

Creating an enterprising and prosperous future

NORTH EAST
BUSINESS WEEK
18-22 APRIL 2016

Entrepreneurship driving growth

NORTH EAST BUSINESS WEEK RESEARCH

Entrepreneurship Driving Growth

April 2016



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Introduction

Background

In 2012, the North East Business Week theme was Driving Growth.

Research published found that the Aberdeen Western Peripheral Route (AWPR) and the airport redevelopment were the two most significant projects which would drive growth in the region.

Major constraints to growth included late payment, skills shortages, the cost of doing business and financing costs.

In 2013, North East Business Week partners published research focused on workforce issues.

This report has become an important part of the regional evidence base, highlighting that in order to attract the right talent to the North-east, we have to resolve the factors which are preventing people from moving to the region.

In 2014, the theme was Connectivity Driving Growth. The research provided an analysis of digital infrastructure and social media as well as considering the importance of connectivity to our main trading markets by road, rail and air.

In 2015, the theme of the report was Change Driving Growth with the focus of the report being the impact of both internal and externally-driven change with a detailed analysis on the impact of the decline in the oil price and also the influence of politics in the business environment.

This 2016 report focuses on the people that work within the North-east, on the entrepreneurs of the region and how they can be encouraged and supported to grow.

Once again, the partners of North East Business Week would like to thank members and clients who contributed to the research.

Methodology

The North East Business Week survey was run from February 16 to March 21, 2016. The online survey was emailed out to businesses from all of the partner organisations. 184 responses were collated in total.

Throughout the report, respondents are broken down into the following two categories:

Table 1: Breakdown of respondents, by business owner vs employees

Business owners	109 responses made up of:
In their own incorporated business	33%
In a business partnership	15%
Self-employed/sole trader	11%
Employees of a company (non-owners)	75 responses (41%)
Total	184 responses (100%)

Throughout the report, the base size (N) will indicate who the results of the particular chart are based on (unless otherwise stated).

Executive summary

North East Business Week (NEBW) is delivered in partnership by Aberdeen & Grampian Chamber of Commerce (AGCC), Elevator, the Federation of Small Businesses (FSB) and the Scottish Council for Development & Industry (SCDI). Each year the research unit at AGCC undertakes research on the theme of the week to provoke discussion at events and to provide an evidence base. This year, the theme of the week is Entrepreneurship Driving Growth.

Business owners and senior business leaders were asked to provide their views on what makes an entrepreneur. The survey also focused on understanding their motivations in, and barriers to, setting up a business. The scope of the research also allowed benchmarking with research from Nordic countries to provide a comparison of views from respondents in the North-east.

The core of the research reviewed factors related to entrepreneurship and we found:

- Respondents define entrepreneurs as having the following key qualities: opportunity, vision, determination, confidence, leadership and being risk-takers
- There is little difference between how business owners and non-owners define an entrepreneur
- 81% of all respondents feel that they have entrepreneurial spirit. This number only decreases slightly to 77% for non-business owners, suggesting you do not need to be a business owner to be an entrepreneur
- 96% of all respondents believe that entrepreneurs are valuable to the local economy
- When considering the definition of an entrepreneur, risk-taking is a key factor with 28% of business owners considering themselves “risk-takers” with this number decreasing to 15% for non-business owners

Business Owners

- The majority of business owners started their business because they wanted to become their own boss (59%), with 40% having experience within the same industry
- Businesses are interested in expansion, the majority within the UK (50% locally and 28% nationally)
- 77% of business owners would encourage others to start their own business

Challenges and Opportunities

- Businesses face a number of challenges when starting up, mainly “selling their idea” (27%), hiring good staff (26%) and obtaining finance (25%)
- 40% of businesses have had to reduce their prices as a result of the fall in oil price with 35% having lost contracts
- 60% of all respondents agree that now is a good time to start a business. Non-business owners are hesitant for a number of reasons, the main ones including it being it is “too risky financially” (58%) and “too risky for family” (47%)

Baseline statistics

New and small businesses drive economic growth by impacting on employment, innovation, competition and hence productivity and as of March 2015 there was an estimated 361,345 private sector enterprises operating out of Scotland¹, the highest figure since recording began in 2000.

The increase in new businesses in Scotland is driven by a rise in the number of unregistered businesses (sole traders and partnerships not registered for VAT/PAYE) which increased by 13.2%. The number of VAT/PAYE registered businesses has also increased (2.3%), taking the number of registered businesses in Scotland to its highest level since records started.

This increase in incorporated businesses has positive impacts to the UK with 359,050 SMEs providing employment for approximately 1.2million people.

Additional statistics are provided by the GEM (Global Entrepreneurship Measure) and assess how the UK is performing with regards to enterprise. GEM produces an entrepreneurship measure each year called “Total Early Stage Entrepreneurial Activity” (TEA rate). TEA rate in the UK in 2014 was 8.6% which was significantly higher than the historical trend which was very stable at 6%. The latest report also highlighted that one in five working-aged individuals in the UK are engaged in entrepreneurial activity or intend to start a business within the next three years.²

Looking at corporate insolvencies, the picture is less positive for Scotland with 254 during the third quarter of 2015-2016. This is an increase of 41% on the same time last year.³

When considering the evidence at a more local level, there are conflicting findings. The Committee of Scottish Bankers survey looked at the number of new businesses setting up bank accounts. The number of start-ups in Aberdeen fell by 12 per cent between the third quarter of 2014 and the same period in 2015, while in Aberdeenshire there was a reduction of eight per cent. The decrease compares to a Scotland-wide rise of 10 per cent over the period.⁴ Despite this fall, the picture is still a positive one for the region when compared against other cities. In the last 12 months, 1,276 businesses were started within Aberdeen and Aberdeenshire and of these 51% were by female start-ups whilst 6% were by people who had been made redundant from the oil industry. These business start-ups were diverse with only 15% of them being energy-related.⁵

¹<http://www.gov.scot/Topics/Statistics/Browse/Business/Corporate/KeyFacts>

²Global Entrepreneurship Monitor UK, 2014

³<https://www.aib.gov.uk/about-aib/statistics-data/quarterly-reports>

⁴http://www.scotbanks.org.uk/media/new_business_to_q4_2015_copy2.pdf

⁵http://www.heraldscotland.com/business/14403355.Women_and_ex_oil_workers_help_fuel_start_up_record_in_Grampian/

What is entrepreneurship?

