



small
business
service

Myths surrounding starting and running a business

Research

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Foreword

“Oh yes you could!” That is this report’s response to all those who say “I could never do that” about running their own business. The Government is committed to making the UK the best place in the world to start and grow a business. Too often people are put off trying to start and run a business by misperceptions that stop them turning their ideas and ambition into a successful business.

This is why I welcome this research on the myths surrounding starting and running a business. By uncovering the misperceptions that may prevent potential entrepreneurs from starting up in business we can begin to dispel those myths. This report will start that debate and I am confident that it will lead to solutions which will encourage a greater degree of entrepreneurship amongst those currently discouraged by these myths. For it is only through encouraging and harnessing our entrepreneurial spirit can the UK compete successfully in today’s rapidly growing global economy.

Barry Gardiner

Parliamentary Under Secretary of State for Competitiveness.

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EXECUTIVE SUMMARY

This research was undertaken by Durham Business School, on behalf of the Small Business Service, in two phases: Phase 1, consisting of focus groups, took place in November and December 2004; Phase 2, a telephone survey, informed by findings from the focus groups, was executed in February and March 2005. The sample was intended to cover individuals with a wide range of different levels of engagement with small business, including those actually owning their own firm or in self-employment, those thinking about becoming an entrepreneur, those who have actively avoided entrepreneurship and those who have never really given the topic any serious thought.

The purpose of the research was to uncover misperceptions among would-be entrepreneurs which may prevent them progressing to actually starting or buying a business. It was theorised that these misperceptions, or 'myths', stem from misconceived risk – an individual may overestimate the degree of risk attached to entrepreneurship, due to their possession of incomplete or incorrect information about small business, and/or the inefficient or inadequate processing of relevant information, and that these may be addressed by training or experience. By comparing the attitudes of those thinking about or avoiding starting a business, to the situation reported by small businesspeople in this survey and other, similar surveys, we can determine which beliefs fall into the 'mythic' category.

The report's key findings include:

- ❑ Participants in focus groups thought that their appraisal of their own situation, their knowledge of the market and their business skills had been enhanced by training courses, confirming that myths can be overcome by certain types of intervention.
- ❑ Broadly, the most significant factors pushing would-be entrepreneurs away from start-up were reported to be obtaining adequate finance; the amount of time involved in running a business; and the volume and complexity of red tape they expect to face.
- ❑ Looking at the data in more depth, eight significant myths emerged. Seven of these misperceptions would push individuals away from entrepreneurship, whereas the eighth would be likely to encourage start-up, but could also contribute towards early business failure. These myths are:

Myth No. 1: Around the same number of entrepreneurs buy an existing business as start from scratch.

In actuality, some three-quarters of firms are started from scratch, far higher than survey respondents believed the figure to be. Respondents feel that it is harder to start a new business than is actually the case.

Myth No. 2: It takes years to start a business from scratch.

Most businesses are established within six months, but those thinking about or avoiding starting a business tend to assume that it takes substantially longer, on average, deterring some from starting up.

Myth No. 3: It's hard to get a bank loan to start a business.

While it may be slightly harder to get a start-up loan without a track record, only 10-20% of applications for a business loan are rejected, overall. Respondents thought that this rejection figure

was significantly higher. There is, however, one group for whom this myth is actually reasonably accurate: individuals from lower socio-economic groups who lack initial capital.

Myth No. 4: A business plan is the most essential element in start-up.

Although many non-entrepreneurs believe this to be the case, business owners who have been through the process tend to downplay the importance of a business plan in favour of obtaining finance (although the former is often necessary for the latter). The learning process that accompanies the actual construction of a business plan is often considered to be more important than the plan itself. For some, it may prove to be a deterrent to start-up if they feel that cannot draft a business plan.

Myth No. 5: Small businesses don't generate much turnover in their first year.

The average income, forecast by putative entrepreneurs for their first year of trading, is only half of the figure actually achieved by small businesses. The myth that it would be difficult to make an adequate living from a small firm is a deterrent to start-up.

Myth No. 6: Small firms spend half their time dealing with red tape.

Businesses estimate that they spend around five hours per week dealing with bureaucracy; non-entrepreneurs estimated that this burden would be nearly twice as large. These mythical extra hours of dealing with red tape may be enough to dissuade some from starting their own business.

Myth No. 7: Most small firms fail within the first year.

In fact, the opposite is true: 80%-90% of small firms are still trading twelve months after start-up¹. This myth is probably the most widespread, among the whole range of respondents. It wrongly inflates the degree of risk felt by those thinking of starting their own business, deterring some from moving forward.

Myth No. 8: There are significant tax advantages to being self-employed.

While there are definite tax breaks for the self-employed, would-be entrepreneurs tend to overestimate their generosity. This may lead to an 'over-supply' of the self-employed, which may prove to be unsustainable when individuals discover that tax gains are lower than they expected.

Myth No. 8, the overly optimistic estimation of the value of tax breaks is presented last as, in many ways, its effects are likely to run contrary to the others. Rather than preventing people from starting up, it may encourage people to go into business inappropriately, establishing businesses which are not financially viable, and thus affecting the supply of entrepreneurs.

