where SME leaders differ is in overall levels of confidence. They were around 10 percentage points less likely to feel unconfident than SMEs on these three issues.

14 British Business Bank (2019) Small Business Finance Markets 2018/2019.

15 Hyde, R., Poole, A., & Smith, J. (2017). Regulation Returned: What small firms want from Brexit. Federation of Small Businesses.

Higher levels of confidence were a common theme. For instance, they were 6 percentage points more likely to say they did not worry about administrative tasks. However, there were still high levels of concerns around getting fined or penalised for accidentally breaking the law (43%) and making a financially costly mistake (35%). The importance of overcoming the administrative barrier was driven home by the fact that SME leaders said receiving independent advice made life easier more than any other factor.

Exposure to fellow business leaders and people with similar goals appears to be an important factor in the decision to start a business. Two-thirds of SME leaders knew people with similar goals and it was seen as the third most popular factor in making it easier to start a business. The finding chimes with past research, which found that young people who knew entrepreneurs (i.e. as family friends) were more likely to want to start a business.¹⁶ The impact of role models and mentors is also seen in the wider innovation literature. Research from Harvard and the LSE found that exposure to innovation at an early age was a key factor in the decision to become an inventor later in life.¹⁷

Family and friends (42%) topped the list, when potential business owners were asked who they would go to for advice or inspiration. Perhaps surprisingly, this was closely followed by Government websites (39%) and YouTube (37%). By contrast, SME leaders were slightly less likely to turn to YouTube (29%) as a source of information. This may be due to SME owners being slightly older on average. However, it was still in the top three sources alongside family and friends (45%) and Government websites (36%). Both SME leaders and potential business owners saw the above as the primary three options and were significantly more likely to use them compared to using the local council or reading a book about business.

There were some regional differences in terms of seeking advice. For instance, our polling found London SMEs were slightly more likely to use local enterprise partnership growth hubs than SMEs in Newcastle.

Women who ran SMEs tended to be more open to reaching out for advice. In particular, they used social media and government websites more than men who ran SMEs.

When it comes to advice, confidence is still an issue. Most potential business owners knew someone who they could turn to for advice (58%), but less than half had reached out. The key barrier to asking for advice was a fear that their idea would fail. Others were afraid to take up

someone's time (20%), while some thought their idea would be seen as too silly (15%). By contrast, 73% of SME leaders surveyed had access to a mentor and more than half of those, took advantage of the opportunity to receive advice.

One potential underlying reason for this reluctance on the part of potential business owners could be their proximity to their friends and family. In some cases, it is easier to talk to a more impartial or disinterested person who can then provide objective advice without the risk of an awkward conversation. In this sense, local communities may play an important role. One of the best aspects of successful startup ecosystems (e.g. tech in San Francisco, Cambridge, and London) is the ease with which people can reach out for advice and also the willingness of mentors to offer it. This is, admittedly, difficult to create from scratch, but institutions such as accelerators and incubators can play a valuable role.

One perhaps surprising finding was that non-white SME owners tended to have more access to mentors and people with similar goals when they started their business. In fact, 94% of Black SMEs and 84% of Asian SME leaders knew a mentor that they could turn to for advice when starting out, which is significantly higher than the 71% of White SME leaders who had someone they could reach out to. Similarly, Black SME leaders were more likely to reach out to someone with similar goals (48%) than White or Asian SME leaders.

In general, ethnic minority SME leaders and potential business owners were more likely to reach out to 'social' as opposed to 'formal' resources for advice and support. By contrast, White potential business owners were more likely to use government websites for advice, while ethnic minority potentials were more likely to access information from social media.

The importance of local communities is seen in the number of SMEs reaching out to local resources. **Of the SME leaders we polled, a quarter had received help from customers (25%). Similar numbers took advantage of opportunities to engage with other small business owners (23%) and went to someone local for advice or inspiration (23%).**

On this front, there were some regional differences. Londoners were more likely to feel they could turn to local people for advice (30% from London SMEs versus 21% from Newcastle SMEs) and run their business from any location (37% from London SMEs versus 21% from Newcastle SMEs). However, Newcastle SME leaders did feel their community was an inexpensive place to start a business (20% for Newcastle SMEs versus 11% for London SMEs).

