THE FINANCE FOUNDATION

HEROES OR ZEROS?

WHAT DO WE REALLY KNOW ABOUT ENTREPRENEURS AND WHAT SHOULD GOVERNMENTS DO?

Andrew Freeman

First published in 2014

Set in Caecilia 8/12pt
ISBN 978-0-9930689-0-4
Designed by Creative Warehouse, Cambridge

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The Finance Foundation is an independent think tank that aims to encourage informed debate about financial services, explain what the sector does, and suggest ways it could work more effectively.

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ACKNOWLEDGEMENTS

The Finance Foundation would like to thank Santander UK for its support for this independent research report. The author would like to thank the many people who helped with the research, offering insight and experience. They include Stephen Dury and John Williams at Santander, Neeta Patel at the New Entrepreneurs Foundation, and Nieema Alom and Dr Julie Mumbie at the National Association of College and University Entrepreneurs (NACUE). Special thanks to Dr Alex Coad for his advice and willingness to share pre-publication work relevant to the project. His work and perspectives have considerably influenced my research. Thanks are also due to Hilary Cooper for detailed comments on an early draft and to Sam Szreter who acted as a valuable assistant for part of the project.

The usual efforts have been made to verify and clarify the data and information contained in this report. The author takes full responsibility for any errors that have slipped through the net. So wide and diverse is the field of entrepreneurship research that it is impossible to be fully comprehensive. However, it is hoped that omissions have been made by deliberate choice rather than ignorance. Two such omissions relate to entrepreneurship in developing countries and to social entrepreneurship. Both are important and significant topics, but are beyond the scope of this report. They are covered at length in *The Economics of Entrepreneurship,* an outstanding survey of the field by Simon C Parker – this book is essential reading for anyone with a policy interest in entrepreneurship.

The report was largely researched and written during the first half of 2014.

Andrew Freeman
November 2014

FOREWORD

Thriving small and medium-sized enterprises (SMEs) are a vital component of a successful economy. SMEs provide millions of jobs to people in the UK and are so often the engine rooms of creativity and disruptive innovation that helps make Britain's economy a world leader.

At Santander, we understand the importance of SMEs; not just to the economy and economic growth, but also to the communities that they serve and the families of the people that they employ.

We have made significant progress since we started providing banking services and lending to SMEs in 2009. Back then, the bank had a market share of just 1%. Thanks to our commitment to customer-focused relationship banking, we have been able to grow our lending to businesses year-on-year, even during the hardest years of the Credit Crunch. Santander now has a market share of 6% and a solid base from which to challenge the 'Big Four' banks and bring greater competition to the SME banking market.

While SMEs can create jobs and growth, it is entrepreneurs that create successful SMEs. Santander has always been clear that the path to successful entrepreneurship starts with education. We help support young people and those in education through our partnerships with organisations such as the National Association of College and University Entrepreneurs (NACUE) and the National Centre for Universities and Businesses. This is driven by the commitment and dedication of our Santander Universities Global Division which leads the bank's efforts; over 1,100 universities in 20 countries have signed partnership agreements with Santander Universities, giving students and staff access to funding that allows them to further their studies and research. Last year alone over 22,400 scholarships, travel grants and internships were funded by Santander Universities. With the bank committing over €700 million in the next 4 years this figure is set to rise.

Not all policy problems require a government solution. As this report notes, sometimes – indeed more often than not – the private sector can take action on its own. Santander is a strong believer that we should play a full role in supporting the wider economy by sharing our networks, influence and knowledge with our customers and communities.

Our commitment to place students from partner universities with some of our most ambitious SME customers is just one expression of this. This academic year, Santander Universities will place 1,500 university interns with SMEs, helping businesses to get the skills they need and giving aspiring entrepreneurs the chance to work in a smaller business; experience that will prove invaluable when they are ready to set up a business of their own.

Santander is also committed to supporting SMEs by playing an active role in helping policymakers find the right solutions to the problems faced by our customers. It is for this reason that we are so pleased to have been able to support this independent report from The Finance Foundation.

The report provides a thought-provoking contribution to this important debate. While some people will challenge parts of it - indeed, Santander does not agree with all of it – I am confident that the insight which it provides will be a great asset to policymakers from across the political spectrum.

Steve Pateman
Executive Director, Head of UK Banking,
Santander UK

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Entrepreneurs are widely regarded as social heroes, generating jobs, inventing new things and providing us with examples of personal fulfilment. Governments seek to encourage them. There is a constant flow of new market entrants suggesting economic dynamism and promising future growth. Increasing that flow seems self-evidently a sensible policy goal. How real is this picture?

This report suggests that it is highly misleading. Its title is deliberately provocative, because the extreme contrast is obviously unhelpful – the point is to temper the assumption that entrepreneurs are an unquestioned overall good. If they are neither heroes nor zeros, what can we say about entrepreneurs that might shed light on policy?

The good news is that there is a vast amount of academic and practical research on entrepreneurs and entrepreneurship dating back several decades. The bad news is that, as the field has matured it has become more difficult, not less, to make strong evidence-based statements that can reliably inform policy. Early studies that justified our interest in encouraging entrepreneurs have been challenged on many fronts, including questions about the validity of underlying data and methodologies. The more we know, the less it is clear in which direction policy should head. Indeed, perhaps the single strongest plea that emanates from this report is that we need more, and more precise, knowledge before we can assert that policy is tending towards the optimal. To some extent, state-funded backing for entrepreneurship is a leap of faith – in the absence of a full impact assessment of how we support the founding and subsequent growth of businesses, we must make choices and hope for the best. If we could establish the return on investment of every government and private-sector programme to help business, then we would be in a much better place.

This report explains why entrepreneurs as a category are more elusive and hard to pin down than we think, and seeks to evaluate whether government subsidy for new ventures in general is worthwhile in light of our lack of certainty. Its principal focus is on the individuals who become, or aspire to become, entrepreneurs. What motivates them? Can we assess their personalities? Are there 'markers' of future entrepreneurial success? Are there attributes that support entrepreneurial activity? Do they get better by learning from experience, and can they be supported to develop the right skills in the early stages?

The report includes the findings of a survey of young, aspirant entrepreneurs. They identified the need for simple, hard work as the key personal attribute required for success in business, as well as being willing to take risks and not afraid to fail, which could be interpreted as realism about the odds of becoming a successful entrepreneur. The popular idea is that entrepreneurs are risk-takers. In fact, they are typically quite cautious, waiting for the right opportunity to present itself or for possession of a sufficient cushion to protect them against failure.

Entrepreneurship, particularly at the level of individuals, is a tricky area when it comes to recommending policy. There remain many things we do not know that require years of future research – this is an area of 'radical uncertainty', where we tend to think we know things, but are surprised to discover that we cannot in fact know them with confidence. Insofar as we think of entrepreneurship as leading to business formation, one policy gap stands out above all others, so it is given headline attention even though it is not the main topic of this report.

- The Government should invest in creating a definitive **UK business registry**, along the lines of the Canadian business registry. This would not be cheap – the costs might run to a few tens of millions of pounds and there would be an enduring cost base, although a simple business registration fee could cover much of this. The benefits, however, would be enormous, and the service could be paid for via a small direct tax on businesses. At national level, we could finally gain a proper understanding of business formation and exit – this would be hugely beneficial for policy, including towards entrepreneurs and towards a better sense of regional strengths and weaknesses. The recent consultation paper from the Bank of England designed to explore this idea should be welcomed and the policy goal strongly supported by the next government.

- We offer a definition of an entrepreneur as **someone who creates an enterprise of some sort in order to pursue an opportunity and who, crucially for policy, has the potential and the capabilities to make a real contribution in terms of growth, employment or value-added** – in other words, good reasons for policymakers to take a close interest. Although this is quite a broad definition, we believe its adoption across Government would lead to better policies in future by way of more targeted support for businesses.

- Public policy should therefore be more explicit about **which sort of businesses deserve support.** A marginal fish and chip shop should be a low priority, but a biotech firm that is just as likely to go bust as it is to succeed, arguably could be a high priority. The trick lies in identifying sectors and businesses within them where there is a demonstrable potential for achievement – in terms of future growth, high added value and/or contribution to employment. A courageous government would explore whether some of the blanket subsidies offered to all small businesses are effective. This could involve being more explicit about whether small businesses deserve support if they will never be innovative or create lots of jobs. If it is a policy goal to encourage the development of the next Google or Microsoft, then policy will need to be tailored accordingly.

- To the extent that we can get inside the minds of nascent entrepreneurs, as our survey tried, we see that they have a healthy regard for the importance of hard work and a reasonably honest assessment that they lack **networking and planning skills** – both things that can be provided or taught to some extent. The Government should commission research into which forms of support can best nurture high-quality business creation and survival.

- The belief that we can help young people in particular to become better equipped to start and run businesses may be empirically difficult to justify, but it is certainly worthy. Indeed, it relates to a general sense that our education system pays insufficient attention to life skills, including financial understanding and planning. Better provision of these skills from a young age might lead to the paradoxical effect that the cohort of potential entrepreneurs in the population might become more reluctant to start a business because they will have a much better sense of the odds against success.

- More effort could be made to identify the individuals who are running or aspire to run businesses who demonstrate that they can learn from experience. If the state is reluctant to step in, then there is a clear gap for the private sector, including banks and other providers of financial services, to fill. What forms of experiential learning might literally pay dividends? Might there be merit in encouraging private-sector efforts to support skills such as networking?

- There are some examples from abroad that could be considered for the UK. Policymakers should examine the **Venture for America** programme, and debate whether an equivalent might work in the UK. It is designed to be a high-impact way of regenerating deprived cities and districts by clustering groups of dynamic, young, aspirant entrepreneurs and encouraging them to collaborate as well as compete. A UK programme could be created by extending an existing organization such as the New Entrepreneurs Foundation (NEF) or NACUE. The recent Santander Enterprise Index (SEI) work offers a clear geography of regional need.

INTRODUCTION

"The entrepreneur is the single most important player in a modern economy." Thus begins an extremely influential academic article called simply 'Entrepreneurship'.[i] So much so, noted other academics shortly afterwards, that "the contemporary period is the 'era of the entrepreneur', in which the entrepreneur is viewed increasingly as a folk hero."[ii]

This is typical of the statements found across a wide range of materials, whether academic articles and books, or policy documents at national and supranational levels. On the face of it, entrepreneurs are unreservedly a good for the societies in which they operate – they innovate, they generate jobs and wealth, they inspire by their leadership and example – so it seems only natural that governments should want to understand and encourage them, offering support and subsidies to help the flow of their creative juices.

It would be uncontroversial for any politician to declare their support for entrepreneurs and argue that more of them are needed to stimulate economic growth. This holds true across the globe – successive American Presidents, for example, have extolled the importance of entrepreneurship, suggesting parallels between a passion for business and the pioneering spirit that forged the nation[iii]. Although we might see glimpses of a popular backlash linked to rising inequality, individual entrepreneurs are often held up as success stories that others should seek to emulate.

This report is intended as a considered and balanced antidote to much of the above enthusiasm. As we will see, the very idea of 'the entrepreneur' as a category is challenging. Moreover, the fan club for entrepreneurs is often guilty of serial misrepresentations of their role and importance. There is often a seamless link between discussion of entrepreneurs and unquestioned support for the small and medium-sized enterprises (SMEs) they are assumed to found and run. Small business owners and managers provide the stock of entrepreneurs upon whom we all depend, so by definition they must be a good thing and worthy of government subsidy. Indeed, aren't SMEs the essential mechanism by which entrepreneurs create their magic? In which case, surely any economy worth its salt should aspire to have more SMEs and more entrepreneurs?

The reality is demonstrably different, as we will explore below. Decades of research have created an enormous body of work on entrepreneurs and entrepreneurship, spanning economics, psychology and social science. But the field is as muddled as it is diverse. We lack an accepted definition of an entrepreneur, despite numerous efforts to suggest certain essential attributes or characteristics. At its simplest, it is therefore impossible to generate strong conclusions when one study in one country uses a particular definition of entrepreneur and another study in the same country or elsewhere adopts a different benchmark. Many studies have been based on small samples or have drawn heroic conclusions based on data that are impossible to check. There are areas of severe disagreement, typically where subsequent research has shown that previous claims are refuted or significantly challenged by new information and analysis.

All this suggests that there is ample space for a report that aims to explain and, to some extent, de-bunk the idea of the entrepreneur as a critical economic resource. It should follow neatly that future governments might reconsider some of their policies, not just towards entrepreneurs, but also towards SMEs in general.[iv] That said, there is good reason to engage in further research on the critical linkages between businesses, the money that funds them and the people who run them, particularly the tiny subset of those with the drive and talent to generate growth and jobs. The truth is that these linkages exist. Sadly, they are subtle and difficult to examine. They were central to the concerns of the Macmillan Report, published in 1931 during the Great Depression – 80 years later we are still wrestling with the same issues.

