

The Development of Entrepreneurship

The Government's Position

The Government's position was first clearly set out in the 1998 Competitiveness White Paper "Building the Knowledge Driven Economy". It noted that the future prosperity of the UK relies on an economy that has high value-added and where enterprise, innovation and creativity is highly valued and supported. Higher Education was rightly seen as having a central role to play in building the knowledge driven economy:

"The most dynamic economies have strong universities, which have creative partnerships with business"(2.4).

The development of a more entrepreneurial culture is central to this vision. It will require major shifts within key organisations including those involved in education. The Government has been taking action in the following areas in particular:

- within Government: encouraging changes to the bankruptcy/insolvency laws and a less risk averse culture across the public sector;
- within the financial services sector facilitating the development of public/private partnership models to provide appropriate risk finance/venture capital for smaller companies including start-ups;
- within education: introducing changes to the school's curriculum to raise awareness on entrepreneurship and business issues; on the higher education front, encouraging knowledge transfer and enterprise (eg the Innovation Fund and Science Enterprise Challenge) and looking for changes to the curriculum and initiatives to encourage company start-ups.

Research Findings

Research had noted that whereas in the USA some 8% of the population is involved in starting a business, in the UK the figure is 3% (in Japan it is 1.5%). However research by Allan Gibb (Durham University Business School) has suggested that 15% of the population has a propensity to be self-employed while 30% may be expected to be self-employed at some stage during their working life. Currently some 13% of the population is self-employed. Providing relevant information, guidance and support for self-employment should therefore be high on the education agenda.

This is especially important since the churn of business formation/failure in the UK is high. While this confirms the propensity for individuals to start businesses and take risks, (unlike in Germany, for example) it also shows the high failure rates amongst start up companies. Some 45% of such companies fail by the end of three years. Since the banks generally only made money from such companies in year three, they have an especially strong business incentive to improve company survival and growth rates.

Comparing the USA and UK Experiences

The experience of organisations such as the Small Business Administration in the USA was that guidance and support in the six months immediately prior to a business start-up and the 18 months immediately after that was vital. Support comes from the pool of senior management talent, from Business Angels and from younger entrepreneurs. The following success factors have been suggested as being behind the growth of start-up companies in Silicon Valley:

- demanding large companies pulling through smaller companies in their wake;
- a pool of competent managers (related to the point above);
- elite universities with ideas and an application as well as blue skies research capability;
- an infrastructure of truly professional high debt knowledgeable advisers including in the financial services industry;
- the availability of capital-though this was never a problem where there was a worthwhile project.

The UK and many of these latent strengths (notably via its universities and strong financial services industry). However, there were problems in realising and in packaging these strengths;

- demanding large companies had not been so focused on building strategic relationships with their supply chains;
- they were less linked to universities (notably true around even a university such as Cambridge until the recent attraction of units from eg. Microsoft, BP and Unilever);
- a financial services sector which has less technical capabilities to evaluate opportunities; a venture travel industry which had focused on lower risk MBOs; potentially laudable schemes such as BES had been misapplied.

Thus Silicon Valley, at around three times the size of the greater Cambridge area, had some 30 times the number of start-up companies. Some of these had grown to be major multinationals. However, while there were around 1,200 recently started companies in the greater Cambridge area, virtually none had grown to above 100 employees. Joint ventures and marketing relationships with major international players were probably needed if young entrepreneurial companies were to grow to be world players.

Even so, it should not be assumed that small companies would be the major engine for a knowledge based regeneration. Most of the major world beating innovations came from multi-disciplinary (even multi-cultural) research teams in major corporations. The notion of the lone inventor was largely a myth.

Government resources were in danger of being wasted by various uncoordinated agencies offering inappropriate services (though hopefully the Small Business Service will bring about greater coordination). Many consider that hundreds of millions of pounds have already been wasted on regional subsidies to lure companies to areas that were often inherently unsuitable. Resources might better be focused in the future gearing private sector funding to support leading-edge wealth creating projects which could benefit from and contribute to clusters of economic growth. The cluster effect was not adequately appreciated in the UK.

A culture of entrepreneurship and risk taking within the public sector in general and the education sector in particular was not aided by bureaucratic interventions, controls and reports

from organisations such as the NAO which criticised, with the benefit of hindsight, those who had been entrepreneurial. An entrepreneurial approach inevitably involved some failures; a risk-taking mentality in the public sector matching that in the private sector could be expected to produce a similar spectrum of successes and failures.