¹ Evidence from Barclays Bank (based on business bank accounts) and VAT data

- ❑ In most other areas, the opinions of putative entrepreneurs and those avoiding entrepreneurship are more closely aligned with the attitudes and experiences of business owners or the self-employed. This includes issues such as the importance of having a new idea and doing market and product research; the importance of having finance in place; the availability of grant aid; organising a pension; and the length of the working week. Although perceptions about these topics may deter some individuals from starting their own business, the perceptions themselves are, in fact, reasonably accurate, and do not exaggerate the degree of risk attendant upon starting one's own business. Therefore, in relation to these issues, there are no widespread myths, which would lead to a suboptimal supply of entrepreneurs.
- ❑ Tackling the misperceptions detailed above requires, in general, a realignment of the opinions and attitudes of a diverse cross-section of the population. The tentative policy suggestions outlined here are specifically aimed at reducing the impact of myths, as opposed to reducing the inherent riskiness of starting a business. There will always be individuals who are too risk-averse to become entrepreneurs; the important thing, from the point of view of this research, is that the riskiness is calculated accurately, and that exaggerations of risk do not lead to fewer people entering small business than would otherwise be the case. Broadly, there are two main groups which need to be targeted:
 - Those who are 'avoiding' starting their own business completely: in this case, general outreach, through the media, is likely to be most beneficial in communicating the 'true reality' of small business e.g. case study articles on successful businesses, investigations on the nature of the bank-small business relationship.
 - Those who are already thinking of starting their own business: this group – already more engaged with the idea of entrepreneurialism – can be addressed more directly, as it is more likely that they have had some level of contact with support agencies. Again, drawing on 'reality' is likely to prove useful (e.g. mentoring by established businesses, networking, and discussion groups); alongside training courses on topics such as market research and finance.
- ❑ Some groups are more affected by myths than others. In particular, those from the lower socio-economic groups are likely to believe that finance is harder to obtain, and that businesses take longer to start than they do in reality. However, there is also some evidence that these 'myths' may actually be truer for this group than for other, more affluent groups.
- ❑ People from ethnic minorities are more likely to believe that it takes a long time to start a business and that red tape is a more onerous commitment.
- ❑ Women seem more likely to be pessimistic than men – they tend to be more prone to believe in the majority of the myths outlined above.

1 BACKGROUND

1.1 PURPOSE OF RESEARCH

In general, the climate for entrepreneurship in the UK is reasonable, with a relatively positive attitude prevailing towards setting up in business. In 2004 the proportion of the population engaged in Total Entrepreneurial Activity² stood at just over 6%, around the same level as for the previous two years, and in the middle rankings for rates elsewhere within the G7³. In the Global Entrepreneurship Monitor (GEM) survey of the UK that year, one-third of respondents saw good opportunities, and half thought they had the necessary skills to establish a business, however, fear of failure remained a significant issue for many people, preventing one-third of respondents from starting up.

Such fear of failure hinges on an individual's assessment of risk, and how they choose to respond to that assessment. In judging the appropriateness of responses, three principal distinctions may be drawn: (i) there is a *genuinely high level of risk* attached to some aspects of start-up (ii) some individuals or groups are simply *more averse to taking risks* than others, that is, supplied with identical (correct) information and data on start-up, they are less likely to establish a business than those individuals who are less risk-averse; and (iii) *misconceived risk* exists, based upon inadequate information and/or the inefficient processing of information, whether correct or incorrect. The latter, misconceived risk, leads to a situation in which people wrongly assume that the risk attached to starting or buying a business is higher (or lower) than it is in reality, thereby affecting the supply of new entrepreneurs.

While it is not possible to effectively address issues of risk-aversion, it is possible to address *misconceptions* of risk, as suggested in the Government's Action Plan for Small Business.⁴ For this purpose, to underpin activity to address misconceived risk, the Small Business Service (SBS) commissioned a research team from Durham Business School to (a) identify what the misconceptions are and the reasons why they persist (particularly in a climate which is generally favourable to entrepreneurship); (b) distinguish or classify those misconceptions which contribute towards the fear of starting up, who holds such beliefs, and at what stage or stages of the start-up process they are most prevalent; (c) measure their impact, by gauging the extent to which start-ups may be discouraged by these 'myths'; and (d) devise potential targeted solutions to dismantle the myths, in order to facilitate a greater degree of entrepreneurship amongst those currently discouraged or wary.

1.2 PREVIOUS RESEARCH

The examination of previous research findings (notably the *SBS Household Survey of Entrepreneurship*, *Global Entrepreneurship Monitor*, and *Flash Eurobarometer of Entrepreneurship* etc.) provides data on the proportions of people thinking/not thinking of setting up a business. This is categorised in a variety of ways including gender, ethnic minority, by country and/or region, and helps to establish a context for the current project. Such studies offer definitive measures of the views and attitudes

² Nascent ventures not yet trading or under three months old, and baby businesses, under 42 months old

³ Global Entrepreneurship Monitor, UK 2004

⁴ Small Business Service, December 2003

of respondents towards entrepreneurship, providing a quantitative framework and background, to inform both the operation of the project and help to contextualise the results. Such a comparison, of perception and best available evidence, seems relatively novel within the extant enterprise literature.

The work of Alvarez and colleagues⁵, in its consideration of theories of entrepreneurship, as well as research elsewhere, adds depth to how myths may be regarded, drawing attention to the distinction between the risk and uncertainty aspects of starting a business, and how individuals respond to these. It raises important questions about the origins of views on income-generating prospects, obstacles etc., and how these affect the strategies adopted by intending entrepreneurs. The extent to which the issues to be explored under 'myths' fall into the category of *risk* (and are therefore amenable to appraisal within a probability framework), as opposed to *uncertainty* (more difficult to incorporate within decision-making processes) is important in terms of policy feasibility.