As noted in the Acknowledgements, this report was sponsored by Santander UK. In July 2014 Santander launched a major contribution to the field of entrepreneurship in the form of its 'Santander Enterprise Index 2014 Benchmarking the Regional Ecosystem for Entrepreneurs in the UK'.[v] SEI developed earlier pioneering work by the team responsible for the Global Entrepreneurship Development Institute's (GEDI) index of entrepreneurship. In a nutshell, it looks at a range of variables to determine how well or otherwise regions are performing in the competition for nurturing entrepreneurial drive, the profits and employment that come from success and the innovations that sustain them. The SEI includes some inputs linked to the efforts and attitudes of individual entrepreneurs – for example, it calculates an 'aspiration' score based on how many people say they want or intend to set up a new business in the coming 12 months – but it is best thought of as a way of assessing the ecosystem or context in which an entrepreneur must act. Rather than seeking to get inside individual minds, it focuses on the quality and quantity of the infrastructure that surrounds those individuals, whether this be transport networks, high-speed telecoms, supply chain linkages, access to a suitably skilled workforce, financial support or suitable business premises, or a combination of all of these.

By contrast, this report deliberately takes a different tack. It takes the importance of the infrastructure somewhat for granted (although its policy recommendations do not). Its key concern is to explore what we can state with confidence about the individuals who become, or simply have the ambition to become, successful entrepreneurs. The report includes some primary research on the attitudes and mind-sets of a large UK group of aspirant entrepreneurs. These data have intrinsic interest and relevance for policymakers. They also have limitations and these will be clearly explained below.

Precision sometimes requires apparent pedantry, so it is important to acknowledge that even in the paragraph above there is a neatly hidden assumption – it is contained in the word 'successful'. We think of entrepreneurs as an important group because we automatically assume that on the whole they are successful, probably get rich or at least achieve financial health, probably are an overall good for society and probably deserve some measure of our esteem, if not government subsidy. But, of course, entrepreneurs are not a homogeneous group. Some are successful, some take exactly the same degree of risk and fail spectacularly, either by virtue of incompetence or bad luck. We will explore the idea of entrepreneurial luck further below. But we need to recognize that, just as SMEs include an extremely wide range of businesses, so the category of entrepreneur is open to interesting question. In the case of the aspirant entrepreneurs surveyed for this report, it stands to reason that none of them imagine a future in which he or she will be an unsuccessful entrepreneur, but it is equally logical to assert that most of the relevant individuals will end up becoming exactly that.

In a sense, this defines the challenge for this report – is it possible to spot not just people who want to be entrepreneurs, but to differentiate successfully between those who are going to succeed and those who are more likely to fail? It's the equivalent at the level of single individuals to the industrial policy question of whether a government can or should even try to 'pick winners'.

The report is structured as follows:

Chapter One explores the challenge of adequately defining an entrepreneur, explaining the origins and development of the concept of entrepreneurship.

Chapter Two seeks to place this in a contemporary context and includes important analysis of why we should distinguish between entrepreneurship and self-employment.

Chapter Three turns to the question of who becomes an entrepreneur and why. This involves assessing and synthesizing a large and diverse set of international research studies.

Chapter Four examines whether entrepreneurs are born with an intrinsic set of characteristics and whether they can be trained or helped to learn. The balance of evidence here has important policy implications. It also has particular importance for UK banks competing in the market to fund businesses, including those with entrepreneurial aspirations.

Chapter Five sets out the findings of a survey of aspirant young UK entrepreneurs and offers interpretations of the data. The main focus is on personal characteristics and attributes judged as important factors for future success.

Chapter Six offers concluding observations and a summary of policy recommendations.

CHAPTER ONE
WHAT IS AN ENTREPRENEUR AND WHY DOES ENTREPRENEURSHIP MATTER?

According to William Baumol, an American economist, “The entrepreneur is at the same time one of the most intriguing and one of the most elusive characters … in economic analysis. He has long been recognized as the apex of the hierarchy that determines the behaviour of the firm and thereby bears a heavy responsibility for the vitality of the free enterprise society.”[vi]

The term is used loosely, often in ways that suit the user. But it covers a wide range of individuals and activities. The history of the term can give us useful insights into why it remains so problematic today and why as a consequence Government policies are what they are. There is an enormous existing literature on this topic, but it is rarely included in contemporary debate.[vii]

‘Entrepreneur’ derives from the French word ‘entreprendre’, which literally means ‘to undertake’, as in an activity or enterprise. It is accepted that the word we recognize was first used by Richard Cantillon in his *Essai sur la Nature du Commerce en Général,* published in French in 1755 – and first translated into English only in 1932. Cantillon believed that anyone who was not in fixed employment was essentially an entrepreneur who would enter the market or conduct an exchange when they judged the reward to be worth the risk. Entrepreneurs therefore played a vital role in commerce, effectively allowing production and exchange and bringing equilibrium to markets.[viii]

This view sees the entrepreneur as both a risk-taker and as a sort of 'arbitrageur' [ix] who looks for profitable opportunities. Interestingly, entrepreneurs play an important role in the thinking and writing of Frank Knight, an American economist best known for his distinction between risk and uncertainty. Knight thought that entrepreneurs have no special knowledge about opportunities related to natural resources, demand or the actions of competitors. Rather, they possess some combination of special characteristics, including self-confidence, good judgment, a propensity for venturing, and, importantly, luck. Because these attributes are not tradeable, but are complementary to other assets, it makes sense for entrepreneurs to own rather than lease those other assets, hence to start a firm.

Knight also thought of workers and entrepreneurs as engaged in a risk-reward calculation in which the worker asks for the wage he believes the entrepreneur can pay – offered less than that, or perhaps able to earn more from a rival entrepreneur, the worker will take his labour elsewhere, perhaps even becoming an entrepreneur himself. In effect, then, entrepreneurs are opportunists looking for favourable risk-adjusted returns.

There are several other influential strands of entrepreneurial theory that must be included in any worthwhile account. In the early 19th century, the French economist Jean-Baptiste Say argued that entrepreneurs are at the heart of the economy, coordinating and combining the factors of production using judgment, experience and perseverance. They are adept at exploiting existing knowledge and at solving unanticipated problems.

This was not the view of Joseph Schumpeter in *The Theory of Economic Development,* published in 1911, translated into English in 1934. Schumpeter is arguably the most influential of all theorists of entrepreneurship, so it is worth examining his ideas.[x]

Schumpeter was intrigued by the process of continuous change in capitalism, and he thought that entrepreneurs were at the heart of that change through their propensity to introduce innovations. This was a challenging assertion, because, as we have begun to show, the concept of an entrepreneur is not easy to define, let alone model. Further, Schumpeter was not afraid to venture across disciplines and speculate on what motivates entrepreneurs: “The typical entrepreneur is more self-centered than other types, because he relies less than they do on tradition and connection and because his characteristic task – theoretically as well as historically – consists precisely in breaking up old, and creating new, tradition.”[xi] He made entrepreneurs seem pretty attractive types. They feel “the dream and the will to found a private kingdom”, they feel the “joy of creating, of getting things done, or simply of exercising one’s energy and ingenuity” and, he argued, contribute significantly to social mobility as their fortunes rise and fall.

Schumpeter codified five types of innovation that define the entrepreneurial act:

1. The introduction of a new good – that is one with which consumers are not yet familiar – or of a new quality of a good.
2. The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned.
3. The opening of a new market, that is a market into which the particular branch of manufacture of the country in question has not previously entered, whether or not this market has existed before.
4. The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether this source already exists or whether it has first to be created.
5. The carrying out of the new organization of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position.

So far, so interesting. But Schumpeter went further. First, he argued that new businesses played a vital role in interrupting the status quo and driving change. Second, he claimed that "the entrepreneur is never the risk bearer. The one who gives credit (that is, provides the necessary capital) comes to grief if the undertaking fails… Even though [the entrepreneur] may risk his reputation, the direct economic responsibility of failure never falls on him." [xii] The latter has been described by a leading academic as "frankly bizarre"[xiii], although to be fair Schumpeter made a more nuanced case in his later work and said that an entrepreneur might also be the provider of capital.

He also put greater emphasis on the role of mature firms later in his career than at the beginning when he explicitly linked innovation and corporate 'newness'. In *Capitalism, Socialism and Democracy* (1942), he wrote "what we have got to accept is that the large-scale establishment … has come to be the most powerful engine of progress and in particular of the long-run expansion of output." [xiv]

Schumpeter's interest in large firms was shared by the majority of economists and business theorists for much of the 20th century. It was widely held that big firms had higher levels of productivity and generated more innovations because they had professionalized research and development. In the 1950s, John Kenneth Galbraith famously dismissed the "no more pleasant fiction than that technological change is the product of the matchless ingenuity of the small man forced by competition to employ his wits to better his neighbour."[xv] More recently this has been echoed by Professor Mariana Mazzucato's work on *The Entrepreneurial State*, in which she argues that the role of the state in supporting innovative business activity and entrepreneurship has been misunderstood or misrepresented. As her excellent work relates closely to the idea of 'entrepreneurial infrastructure' it will not be explored further in this report, but it is strongly recommended.[xvi]

Paul Nightingale and Alex Coad at the University of Sussex have argued that Galbraith's lack of interest in entrepreneurship reflected a strong post-war consensus around the role of large firms in economies with demand management by the state and active industrial policies focused on a small number of large firms able to exploit economies of scale. There were almost three decades of strong and diffuse economic growth characterized by the spread of American production technology and low oil prices. Only in the 1970s following the oil price shock did this global system hit the twin buffers of inflation and the ending of pegged exchange rates.

Nightingale and Coad suggest that the ways in which large firms reacted to these external pressures powerfully influenced the emergence of the entrepreneur as hero. They reacted to rigidities in the economy, and especially the labour market, by bypassing organized labour and removing fair wage clauses from their employment contracts. They changed their practices and began to subcontract production to SMEs with non-unionized workforces, flexible wages and fewer concerns about health and safety. In addition, state-controlled efforts to run an industrial policy and continue to stimulate demand in countries such as France and Britain led to capital flight, chronic currency weakness and even International Monetary Fund (IMF) bail-outs. Something had to change, or so it seemed.

And this is where entrepreneurs suddenly arrived. "With the election of Reagan and Thatcher a new *counterfactual* model of political economy was introduced".[xvii] It argued that better economic coordination would be achieved if there were a large number of "entrepreneurial small firms (rather than a small number of large firms), co-ordinated by markets (not a consensus between governments, managers and unions), competing in free international markets (rather than protected national)" ones. Between 1979 and 1983 the Conservative government – famously led by a grocer's daughter – introduced no fewer than 103 policies designed to support entrepreneurs.

The key word here is 'counterfactual'. The new model was "based on ideas rather than evidence."[xviii] And the key source of those ideas were Austrian economists and political theorists and a mixed group of thinkers and writers who developed what has come to be known as neo-liberalism. Among the cast of characters are Hayek, von Mises, Popper and Schumpeter, as well as Knight and Milton Friedman, also a leading proponent of Monetarism. One classification of entrepreneurial research suggests that there was an Austrian school, a German school (which included Schumpeter although he was actually Austrian) and a Chicago school.[xix] The Chicago school put more emphasis on markets than on entrepreneurs, but was heavily influenced by the Austrians. Nightingale and Coad make the point that until the 1970s these ideas were considered marginal and were mainly disseminated via a network of think tanks and foundations.

There were other political strands to this consensus, but for our purposes the point is that Schumpeter-style entrepreneurs were seen as the essential agents of bringing change into the economic system, and that they could fulfil their purpose without the need for an active state. Nightingale and Coad caution that, "It should be noted that there was no evidence that entrepreneurs played this positive role." They conclude that the "argument was political, and was designed to protect liberal democracy from itself", and that it was based "on a counterfactual argument that whatever the evidence, things would have been better with more entrepreneurs and less State intervention, with entrepreneurs defined tautologically as people that are good for the economy."[xx]

We can now see how we got to where we are today. In the

1980s, as the ‘entrepreneurial consensus’ took hold, there was no shortage of demand for evidence that entrepreneurs are a force for economic good. Politicians wished to justify new policies, the wealthy were heartened by the perception that their share of wealth could increase, and, crucially, small business owners felt that at last they had gained a political voice. Even some parts of the Left supported the shift to allay deep-rooted suspicions towards big companies. Academics got to work in search of evidence for the supposed entrepreneurial benefits. And that is where our challenge begins. Early research tended to show that entrepreneurs were indeed a good thing, but the work suffered from a range of problems and more recently there has been much greater scepticism.

Some of the problems encountered in the research were briefly summarized in earlier work by the author, but there is strong case for a more detailed explanation in this report.[xxi] Perhaps the biggest challenge relates to the nature and quality of the available data. Insofar as the idea of the entrepreneur is often conflated with the starting of a new small company, governmental desire to keep bureaucratic demands (“red tape”) as light as possible means that this is the sector of the economy about which we know the least. Ironically, then, the state of our knowledge about entrepreneurship is intimately linked to that about SMEs.