Survey respondents included individuals within the North-east who owned their own business as well as senior members of staff within an organisation. Individuals within an organisation with entrepreneurial spirit are termed “intropreneurs” and these individuals are characterised by their innovative thinking and vision within the boundaries of a company.

Entrepreneurship, especially when combined with market-led innovation, can create valuable benefits to an economy and respondents to the survey are in strong agreement: 96% of all respondents agree or agree strongly that entrepreneurs are valuable to the local economy.

An entrepreneur:

A person who organises and manages any enterprise, especially a business, usually with considerable initiative and risk

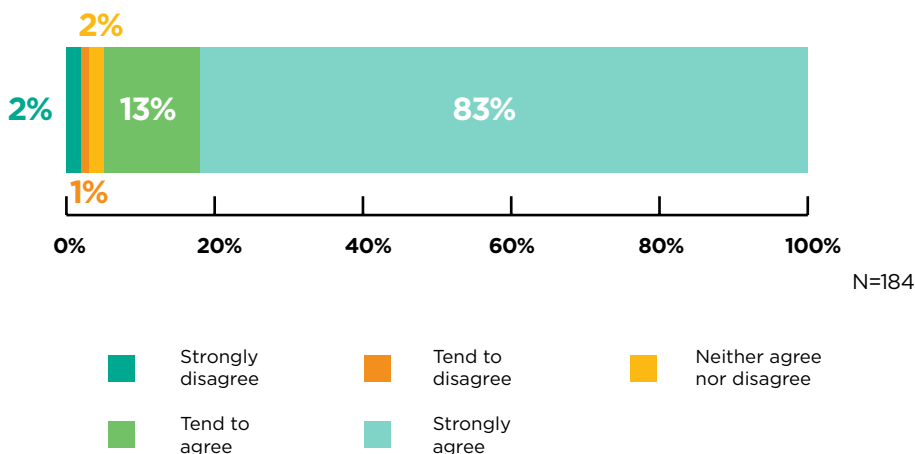
dictionary.com

An intropreneur:

An employee of a large corporation who is given freedom and financial support to create new products, services, systems, etc., and does not have to follow the corporation's usual routines or protocol

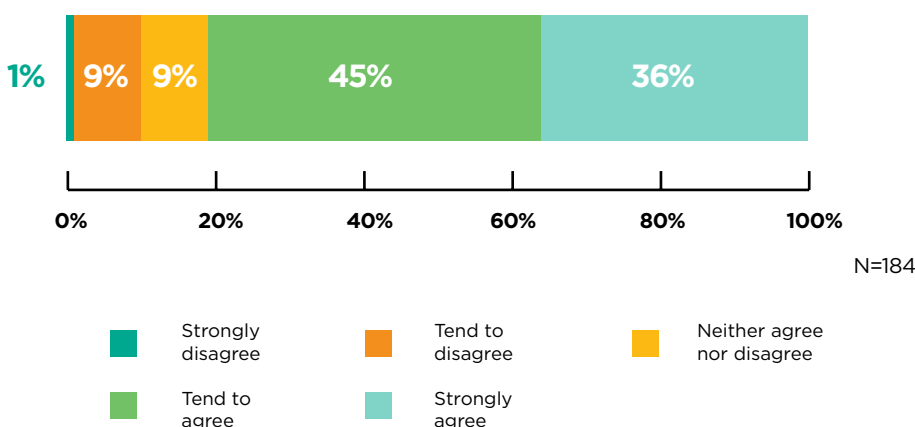
dictionary.com

Figure 1: Entrepreneurs are valuable to the economy



Respondents to our North East Business Week (NEBW) survey feel that they have entrepreneurial spirit, with 81% of all respondents agreeing or strongly agreeing, when analysing the results by type of respondent, 77% of non-business owners believe they have entrepreneurial spirit. This suggests that an individual can be “entrepreneurial” without being a business owner.

Figure 2: I have entrepreneurial spirit



Traits of an entrepreneur

North East Business Week respondents were asked to describe what they felt the top traits of an entrepreneur were and the top five words that were mentioned are shown below. These words do not solely describe someone who is an entrepreneur, they are general terms that could describe anyone in business or in leadership.

Table 2: Traits of an entrepreneur

Opportunity	a situation or condition favourable for attainment of a goal
Vision	the act or power of anticipating that which will or may come to be
Determination	the quality of being resolute; firmness of purpose
Confidence	belief in oneself and one's powers or abilities; self-confidence; self-reliance; assurance
Leadership	the position or function of a leader, a person who guides or direct a group

The characteristics that may make one person a successful entrepreneur may be very different to the next person. Despite this, there seems to be some common traits that respondents feel entrepreneurs share.

In addition to the top five traits described above, the wordcloud below shows the other words that were used by respondents to describe an entrepreneur. In particular, one element that seems to define them is the strong desire to take advantage of an “opportunity”, and to have the “vision” and “determination” to see this through. In addition, entrepreneurs were also seen as being “leaders”, having “confidence” and “passion”.

In 2015, EY compiled a Nordic Entrepreneurship Survey which examined entrepreneurs in all the Nordic countries (Sweden, Denmark, Finland and Norway).⁶

The results of their most recently published research provide some interesting comparison to the NEBW survey.

Results of this survey along with the EY entrepreneurship survey suggest that entrepreneurs are well educated with 66% of business owners in the North-east holding a degree or higher level qualification (66% also for the EY survey).

Figure 3: What do you think the top trait of an entrepreneur is?