CASE STUDY

MATT, NEWCASTLE

Newcastle-based Matt sees starting a business as an opportunity to create "something completely new and feel a sense of achievement". He wants to use his experience in the field of instructional design to develop new digital learning solutions for employee training.

Matt is not short of ideas and has a long-term vision of creating enhanced learning experiences using VR. He is confident that he could succeed.

"I have seen the standard of my work in comparison to other providers in this sector. This is a very easy area for me to believe in my own ability."

Yet, despite a well-thought out idea, Matt has not taken the leap and left his job to start his business.

A key barrier for Matt would be sacrificing a stable income for an, at least initial, period without earning. "It's a big commitment to leave full-time employment. It can be a daunting feeling, however, it is one that I am constantly thinking about and saving for." He has been able to save enough for two-to-three months.

Admin is another concern and in Matt's view the main problem he would face.

"Never having paid taxes as a business nor handled the administrative side before leaves a lot of uncertainty. I expect to find it difficult at first."

Finding that first customer would be key for Matt. "It's only natural to feel sceptical and worried about finding your first client. Due to the type of work I do, one project would be enough to see me by for 3 to 4 months."

Without a pipeline of clients, Matt fears that he won't be able to improve his work-life balance. "I would be struggling to shut down my laptop until I have at least 6-12 months worth of work."

But if he can overcome that initial hurdle, then entrepreneurship will be transformative for Matt.

"In the long term if the business was successful and I was winning around 10 to 15 contracts per year, my income would be massive. My work life balance would also stabilise as I wouldn't feel the need to be working relentlessly to win contracts. But, the feeling of satisfaction would be the biggest positive."

16 Dumitriu, S. (2019) Future Founders. The Entrepreneurs Network.

17 Bell, A., Chetty, R., Jaravel, X., Petkova, N., & Van Reenen, J. (2018). (No. 522). Centre for Economic Performance, LSE.



WHAT DO THEY THINK WOULD HELP?

Overcoming the financial barriers and equipping individuals with the knowledge and skills to start a business will be key to helping more people fulfil their ambition of becoming their own boss. Our polling found that if the right support was available, potential business owners would be 17% more likely to take the leap and start their own business.

This would translate to 38,000 more people working for themselves in the deprived communities we polled alone. If this impact were replicated across the most deprived 10% of communities in the UK, then it would mean 188,000 more people becoming their own bosses. This would also have positive knock-on effects for employment. Using averages of jobs created per new business when supported by similar schemes as those set out in our policy recommendations, we estimate this would create between 50,000 and 210,000 additional new jobs as well as the new businesses formed.¹⁸

So what does the right support look like? We asked potential business owners about the top three policies they believe would make it easier to achieve their goals. Top of the list was financial assistance. They believed an improved offering in the form of grants and loans would be key. However, existing financial support such as the New Enterprise Allowance was

seen as insufficient by a plurality. Similarly, only 26% would consider taking out a Start Up Loan, suggesting that debt-based solutions may have limited appeal for this group.

Support with the administrative or legal side of starting a business was just as important. This is understandable given that the two biggest administrative concerns for potential business owners were the risk of making a financially costly mistake (41%) or even getting fined (43%). Only 14% did not worry about completing administrative tasks. A checklist of the administrative and legal requirements to earn money independently was seen as a policy likely to help.

Culture and networks appear important too. Knowing people with the same goals was seen as important by a significant proportion. Promoting initiatives such as Peer Networks, where BEIS-funded professional facilitators support business leaders to discuss challenges and work together to solve them,

may help. The idea of local startups offering advice to new businesses was seen as useful by just under a third of potential business owners. Similarly, in terms of local support, free courses aimed at aspiring entrepreneurs were seen as useful by over a third of respondents.