Helpfully, there is growing awareness in public policy circles of the lack of rigorous and systematic data collection. In May 2014 the Bank of England issued a consultation paper on the proposal to create a national credit register, the first sign that such a registry might have a powerful purpose. Andy Haldane, now Chief Economist at the Bank, has argued cogently for such a development.[xxii] In addition, banks are now required by law to pool much of their SME lending data in Credit Reference Agencies, a welcome step towards greater transparency. However, these welcome developments must be set against the historical background of data deficiencies and it will take a long time to build meaningful, reliable time series.

So we are stuck with historic data for now. There is a significant risk that where data are available they are biased in one way or another. There are some clear examples of samples that are so evidently limited that it is difficult to take seriously any general claims made by the authors, such as the US study based on a sample of alumni of Massachusetts Institute of Technology (MIT).[xxiii] Another is a paper published in April 2014 by the Centre for Policy Studies on so-called 'SuperEntrepreneurs', which looks at 1,000 billionaires, and argues that countries should lower their tax rates in order to have a better chance of attracting or retaining them.[xxiv] Studies often look more or less anecdotally at successful companies and their founders without acknowledging that these are among a tiny minority, just as successful entrepreneurs are a subset of the group of entrepreneurs as a whole. In other words, it is very difficult to reach a view that is not skewed. Is there such a thing as a 'typical' or 'average' entrepreneur? Who is more representative, Richard Branson, Mumsnet founder Justine Roberts, or the many arts and fashion graduates now setting up online clothing websites, some of whom may be destined for great success, some not?

The fact that these are tricky questions to answer tells us to be wary of strong claims. We know, without having to prove it, that a given population, in this case a group of individuals or the companies they found, typically includes a small number of success stories and these act to increase the performance of the group as a whole. It would therefore be wrong to extrapolate either just from the few successes or from any 'average' taken across the group, because both perspectives will be highly misleading. There is a real danger that anecdotal evidence is used to justify policies that are actually misguided.

CHAPTER 2
FRAMING A CONTEMPORARY DEFINITION OF ENTREPRENEURS AND ENTREPRENEURSHIP

Having discussed some of the theoretical background to the study of entrepreneurs and entrepreneurship, and acknowledged that there are some fundamental challenges facing researchers, we inevitably need to address the question of which definition of entrepreneurship we should now adopt so that policy debate is at least looking in the right places. Partly because data sources have tended to be limited and idiosyncratic, definitions have also been very fluid, often being shaped to fit the data set rather than from first principles.

Even attempts to offer broad definitions run the risk of distorting the true picture. For example, one influential survey article asked the question 'What is the Value of Entrepreneurship?'[xxv] It laid out three criteria for defining entrepreneurial businesses (rather than entrepreneurs) and said that at least one must be satisfied. These firms

- Employ fewer than 100 people
- Are younger than 7 years old
- Are new entrants to the market

Clearly this introduces into their potential universe a very large number of start-ups, including self-employed businesses, that may not be especially entrepreneurial or may even have no intention of being entrepreneurial. We will come back to self-employment, but let us first continue with competing contemporary definitions of entrepreneurs. The following list is not exhaustive, but it gives a flavour of the types of definition in the field:

- Competitive and innovative start-ups
- Having explicit growth ambitions
- Seizing opportunities to create goods and services
- Creating an organization to pursue an opportunity
- Having personality traits and the will to succeed
- People who start firms – sometimes referred to as novice entrepreneurs
- People who start firms more than once – habitual or serial entrepreneurs
- High-tech firms
- Small firms

Each of these captures something of the concept of entrepreneurship, but is not sufficient by itself. This can be viewed as a fundamental problem, or, as William Baumol has argued, “Most of the definitions are complementary rather than competitive, each seeking to focus attention on some different feature of the same phenomenon.”[xxvi] Simon C Parker has suggested that, “It is unlikely if not impossible that any single measure of entrepreneurship could or even should ever be regarded as portraying all the nuances of entrepreneurship.” [xxvii] Nightingale and Coad keep it simple – entrepreneurs are “people who start firms”, and entrepreneurial firms are “under seven years old”.[xxviii]

Realistically, there is limited purpose in seeking to impose a single definition of entrepreneur/entrepreneurship. So long as policymakers have a clear sense of what they wish to encourage via legislation or discourage via incentives and regulation, then it should be acceptable to have a slightly fuzzy sense of the underlying concept. The trick is in removing from view any related concepts that might be apt to mislead or confuse. So we need to look more closely at three ways of viewing entrepreneurship in order to evaluate their utility: the process of starting a new company (including not-for-profit ventures, otherwise known as social entrepreneurship), the question of whether anyone who is self-employed is by default an entrepreneur, and the connection between firm size and entrepreneurial zest.

Entrepreneurs as founders

In the Introduction to this report we mentioned GEDI and Santander's Enterprise Index. Both have as significant inputs data derived from the Global Entrepreneurship Monitor (GEM). GEM assumes the connection between an opportunity and an individual – the entrepreneur – who is willing to create a new company in order to pursue the opportunity. An entrepreneur is an adult who is setting up or has already set up a venture less than 42 months old. GEM looks at country level and creates an index of Total Entrepreneurial Activity (TEA) – how many of the adult population are entrepreneurs? Roughly speaking, somewhere between 5% and 10% is typical of developed countries.

Although this methodology allows cross-country comparisons, it also has clear shortcomings. As we will discuss shortly, many new ventures are far from entrepreneurial and many are founded not as a consequence of entrepreneurial spirit, but rather out of necessity as an alternative to unemployment.

Further, the cut-off of 42 months or 3.5 years has the bizarre effect of excluding from the TEA precisely those companies that might be showing entrepreneurial zeal – other measures of entrepreneurship tend to take twice as long as a period during which entrepreneurship can be observed. GEM also takes no account of business closures, so it does not give a sense of the 'net' activity in a country, meaning that it potentially overstates entrepreneurial activity.

GEM distinguishes between necessity and opportunity entrepreneurs – the former have no better option than to start a business, while the latter may have attractive alternatives, but choose to start a business venture. As long ago as 2001 GEM suggested that opportunity entrepreneurs are a good associated with economic growth, while necessity entrepreneurs can merely be a response to changes in social welfare programmes (or, we might add, recession-induced unemployment). As we will see, this has contemporary relevance in Britain today.

In practice, this distinction may be rather more nuanced. Many entrepreneurs may set up not because they don't have alternatives, but because they have particular lifestyle needs that drive them to start a business because it is more viable for them than employment. Carers are a prime example – many highly successful businesses have been started by parents seeking a more flexible way of working, and as the population ages, creating a new group of people caring for elderly parents, more such opportunities may be sought by mid-career professionals who find themselves in this position. Similarly, starting a business may be seen as a positive lifestyle choice for many, rather than a necessity – those who have retired early and perhaps want to continue using skills from their former employment by setting up as consultants or those who perhaps just want to exploit a hobby such as jewellery making and make a modest living. Many necessity or lifestyle entrepreneurs will not be high-growth, innovative businesses contributing significantly to the economy. But arguably some might become this sort of enterprise, despite the reasons they were founded. Equally, some opportunity entrepreneurs who believe they have spotted something good may not actually have a viable idea or significant economic contribution to make, or where they do, may fail to make it work.

Arguably one of GEM's most influential contributions derives from its classification of 'nascent entrepreneurs' (NEs) – this category feeds directly into the GEDI and SEI work, for example.[xxix] GEM sets the following questions:

- Are you, alone or with others, now trying to start a new business?
- Do you expect to be the owner or part owner of the new firm?
- Have you been active in trying to start the new firm in the past 12 months?
- Has your start-up not yet generated a positive monthly cash flow that covers expenses and the owner-manager's salary for more than three months?

One important research finding is that just over half of all new business efforts by NEs are performed by teams, often of spouses, but also of people who share similar backgrounds and socio-economic status. Entrepreneurship is not just about individuals, despite the prevailing image.

The rise of self-employment

Is every self-employed person an entrepreneur? The obvious answer is no. It is a matter of logic, as well as fact, that many self-employed people have little entrepreneurial ambition or talent. Furthermore, there is a substantial grey area between self-employment and employment and this has been the subject of an enormous body of research. However, in many cases the terms 'self-employed' and 'entrepreneurs' are used interchangeably.

To explore this, let us turn to the minutes of the Bank of England's Monetary Policy Committee (MPC) meeting of April 9th 2014.[xxx] The MPC is generally scrutinized for its setting of interest rates and its discussion of inflationary pressures or otherwise. On this occasion, however, it gained headlines relating to the following paragraph, which demands close reading:

"25. *A striking feature of the recent labour market data had been the strength in self-employment. Self-employment had risen by over 200,000 in the three months to January at the same time as there had been a fall in the number of employees. And self-employment had accounted for almost half of the rise in employment since 2010. It was possible that some of the increase had come about in reaction to benefit caps, changes in pension entitlements and rules surrounding access to in-work benefits. A key question was whether the amount of slack in the labour market was understated by measured unemployment, as might be the case if many of the self-employed were underemployed and searching for work as employees. There was some evidence against this. First, part of the rise in self-*

employment appeared to be a continuation of a longer-term secular trend, rather than a cyclical response to a lack of other employment opportunities. Consistent with that, higher self-employment did not appear to have been associated with inflows of people recently made redundant. Second, survey evidence suggested that the self-employed were only slightly more likely to be looking for another job than were employees. For some, self-employment might have been chosen as an alternative to retirement, rather than as an alternative to employment. Nevertheless, it was possible that some of the self-employed were underemployed and would be more productive as employees were more jobs to become available. Members of the Committee held a range of views about the extent to which self-employment represented a form of labour market slack. They noted that this would be tested when more jobs became available."

There has certainly been a rise in self-employment – around 4.5 million Britons are thus defined, or about 15% of all employment, a rise of 650,000 since 2008. But note that the MPC minutes do not include either of the words 'entrepreneur' or 'entrepreneurial'. However, this was the headline in the *Daily Telegraph* on the morning the minutes became public: **'Benefit cuts creating new generation of entrepreneurs, Bank of England suggests'**[xxxi]

It was not the Bank's idea, but the claim of Iain Duncan-Smith, the Work and Pensions Secretary, who hailed a revival of Britain's "entrepreneurial spirit". He was quoted as saying: *"This country has a great history of entrepreneurship and small businesses are in many ways the backbone of the UK economy. The growth in self-employment is both a sign and a result of the economic recovery this Government is delivering. We should welcome this sign that the entrepreneurial spirit is alive and well in the UK."*

Not surprisingly, a fierce debate followed. Commentators and analysts pointed out that although the numbers of self-employed had risen, pay among the self-employed had fallen sharply. A study published in May 2014 by The Resolution Foundation, a think tank, noted that, *"self-employed weekly earnings are 20 per cent lower than they were in 2006-07, while employee earnings have fallen by just 6 per cent. The drop has been seen across genders and industries but is particularly notable among people of prime earning age (35 to 50 years old) whose earnings are 26 per cent lower. As a result, the typical self-employed person now earns 40 per cent less than the typical employed person."*[xxxii]

The fact that self-employed people earn less than employees has been known for a long time, so it is the current magnitude that is noteworthy. Self-employment brings several additional disadvantages in the form of fewer fringe benefits, longer working hours and greater stress, but it has been long held to have a higher level of job satisfaction that compensates for these. Again, we need to be aware of the inevitable conflation of self-employed and entrepreneurs, but there is a common belief, somewhat supported by academic research, that there is a group of self-employed people who like the idea of 'being their own boss'. The Resolution Foundation report found that roughly three-quarters of those who became self-employed in recent years agreed with this idea – by implication, there is a sizeable group of people who are self-employed but would prefer to be employed.

Reality is more nuanced than academic research implies. Some of the self-employed in the UK have adopted this status in order to hide under-employment. One group consists of welfare claimants who can use self-employment to bump up their working hours and thus maintain tax credits that would otherwise be withdrawn under changes to benefit rules. This is an unintended consequence of Mr Duncan-Smith's reforms, but it is difficult not to admire it as an unlikely form of entrepreneurial behaviour. Another group consists of freelancers and contractors who may be under-employed, hence earning less, but who maintain their self-employed status rather than seeking to return to employment. Re-read the MPC minutes above and it becomes clear that the discussion of these issues is surprisingly subtle. Finally, of course, there is a sub-category of self-employed people who are more classically entrepreneurial, and for whom the conflation of the terms is therefore more justified.

Firm size and entrepreneurs

Despite the regular statements to the contrary by politicians, firm size is not linked to entrepreneurship and the number of SMEs in an economy is not a measure of entrepreneurial activity. There are entrepreneurs running big firms as well as small ones, and there are many small firms not run by entrepreneurs. Indeed many small businesses are set up because that is the normal mode of operation for particular occupations – solicitors' practices, dentists, GP surgeries, hairdressers, plumbers, electricians, car mechanics and so on. Whilst these are numerous and make a very worthwhile contribution to the economy, these sorts of businesses are not in general part of what one would want to include in a definition of entrepreneurship. There are some academics who believe that any focus on SMEs misses the point that entrepreneurship is about individuals seizing opportunities, not firms as such. We will explore this in the next chapter.