⁶ [http://www.ey.com/Publication/vwLUAssets/EY-Entrepreneurship-Barometer-2015/\\$FILE/EY-Entrepreneurship-Barometer-2015.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Entrepreneurship-Barometer-2015/$FILE/EY-Entrepreneurship-Barometer-2015.pdf)

Risk

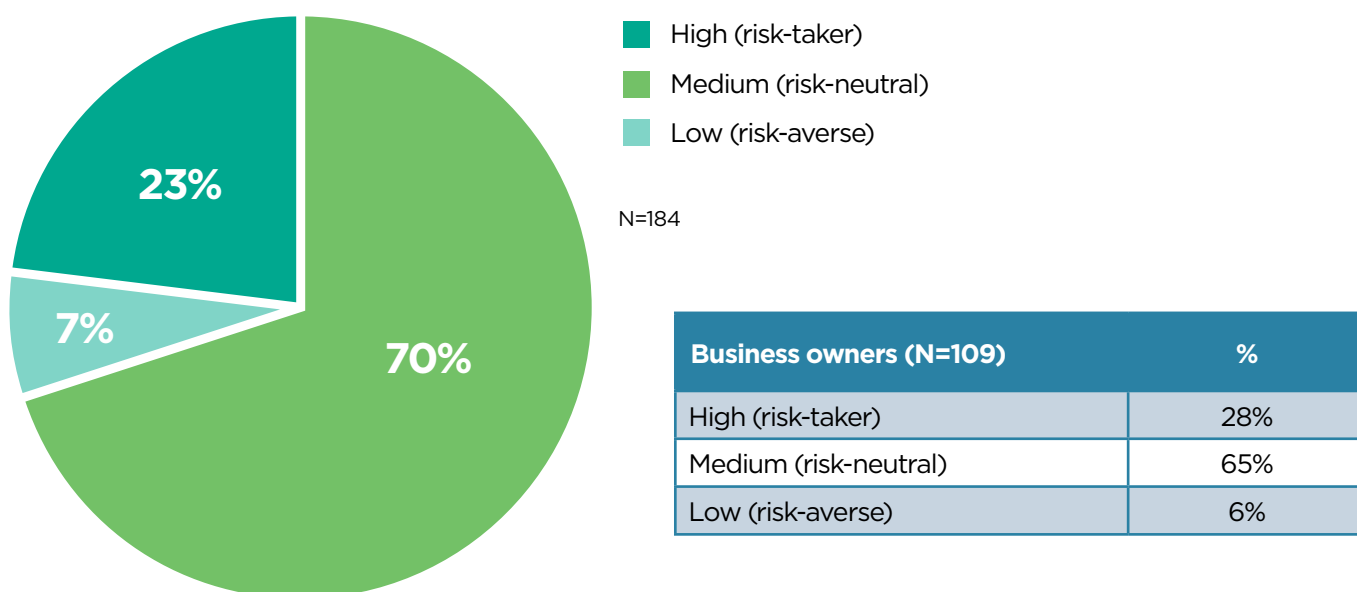
Risk appears in official definitions of an entrepreneur as well as in the definition shown in Figure 3 (previous page) from survey respondents.

We asked respondents about their approach to business risk and 23% of all respondents (owners and non-owners) would consider themselves “risk-takers” with only seven per cent stating they were “risk-averse”.

Breaking this result down further provides significant differences between business owners and non-owners. Business owners are significantly more likely (28%) to consider themselves as risk-takers than non-owners (15%). This is one of the primary variances within the research and suggests that North-east business owners are willing to accept more risk.

Overall, seven in 10 (70%) respondents maintained that they were “risk-neutral”, while around two in three (65%) business owners would consider themselves “risk-neutral”. This finding is similar to the EY survey of Nordic business owners in which 62% of respondents in this category considered themselves “risk-neutral”.

Figure 4: What best describes your approach to business risk?



Our results can also be broken down by age and this shows that those aged 18-34 are more likely to classify themselves as risk-takers (41%) than those aged 35-64 (21%). “Millennials” is a term for someone born between 1980 and 2000 and there has been various research compiled that suggests that this generation is the “entrepreneur generation”. There was no significant difference between males or females concerning risk-taking behaviour.

One of the reasons for this is cited as the financial crash of 2008 as this was a period where fewer jobs and fewer opportunities for progression were available. As a result more freedom, ambition and risk-taking were exhibited in these circumstances by Millennials. Research compiled by Mintel in 2014 shows that 24% of this generation are planning to start a business within the next year.

Millennials:

a term used to refer to the generation, born from 1980 onward, brought up using digital technology and mass media; the children of Baby Boomers; also called Generation Y

⁷ <http://www.bentley.edu/newsroom/latest-headlines/mind-of-millennial>

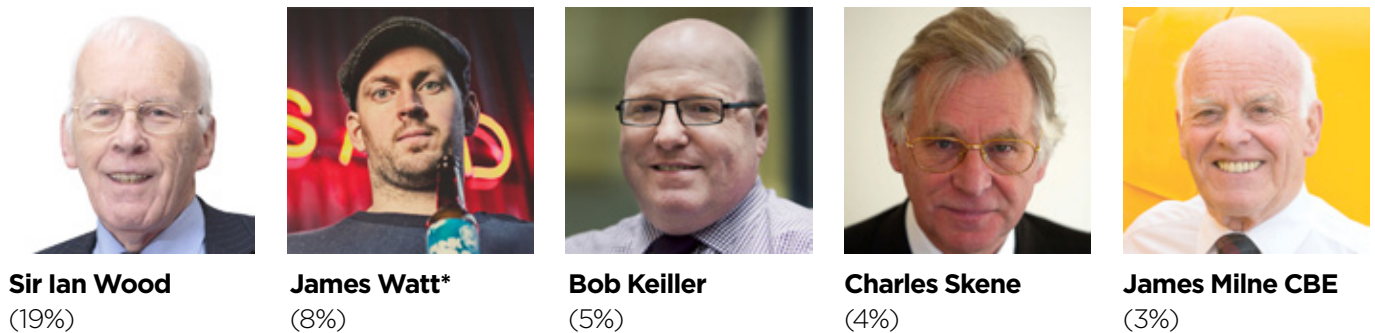
⁸ The generation called time on traditional family values? Mintel, January 2014

Role models

The NEBW partners believe there are many local entrepreneurial role models. Some are business owners and some are known for driving growth as executives. Respondents were asked to name a local entrepreneur and a diverse list of individuals and sectors was created. This clearly suggests we have a range of case studies to use to change attitudes and raise the confidence of individuals. We must celebrate these regional entrepreneurs. This could be a first step towards raising public awareness of the importance of entrepreneurship as well as helping build confidence and inspiration for future generations.