A key challenge for policymakers will be not only making the support available but creating a welcoming environment so people actively use it. Remember nearly a third of potential business owners already know of someone they can ask for support and advice but have not, primarily because they do not think their idea is good enough.

We tested the ideas with SME leaders and found broad support for all of them. Support with administrative tasks and financial assistance (loans and grants) topped their list. However, significantly fewer SME leaders took advantage of free courses than the percentage of potential business owners who thought they would be useful. In fact, SME leaders ranked free courses as the least valuable source of advice.

Knowing and talking to people with similar goals was the form of support that SME leaders were most likely to take advantage of. However, the source of advice they rated the most valuable, ahead of local SMEs, were accountants.

To enable people from deprived backgrounds to fulfil their potential as independent earners will require additional financial assistance to complement existing programmes such as Start Up Loans, measures to demystify the administrative aspect of running a business, and wider access to mentors so fledgling entrepreneurs can benefit from advice based on real-world experience.

If the right support was available:
 POTENTIAL BUSINESS OWNERS IN DEPRIVED COMMUNITIES WOULD BE **17%** MORE LIKELY

TO START A BUSINESS

188,000

MORE PEOPLE WORKING FOR THEMSELVES IN DEPRIVED COMMUNITIES

50,000-210,000

ADDITIONAL JOBS WOULD BE CREATED BY THESE NEW BUSINESSES

¹⁸ This is based on average job creation rates from a range of similar schemes and rounded to the nearest 10,000. For more information, see the section: "Business closure, job creation, and potential deadweight effects" in Caliendo, M. (2016). Startup subsidies for the unemployed: Opportunities and limitations. IZA World of Labor.

RECOMMENDATION ONE

EXPAND THE NEW ENTERPRISE ALLOWANCE TO £100 A WEEK FOR UP TO A YEAR AND ALLOW RECIPIENTS TO ACCESS MORE OF IT IMMEDIATELY AS A LUMP-SUM.



If lack of access to capital and fears around financial security both act as barriers to entrepreneurship then the New Enterprise Allowance (NEA) should make it easier for entrepreneurs from a disadvantaged background to start up, but in practice the level of support is insufficient.¹⁹

Under the current NEA unemployed would-be entrepreneurs can claim an allowance worth up to £1,274 over six months to help them with their living costs while starting a business. To qualify, they must be referred to the scheme by a JobCentrePlus work coach and create a mentor-approved business plan. However, by accepting the additional support from NEA individuals forgo their rights to Job Seekers Allowance. Under the status quo, the interaction between NEA and Universal Credit may also create problems. In their report, *A Labour Market That Works*, Jan Zeber and Warwick Lightfoot note that the way Universal Credit payments taper off may create uncertainty for people on the scheme.²⁰

Payments made through the NEA are 25% lower on average than JSA payments. This may be intended to act as a filter discouraging the least committed or able entrepreneurs, but as a result many see it as insufficient support.

We believe there is a case for going further in two key ways. First, under the status quo, the NEA frontloads support. This is sensible as the costs of starting a business are typically higher in the first few months. There are admittedly risks to upfront payments, but a short-term uplift seems sensible for help with startup costs. We propose increasing the NEA to £100 a week for up to a year, while simultaneously allowing

recipients to receive up to 50% of the last six months entitlement up-front in a lump sum on the condition that their mentor and work coach agree. This would address the concerns raised by a plurality of the people we polled that the funding is currently too little to make a difference.

The £100 a week payment would be worth £5,200 over a year, roughly the amount that SME leaders believe, on average, it costs to start their business.

Second, the scheme is currently targeted at the unemployed. We propose expanding it to include young people in low-paid work or at risk of unemployment, such people who have been furloughed in the past 12 months and under 23 year olds earning less than the National Living Wage.

For instance, a 21-year-old worker who earns less than the National Living Wage may benefit from the opportunity to try to start a business. Similarly, workers who have spent the year furloughed may have developed entrepreneurial ideas, but lack the confidence to take the leap into entrepreneurship without some form of support.