So, we are left with the question of how we can best define entrepreneurship so that we have a practical and operational concept for making policy. We can see how it is not helpful to limit a definition to a particular group – business founders, the self-employed, and so on (even though we can be stuck with these definitions as a legacy of past research). Rather, an entrepreneur is someone who creates an enterprise of some sort in order to pursue an opportunity and who, crucially for policy, has the potential and the capabilities to make a real contribution in terms of growth, employment or value-added – in other words, good reasons for policymakers to take a close interest. This admittedly somewhat fuzzy notion is the definitional basis for the remainder of this report.

CHAPTER 3
TRACKING DOWN THE ENTREPRENEUR: CAN WE DEFINE CORE CHARACTERISTICS?

Who becomes an entrepreneur and why? The answers can only come from a wide variety of sources, requiring a vast survey of academic research. The small number of very successful entrepreneurs who become rich tend to skew our thinking so that we equate entrepreneurship with the desire to make a lot of money. Clearly this can be true only for a tiny number of winners, just as only a tiny number of those who buy lottery tickets actually win prizes.

So what other drivers or pre-disposing characteristics are there for entrepreneurship? Simon C Parker suggests a useful distinction between pecuniary and non-pecuniary explanations for entrepreneurship. There are some strong explanatory variables for determining why some people become entrepreneurs. These include:

- Age – people are more likely to become entrepreneurs as they get older, but only up to a point, after which they become more risk-averse
- Experience – people acquire human capital in the form of learned experience that can dispose them to start a venture

- Formal education – people with more education are more likely to start a business with entrepreneurial intent, as opposed to a hobby or one-man business
- Marriage/partnership – direct family support is an important source of social capital and may also provide material security during a start-up phase
- Having a parent who has been an entrepreneur – business seems to run in families
- Enduring redundancy or unemployment – this can create 'necessity entrepreneurs'
- Personal wealth – a new venture can feel less risky if the founder has some money behind them and can either survive for longer in a marginal business or be able to remain solvent despite a failure
- Personal tax rates – a few people are motivated by a desire (often illusory) to pay less tax

The UK Labour Force Survey also provides some insight into the reasons people cite for becoming self-employed – although, as already mentioned, only a subset of the self-employed can properly be considered as entrepreneurial. By far the most important reason given by this group is a wish to be independent. Interestingly, the next biggest reason is that self-employment is the norm for the particular sector of the economy – think of all those plumbers, labourers, foresters, etc. Only then do people cite a wish to make more money or the belief that an opportunity has arisen, consistent with the view above that this diverse group contains a mix of entrepreneurs and those making more of a lifestyle or occupation-specific choice.[xxxiii]

What about psychological characteristics? Surely entrepreneurs are fearless risk-takers with boundless self-confidence? There are many risk-based theories of entrepreneurship, but none is definitive. Often, as noted above, a would-be entrepreneur might wait carefully to acquire experience and financial backing, as well as financial security before embarking on a venture. Risk-taking can be a considered activity as well as a hasty one. As we will see in Chapter Five, risk is quite a subjective concept.

We can say a bit more about confidence, however. We can usefully distinguish between over-confidence and over-optimism. People in general are over-confident – this is well established in psychology, where simple tests show that we routinely over-estimate our knowledge and abilities because we forget that there is often a wide variation of future outcomes. We are also over-optimistic, and entrepreneurs are more so than average. Studies show that they are far too optimistic about the odds of success and the returns they expect to make. One British study found that self-employed people are consistently and significantly more optimistic than their employed counterparts. [xxxiv]

This might seem like a small point, but it has enormous policy implications. Warren Buffett, the American investor, once said "optimism is the enemy of the rational buyer". Economic theory has long suggested that profit-maximizing realists will drive out over-optimists in the long run. But markets might not be so efficient and the long run is too long for most businesses. Realists should make positive profits in the absence of over-optimists who are willing to pay more for the same resources, but the presence of over-optimists means that there is excess output and profits disappear. "Over-optimists therefore impose a negative externality of all other entrepreneurs, and the appropriate policy is to discourage entry, rather than to encourage it," writes Simon C Parker.[xxxv]

In simpler language, the general tendency for us to be over-optimistic and decide to start a business is at odds with the specific need for established businesses to derive a level of profit at which they can survive – the new simply undermines the existing, only rarely improving upon it. What policy over several decades has encouraged might actually have contributed to destabilizing the business ecosystem.

Over-optimism explains quite a lot about why entrepreneurship is so pervasive and so persistent, despite evidence that most businesses fail. There are ways of tempering its effects – for example, professional advisers and non-executive board members can provide more detached perspectives and guidance.

Some other psychological traits or attributes have been deemed important by researchers for entrepreneurship. One is a 'need for achievement', characterized by a willingness to take personal responsibility for decisions, to dislike repetitive or routine work, and to be committed and proactive. Another is the belief that one's performance depends largely on one's own actions – referred to by psychologists as a 'high internal locus of control'. Entrepreneurs might feel they have a lot more scope to take their own decisions. They might also have a greater willingness to tolerate environments where there is a high degree of ambiguity or uncertainty, and this 'ambiguity tolerance' is seen by psychologists as distinct from risk tolerance.

And so the list goes on. Entrepreneurs have been held to exhibit 'type A' behaviour, that is to say they are competitive, assertive, aggressive, willing to strive and impatient. They may be less likely to accept the status quo or to repeat previous choices. They are more conscientious and open to experience than non-entrepreneurs, may be extrovert and less prone to neuroticism. But they may also be misfits who want to live outside the mainstream, find it difficult to accept authority, and may engage in deviant or criminal behaviour. They are 'innovative rebels' who seek to boost their self-esteem. Studies have shown that criminals have high levels of interest and participation in entrepreneurship (some drug cartels are highly successful and entrepreneurial business empires), although there is the issue that a criminal record bars a person from many forms of employment, so there may be a sub-category of necessity entrepreneurs who are criminals. There is also a sub-category who are criminal and are opportunist entrepreneurs.

Simon C Parker notes that since the 1980s there has been growing scepticism towards the deployment of psychological traits in explaining entrepreneurship. "It has still not been decisively established whether there is an 'essential' set of entrepreneurial characteristics, and if so what they are," he writes.[xxxvi] It seems pretty unlikely that we can find traits, or even a single trait, that is unique to entrepreneurs. It is just as likely that luck and other external factors, including a family history of business formation, play a role in determining whether someone is an entrepreneur, let alone a successful one. And we need to acknowledge that entrepreneurs are themselves a pretty diverse bunch, not a single type. However, there is a great reluctance to move away from psychological observations and testing. It probably relates to the idea of the entrepreneur as 'hero' – we see them as possessing the characteristics that embody business success, and by extrapolation personal fulfilment and social esteem.

A crucial intervention in entrepreneurship research was made by William Gartner as long ago as 1988. His arguments are worth examining because they rarely surface from the obscure journal in which they were published, but they have great importance for policy. He posed a challenge by asserting in his title that **'"Who is an Entrepreneur?" is the wrong question'**.[xxxvii] He begins by quoting Professor Arthur Cole, one of the founders of entrepreneurial research at Harvard University, reflecting on his career:

"My own personal experience was that for ten years we ran a research center in entrepreneurial history, for ten years we tried to define the entrepreneur. We never succeeded. Each of us had some notion of it – what he thought was, for his purposes, a useful definition. And I don't think you're going to get further than that."

Gartner describes the field of entrepreneurial research as "focused on the person of the entrepreneur, asking the question, Why do certain individuals start firms, when others, under similar conditions, do not? Asking *why* has led us to answering with *who:* Why did X start a venture? Because X has a certain inner quality or qualities." He called this the 'trait approach' in which the "entrepreneur is assumed to be a particular personality type, a fixed state of existence, a desirable species that one might find a picture of in a field guide". Despite the obvious exaggeration his point still resonates today.

Gartner went on to argue that "the study of the entrepreneur is actually one step removed from the primary phenomenon of entrepreneurship – the creation of organizations, the process by which new organizations come into existence." It is what entrepreneurs do – not what motivates them – that should be the subject of research. He cites Arthur Cole again as an example of how academics have slid between this 'behavioural' approach and the trait approach. Cole was influenced by Jean-Baptiste Say to define the entrepreneur as an economic agent who:

"unites all means of production – the labor of the one, the capital or the land of the others – and who finds in the value of the products which result from their employment the reconstitution of the entire capital that he utilizes, and the value of the wages, the interest, and the rent which he pays, as well as the profits belonging to himself."

So far, so suitably behaviourist. But then Cole lapses:

"This person, this entrepreneur, *must have special personal qualities:* ….. (from Say) judgment, perseverance, and a knowledge of the world as well as of business." Gartner added the emphasis to drive home his point.

The implicit link back to Austrian theorists and the idea of the heroic entrepreneur/person/personality should be only too clear.

Gartner suggested that entrepreneurship research should move away from the personality approach and instead follow the example of managerial and strategy research by focusing on behaviour. He offered a lengthy quote from Henry Mintzberg, a Canadian academic whose 1973 classic *The Nature of Managerial Work* had a huge impact on business studies. Gartner suggested substituting the words ‘entrepreneur’ and ‘entrepreneurial’ for ‘manager’ and ‘managerial/management’ in Minsky’s description of his field of study. So let’s do so:

“We must be able to answer a number of specific questions before we can expect entrepreneurial training and entrepreneurial science to have any real impact on practice.

What kinds of activities does the entrepreneur perform? What kinds of information does he process? With who [sic] *must he work? Where? How frequently?*

What are the distinguishing characteristics of entrepreneurial work? What is of interest about the media the entrepreneur uses, the activities he prefers to engage in, the flow of these activities during the workday, his use of time, the pressures of the job?

What basic roles can be inferred from the study of the entrepreneur’s activities? What roles does the entrepreneur perform in moving information, in making decisions, in dealing with people?

What variations exist among entrepreneurial jobs? To what extent can basic differences be attributed to the situation, the incumbent, the job, the organization and the environment?

To what extent is entrepreneurship a science? To what extent is the entrepreneur’s work programmed (that is, repetitive, systematic and predictable)?”

Entrepreneurship, concluded Gartner, “is a role that individuals undertake to create organizations”.

This view was largely shared by Peter Drucker, an influential management theorist and prolific author over the second half of the 20th century. He was much less interested in psychology than he was in actions and behaviour, believing that innovation and entrepreneurship are part of a system or discipline that can be analysed and applied. In *Innovation and Entrepreneurship: Practice and Principles* (1985), Drucker wrote that, “Entrepreneurship rests on a theory of economy and society. The theory sees change as normal and indeed as healthy. And it sees the major task in society – and especially in the economy – as doing something different rather than doing better what is already being done.” He saw entrepreneurs as the agents of change who identify and respond to opportunities. Entrepreneurship is risky, he argued, mainly because very few of the “so-called entrepreneurs know what they are doing.”

As it happens, we cannot avoid psychology altogether, despite Gartner’s plea and Drucker’s intellectual case. The reasons why will be explored more fully in Chapter Four. And Gartner’s suggested research agenda focusing on behaviour opens new areas of inquiry. If we observe entrepreneurs going about the process of starting ventures/organizations, then we can watch whether they succeed or fail. We can also see whether entrepreneurs who fail at one venture learn anything from the experience and then put that learning to good use if/when they start another venture. This too will be part of our next chapter.

In summary, while there may be some disposing ‘entrepreneurial’ characteristics or associated psychological traits, that doesn’t get us all that far – we don’t need a field guide to find the entrepreneur. Rather, what we need is an understanding of what it takes in terms of roles, behaviours and outcomes to make a success of being an entrepreneur. That is where we turn next.

CHAPTER 4
ARE ENTREPRENEURS BORN OR MADE?

Perhaps the ultimate question in entrepreneurship research is whether entrepreneurship can be taught or whether entrepreneurial ability and talent is fundamentally innate. What role might genetics play in influencing who becomes an entrepreneur as opposed to other factors, such as family background or prevailing social culture? To what extent is it possible to pre-select and nurture entrepreneurs and are programmes of support and training effective?

One of the most interesting experiments in entrepreneurship is currently underway in Britain. It is a charity called the New Entrepreneurs Foundation (NEF), based appropriately in an innovation hub in Smithfield Market in London. Founded in 2010 by a former banker and supported by former successful business managers, it does not worry about academic theory, preferring to be practical. Its ambition is to develop the next generation of entrepreneurial leaders. The founders looked at evidence suggesting that Britain was falling behind other countries in entrepreneurial success, partly through lack of funding, but more importantly because young people lacked aspiration. Neeta Patel, who is NEF's CEO, explains that the foundation is based on the belief that entrepreneurial skills can be learned and honed – as we will see below, not everyone agrees with this! More specifically, the NEF thinking is that people with high entrepreneurial potential can be helped with start-up skills, encouraged to seek business ideas capable of success at scale and taught how to create and then use networks. It's not the case that you can take anyone off the street and make them into an entrepreneur: rather, people with an existing entrepreneurial mind-set can be given targeted help across a range of skills.