Table 3: Top five regional entrepreneurs

N=143



* Respondents mentioned either James Watt and / or BrewDog

Focus on business owners

This section of the report focuses on those respondents who own their own business operating within the North-east.

The business owners within this survey come from a diverse number of sectors (i.e. with one in 10 (11%) from the energy sector). As illustrated in Figure 5, around seven in 10 (70%) business owners have been established for over five years.

Figure 5: How long has your company been established

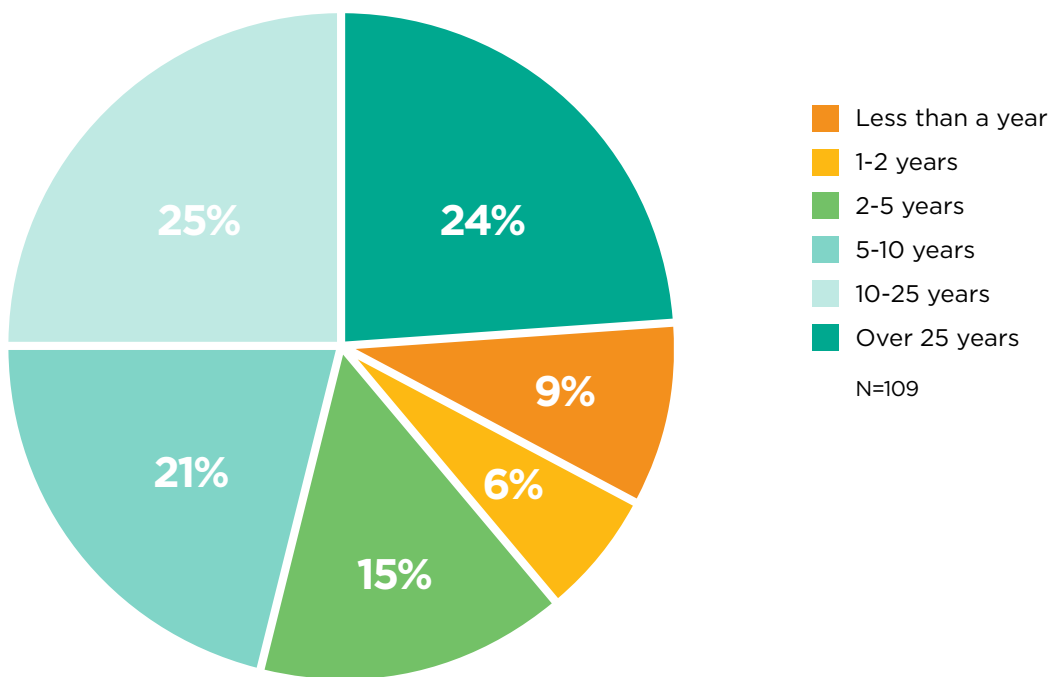


Table 4: Industry/sector breakdown

Industry / sector	%
Business services	28%
Energy	11%
Property	8%
Culture & creative	8%
Food & drink	6%
Retail	5%
Finance	4%
Tourism	1%
Transport	1%
Third sector	0%
Other	28%

N=109

Focus on business owners

We also asked business owners to cite the main reasons they started their own business which included:

- wanting to become independent and their own boss (59%)
- having experience from the same industry (40%)
- having an idea for a new product or service (27%)
- wanting to maintain a family tradition (4%)

When comparing these results to the EY Nordic study, there are some interesting differences as illustrated in Table 5. Nordic entrepreneurs state that their main reason for starting a business is that they wanted to “improve an existing service/product” (47%), the desire for independence comes further down the list with around four in 10 (39%) citing this as a reason, as opposed to six in 10 (59%) in the NEBW study.

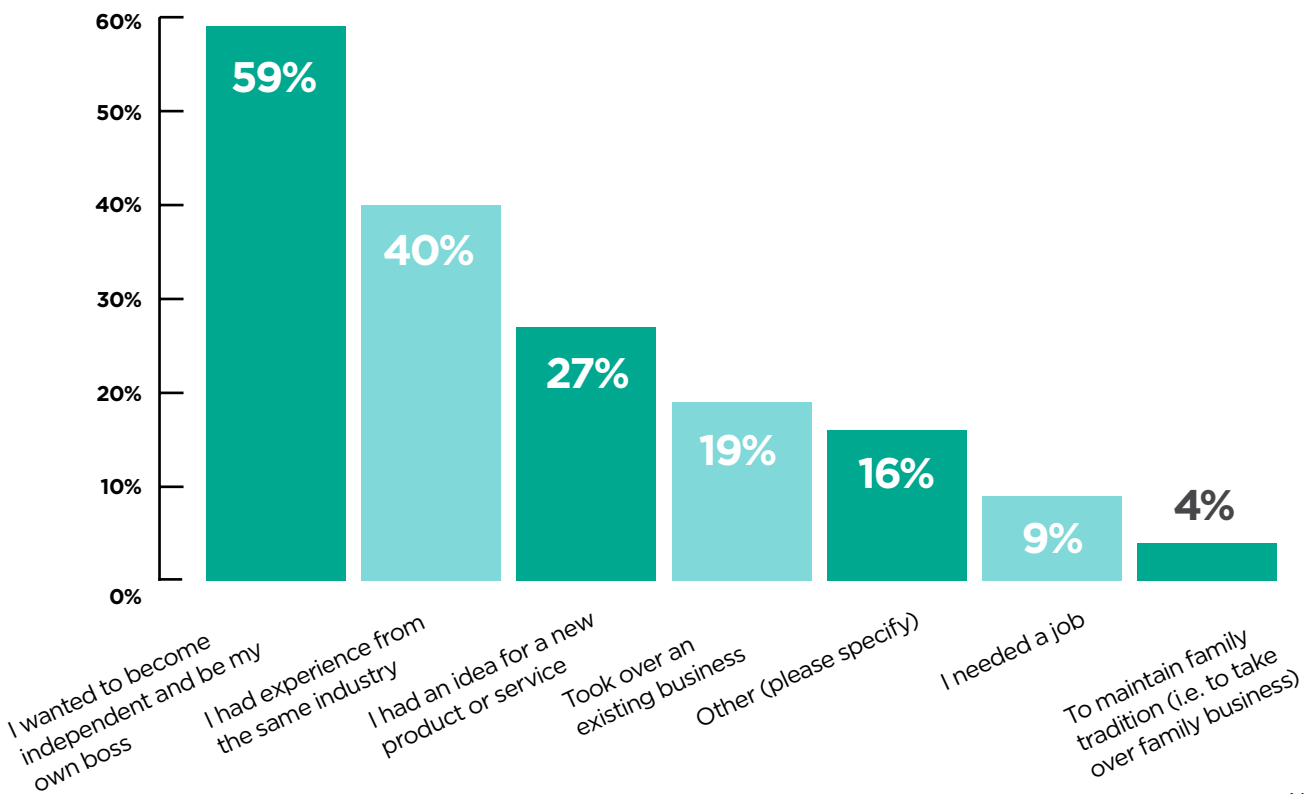
Table 5: Why did you start your own business?