The Small Business Service Annual Survey (2003) describes a variety of motivations for going into business amongst new businesses (those less than four years old). Some 29% of new businesses are started because their owners want to be independent, to be their own boss, 14.5% are started to make money and 11.5% to improve the owner's career and prospects. Others⁶ have considered the interplay of 'pull' factors, such as those just mentioned, with 'push' factors, such as redundancy or unemployment, which may encourage people to regard going into business more seriously as an option. Within a context of long term unemployment and benefit dependency, self-employment may appear increasingly attractive, causing people to set aside reservations that would otherwise prevail.

Throughout this report evidence from other research is drawn in, as appropriate, to verify or challenge the commonly held beliefs emerging from the study, and which influence people's consideration of going into business. In looking at other research in the area of myths, a number of key areas, or foci, stand out. For example, there is a significant lack of clarity about whether businesses which are taken over are more successful than those started from scratch, and then in turn about survival rates for both types. Here Voithofer (2002) provides insights to show that the majority of nascent businesses do survive beyond five years, though transferred businesses are even more likely to.

In terms of volume, a considerable amount of the relevant literature that is available and which is regularly updated, looks at financing, not least because the major clearing banks frequently examine their own practices. The availability of start-up finance, predictably, is an important make or break issue for many people, and here Cruikshank (2000), NatWest Bank⁷(2003) and ACCA (2001) all offer challenges to perceptions. Cruikshank, for example, asserts that the demand for finance on the part of SMEs is, broadly, being met but, importantly, also shows that the greater proportion of SMEs fail to seek finance from institutional sources in the first place. This is corroborated by studies from the NatWest Bank, indicating the need for caution in interpreting the evidence.

⁵ See, for instance, Alvarez (2005)

⁶ See for instance Watson, Hogarth-Scott & Wilson (1998)

⁷ NatWest/SERTeam (2003)

A recent report from Warwick Business School⁸ shows that start-ups are actually less likely than established businesses to experience outright rejection when applying for finance (4% versus 12%), though consideration of those businesses which did not get started because of rejection, was not included. This issue is worthy of unpacking, and the ways in which some groups are more likely both to anticipate and experience rejection, suggesting the uneven impacts of policy and practice.

People's perceptions, and expectations of success or failure, may be so strongly held that they do not try to challenge them, and so have no experience of being rejected, instead seeking other ways of addressing an issue. To spell this out, if people do not present themselves to a financial institution in the first place, because of self-selection and possibly underpinned by belief in a myth, then it may appear that the institutions' rates of granting loans are quite high – that they are meeting demand. The NatWest evidence is indeed based upon contact with their own customers. The report for ACCA (2001) describes a major gap in the financing for SMEs and the ways in which socially excluded individuals, wishing to start micro businesses, may be further marginalized by lending policies, demonstrating that loan finance issues can impact unevenly, and exacerbate social exclusion.

1.3 METHODOLOGY

1.3.1 Overview

Evidence collection to identify and test myths surrounding going into business was conducted in two phases: Phase 1 comprised focus groups, conducted by the research team from Durham Business School (DBS), providing qualitative evidence about the nature of myths, and facilitating the identification of key topic areas for further investigation. Phase 2 involved a large-scale telephone survey, based on the topic areas suggested by Phase 1 and carried out by National Opinion Polls (NOP). This assisted in the assessment of the incidence and relative importance of the myths, in order to establish those which are most likely to inhibit start up, and help to signpost those groups most likely to be affected.

1.3.2 Phase 1: Focus groups

During Phase 1 the DBS research team convened 21 focus groups across the country, with a total of 178 participants. The focus groups provided the opportunity to identify and explore the myths, and indications of the reasons why they prevent people from starting up – much harder to establish in the quantitative survey which followed.

The nature of evidence collection, via facilitated discussion and a semi-structured framework, made it possible to explore a wide range of topics, thereby enhancing the researchers' understanding of how myths and misconceptions are held by people, and shaping questions for use in the subsequent telephone survey.

Each focus group participant completed a questionnaire, providing both qualitative and quantitative information (see Appendix 1).

The topic guide for focus groups sought to:

- Identify participants' views on the viability of business start-up (i.e. the likely rewards, costs and risks)

⁸ Fraser (2004)

- ❑ Achieve an understanding of that position in terms of how it was arrived at (e.g. the extent to which it was the result of experience and knowledge gathering, or prejudice or hearsay etc.)
- ❑ Challenge and test that position using logic, factual material and examples/experiences of other participants.

Focus group discussions took place during November and December 2004, with an average of eight participants at each and at a range of locations across the UK. Locations were chosen on the basis that different attitudes may result from distinctive local environments and concomitant socio-economic contexts. Participants each were given £15, as an incentive for attending.

Recruitment sought to reflect the following characteristics:

- ❑ Males and females,
- ❑ Varying ages groups (young 18-30; mid-range 31- 45; older 45+),
- ❑ Different socio-economic and occupational groupings⁹,
- ❑ Different locations (reflecting regions; urban and rural areas, and some disadvantaged areas). All government office regions, except the East of England, were covered (see Table 1).

Table 1 Focus groups: regional and gender distribution

Region	Female	Male	Total
East Midlands	9	13	22
London	5	4	9
North East	20	11	31
North West	15	26	41
South East	18	22	40
South West	7	12	19
West Midlands	1	4	5
Yorkshire	4	7	11
Totals	79	99	178

⁹ The social classification system used here is the market research social class coding, now maintained by the Market Research Society. The classification is based on the current or previous occupation of the chief income earner in the household, related to job title, type of work, qualifications required and supervisory responsibility. Technically a six-way classification, at either end the two extreme categories are usually combined, producing the following classifications: AB - Professional and managerial, C1 - Administrative, clerical and other white-collar, C2 - Skilled manual, DE - Unskilled manual and those dependent solely on state benefits.