NEF's programme is rigorous. Each year it selects 30–35 of the brightest aspirational entrepreneurs who apply to join. It gives them a paid one-year work placement, typically in a high-growth company, and submits them to high-quality training during that time. The entrepreneurs are taught about the tools of business – how to evaluate opportunities, size a market, make a financial and business plan, branding, marketing, and so forth – but they are also mentored in the so-called 'soft skills' – how to work as a team, how to be resilient, how to present a business case, how to network, and so on. Each person is given a personal coach, assigned a business mentor and invited to networking events where they can meet successful entrepreneurs and mingle with peers. The combination of gaining experience from working in a growth company, formal training and being part of a cohort creates a rare opportunity for those selected. Ms Patel believes the programme is unique in that it offers free of charge a combination of training, coaching and mentoring, and paid work during the placement. Unlike the typical business accelerator or incubator, NEF does not take an equity share of any ventures founded by its members.

Who is chosen? So far on average NEF receives around 1,000 applications for up to 35 places. The applicants mostly are in their early twenties and either have no previous work experience or have been in some form of work for up to six years. The selection process is rigorous. The first of six stages demands an online description of up to 500 words of something the candidate has done that is entrepreneurial. Ms Patel says this is a very good early indicator, and two-thirds of applicants are rejected at this stage. Next the remaining candidates do a video interview in which they answer five questions designed to test their commercial awareness, their business awareness, their humility/self-awareness (including an example of something that has frustrated them or made them angry) and their excitement for change and disruption. The field is then weeded again and 100–120 candidates are invited to one of four assessment centres.

The level of individual attention then goes up a notch or two. Each candidate takes literacy and numeracy tests. They also sit a test called META, a carefully designed psychometric test for entrepreneurial aptitude. We will examine this further below, but for now NEF does not take the results of this test into account for its selection process. The applicants are then placed in groups of five and challenged to come up with a business idea in a given sector. After 90 minutes of working together they must pitch the idea to a panel. NEF staff observe group dynamics with particular care, watching how individuals interact, who takes leadership roles. Those who are overly competitive or unstable are rejected. The key ability, says Ms Patel, is for a candidate to be an effective member of the group.

The field is halved again and the remaining 60 candidates face a panel interview to test how serious they are and how committed they will be to the demands of work, training and mentoring. "It's not a gap year we're offering," says Ms Patel, "It's important that we know everyone who joins the programme is serious."

The results to date are interesting. Three cohorts have completed the programme. One-quarter of the first set of 'NEF graduates' is currently working in their own venture. But in the second year the number jumped to nearly half. The latest graduates left the programme in June 2014, so it is

VENTURING FOR AMERICA

Could NEF or something similar be scaled up in the UK?

In the US the government has set up Venture for America, a 2-year fellowship program to launch top graduates as entrepreneurs. The programme recruits, trains, and places roughly 100 selected graduates in start-ups in Baltimore, Detroit, New Orleans, and other places where there is an obvious need for economic and social renewal. Like NEF, the programme is free and the fellows are paid by the companies for which they work. A five-week long summer training camp is held to give the fellows a crash course in business basics.

Venture for America hopes that a substantial proportion of its fellows will be job creators and entrepreneurs, "preferably rooted in the communities to which they are assigned". The programme hopes to generate 1000,000 new jobs by 2025 by training a critical mass of graduates to become business leaders. Obviously it is too soon to conclude that Venture for America is a success, but it offers an interesting comparison to NEF and other efforts to improve entrepreneurial effectiveness. It is also a reminder of the potential benefits from supporting 'clusters', whether of firms or entrepreneurs or just talented people.

too soon to take stock, but already eight are working on their own ventures. In the first group of 30, only five were female, but this has also changed in subsequent years to seven out of 27 and 12 out of 35 respectively. The new cohort starting in September 2014 has 13 women out of 32 members. NEF figures show that 40% of members came from state schools.

The glaring question is whether all of the careful screening and training makes a difference. NEF is aware of the need to track how its chosen entrepreneurs perform. There is much more to this than simply checking whether they go on to start their own companies. Some of them might find jobs with their host companies and demonstrate great entrepreneurial qualities inside an existing organization. NEF aims to stay informed about its graduates using questionnaires and interviews, measuring among other things how their self-perception and confidence changes over time. But the sample is small and it will take many years before any meaningful data emerge.

The META test referred to above is also a potential source of evidence for the question that has been posed on whether there are some fundamental or even genetic markers for entrepreneurship. META stands for 'Measure of Entrepreneurial Talent'. It is an online profiling tool that was originally developed by psychologists at University College London and is now a three-way collaboration between that college, the Entrepreneurial Finance Lab at Harvard, and Goldsmiths College. The test consists of a set of 40 statements to which respondents react on a 5-point scale from 'strongly agree' to 'strongly disagree'. The team behind META believes that the successful outcomes of entrepreneurship are innovations that lead to growth. It stands to reason that these can happen in large organizations just as much, if not more, than they do in small companies or start-ups. The key is to find those individuals with the right combination of talents. META looks to identify “employees who are creative, proactive, and capable of identifying potential opportunities and having a vision of how things should improve” and believes that these people will make “a disproportionate contribution to organizational growth”.[xxxviii]

The META test assumes that there are measurable differences between individuals’ entrepreneurial talent. But what to measure? The researchers sifted the available literature across a variety of academic disciplines and concluded that four themes were common:

- Entrepreneurial creativity – the ability to generate innovative business ideas, which relates to personality traits of non-conformity, originality and a preference for novel experiences
- Opportunism – the tendency to spot opportunities, which relates to being alert and informed and detecting trends
- Proactivity – the tendency to get things done, which relates to energy, confidence and self-determination
- Vision – the ability to see the bigger picture and the motivation to bring about change, which relates to having a sense of purpose and strong values

The test is carefully designed to identify these, and also to assess ‘social desirability’, otherwise known as a respondent’s willingness to give wrong or distorted answers in order to create a favourable impression on other people.

META is clear about what it aims to measure and is also reassuringly honest about how to interpret the results of its test – respondents are essentially lumped into wide percentile ranges from 0–33, 34–66 and 67–100, with the middle group considered average, and then compared against a set of general norms. META has also developed a set of industry or sector norms so that individuals can be compared with others in similar roles and contexts. But it also deliberately leaves out some characteristics or personality traits that have featured heavily in entrepreneurship research, on the grounds that they are not in themselves factors that consistently correlate with entrepreneurial success, but rather are 'sub-facets' that can either get in the way of or enhance potential success. A good example is risk-taking, or a preference for risk and the linked notion of ambition. A risk-averse person is unlikely to be a successful entrepreneur, but is also unlikely to have a particularly dynamic career or job performance. A risk-seeking person is more likely to have health and relationship problems than they are to succeed as an entrepreneur. The META view is that these and other traits are not essential components of entrepreneurial DNA – "they are not specifically associated with entrepreneurial talent, but more generic markers of an individual's personality".[xxxix]

It is difficult to be objective about META, at present, because there are insufficient data on which to base confident statements. A small trial by NEF suggests there is a very strong overlap between the individuals it selects using a variety of tests and interviews and those who perform well on the META test. But this will have to be tracked over a long time period before strong conclusions can be reached. In particular, it would be important to assess whether those who performed well on the META tests were over-represented amongst those who achieved future success after leaving the programme, and perhaps even whether those with high scores who did not enter the programme for one reason or another were more successful than those with lower scores. Further, the test itself is a diagnostic – it might tell us something about who in an organization has strong entrepreneurial tendencies. It does not tell us how those tendencies can be encouraged, harnessed, restrained when appropriate, and so on. Ultimately, how an organization actually works is the vital context for whether or not entrepreneurs are able to express themselves positively and with good outcomes.

So we are back to what seems to be emerging as a general, but somewhat fuzzy, truth – the 'born or made' debate about entrepreneurs might not be especially helpful, because the answer is actually that people are born with more or less entrepreneurial talent, but, crucially, depend on circumstance and opportunity if they are to fulfil that talent. It also seems obvious that we need to think carefully about how we define success, as we noted in Chapter One.

An important issue for policymakers is whether entrepreneurs learn from their experiences, so that they gain in knowledge and insight and get better at what they do. Professor Mark Casson theorized this idea by introducing a character he called Jack Brash. Jack starts off with little information, but "information is generated continuously as a by-product of his trading activity, and Jack uses this information to the full. He learns from the deals that he makes, and he learns from the deals that fall through."[xl] By analyzing his experience Jack can generate competitive advantage. So a measure of 'entrepreneurial learning' (hereafter EL) will set apart the successful entrepreneurs who are able to process information and experience best.

Think of the economy as undergoing continuous shocks and change to which people running firms must respond. The better they learn, the better their performance. So for public policy, anything that helps business founders to analyze their experience better would make sense.

Would it though? A multi-authored paper published in 2012 continues the tradition of framing a provocative question: “Do entrepreneurs really learn? Or do they just tell us that they do?”[xli] The Casson model is potentially flawed because shocks, though persistent, might be different on each occasion, offering no opportunity for EL. Further, the authors asked, what about the role of chance in influencing entrepreneurial outcomes? What if there is no EL, and one person’s success is the result of pure luck? They make an analogy with someone playing a lottery over and over again who can increase their chance of winning by buying additional tickets – it cannot be said that they are learning to play the lottery. Put these two ideas together and you have a third reason to doubt EL. Consider a risky environment subject to shocks that rarely repeat themselves. An entrepreneur must make choices at each point, but it is very difficult to know after the event whether a decision was correct or incorrect. The “larger the chance component, and the greater the difficulty of linking actions and outcomes, the lower the opportunity for EL,” the authors suggest.

This might seem a somewhat academic point, but it goes to the heart of a very important problem. An influential paper was published in the US in 2006 by some of the field’s leading scholars. It argued that “a large component of success in entrepreneurship and venture capital can be attributed to skill” and that serial entrepreneurs with at least one success behind them are more likely to succeed in their repeat ventures than first-time entrepreneurs or those with a failed venture.[xlii] The authors linked their research to other work on entrepreneurial experience. This strong conclusion is right in EL territory.[xliii]

Surely EL can be tested empirically? Surprisingly, the main evidence gathered to justify the concept has come from entrepreneurs themselves by asking them how they gained new insights and understanding. The authors of the UK paper cited above set out a more objective test of EL by ignoring self-reported success and looking instead at outcomes. If a new firm survives it seems reasonable to conclude that its founder's entrepreneurial talent has increased over the time of survival.

What they found has big implications for policymakers. First, people with previous business/ownership experience and who start new ventures have no greater survival history than those with no prior experience. That does not refute EL, but it does not support it. Second, the researchers used access to bank records to see whether there was evidence that, as they got older, firms became less likely to engage in "life-threatening" behaviours. They suggested that two tests could indicate whether business owners might be demonstrating EL. The first is whether the firm's sales/turnover became less volatile – the more EL there is, the more a business will presumably take on sturdier financial shape. Second, young firms will often borrow from their bank in an unauthorized way that leads to financial penalties, for example by exceeding overdraft limits. This is damaging behaviour and banks make sure they inform the business owner as part of any remedial action, so it can hardly be said the business owner remains unaware. If EL exists, owners would make sure they got into trouble no more than once. In fact, the researchers found, neither test supports EL. The researchers “found no evidence of sales volatility declining with time trading or any reduction in the use of excess overdraft facilities. If anything, the incidence of excess and its intensity, rise as firms move further from start-up.“

What can we conclude from this? The case for EL is certainly unproven. The researchers are careful to point out that they are not saying that no entrepreneur is capable of learning anything. Rather, their research suggests that even among businesses that survive three years, “entrepreneurs as a group, do not become less likely to engage in ‘life-threatening’ behaviour, the more ‘experience’ they accumulate.” We still do not know empirically whether it might be feasible to separate entrepreneurs into ‘learners’ and ‘non-learners’, but if we could identify what distinguishes learners from the rest then we would have a much firmer base for policy. Rather than a scatter-gun approach via widespread subsidies, support could be channelled towards the much smaller group of learners.

This body of work also has important implications for the banks that lend to new and small businesses. If the finding about excess overdraft fees is robust, then they need to understand that a proportion of their customers will simply not respond to financial penalties, but are likely to be persistent offenders. Banks have other ways of interacting with business customers. For example, most of them offer seminars and training to their customers. This implicitly endorses the idea of EL – the rationale for paying for training can only be the expectation that it helps lead to lower default rates and higher profits. But does it work? A forthcoming research paper suggests that training has no impact on firm survival rates or sales growth.[xliv] However, it would be wrong to conclude that banks are therefore stupid. A demonstrable effect of training is that the customers form a stronger emotional bond with the bank and are less likely to switch their accounts in future. Of course, some of those customers will go bust. But the successful ones who stay who otherwise might have left are a source of profit.

One bank has been changing how it woos customers. Barclays used to offer short seminars to individuals thinking of going into business, but in the last couple of years it has been redirecting around £2 million of annual spending towards existing customers, looking for opportunities to help them through big decisions and turning points – will they become exporters, make an acquisition, seek equity funding, and so on. In other words, the emphasis has shifted from general encouragement of start-ups to quite targeted practical help for existing businesses with clear needs for specific support (from which they presumably can learn, but the intervention is anyway worthwhile if the company survives and thrives). This approach has also been embraced by Santander (see box).