	NEBW (N=109)	Nordic countries
I wanted to become independent and my own boss	59%	39%
I had experience from the same industry	40%	34%
I had an idea for a new product or service	27%	23%
To realise my own ideas on how to improve an existing product/solution/process	NA*	47%
I took over an existing business	19%	NA*
I needed a job	9%	NA*
To maintain a family tradition	4%	20%
Other	16%	7%

* Direct comparison against the Nordic study not possible due to a variation in the answer options

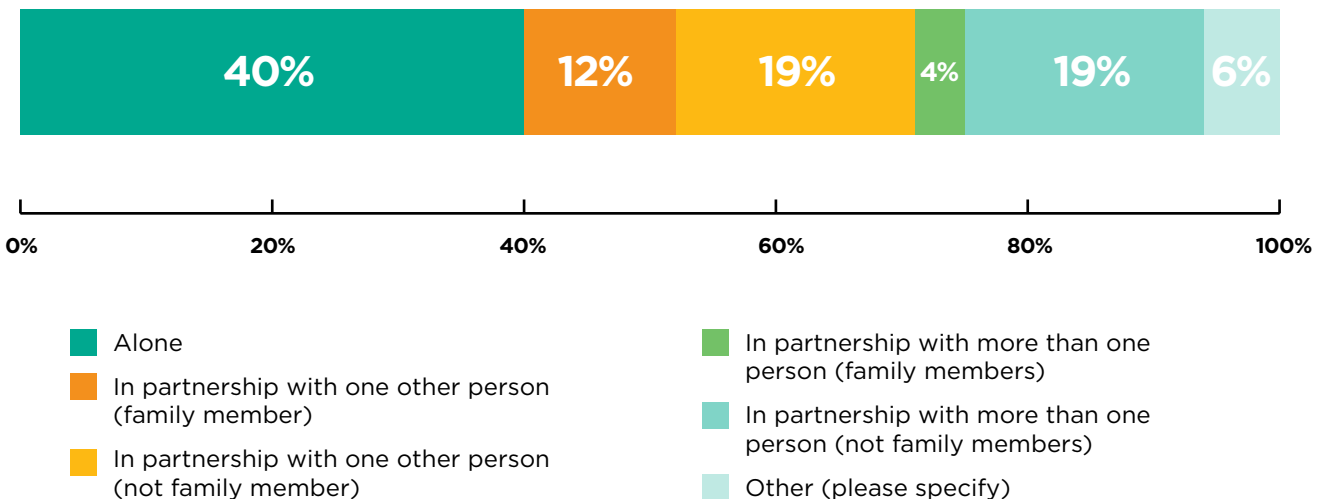
More than half of all respondents (54%) started their business in collaboration with another person, with two in five (40%) favouring starting a business alone. Those that started the business in collaboration with other people have done so either with a family member (16%) or with someone else outwith the family (38%).

Figure 6: Why did you start your own business?



N=109

Figure 7: Did you start your new business?..