It was also important to recognise that different groups tend to use differing routes to business start-up and have varying points of access. Therefore, focus group participants included:

- ❑ Those neither currently engaged in entrepreneurial activity, nor thinking about doing so, and classified as ‘Avoiders’¹⁰. These participants were mainly drawn from
 - Older executives (from an executive job club, operating as an adjunct to the PRIME initiative for the over 50s).
 - Unemployed individuals from deprived inner-city areas (from a regeneration agency and a community association).
- ❑ Those *thinking* about engaging in entrepreneurship, at any stage in this process (including those who have not gone ahead with starting a business). These are classified as ‘Thinkers’ and, in the case of focus group participants, principally
 - Unemployed, recruited via New Deal Test Trading Phase 2.
 - Employed (via Business Link).
 - ‘High fliers’ (recruited by the New Entrepreneurship Scholarship).
- ❑ Those who are already entrepreneurs, through running their own businesses or being self-employed, and classified as ‘Doers’. Focus group members were recruited from
 - Participants in Phase 3 New Deal test trading.
 - Members of more ‘informal’ business networks (including those in little contact with official support agencies).

This approach produced a wide variety of participants in terms of entrepreneurial ambitions (see Table 2), a fairly even gender split and people from a range of occupations (managerial to unskilled) and with varied qualifications (none to postgraduate) (see Appendix 2).

Table 2 Focus group participants: entrepreneurial ambition

	Female	Male	Total
Never thought about self-employment	13%	6%	9%
Considered but rejected self-employment	11%	10%	11%
Considering self-employment	53%	61%	57%
Currently run my own business	22%	18%	20%
Previously ran my own business, but not at present	1%	5%	3%

1.3.3 Phase 2: Telephone survey

The survey of householders was conducted by telephone between February and March 2005 (see Appendix 2 for the questionnaire). The sample of 1,019 was derived from the 10,002 participants responding to the SBS 2003 Household Entrepreneurship Survey. For purposes of analysis, the sample was stratified into

¹⁰ The terms ‘Thinker’, ‘Avoider’, and ‘Doer’ are taken from the SBS Annual Household Survey of Entrepreneurship and are dealt with in more detail in Section 1.3.2.

seven categories of engagement with entrepreneurship, as defined by the Household Entrepreneurship Survey:

- ❑ Deniers ('Other Avoiders' in the Household Survey, those who have given no recent thought to taking part in entrepreneurial activity)
- ❑ Active Avoiders (those who have considered entrepreneurial activity recently, but decided against it)
- ❑ Less Serious Thinkers (have given entrepreneurship some thought and think it may possibly happen at some stage)
- ❑ Serious Thinkers (have given serious thought to starting up and are almost certain that it will happen at some stage)
- ❑ Doers – currently self-employed (sole proprietor and working alone)
- ❑ Doers - Business Owners (also self employed but employing other workers in the business)
- ❑ Ex-Doers (formerly self-employed or business owners)

The sample included more Thinkers and Doers than proportions within the population as a whole, at the expense of Deniers, as this provided more robust data for analysis of entrepreneurial activity, in relation to sample size. The incidence of variables such as gender, ethnicity and social class do not accurately reflect the population as a whole, but are strongly indicative of the location of differences, and whether particular groups may be more susceptible to myths.

Table 3 Survey sample

	Population in 2003	Sample for follow-up survey
Deniers	70%	29%
Active Avoiders	6%	18%
Thinkers	11%	22%
Self employed Doers	9%	20%
Business owning Doers	4%	10%
Total surveyed	10,002	1,019

1.4 STRUCTURE OF THE REPORT

In the main body of the report, **Section 2** looks at the evidence collected in focus groups, discussing in broad outline the qualitative data gathered about myths: which myths were identified, their importance and relevance to the people and groups participating and, in some cases, provides an exploration of what contributed to dispelling them for those considering starting up in business.

Sections 3-5 comprise the analysis of the quantitative data of the incidence of myths – belief in them and their propensity to act as barriers to business start-up and to whom, using the Phase 2 questionnaire, and collected by using the large scale telephone survey.

This analysis is organised in relation to the chronological stages of setting up and running a business. **Section 3**, therefore, examines responses to those myths which apply during the 'pre-decision' phase; when individuals are making up their minds

about whether or not to seriously pursue starting a business in the first place. The emphasis in **Section 4** moves to the following stage, looking at myths affecting the preliminary, pre-trading phase of start-up. **Section 5** analyses the incidence and truth of myths, perceived to operate most strongly during the initial trading period of small firms. At each stage evidence is drawn in from elsewhere, to contradict or corroborate the beliefs that affect people's consideration of going into business.

Section 6 then draws together the analysis from the preceding three sections, to distil the commonly held misperceptions and spell out the myths, drawing out the ways in which they can affect start-up.

The final section, **Section 7**, puts forward suggestions for countering the myths identified, based on the evidence collected and focusing on practical solutions. Conceptually, the strategies proposed explicitly aim to take account of the diverse needs of different groups of people, considered in relation to business start-up, rather than taking the enhancement of agencies' traditional approaches to businesses as their starting point.