There might be more general policy lessons here. There is no shortage of Government support schemes for business. There is a complex history of support and tools offered by Business Link and predecessor organizations, and local and regional institutions have at various times played an important role in supporting businesses.[xlv] Even if there is no demonstrable impact on business survival rates, from a public policy perspective these efforts could still be justified if they led to less deviance in the form of tax or legal non-compliance. More research is needed.

BREAKING THROUGH THE BARRIERS
Practical support for growing businesses

Santander's £200 million 'Breakthrough' programme looks for businesses that are well beyond the start-up stage, with annual turnover of between £500,000 and £25 million and a track record of growth. As well as lending these businesses money, the bank seeks to support them in their efforts to move to the next level of development. It describes its programme offering as follows:

- Masterclasses – Kicking off with a visit to Google, the 'Masterclass' initiative enables our Breakthrough companies to pay an onsite visit to and learn from entrepreneurs and managers who are further along the growth cycle. It's an opportunity to see and hear first-hand how successful companies have got where they are today.
- International – Moving into overseas markets can be daunting. Working in collaboration with UK Trade & Investment, we will take selected delegates on fact-finding trips overseas. These trade missions are a chance to both map out the market and make useful contacts.
- Live events – We will organise two events per region. Open to selected fast-growth companies (not just those on the Breakthrough programme), these sessions aim to help businesses address the issues that impair growth while simultaneously learning lessons from market-leading companies.
- Internships – Attracting talent can be a constant headache for SMEs, particularly those working in sectors where highly skilled people are required. For instance, graduates and other sought-after professionals know that working for a small company can offer unique rewards, but the relatively low visibility of SMEs means that matching skills

to a company isn't always easy. Our Internship initiative addresses this issue by matching top-flight graduates with companies that could benefit from their skills. For the graduate, it offers real work experience within exciting companies. For the business, it's a chance to tap into fresh thinking and perhaps create a permanent relationship.

CHAPTER 5
WHAT DO ASPIRING ENTREPRENEURS SEE AS IMPORTANT FOR SUCCESS?

So what is it that makes a successful entrepreneur? What attributes do aspiring entrepreneurs view as most important?

In 2009, 12 university students got together and formed the national Consortium of University Entrepreneurs. They had in common that they were all presidents of their institution's enterprise society and were passionate about helping to create opportunities for subsequent employment and entrepreneurship. In 2011, the body was re-formed as the National Association of College and University Entrepreneurs (NACUE), a charity with the goal of extending its reach throughout British higher education. Today NACUE has more than 200 member organizations (each of which is an enterprise society attached to an institution) and its annual events programme is expected to attract more than 4,500 attendees. It receives substantial funding from the Department for Business, Innovation and Skills (BIS).

For this report, NACUE kindly made its members available for a short, but revealing, survey. The survey was fielded on two occasions. The first was a Leadership Summit attended in London only by the presidents or heads of member organizations. This group was given a paper form and 73 completed surveys were received in May 2014. In addition, an online survey was fielded to NACUE members in June 2014 and 310 valid responses were received.

The survey was designed to test how NACUE members view themselves as potential entrepreneurs. Importantly, all of the respondents are self-selected as aspirant entrepreneurs. What personal attributes do they think are most important for success? And which of those attributes do they believe they possess themselves? This is obviously quite different to the META test described above – it is closer to an opinion poll than a personality test. Nevertheless, the attributes selected for the survey have been carefully drawn from the academic literature and were designed to be straightforward in meaning. The idea was that the students should have no difficulty in understanding what each attribute means.

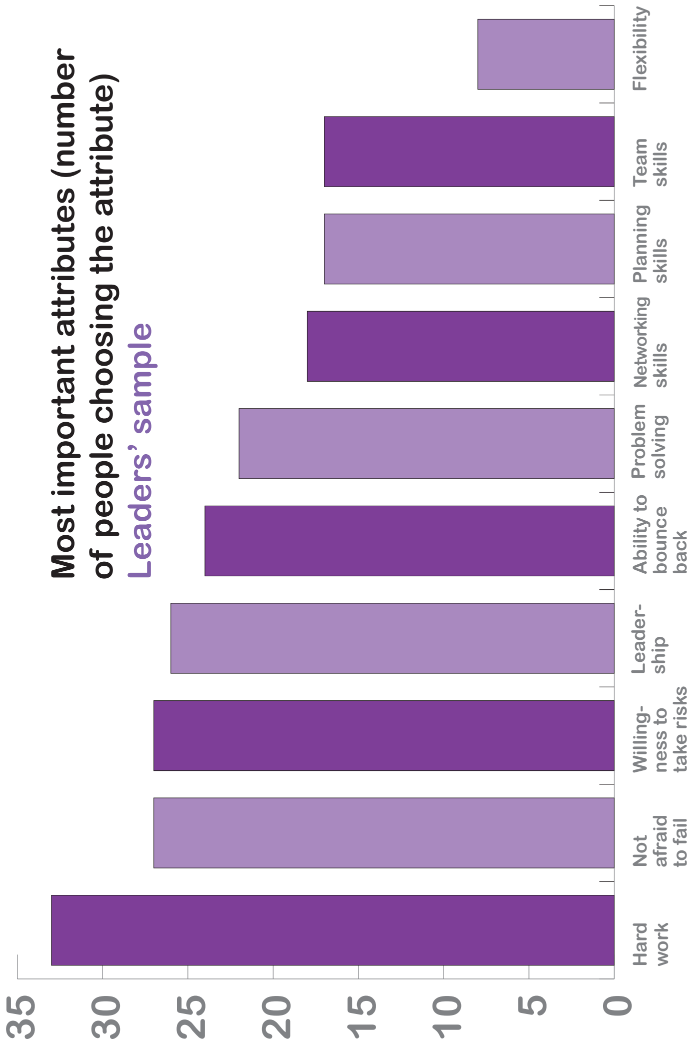
Ten attributes were listed as follows:

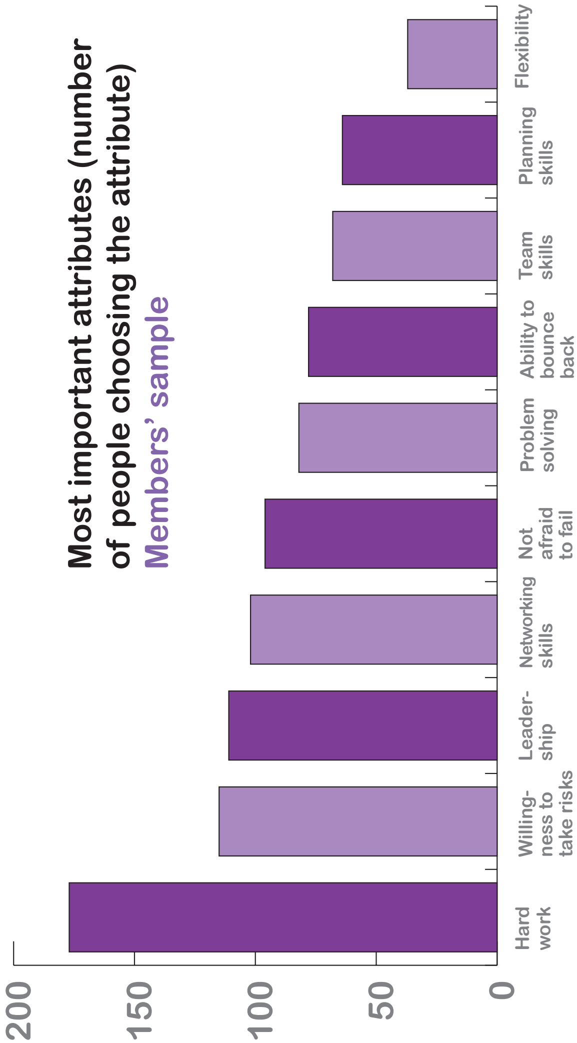
Planning skills	**Ability to bounce back**
Hard work	**Willingness to take risks**
Leadership	**Team skills**
Problem solving	**Networking skills**
Not afraid to fail	**Flexibility**

The respondents were asked to tick the top three attributes they think are most important for success as an entrepreneur. They were then asked to tick any of the ten that they believe they possess themselves. They were given the opportunity to suggest additional important attributes, but few did so. The one characteristic perhaps missing from the set of attributes relates to creativity or innovative propensities, but the construction of the survey assumed that aspirant entrepreneurs would believe that they had some new

Most important attributes (number of people choosing the attribute)

Leaders' sample




Most important attributes (number of people choosing the attribute)
Members' sample
200
150
100
50
0
Hard work
Willing-ness to take risks
Leader-ship
Networking skills
Not afraid to fail
Problem solving
Ability to bounce back
Team skills
Planning skills
Flexibility

formulation that would make their business or activity distinctive and successful, and it therefore builds from that starting premise.

It is important not to over-interpret the data, but the prevalence of hard work as a key attribute is striking, with willingness to take risks also highly rated. It is revealing that the leaders' sample ranks Leadership well above other interpersonal attributes whereas the member group sees Networking as being nearly as important. Leaders presumably see themselves as such.

In general, though, we can see that there is little difference between the leaders and the general sample – the NACUE members put less emphasis on not being afraid of failure than the leaders, who in turn rate the ability to bounce back a bit higher. But the general picture is consistent. Planning and flexibility are considered the least important factors, although, interestingly, the actual experience of entrepreneurs suggests that being flexible and responding nimbly to shifts in markets is an exceptionally useful, even necessary, attribute.

Because the respondents were not asked to hard rank the attributes, but merely to choose three, we cannot conduct a deep statistical inquiry into the data looking for correlations, let alone causation. However, we can see how some combinations of attributes were more common than others. The following tables show simple matrices of how the choice of one attribute related to the other two choices. These are then represented as simple, but revealing, flow charts. The matrix can be read as follows: of the 26 who chose leadership as one of the most important attributes, 11 also chose hard work.

Connected attributes: Leaders' sample

	Planning skills	Ability to bounce back	Hard work	Willingness to take risks	Leadership	Team skills	Problem solving	Networking skills	Not afraid to fail	Flexibility
Planning skills	17	2	8	5	6	3	6	0	4	0
Ability to bounce back	2	24	7	11	4	1	6	4	10	3
Hard work	8	7	33	6	11	9	7	6	9	3
Willingness to take risks	5	11	6	27	3	6	5	7	9	2
Leadership	6	4	11	3	26	4	4	9	9	2
Team skills	3	1	9	6	4	17	5	3	2	1
Problem solving	6	6	7	5	4	5	22	3	6	2
Networking skills	0	4	6	7	9	3	3	18	3	1
Not afraid to fail	4	10	9	9	9	2	6	3	27	2
Flexibility	0	3	3	2	2	1	2	1	2	8

Connected attributes: Members' sample

	Planning skills	Ability to bounce back	Hard work	Willingness to take risks	Leadership	Team skills	Problem solving	Networking skills	Not afraid to fail	Flexibility
Planning skills	64	9	31	16	17	15	16	11	9	4
Ability to bounce back	9	78	39	20	17	5	13	22	23	8
Hard work	31	39	177	52	48	33	35	50	50	16
Willingness to take risks	16	20	52	115	36	13	25	31	28	9
Leadership	17	17	48	36	111	21	24	30	20	9
Team skills	15	5	33	13	21	68	16	11	14	8
Problem solving	16	13	35	25	24	16	82	14	15	6
Networking skills	11	22	50	31	30	11	14	102	27	8
Not afraid to fail	9	23	50	28	20	14	15	27	96	6
Flexibility	4	8	16	9	9	8	6	8	6	37