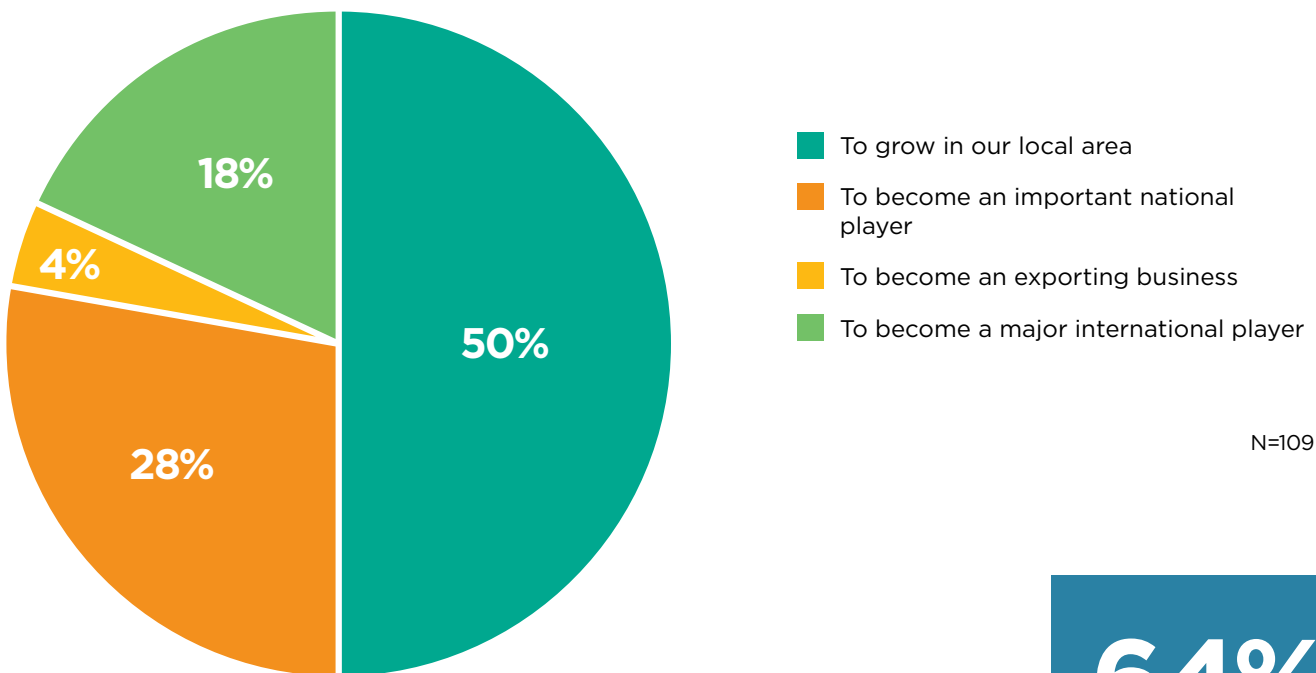
N=109

Expanding at home or internationally?

The research sought to understand where the growth ambitions of the entrepreneurs lie. The survey results showed that they are more interested in the home market at this current time. Around half (50%) want to expand in the local area and just over one in four (28%) nationally. One in five (22%) of respondents are interested in growing either as an international business or to explore the export market.

There are some differences in the growth ambitions of businesses depending on the sector in which they work. Those within the energy sector are significantly more likely to say that they would like to grow internationally (58%) than those operating within business services (13%).

Figure 8: What is your ultimate aim?

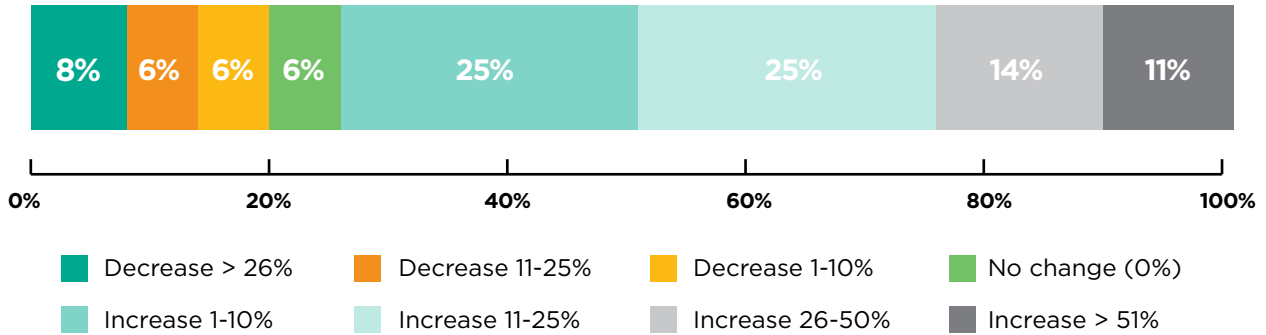


When we review the detail of the growth ambitions, 64% of businesses are forecasting growth in their turnover between 1% and 51% in the next three years. This is slightly higher than respondents who are non-business owners (66%).

Around one in ten (11%) say they anticipate growth in excess of 51% in the next three years. Conversely, almost a similar proportion (8%) state that they envisage a decrease in excess of 26% in the next three years.

64%
of businesses
forecast a
growth in
turnover

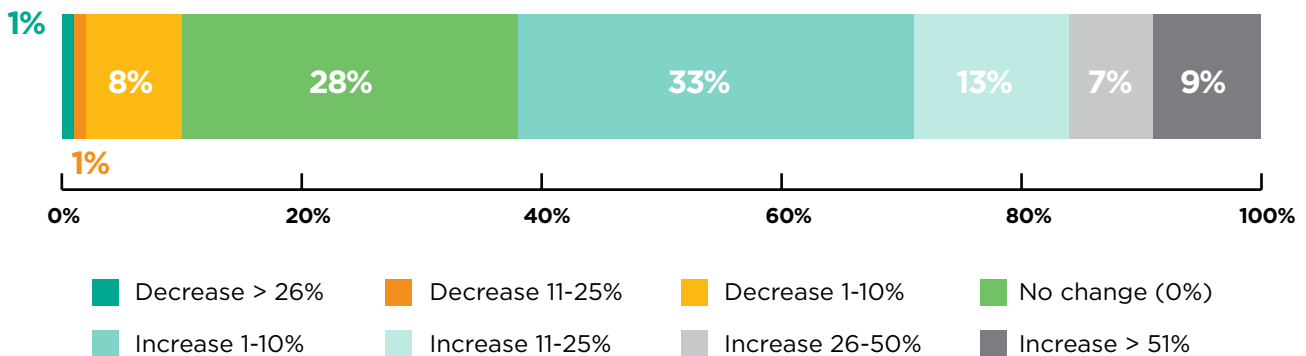
Figure 9: What percentage change, if any, do you forecast for your company over the next three years in terms of turnover?