2 A PRELIMINARY UNDERSTANDING OF MYTHS

2.1 OVERVIEW

Overall, in views expressed by focus group participants in relation to starting or operating a business, cleavages in perceptions were discernible based on socio-economic group and experience of the labour market. Participants who had been long term unemployed (6 months or longer) and were based in relatively deprived areas, conveyed a strong sense of appreciation of their *circumstances*, derived from their environment and past experiences. However, compared to participants from more prosperous areas, they seemed less *self aware*, in relation to their own attributes and skills, and to have less confidence in their business ideas. They exhibited greater levels of caution in response to common barriers, declared modest ambitions, and frequently appeared to lack self-assurance in approaching problems. This made them, potentially, much more vulnerable to myths.

By contrast, Thinkers from more prosperous areas tended to convey higher levels of *self-awareness* in relation to their own strengths and weaknesses, greater confidence in the marketability of their skills and ideas, and to believe themselves capable of independent research - in other words to believe they were able to find the help they needed and that such help existed. This seemed indicative of higher levels of self-confidence and a more positive approach towards problems – that they were soluble rather than insurmountable. Issues were less likely to assume ‘mythic’ proportions.

In the case of Thinkers from poorer areas, many were drawn from established groups attending courses aimed at moving the unemployed from benefits into self-employment (e.g. Bristol, Sheffield, Stockton, and Middlesbrough). Amongst these participants, low levels of confidence were openly admitted, in terms of their ability to set up a business, the scale of the operation contemplated, and the likelihood of achieving success.

However, these early focus group discussions, prior to the survey, also seemed to indicate that training and intervention can build self-awareness and confidence, in turn facilitating a more realistic appraisal and positive approach to difficulties. ‘Serious Thinkers’ for example, drawn from the long-term unemployed, recognised their own lack of knowledge and need for support. They were able to articulate a realistic appraisal of their situation, prospects, and need for resources and skills. Their ability to plan, to seek help and information, and the confidence that these would be available, appeared to have been significantly enhanced by training.

Participants moving through the process of setting up in business – from Thinkers to Doers - reported starting a business was not as daunting as they had imagined at the outset. For most, acting on the impulse to start had put fears into perspective, helped them to learn and understand more about the risks and returns involved, and significantly reduced areas of uncertainty.

2.2 WHICH FACTORS MOTIVATE AND WHICH TURN PEOPLE INTO AVOIDERS?

The nature of the large-scale questionnaire survey, designed to obtain robust, quantitative data, precludes possibilities to explore or pursue reasons or motivations in any depth. The focus group structure however, did provide an opportunity to

explore motivations for business start up; 'pull' factors came in for greatest consideration, such as financial motivation, personal satisfaction and independence, rather than 'push' factors, such as redundancy or unemployment. The aim was to establish with participants, given their prevailing situations, which factors made, or failed to make, self-employment a sufficiently attractive option for them to take action and thereby diminished the significance of myths.

Whatever their situation, it was almost uniformly consistent for focus group participants to report principal motivations for going into business that were not financial. This remained true when examining the evidence in relation to participants' socio-economic circumstances, or the stage they had reached in their consideration of setting up in business. Most people declared relatively modest expectations, emphasising increased personal control, flexibility, a sense of achievement and creative satisfaction. Financial gains did not figure strongly, most hoped only for 'modest incomes'. Most were hopeful that self-employment would provide a route out of benefit dependence and unemployment, but expressed few aspirations to increase business earnings, or, at this early stage, to expand and go on to employ others.

2.3 HOW IMPORTANT IS A NEW BUSINESS IDEA?

The notion that *a really big or new idea is essential to starting a business* tended not to be an issue for Thinkers in focus groups, but to occur most frequently amongst Avoiders, particularly women and younger participants. They felt they were '*not anywhere near innovative or creative enough*', and the importance of a 'big idea' seemed exaggerated and to overshadow the notion of buying an existing business, or 'merely' improving or enhancing an existing service or product.

There was an additional aspect to this. Many participants commented that novel and unusual types of businesses, springing from a creative idea, require special consideration to properly support their development. Such businesses work to different timescales and have different requirements of support systems, in comparison with 'standard' forms of start-up. Focus groups reported that standard enterprise schemes do not permit sufficient flexibility and that, in order to take advantage of available support, it seemed easier to progress mainstream business ideas, suggesting that the consideration of more creative ideas may be discouraged in the very early stages.

2.4 THE DIFFICULTIES OF OBTAINING FINANCE

Amongst Avoiders in poorer areas, resource barriers were regarded as significant deterrents to starting a business, more so than the shortage of skills or ideas. People believed that going into business was not a viable option, because they lacked the necessary finance, or assets to secure that finance. The focus group methodology enabled the research team to establish whether this perception had been tested or challenged, and in many cases it had not. Many reported a lack of access to information about finance and legal issues, but this was also untested.

A range of possibilities for start up finance was discussed. In general, participants regarded venture capital with suspicion; believing its use would involve sacrificing autonomy to a third party. There was also some evidence of debt aversion, especially amongst those without experience of mortgages etc. Those drawn from the long term unemployed, and the New Deal Self Employment Option in particular, did not wish to borrow from institutions, yet were willing to use personal credit cards

to finance the purchase of start-up equipment. This was acknowledged as an expensive form of credit, but people felt they were retaining a measure of personal control.

Negative perceptions regarding the attitude of bankers, and the inflexibility and cost of bank loans, meant that many focus group participants (especially younger people) preferred to seek capital from family sources, or depend upon personal savings and trading income, thereby slowing down the development (or altering the nature) of a business, through the constraint of capital resources.