Expanding the eligibility and increasing the funding will be insufficient if awareness of the scheme is low, so we also recommend that the Government launches a new marketing campaign across traditional and social media to promote the scheme to young people in deprived areas.



¹⁹ For a review of the evidence on the effectiveness of NEA-style schemes, see Appendix: Startup Subsidies.

²⁰ Lightfoot, W. and Zeber, J. (2020) *A Labour Market That Works*. Policy Exchange.

RECOMMENDATION TWO

INCORPORATE ENTREPRENEURSHIP INTO THE GOVERNMENT'S LIFELONG LEARNING PROGRAMME AND FUND SME MENTORING.



To overcome the knowledge and confidence-based barriers, which prevent people from deprived backgrounds from starting a business, we need to expand the provision of entrepreneurship education and mentoring support. Under the status quo, traditional employment is prioritised over all else.

The recently announced Lifetime Skills Guarantee provides every adult over the age of 24 without a Level 3 qualification (e.g. A Levels) with the opportunity to participate in hundreds of free courses. Similarly, adults over the age of 19 will be able to take part in new short 12-week Skills Bootcamp courses, which build-up sector-specific skills and lead to a fast-track interview with a local employer. Both measures are welcome and will support more people to move into work. However, under the status quo, entrepreneurship and self-employment are broadly neglected as routes out of joblessness. That is regrettable, because, as our research has revealed, a significant proportion of people in deprived areas see entrepreneurship as a desirable career path.

It should be noted that not all courses neglect enterprise. For instance, one bakery course accessible through the Lifetime Skills Guarantee features a year-long enterprise module. However, the only business focused courses on offer appear better suited to developing managers in manufacturing than independent business owners. This is a missed opportunity as entrepreneurship education could be useful in complementing skills and talents developed in the workplace.

This problem applies across the education system. In fact, past polling of young people revealed that most (57%) of young people were unable to name an entrepreneur that inspires them and over a third (37%) said starting a business was rarely discussed at school despite it being an increasingly common career path.²¹

Entrepreneurship education initiatives have meaningful long-term impacts. A major analysis of Junior Achievement's Company Programme, the most widely taught entrepreneurship programme in the world, found participants earned on average 10.2% more from entrepreneurship more than a decade later, compared to entrepreneurs who did not participate.²² Similarly, a review of entrepreneurship education in higher education found evidence that participation leads to higher earnings and a greater likelihood of starting a business.²³

Incorporating optional entrepreneurship education elements in courses offered through the Lifetime Skills Guarantee has the potential to make a real difference in lifting confidence levels among potential business owners. Demystifying tasks, such as applying for finance, managing business taxes, and creating a company website, will build confidence and increase the likelihood that someone takes the initiative to start a business.

However, there are limits to formal education. Business owners often learn best from other business owners. Unfortunately, access to mentors depends on your social background and region. Initiatives such as Peer Networks appear promising, but the programme is currently only open to SMEs who employ at least five people and have been operating for at least a year. There are mentoring opportunities for new businesses through schemes such as Start Up Loans, but there is nothing on the scale of Peer Networks. We propose trialling a Peer Networks style initiative aimed at new businesses. Pilot schemes could work with business support organisations, such as Enterprise Nation, and enterprise software providers, to develop a rounded mentorship programme designed to be scaled.

A significant proportion of mentoring takes place outside of formal structures and as a result is under-recognised. We propose to change that by championing mentors who work with new businesses in deprived communities. This could take many forms, for instance, through the creation of an Investors in People-style kitemark. Additionally, MPs, LEPs, and Councils should actively recognise business mentors.

We also recommend that large businesses should be given the flexibility to use their unspent Apprenticeship Levy funds to fund mentoring programmes targeted at early-stage entrepreneurs as part of their community outreach or ESG programmes. This could significantly increase the availability of mentoring programmes.