N=109

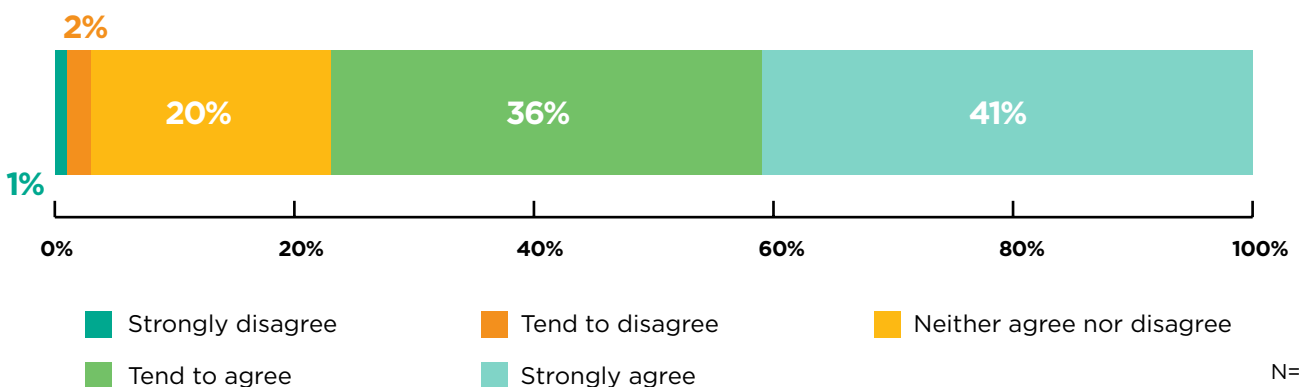
As the business's revenue increases so will its need for qualified staff. It is therefore no surprise that around six in 10 (62%) companies are forecasting a subsequent growth in employment within the next three years. Again, non-business owners are less optimistic with regards to head count, with almost half (47%) forecasting an increase in the next three years.

Figure 10: What percentage change, if any, do you forecast for your company over the next three years in terms of employment?



It is unsurprising given the optimism of the business owners that the majority of them (77%) would encourage other people to start their own business. We look at the associated challenges of this in the next section.

Figure 11: I would encourage others to start their own business

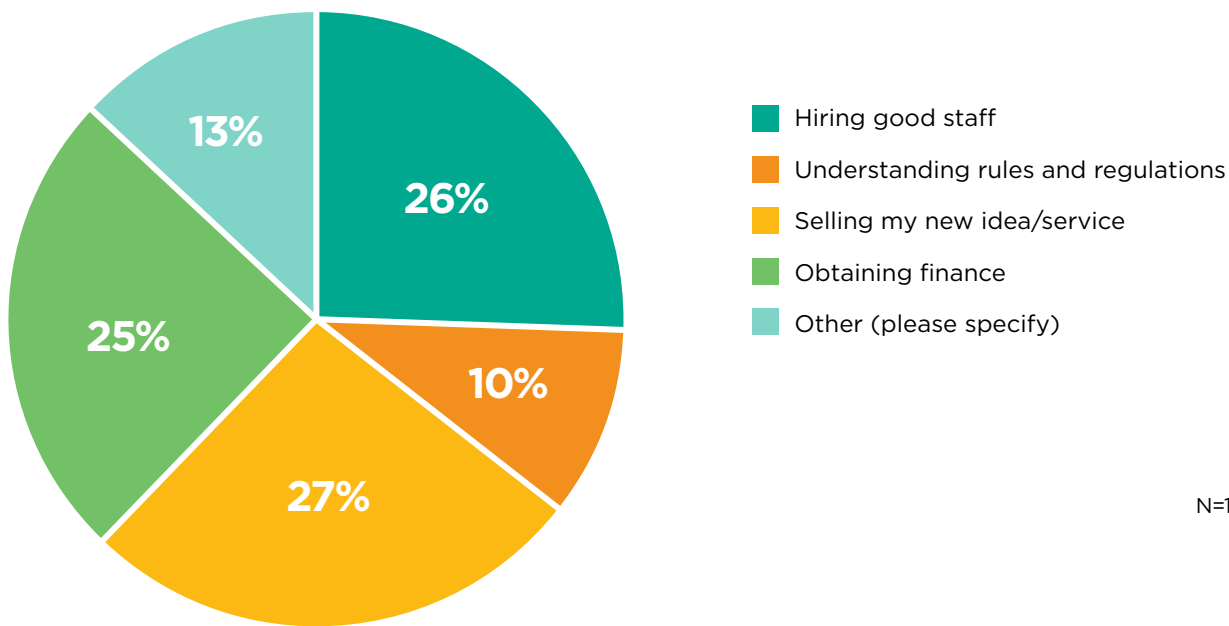


N=109

Challenges and opportunities

There are many challenges that entrepreneurs face when starting and running their own business and Figure 12 illustrates the biggest challenges faced during the start-up phase. The results are mixed and equally split between: selling a new idea/service (27%), hiring good staff (26%) and obtaining finance (25%).

Figure 12: What was the biggest challenge when starting your business?



There were some differences concerning the different business sectors and the challenges they faced when starting their business. Hiring good staff was the biggest challenge for both the energy (42%) and the property sector (44%) whereas business services found selling their idea (35%) more of a challenge.

Table 3 shows that there are some variances when we compare the Nordic data. The majority of Nordic entrepreneurs (61%) find it difficult to source and employ good staff when starting their business.

Table 6: What was the biggest challenge when starting your business?

	NEBW (N=109)	EY Study
Hiring good staff	26%	61%
Understanding rules and regulations	10%	21%*
Selling my idea/service	27%	NA**
Selling the idea to investors	NA*	22%**
Selling the business/service to customers	NA*	53%**
Obtaining finance	25%	33%*
Establishing the organisation	NA	38%