A substantial majority (not just Avoiders) did not seem to be fully aware of the larger picture, relating to financial requirements (i.e. investment and operating capital). The appreciation of credit terms (from suppliers), invoicing lags, timing of tax payments etc., was also noticeably limited. Few seemed to realise that cash flow problems are the main reason why many businesses fold, especially in the earlier stages of their operation.

Gender and life stage appeared to be related to how debt was regarded. Amongst younger people in the focus groups, specifically those who had taken student loans; the priority was to clear debts before assuming more. This meant they were excluding consideration of self-employment for the short to mid term future. Amongst participants of 30 years old and above, women with family responsibilities were particularly wary of extending commitments. More men than women around this age referred to their partner's income as a source of support, women seemed to feel that any business venture they may embark upon would need to be independent of family finances and self sufficient. Many older participants (50+ years) had existing funds, but were noticeably protective of these, and sensitive to the possibility that, given their age, they may not have an opportunity to recoup losses, if business ventures failed. This latter group in particular seemed to favour a 'tapering' approach to going into business, trying to maintain any paid employment, while starting and operating their own businesses.

2.4.1 Bank loans

There was criticism of the attitude of banks towards new businesses, although perspectives differed, according to the type of prospective businessperson. While some thought banks 'will not lend to you', for those with collateral and a relevant track record, it was believed banks are often willing to 'over-lend'.

Many views appeared to be untested. A majority took the view that the rates charged by banks were too high and their terms insufficiently flexible, yet only a relatively small proportion had actual experience of seeking or negotiating loan finance. Thinkers, and those who had been long term unemployed in particular, were frequently reluctant to consider seeking credit from banks. They believed it would be difficult and therefore did not try. This attitude also appeared to influence the scale of venture people were willing to contemplate, the stated preference of many being to 'start small', relying, where possible, upon personal/family financial resources. In other words, for a number of people, preconceptions, which needed to be tested, related to the difficulty of obtaining loan finance from a bank. These dictated the proposed scale of their business venture, rather than a vision of the enterprise itself. They seemed prepared to limit aspirations, in order to avoid having to make an approach to a bank.

Business Advisers, interviewed as part of the focus groups, also talked about banks and expressed concern that people are not always realistic about how financial risk

can be distributed. Clients were seen as reluctant to put their own assets at risk, and to believe that financial institutions should bear the whole burden, failing to appreciate the need to provide equity and commit to their own enterprise. This proved true; focus group participants said they were apprehensive about charges and interest payments, together with the requirement to provide security. Secured loans may offer better terms, but many were reluctant to take the risks involved. Some described themselves as 'debt averse', willing to consider bank finance for items such as car purchase, but unhappy about putting their homes at risk to finance a business. This appeared to relate to low anticipated earnings from businesses, making participants wary of being able to meet potential costs, and heightening their perception of risk in general. Ultimately, very few people in focus groups saw their business (or prospective business) as a saleable capital asset, as well as an income generator or employment option.

2.4.2 Grant aid

With grant aid, as in other areas, there was a distinct, qualitative difference in the perceptions of participants from a background of long-term unemployment, compared to those in other groups. Many Thinkers and Doers in more prosperous areas were not well informed about grants, but often excluded themselves anyway. While some of the better off had funds from redundancy or savings, most appeared to favour bank loans, where they were on more familiar territory and believed this would help to preserve their independence and privacy rather than a grant.

Amongst other groups there was a general, underlying impression that significant amounts of grant aid were probably available, if only you knew where to look. However, knowledge of schemes was restricted, or how to find the information. The starting assumption was often that grants and soft loans would 'not apply to them anyway'. In some cases, participation in self employment-related initiatives had led focus group participants to realise that the *extent* of grant support from government/business support agencies was not as great as expected, in terms of coverage and the size of sums available. People also complained of 'the huge amounts of bureaucracy' and were sensitive about the 'postcode lottery' of grants. Prince's Trust funding was commonly regarded as the gold standard, with few strings and relatively uncomplicated to apply for, its age limitations well known and understood. In some areas people referred to other sources of grants, usually related to specific regeneration initiatives and particular geographical areas, but still felt they 'always' fell outside the targeted groups or localities.

Focus groups provided an opportunity for the exchange of information about grant aid between participants. These exchanges suggested that many people, particularly those with less confidence in their own research skills, collect information about grant aid, and other assistance, in a relatively random, ad hoc manner. As many seemed at a loss about where to go for advice and to lack role models, the experience of the most recent 'Doer' in the group was accorded significance (perhaps disproportionately). Most reported finding it easier to assimilate information (and optimism), based on a face-to-face contact, as opposed to more generalised advice from official sources.

2.5 HOW MUCH PREPARATION DO YOU NEED?

Business Advisers, as might be expected, thought business plans were important, not just the final product and its accuracy, but the actual process. For this reason they believed it should not be outsourced, but researched and executed by the intending entrepreneur, with assistance as necessary. In terms of a strategic

approach, most focus group participants were only considering relevant issues as they were presented, showing a tendency to be reactive rather than proactive, and they distrusted business plans to create a realistic framework, favouring practical experience. In the main, people in focus groups seemed cautious, rather than over-optimistic, in estimates of projected turnover and income. This was not as expected, but may have been affected by the focus group setting and so needed to be verified by the survey which followed. Elsewhere¹¹ it has been suggested that it is unlikely that the possession of a written business plan will, by itself, cause harm, but it is also unlikely to be essential to success, at least in very small firms.