Connected attributes: Leaders' sample

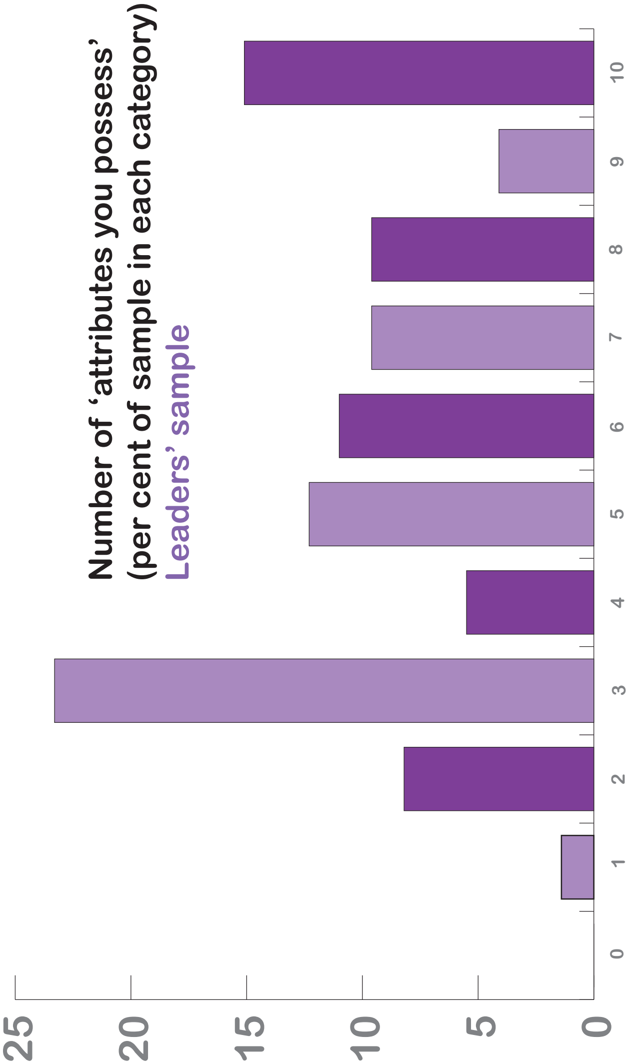
Planning skills	→	Hard work	→	Leadership/ Problem solving
Ability to bounce back	→	Willingness to take risks	→	Not afraid to fail
Hard work	→	Leadership	→	Team skills/ Not afraid to fail
Willingness to take risks	→	Ability to bounce back	→	Not afraid to fail
Leadership	→	Hard work	→	Networking skills/ Not afraid to fail
Team skills	→	Hard work	→	Willingness to take risks
Problem solving	→	Hard work	→	Planning skills/ Ability to bounce back/ Not afraid to fail
Networking skills	→	Leadership	→	Willingness to take risks
Not afraid to fail	→	Ability to bounce back	→	Hard work/ Willingness to take risks/ Leadership
Flexibility	→	Ability to bounce back/ Hard work	→	Willingness to take risks/ Leadership/ Problem solving Not afraid to fail

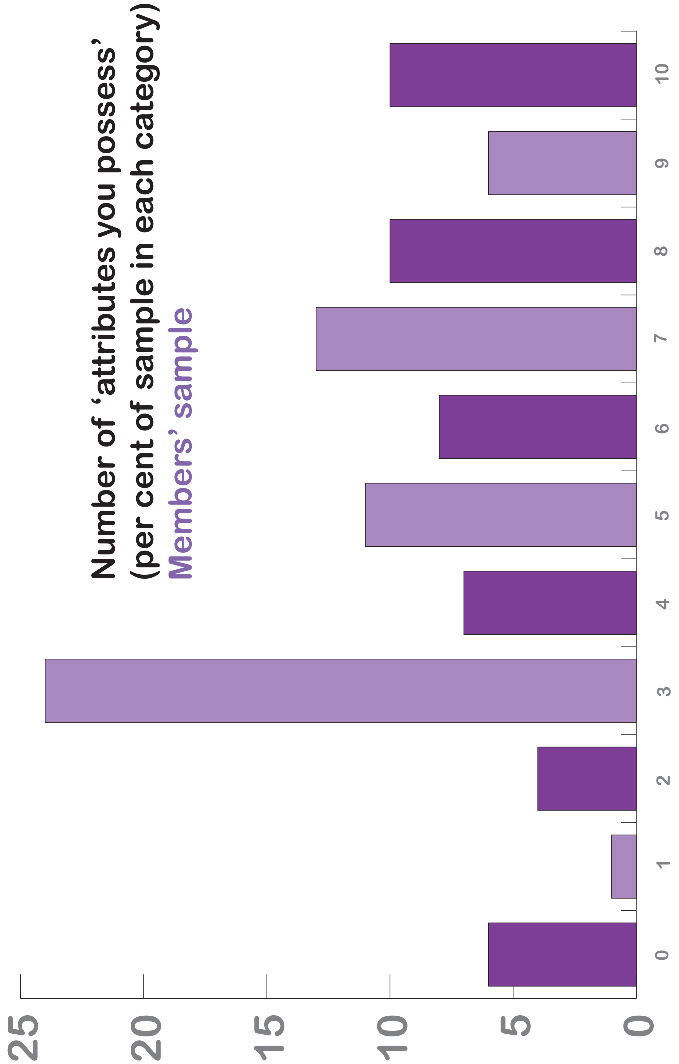
Again, this reveals just how strong an emphasis both groups put on hard work, whatever else they think is important, alongside their high ratings of willingness to take risks and leadership. The leaders group also consistently selects having the ability to bounce back and not being afraid to fail.

Connected attributes: Members' sample

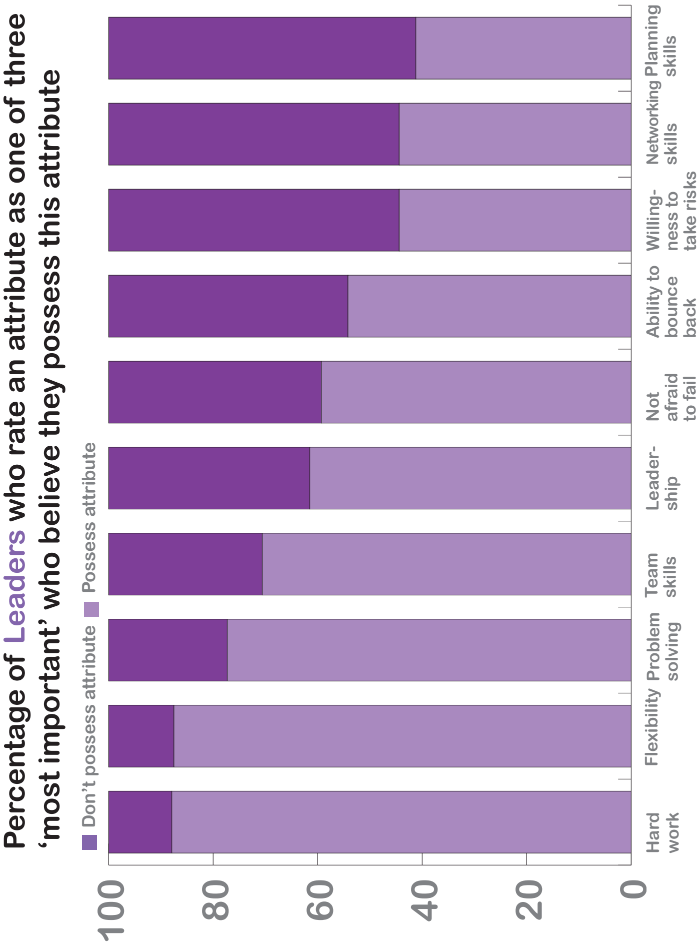
Planning skills	→	Hard work	→	Leadership
Ability to bounce back	→	Hard work	→	Not afraid to fail
Hard work	→	Willingness to take risks	→	Networking skills/ Not afraid to fail
Willingness to take risks	→	Hard work	→	Leadership
Leadership	→	Hard work	→	Willingness to take risks
Team skills	→	Hard work	→	Leadership
Problem solving	→	Hard work	→	Willingness to take risks
Networking skills	→	Hard work	→	Willingness to take risks
Not afraid to fail	→	Hard work	→	Willingness to take risks
Flexibility	→	Hard work	→	Willingness to take risks/ Leadership

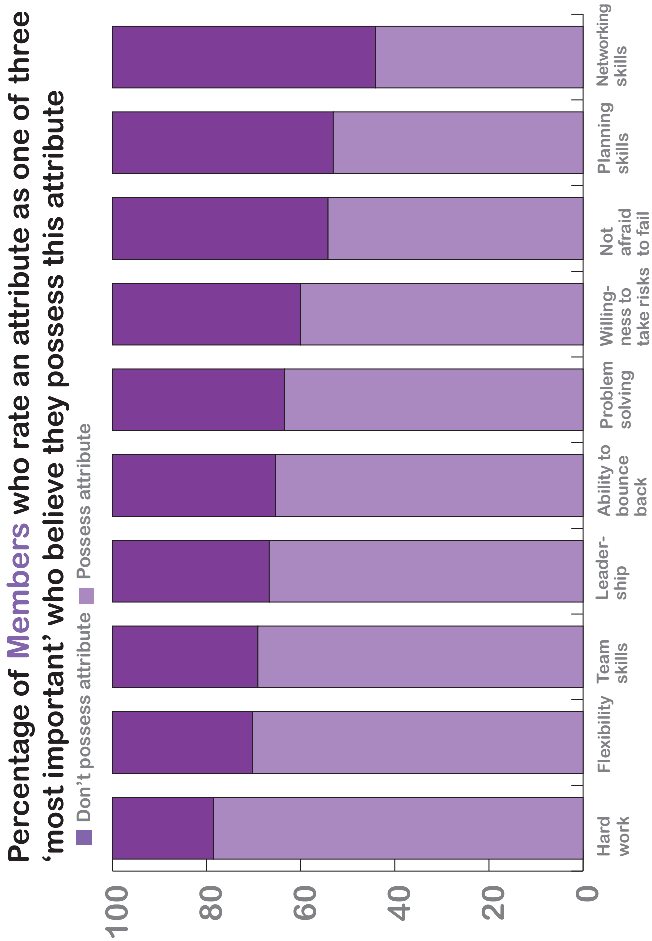
Having looked at what the groups considered important, the next two charts show how many of the attributes the two groups believed they had. For both groups the most common response was that three out of the 10 attributes were already possessed. For the leaders, however, we can see that around half thought they had six or more of the attributes, and 15% believed they had all of them. Members were a little less confident on possessing the attributes, although it is still the case that 10% thought they had all 10 and more than half thought they had five or more.


Number of 'attributes you possess'
(per cent of sample in each category)
Leaders' sample
0
5
10
15
20
25
0
1
2
3
4
5
6
7
8
9
10


Number of ‘attributes you possess’
(per cent of sample in each category)
Members’ sample
0
5
10
15
20
25
0
1
2
3
4
5
6
7
8
9
10

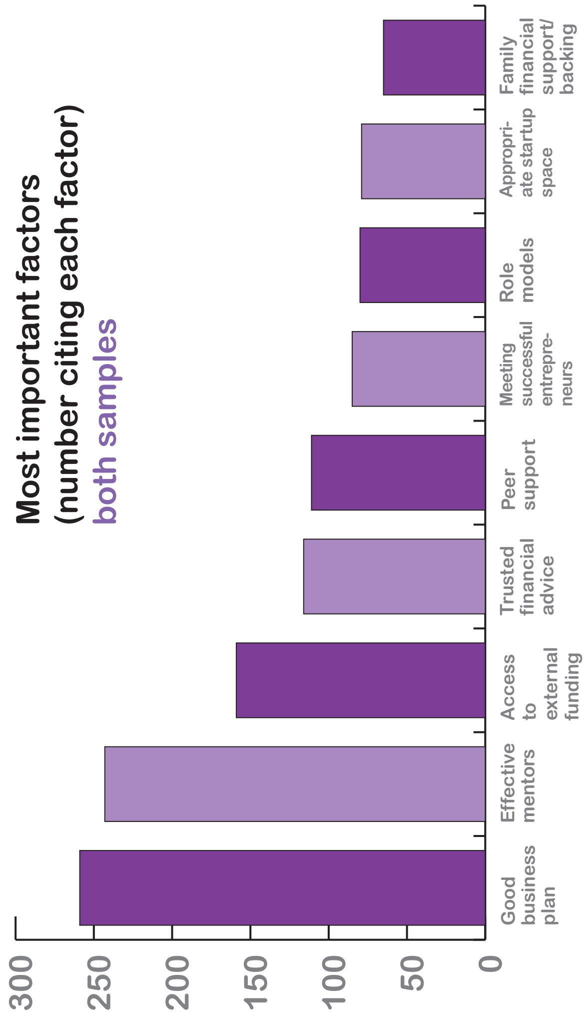
We can view the data another way. If someone chose an attribute as one of the top three, to what extent did they also believe that they possess it?





As these two charts show, both groups gave pretty consistent answers, with networking and planning skills emerging as key areas where the attribute was considered important but a significant proportion didn't believe they possessed it. Putting aside debate about EL and the benefits of training, it would seem that this group would potentially benefit most from help with these skills.

Finally, although it was not the specific remit for this report, the respondents were asked to rate a set of external success factors – these responses were analysed as a single set. As with the personal attributes, they were asked to choose the three most important factors for success. We can see that mentoring is seen as crucial, and that very closely linked factors such as peer support, role models and meeting successful entrepreneurs all had clear support, reinforcing the findings above on networking as a key component of business success. But the biggest factor is to have a good business plan, something seen as associated with lack of skill in the main part of the survey, and something that is relatively easy to provide through seminars or coaching –- indeed guidance and model business planning templates can be downloaded from the Business Link website. Access to a trendy start-up space or innovation hub is seen as much less important.


Most important factors
(number citing each factor)
both samples
300
250
200
150
100
50
0
Good business plan
Effective mentors
Access to external funding
Trusted financial advice
Peer support
Meeting successful entrepre-neurs
Role models
Appropri-ate startup space
Family financial support/ backing

CHAPTER 6
CONCLUSION AND RECOMMENDATIONS

An awful lot of effort goes into encouraging new businesses and by extension, or so it is believed, entrepreneurs. Having assessed a wide variety of evidence, this report finds that much of that effort is potentially useless or of minimal positive impact. As Nightingale and Coad point out, "the average entrepreneur is not Bill Gates."[xlvi]

Rather, the typical entrant is someone who starts a low-productivity firm, perhaps a fish and chip shop in a town that already has one and has only enough demand to support one. If the new entrant is still around two years later it may only be because they have displaced the rival firm, destroying jobs in the process. There are lots of these firms and it can be argued that the competition they engender, as well as the diversity they bring to our streets and shops, is a healthy force in the economy. They have high failure rates and typically lack the scale to be competitive and productive. And they explain some things we know to be true about the economy, but have struggled to understand.