21 Dumitriu, S. (2019) Future Founders. The Entrepreneurs Network.

22 Dumitriu, S. (2020) Educating Future Founders. The Entrepreneurs Network.

23 Salter, P. (2019) Enterprise Education. APPG for Entrepreneurship.



RECOMMENDATION THREE

DEPLOY RESOURCES TO NEW ENTREPRENEURS AIMED AT DEMYSTIFYING THE ADMINISTRATIVE SIDE OF ENTREPRENEURSHIP.

Navigating the administrative side of running a business felt daunting to most of the potential business owners we spoke to. Almost nine-in-ten (86%) were worried about completing administrative tasks. To tackle these concerns, the Government should promote easy-to-use guides to handling the basic administrative side of business. This could then be provided for every new Companies House registration.

In some cases, the Government's partnership with the Open University for Start Up Loans should be seen as a model. Anyone considering taking out a Start Up Loan can access free, short courses on a range of business issues, from digital skills to bookkeeping and accounting. Importantly, many of the courses are focused on bookkeeping, financial reporting and accounting. There is also a course designed in collaboration with Money Saving Expert designed to improve financial literacy. Similar courses, based around the administrative aspects of running a business should be promoted to all new business owners, rather than just Start Up Loan applicants.

New resources should be delivered and promoted through social networks such as YouTube and Instagram, which our polling revealed is a more effective way to reach deprived communities compared with LEPs or other business support organisations.

Additionally, there should be a push to simplify business interactions with the Government through better use of technology. The UK should adopt the Once-Only-Principle,

an e-government idea that businesses should only have to provide key information to the Government once. The aim should be to reduce administrative interactions to a minimum. This will not be easy, but other nations including Estonia highlight what is possible.

In recent years, there have been significant improvements in the way the Government communicates with businesses. In part, necessity has been the mother of invention. The Brexit Checker, for instance, delivered personalised advice to businesses. The success of it and similar initiatives during the pandemic, should be built upon with the creation of a dedicated new business service designed to support businesses in their first year of operating.²⁴ Work underway from the Government Digital Service to map out the process of starting a business and create an online hub should be championed and prioritised.²⁵

²⁴ Allum, J. (2020) Update on the future of GOV.UK. Government Digital Service Blog.

²⁵ Government Digital Service (2021) How we are creating a product to help new business owners.