Overall, the process of planning, rather than the plan itself, was considered likely to be more important to business performance.¹² It was also accepted that formal business plans can be useful, in assisting the entrepreneur to 'communicate' or 'sell' ideas to external professional networks (e.g. accountants, bankers), and in enhancing relationships with suppliers. However, many Thinkers appeared to regard the business plan as difficult or unreliable. Doers who had been through the process had not found it as formidable as they had anticipated, but were still cynical or apprehensive about its relevance and relationship to what was actually likely to happen, particularly in terms of business income.

Another potential problem area, in relation to the preparation of business plans, appeared to be how to accurately determine *demand* for your product or service. The focus of research activity seems to rest on what competitors are charging; entry strategies typically rely on undercutting prevailing prices. People also seemed to assume that the market can always sustain another entrant, even though it may be overcrowded. Frequently the fact that there were already a number of suppliers/providers was taken to indicate high levels of demand: *'There's loads of them. Soon every other shop will be an alternative therapist – they'll be all over the place'* (prospective therapist, Sheffield). This type of reaction was not uncommon, even amongst those receiving structured advice and support. Despite participating in a process to make self-employment a realistic possibility, and taking incremental steps towards it, there was a failure at times understand what is meant by markets and demand.

2.5.1 Estimating personal income and sales turnover

One of the major perceived differences between paid employment and running a business is the uncertainty and irregularity of personal income. People with no prior experience of operating a business may have difficulty in forecasting sales turnover, costs and therefore in estimating their drawings – what they will have to live on. It would be reasonable to expect that this uncertainty would form a barrier to starting a business; however, it only becomes a myth if estimates of potential income by Thinkers and Avoiders are markedly lower (or indeed higher) than in reality and, for our purposes, lead to a decision *not* to start a business.

As part of the contribution to the calculation of personal income, most focus group participants had heard of Working Tax Credits, but that was the extent of their knowledge, and usually they had not investigated their eligibility and how well off WTC might make them, versus benefits. Failure to investigate this area, to seek an 'in business' income calculation, as well as suggesting risk aversion about going into business, seemed to stem from a wish not to jeopardise current benefit income by revealing personal circumstances to agencies. Many admitted anxiety about

¹¹ Mazzarol (2000)

¹² *ibid*

benefits, that there was insufficient information available, that the situation was unclear and the system discretionary and lacking transparency. There were similar concerns from former asylum seekers and immigrants, about how legislation relating to self-employment, impacted upon them. In both cases, difficulties were exacerbated by not wishing to ask, for fear of revealing too much, in case benefits or immigration statuses were affected. For the future, if the business failed or did not provide sufficient income, participants worried that being self employed would make it difficult to collect the appropriate evidence (e.g. payslips) to have benefit entitlement reinstated.

Self-employment was mainly regarded as capable of providing only irregular income, and insufficient returns to meet existing, substantive commitments, such as mortgage repayments. Even those who had worked to calculate projected turnover and income were suspicious of their own figures:

'I've done a business plan but it's all hypothetical, it's difficult to get your name known and become established'.

'I've started trading and feel I've over-estimated the volume of work I can attract',

'My business plan seemed to show that I would make thousands, but in reality it's not happening'.

The unreliability of earnings estimates was tested by a question put to focus group participants on sales turnover in the first year of trading, providing around 70 answers. Estimates by Thinkers in the focus groups were substantially lower than the actual figures, provided by Doers. Of those who had considered the prospective income they hoped for, approximately one-third anticipated around £20,000.

Evidence from the focus groups and more extensive surveys suggests that, on average, Thinkers underestimate sales income by nearly one-half and that estimates of costs by Thinkers and Avoiders are usually lower than in reality, as they fail to anticipate the full range of outlays. Arguably, there is no reason why they should be aware of some of these costs, but this finding reinforces the point that the views of Thinkers and Avoiders on financial aspects of running a business are not based on reality, and misperceptions may persist, given that only half of all new businesses seek advice to challenge them from professionals (accountants, banks, solicitors)¹³.

2.6 ESTIMATING THE TIME COMMITMENT

Most Doers were not under any illusions about the time commitment, in terms of both the preparatory work in setting-up a business, and then running an established one. They understood that a business operates to meet the requirements of customers, in a timely fashion.

Amongst Thinkers, especially those still to receive business counselling, a number had little idea of the time commitment involved. However, despite some over-optimism, there was no particular evidence of systematic under-estimation of the requisite time commitment for start-up by any group. Estimates varied between three and twelve months, with an average of around six.

¹³ Annual Small Business Survey (2003)

Many participants felt that there needed to be a more prolonged period of start-up support than is currently on offer, to allow the time needed to build up a customer base, prove someone's worth in the market, establish their name, etc. – *'six months is not enough'*. As already mentioned, (see 2.3), this was particularly the case where a novel or unusual type of new business was being considered.

However, the time commitment involved in *running* a business was generally underestimated. Prior to exploratory trading, many additional tasks (book-keeping, preparing quotations, travelling between clients) were unforeseen. These bring no extra income into the business, and represent an opportunity cost, in terms of the potential sales of services or goods, but are nevertheless recognised by focus group participants as essential, despite requiring substantial inputs of time.

2.7 DEALING WITH TAX AND REGULATION

In focus groups there was a general appreciation of the need to understand Health and Safety issues, PAYE or tax in general and, in particular, the responsibilities associated with employing other people. Those thinking about going into business tended to over-estimate the extent to which government red tape constitutes a real burden and consider it to be an obstacle to start-up. In fact, in the experience of the Doers, regulations relating to small businesses were generally found to be less onerous than anticipated.