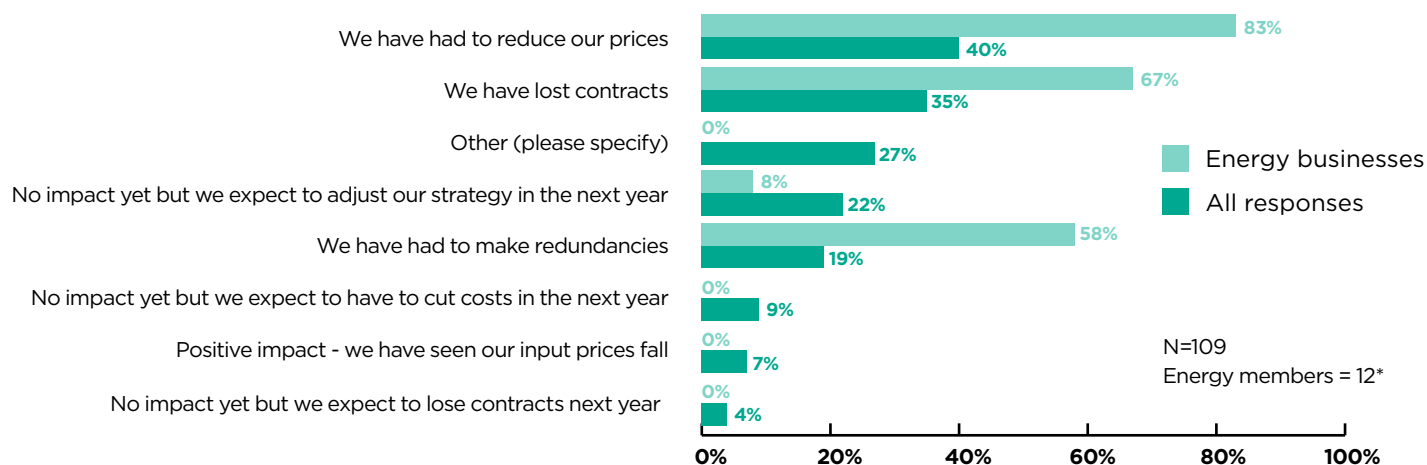
* Answer options in the Nordic study were slightly different and the percentages have been rounded.

**Selling the idea to investors (22%) and customers (53%) were two separate answer options in the Nordic study.

Impact of oil & gas sector downturn

Due to the timing of the survey, the partners considered it important to ask respondents whether the fall in oil price had impacted their business. Around one in five (19%) of respondents work directly within the energy sector. The results are illustrated in the chart below.

Figure 13: What impact, if any, has the fall in oil price had on your business?



*Please note the small base size here (all energy members who answered the question)

Respondents were asked to select as many answers that apply and Figure 14 shows that around two in five (40%) of businesses have had to reduce their prices with around one in three (35%) having lost contracts. Around one in five (19%) businesses have had to make redundancies as a result of the fall in oil price.

Some businesses are not yet feeling the impact of the downturn but are taking proactive steps to help reduce any impact in the future. This includes adjusting their strategy (22%) and cost-cutting (9%).

Figure 14: What impact, if any, has the fall in oil price had on your business? 2015 and 2016 comparison

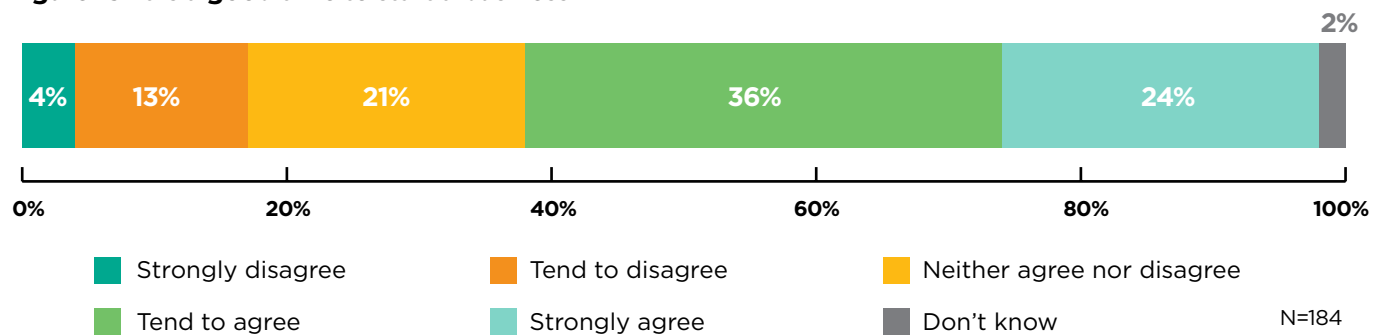


Challenges and opportunities

Figure 14 (previous page) compares the results of NEBW 2016 to NEBW 2015 with regards the impact of the fall in oil price. There is very little difference between the number of businesses reducing their prices or losing contracts but slightly more businesses (19% vs. 14%) have had to make redundancies this year.

Despite this, all respondents to the survey (business owners and non-owners) were asked whether given the current economic climate it was a good time to start a business, 60% of them agree with this statement (24% strongly).

Figure 15: It is a good time to start a business



Barriers to starting a business (non-business owners)

Non-business owners were asked what they perceived as the barriers to starting up a business. Just over half (57%) were not interested in starting their own business (as they had a stable job didn't want to be their own boss).

The report earlier discussed risk and it is clear that various types of risk create barriers to starting a business as illustrated in the table below.

Table 7: Barriers to starting a business

Barrier	% stated as a barrier
Too risky financially	58%
Too risky for family	47%
No good idea	35%
Too risky in current climate	29%
Don't know how	18%
Tried before and didn't work out	15%

N=54

It is difficult to conclude that this lack of risk-taking should be a concern given that most of the above respondents considered their entrepreneurial spirit was being used within their existing employment.

Nevertheless, in order for the North-east to support the entrepreneurs of the future, support in both the start-up process and on an ongoing basis will continue to be needed. Respondents were asked what support they were aware of locally should they want to grow their business and a breakdown of these are illustrated in the table below. As the table demonstrates, the most frequently cited support was Scottish Enterprise (39%), Elevator (36%) and Business Gateway (33%). A similar proportion cite Aberdeen & Grampian Chamber of Commerce (30%).

Table 8: What support are you aware of in the North-east of Scotland, should you want to start or grow your business?

Organisation	Percentage
Scottish Enterprise	39%
Elevator	36%
Business Gateway	33%
Aberdeen & Grampian Chamber of Commerce	30%
None/don't know of any	14%
FSB	12%
Prince's Trust	7%
Banks	6%

N=155 (29 respondents skipped the question). Table shows all answers that were mentioned 10 times or more

Challenges and opportunities

A range of different responses were given with 14% of respondents who answered the question not being aware of any support:



Not really up to date on these, but in the past I've found it easier just to get on with things myself rather than jump through the hoops required to access support"

(Respondent in the business services sector)



Very little that is of use to me sadly. Support seems to mainly be available for very specific reasons which I rarely fall into"

(Respondent in the energy sector)

Contacts

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