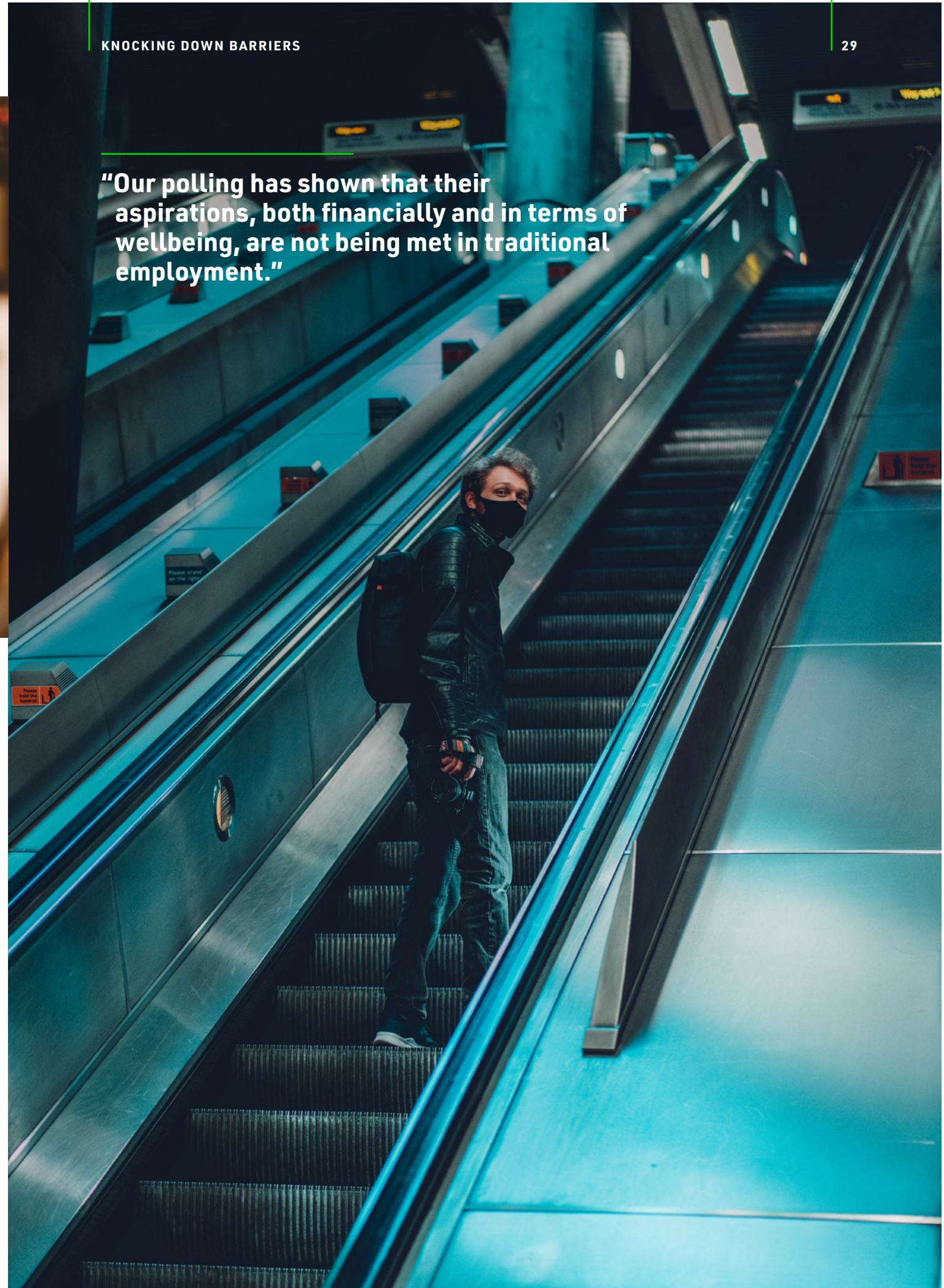
CONCLUSION: SEIZING THE OPPORTUNITY

It may seem strange to want to start a business after a year when many were forced to close and some were left with little to no support. Yet across the UK's most deprived communities, the appetite remains strong. Our polling has shown that their aspirations, both financially and in terms of wellbeing, are not being met in traditional employment.

A majority of the people we polled in these communities see entrepreneurship and self-employment as a way to earn more and improve their overall quality of life. Importantly, almost half of the people we polled had a business idea they could imagine pursuing.

But as it stands, too often their talents are underutilised. If we can support these individuals to turn their ideas into reality, we will see the creation of a wave of new businesses – historically the key driver of any employment recovery.

By overcoming the barriers they have identified, in terms of financing, knowledge and confidence, we can support them to not only play a vital role in the UK's post-pandemic recovery, but to also create new opportunities within their communities for years to come.



“Our polling has shown that their aspirations, both financially and in terms of wellbeing, are not being met in traditional employment.”

APPENDIX: STARTUP SUBSIDIES

The original Enterprise Allowance Scheme (EAS), which was more generous than the New Enterprise Allowance (NEA), was a highly successful policy. The EAS provided participants with £40 per week (£138 in 2020) for a year. This was marginally more than what was available for unemployment benefit claimants. The NEA, in comparison, only lasts for six months and pays less than Job Seekers Allowance. At its peak, more than 100,000 were enrolled on the EAS at one time. By contrast, since 2011 there have been 131,000 ‘business starts’ on the NEA.²⁶

Almost two-thirds of EAS participants were still running their business 18 months after enrolling and one-fifth of those businesses employed at least one other person. A World Bank analysis of the programme found that it represented good value for money, costing £1,729 (£4,973 when adjusted for inflation) per job created when you include jobs created by the self-employed.²⁷