The USA comparison also suggested that the worlds of academia and business needed to be more permeable. The curriculum might be better informed and reflect current business issues and concerns. Managers should be closely involved in developing and delivering the curriculum (eg. via business case studies and simulations) and moving into senior academic posts. Academics might have spells in business. Young graduates -especially those who had established their own companies - should be encouraged to "tell it how it really is" to students. There might be more extra-curricula information sessions on starting a business, developing a business plan, raising capital, minimising risk, exit strategies etc.

Some Encouraging Developments

There were however some encouraging developments:

- young people appeared to be keener on owning and developing their own businesses;
- the venture capital industry was more developed than in the rest of Europe and was prepared to invest more in start-up ventures (though the £50-100K funding gap remained for high-tec ventures in particular a problem with the banks needing some form of Government support if they were to address this inherently unviable market. Equally only some 25% of start-up businesses borrowed from banks and 75% of these wanted less than £5K;
- while the fear of the unknown and the fear of failure affected individual risk taking, there were ways of minimising risk and exposure (eg limited liability status) and a great deal of knowledge and experience on critical success factors existed. Some of this had been pulled together and was available for those interested in starting a business (the Lloyd's TSB exit strategy package was one example);
- there were recent examples of small companies becoming major players (Dyson, Stage Coach and Psion were examples) and plenty of other smaller company role models existed for aspiring entrepreneurs;
- within higher education the pace of change was accelerating and there was a willingness to embrace the competitiveness agenda; work readiness and the development of employability in students was increasingly accepted as one of the key roles of higher education. There was a more customer conscious approach. There were courses in entrepreneurship and expanding relationships with local businesses and business organisations. The developing regional agenda in England would accelerate that process;
- work experience in its various forms was prevalent amongst students and the report Work Related Learning from the DfES suggested how the learning value from such experiences might be better articulated and captured. This reflected the fact that employers look for students who have more than just a degree and have developed via work experience certain of the key skills and business awareness needed in organisations. Encouraging students to

gain quality work experience in small companies could only improve their knowledge of that (admittedly diverse) sector and the skills and knowledge needed for successfully managing such a business.

There were other encouraging signs pointing to higher education having a key role in helping to develop a knowledge-based economy. A longitudinal survey of graduates (Moving On) had shown that some 80% were using their skills and growing their jobs 2-3 years after graduation. This placed in perspective the notion of graduate underemployment, helped to explain the continued rising demand for and wages of graduates (unlike USA experience) and boded well for continued added value and wealth creation across the economy. Entrepreneurship was needed as much within existing organisations as in start-ups and the value of graduates in this process appeared to be appreciated by businesses.

Various agencies and banks were running courses for prospective entrepreneurs and much more could be done on-campus, even if not as a formal part of the curriculum. There needed to be a drawing together both of the experience accumulated and of its delivery. The banks network might work closer with Government agencies - including the Small Business Service - and higher education/further education institutions.

At the same time, the different roles and purposes of advice and mentoring needed to be disentangled. Mentoring for social purposes and to help the disadvantaged was an important objective irrespective of its impact on UK wealth creation. The Princes Youth Business Trust's 8,000 volunteers operating from 50 offices provided personal mentoring for three years and average seed capital of about £2,000. Some 40,000 18-30 year olds had been assisted over 12 years. The importance of personal mentoring was shown by the fact that some 60% of businesses started with such support were still trading after three years with a further 20% of individuals getting a job and viewing their self-employment as a positive experience. Both ends of the start-up spectrum were valuable in helping to generate jobs. All could benefit from a more co-ordinated pooling of available advice including from banks.

A greater sharing of experiences on entrepreneurial programmes (both within and outside the curriculum) would be of benefit to all. Feedback from graduates, especially those who had started their own business would be particularly helpful in informing higher education's thinking and action.

The CSU, through the National Centre for Work Experience, might consider how advice on entrepreneurship could be placed on a national web-site and built more generally into work experience induction courses. They and individual institutions might consider how the networks of such organisations as the banks and the Princes Youth Business Trust and even the SBS could be involved in the process of raising awareness on business start-ups and mentoring.

All should work together to promote the development of employability and work related learning and encourage greater permeability between academia and business.

RAB
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