For example, lots of new businesses are founded, but most of them quickly fail, suggesting that we are witnessing a form of economic churn rather than the source of growth. Growth is actually tricky to achieve and can take time. Firm survival rates improve as companies get older and bigger, so the policy focus on small firms is economically questionable, even though it is politically unassailable. There is probably not much point in encouraging failed entrepreneurs to try again as they are no more likely to succeed a second or third time around.

At risk of repetition, one of the main recommendations of previous research conducted by the author was that the Government should invest in creating a definitive UK business registry, along the lines of the Canadian business registry.[xlvii] This would not be cheap – the costs might run to a few tens of millions of pounds and there would be an enduring cost base, although a simple business registration fee could cover much of this. The benefits, however, would be enormous, and the service could be paid for via a small direct tax on businesses. At national level we could finally gain a proper understanding of business formation and exit – this would be hugely beneficial for policy. At local level, it would become possible to judge the impact of new businesses and for business owners to have a realistic sense of the potential viability of their company/idea via the ability to benchmark, for example, the financial characteristics of hairdressers in Manchester or website designers in Reading. It is remarkable that in the 21st century we continue in such a fog of ignorance concerning the motivations and behaviours of businesses of all the sizes, particularly vast numbers of micro and small businesses. To give this some scale, there are roughly 4.8 million companies in the UK.

The challenge for policymakers is to realize that the common view of entrepreneurship today is based on theory that asserts the benefits and ignores the costs of entrepreneurship. Most entrepreneurs are poor performers.

The business opportunities they hope to exploit are mostly illusory, so the presence of lots of would-be entrepreneurs might mean that a lot of low-quality businesses are reducing the quality of investor returns and free-riding on less risky market participants. The very firms with the potential to be high performers require luck if they are to fulfil it, and not all of them will be lucky.

Further, we do not know for sure whether there is any long-term merit in policies and programmes designed to encourage entrepreneurs. Groups such as NEF offer the possibility over time to track the individual fortunes of its participants and to compare these to a control group – perhaps those candidates it tested using META but did not select. But we are years away from knowing the outcome.

It is tempting to argue that what we need is fewer entrepreneurs, but ones who are of better quality. However, this is a tricky position. The conditions for market entry are unlikely to change so that fewer firms are created. In fact, the direction of travel is towards making it ever easier to start a new venture. There might be a valuable lesson from Barclays' perception that training and seminars for new ventures is fine for customer-retention purposes but of little value in improving firm performance. The bank sees merit instead in directing its efforts towards existing customers who face a choice that will directly affect their growth or development. The Government could consider whether a similar approach for public support might create a more robust economy over time. No single institution is likely to make a significant impact on its own. Coordination and cooperation across Government departments and agencies, as well as commercial and regional entities, is needed.

While it is important to acknowledge the ideological origins of our collective obsession with entrepreneurs, it is much harder in practice to argue that we should radically alter policy. The phenomena of self-employment, start-ups, entrepreneurs, innovation and growth are so intricately linked in political and economic practice. We can hope for better understanding and more nuance, but it is unrealistic to imagine a future in which a government actively seeks to discourage business formation. What might be possible, however, is for public policy to be more explicit about which types of businesses deserve support. The fish and chip shop should be a low priority, but a biotech firm that is just as likely to go bust as it is to succeed arguably could be a high priority. The trick lies in identifying sectors and businesses within them where there is a demonstrable potential for achievement, in terms of future growth, high added-value and/or capacity to generate new jobs. A courageous government would explore whether some of the blanket subsidies (and efforts to reduce red tape) offered to all small businesses are effective.

Finally, to the extent that we can get inside the minds of nascent entrepreneurs, as our survey tried, we see that they have a healthy regard for the importance of hard work and a reasonably honest assessment that they lack networking and planning skills, and see access to mentors and to the tools needed for business planning as of key importance – both things that can be provided or taught to some extent. The belief that we can help young people in particular to become better equipped to start and run businesses may be empirically difficult to justify but it is certainly worthy. Indeed, it relates to a general sense that our education system pays insufficient attention to life skills, including financial understanding and planning, and, given the survey findings, the over-riding importance of sheer hard work and graft to business success. Better provision of these skills and insights from a young age might lead to the paradoxical effect that the cohort of potential entrepreneurs in the population might become more reluctant to start a business because they will have a much better sense of the odds against success, perhaps encouraging more of them to stay in education than to risk everything in a start-up. More effort could be made to identify the individuals who demonstrate that they can learn from experience. If the state is reluctant to step in, then there is a clear gap for banks and other private providers to fill.

There are some examples from abroad that could be considered for the UK. Policymakers should examine the Venture for America programme, and debate whether an equivalent might work in the UK. It is designed to be a high-impact way of regenerating deprived cities and districts by clustering groups of dynamic young entrepreneurs and encouraging them to collaborate as well as compete. A UK programme could be created by extending an existing organization such as NEF or NACUE. The Santander Enterprise Index work offers a clear geography of need.

Entrepreneurs are not heroes and nor do they deserve to be treated as such. But neither are they zeros. As we have seen, they are a diverse group that includes a tiny number of truly dynamic and gifted individuals, some of whom achieve success personally, others of whom work in teams or within existing organizations and have significant impact. Society needs these people to solve problems and create innovations and inventions. A political and social debate about them that is simply more realistic because better informed would be a welcome enhancement of our policy environment.

REFERENCES

i Edward Lazear, 'Entrepreneurship', NBER Working Paper No 9109, August 2002, DOI: 10.3386/w9109. This article introduced the idea that entrepreneurs can be thought of as individuals with balanced personalities who use a range of skills – they are jacks of all trades rather than specialists.

ii D E Bradley and J A Roberts, 'Self-employment and job satisfaction; investigating the role of self-efficacy, depression and seniority' *Journal of small business management,* 42 (1), 12 December 2003, pp 37–58. I am extremely grateful to Dr Alex Coad for this and other relevant references.

iii For example, George Bush in Proclamation 6131 of 8 May, 1990, (see http://www.gpo.gov/fdsys/pkg/STATUTE-104/pdf/STATUTE-104-Pg5275.pdf) described small business people as having "the courage to take risks and the willingness to make their ideas work", and said that they "stand among our Nation's greatest pioneers."

iv In this respect, this report develops ideas contained in the author's report, Andrew Freeman, 'Finance for Growth: "Challenging myths about the funding of small businesses…"', Demos Finance, September 2013. Some of the policy recommendations in that report apply equally to this one.

v ' Santander Enterprise Index 2014 Benchmarking the Regional Ecosystem for Entrepreneurs in the UK'. The report can be found at: http://www.santandercb.co.uk/sites/default/files/Santander%20Enterprise%20Index%202014.pdf (accessed 7 August 2014).

vi Quoted in Simon C Parker, *The Economics of Entrepreneurship,* Cambridge University Press, 2009, p 1.

vii A good chronological account is by R F Hébert and A N Link, 'Historical perspectives on the entrepreneur', *Foundations and Trends® in Entrepreneurship,* Vol 2, Issue 4, 2006, pp 261-408, DOI: 10.1561/0300000008.

viii An excellent and thorough account can be found in Parker, op cit.

ix In the classic sense of someone who takes advantage of a price difference between two markets or some other opportunity to stand between parties in transactions.

x Thomas K McCraw, *Prophet of Innovation: Joseph Schumpeter and Creative Destruction,* May 2007, Belknap Press. An excellent intellectual biography that contains lengthy examples of how Schumpeter articulated and refined his ideas. The radical character of his thinking is clear, as is the lack of prima facie evidence for many of his assertions. Schumpeter was not an empiricist.

xi Quoted in McCraw, p 70.

xii ibid, p 74.

xiii Parker, op cit, page 35.

xiv Quoted in Paul Nightingale and Alex Coad, 'MUPPETS and GAZELLES: rooting out ideological and methodological biases in entrepreneurship research', *FINNOV Discussion Paper,* Work Package 8, Deliverable Number: 8.5, September 2011. This paper should be required reading for all policymakers and politicians with an interest in the business culture of the United Kingdom.

xv John Kenneth Galbraith, *American Capitalism,* Boston, Houghton Mifflin, 1956, p 86. The book was first published in 1952.

xvi Mariana Mazzucato, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths,* Anthem Press, 2013.

xvii Nightingale and Coad, op cit, p 5.

xviii ibid, p 5.

xix Hébert and Link, op cit, p 393.

xx op cit, p 8.

xxi See Finance for Growth.

xxii Andy Haldane, 'There once was an ugly duckling', *Daily Telegraph,* http://www.bankofengland.co.uk/publications/Documents/speeches/2014/speech741.pdf, 17 June 2014,in which he focused on the SME lending market rather than the wider benefits to be derived from a central data collection effort. The consultation paper is 'Should the availability of UK credit data be improved?' http://www.bankofengland.co.uk/publications/Documents/news/2014/dp300514.pdf, May 2014, (both accessed 7 August 2014).

xxiii See Charles E Eesley and Edward B Roberts, 'Cutting Your Teeth: Learning From Entrepreneurial Experiences', *Academy of Management Proceedings,* August 2010 (Meeting Abstract Supplement) 1-6, DOI: 10.5465/AMBPP.2010.54493446.

xxiv Tino and Nima Sanandaji, 'SuperEntrepreneurs and how your country can get them', April 2014, http://www.cps.org.uk/files/reports/original/140429115046-superentrepreneursandhowyourcountrycangetthemupdate.pdf (accessed 7 August 2014).

xxv C M van Praag and P H Versloot, 'What is the value of entrepreneurship? A review of recent research', *Small Business Economics,* 29 (4), 1 December 2007, pp 351–382, DOI: 10.1007/s11187-007-9074-x.

xxvi William J Baumol, 'Formal entrepreneurship theory in economics: Existence and bounds', *Journal of Business Venturing,* 8(3), 1993, pp 197–210, DOI: 10.1016/0883-9026(93)90027-3.

xxvii op cit, p 15.

xxviii op cit, p 10.

xxix An alternative data set is the Panel Study of Entrepreneurial Dynamics (PSED; http://www.psed.isr.umich.edu/psed/home), which originated in the US and has been replicated elsewhere. It generally finds lower levels of Nascent Entrepreneurs than GEM.

xxx Minutes of the Monetary Policy Committee meeting 9 April 2014, http://www.bankofengland.co.uk/publications/minutes/Documents/mpc/pdf/2014/mpc1404.pdf (accessed 7 August 2014).

xxxi Steven Swinford and James Kirkup, 'Benefit cuts creating new generation of entrepreneurs, Bank of England suggests', *Daily Telegraph,* 23 April 2014, http://www.telegraph.co.uk/news/politics/conservative/10783556/Benefit-cuts-creating-new-generation-of-entrepreneurs-Bank-of-England-suggests.html.

xxxii Conor D'Arcy and Laura Gardiner, 'Just the Job or a Working Compromise? The changing nature of self-employment', *The Resolution Foundation,* 6 May 2014, http://www.resolutionfoundation.org/publications/just-job-or-working-compromise-changing-nature-sel/ (accessed 7 August 2014).

xxxiii op cit, Chapter 4 passim.

xxxiv Parker, op cit, p 126.

xxxv ibid, p 127.

xxxvi ibid, p 131.

xxxvii William B Gartner, '"Who Is an Entrepreneur?" Is the Wrong Question'. *American Journal of Small Business,* 12 (4), 1988, 11-32. Reprinted in 'Entrepreneurship Theory and Practice', 13 (4) 1989: 47-68, as 1988 Best Article Award http://business2.fiu.edu/1660397/www/definitions%20of%20entrepreneurship/gartner_1989.pdf (accessed 7 August 2014).

xxxviii Gorkan Ahmetoglu and Tomas Chamorro-Premuzic, META Technical Manual 2013, Metaprofiling Ltd, p 5. http://www.metaprofiling.com/documents/Meta-technical-manual-final.pdf#page=5.

xxxix ibid, p 7.

xl Mark C Casson, *The Entrepreneur: an Economic Theory,* 1982, pp 386–7.

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xliii Although it should be acknowledged that venture-backed firms are a tiny minority and therefore not representative of entrepreneurship – another example of conflation in the academic research.

xliv Alex Coad, Julian Frankish, Richard Roberts, David Storey, 'Why should banks provide entrepreneurship training seminars?' manuscript submitted for publication 2014.

xlv For information on the current Business Link site, see https://www.gov.uk/business-support-helpline (accessed 7 August 2014).

xlvi op cit, p 18.

xlvii Finance for Growth, p 85 and Appendix B.

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