The EAS played an important role in the development of the UK’s creative industries. Many famous artists including Jeremy Deller, Jane and Louise Wilson, and Tracey Emin were recipients, as was Creation Records founder Alan McGee.²⁸ *Do it Yourself*, a report commissioned by Arts Council England, noted that “the EAS had a highly stimulating effect on the cultural industries within Britain, by providing a financial platform for thousands of artists, performers, writers and creative entrepreneurs.”²⁹

In the report, Sir David Trippier, Small Firms and Enterprise Minister from 1985 told the authors: “Initially, we didn’t realise that there would be positive effects beyond economic growth. But EAS firms were so diverse. There were so many different types of small businesses. There were cultural and arts-related firms springing up everywhere. I remember going to Newcastle to visit some EAS shop units, and all the units were occupied by people in the cultural and design industries.”³⁰

In evaluating startup subsidy schemes, it is important to note that not every business closure should be considered a failure. Through the experience of starting and running a business individuals may acquire new skills and become more employable. International evidence, as well as evidence closer to home, suggests that this tends to be the case. For example, 28% of participants in an Australian startup subsidy scheme moved into paid employment two years after taking part in the scheme.³¹

Survival rates of startups benefitting from NEA-style support vary from country to country, but in general are comparable to the survival rate for all businesses. In some places, supported startups are less likely to fail.³²

There is also reason to believe NEA and similar programmes are particularly beneficial for unemployed women, compared to other employment policies.³³ A study which looked at two German startup programmes for the unemployed found that between 57% and 67% of women who participated were self-employed 56 months later. Across the schemes, 90% of the self-employed were in continuous self-employment. While not all of them remained in self-employment, between 76% to 90% (depending on the scheme) were in work. Researchers comparing the scheme’s female participants to other unemployed women found that startup support had three to four times the employment impact of other interventions such as training and job creation schemes. A further analysis of Germany’s experience with targeted support for startups and self-employment finds the programmes are also particularly effective for low-educated and low-qualified individuals.³⁴

²⁶ Lightfoot, W. and Zeber, J. (2020) A Labour Market That Works. Policy Exchange.

²⁷ Wilson, S., & Adams, A. V. (1994). Promotion of Self-Employment: Experience in OECD and Transitional Economies. Education and Social Policy Department, World Bank.

²⁸ Other famous recipients include comedian Alan Davies, Shaun Ryder of the Happy Mondays, and Viz Comics.

²⁹ Arts Council England. (2009) Do It Yourself: Cultural and Creative Self-Employment in Hard Times.

³⁰ Ibid.

³¹ Caliendo, M. (2016). startup subsidies for the unemployed: Opportunities and limitations. IZA World of Labor, (200).

³² Caliendo, M., & Künn, S. (2011). startup subsidies for the unemployed: Long-term evidence and effect heterogeneity. Journal of Public Economics, 95(3-4), 311-331.

³³ Caliendo, M., & Künn, S. (2015). Getting back into the labor market: The effects of startup subsidies for unemployed females. Journal of Population Economics, 28(4), 1005-1043.

³⁴ Caliendo, M., & Künn, S. (2011). startup subsidies for the unemployed: Long-term evidence and effect heterogeneity. Journal of Public Economics, 95(3-4), 311-331.



About The Entrepreneurs Network

The Entrepreneurs Network is a think tank for Britain’s most ambitious entrepreneurs. We support entrepreneurs by:

- Producing cutting-edge research into the best policies to support entrepreneurship;
- Campaigning for policy changes that will help entrepreneurship flourish;
- Hosting regular events and webinars to bridge the gap between entrepreneurs and policymakers;
- Updating entrepreneurs on how policy changes will impact their business;
- Making the case in the media for entrepreneurs’ contributions to society.

We are the Secretariat of the APPG for Entrepreneurship, which was set up to encourage, support and promote entrepreneurship and to engage with entrepreneurs; and to ensure that Parliament is kept up to date on what is needed to create and sustain the most favourable conditions for entrepreneurship.



About Sage Group

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