With regard to the timing of tax payments, many people did not realise that they do not necessarily have to pay tax as they go along, and that this can help with cash flow. This reinforces the point made earlier (Section 2.4) about the lack of awareness of the importance of cash flow – the stress, amongst those still to run a business, seemed to rest upon completion of the steps towards set-up, rather than operating issues and how to actually sustain a business.

There was a widespread perception that dealing with officialdom is intimidating, yielding draconian penalties for those who, even in ignorance, do not comply with rules and regulations. This was found amongst all types of participant, though particularly pronounced amongst those with less experience of dealing with officialdom, and/or with low skills/qualifications levels and a weak position in relation to the labour market. In particular, the tax system worried people and problems were probably exaggerated. Anxiety was reported about maintaining appropriate records and completing documentation. Even educated professionals expressed fear about keeping records for government, the volume of information required, the level of detail needed and the potential for human error. In contrast to this, participants in more than one group noted that help actually received from the Inland Revenue's business support team had been positive, and provided a *'human touch to a faceless bureaucracy'* – suggesting that training and information can help reduce concerns to less 'mythic' proportions.

The language of official documents was also described as daunting, and that it reinforced the view that inaccuracy will neither be tolerated nor forgiven. Most focus groups thought the descriptions of penalties for non-compliance were intimidating, and that the self-employed, particularly those just starting up, should be dealt with more sympathetically.

While many appreciated the training they were receiving for going into business, they were surprised by the limitations of the New Deal Self Employment Option, particularly test trading. Some people reported the need for co-signatories on cheques as a specific problem. They felt that it impedes their ability to react quickly

and damages credibility with clients and suppliers. They also complained about being unable to employ an accountant during this period. Given few people planned to do their own accounting, this restriction, imposed by the New Deal, was considered unrealistic and impractical.

2.8 OTHER SKILLS AND ISSUES TO CONSIDER

2.8.1 Supplying ancillary skills

On the whole, whilst most did not possess any significant understanding or knowledge of 'business skills', groups were convinced that setting up your business and learning as you go along was the right approach. They expressed confidence that they would be able to acquire skills as needed and be able to access help and support.

Participants in more prosperous areas were not intimidated by the lack of ancillary business skills, because they believed it would be easy to buy them in as necessary. Those who could not afford to pay for outsourcing often planned to use the services of family or friends.

There was evidence of more pronounced concern about the need for 'soft skills', such as managing customer relationships and promoting the business, and how such skills could be acquired. Worries about a relative lack of IT skills and the need for IT support were also reported. Focus groups felt that quite sophisticated use of IT would be necessary for business success, and that they would need to acquire the skills for themselves as outsourcing may be expensive and yield unreliable quality.

2.8.2 Organising a pension

There was some aversion to self-employment among participants accustomed to employers' final salary pension schemes. This may inhibit start-up, eventually pushing individuals towards being Active Avoiders. Overall however, there was little confidence in pensions schemes and some marked cynicism, so making pension arrangements did not seem likely to form a serious barrier to start up. Most focus group participants were not considering pensions schemes at the moment; those who were intended to substitute other sources of income e.g. rental properties and general property speculation, previous occupational pensions and continuing to operate the business into retirement. Although pension provision is thoughtfully considered, the overall weight attached to it in start-up seems to be relatively peripheral to the decision-making process.

2.8.3 Family support

Another important factor discussed was the crucial importance of family support to the intending entrepreneur. A number of focus group participants, across the full range of socio-economic backgrounds, were finding this difficult, feeling they lacked the support and commitment of their family or partner. Most people realised that going into your business represented a different sort of commitment to paid employment. Family members may need to answer the phone, help with the books, and relieve during peak periods, as well as generally acknowledge the obligations the self-employed person is taking on. This may indicate that advice and assistance should take account of family members – to address fears and provide information.

2.9 THE FEAR OF FAILURE

The biggest myth to emerge in focus groups related to perceived rates of business failure, sometimes in terms of personal failure, sometimes in terms of financial ruin. Different groups exhibited such fears unevenly. Both were exaggerated and most people believed the likelihood of failure to be relatively high – that in the region of three out of four new businesses were likely to collapse in their first year. This perception was widespread, though no one could cite a reliable source for the information when challenged. When told that these proportions were incorrect, and that a far greater number of businesses survived, most focus group participants were ready to believe it and found it an encouraging prospect – another indicator that training and information could be effective in countering myths and encouraging entrepreneurialism.

Avoiders in more prosperous areas (e.g. Newbury) were concerned about the potential loss of their existing assets, if a business should fail. The burden on a spouse – and reliance on their income, plus fear of losing the family home and the loss of social status if a business failed, were all factors leading to the dismissal of self employment as an option. Some Avoiders expressed a fear of failure on a personal level: *'I'm frightened I would lose everything'* and *'the failure would be very personal'*.

For Doers from more prosperous areas (e.g. Bath), the prospect of failure was a more manageable concern. For the most part, the small-scale liabilities involved did not constitute substantial financial risks. Participants did not believe they would be 'crushed' by failure, insisting that they could 'pick themselves up and start again', and reported confidence that they would be able to return to paid employed status if necessary. For participants who were older and who had already experienced redundancy, business failure did not appear so devastating. For younger people it seemed to appear irrecoverable *'I'm scared of failing, I might never get another chance and I'd lose face'* (under 25's Camden).

An additional consideration here is that, in contrast, there may be people who fail to adequately appreciate risk. Business advisers raised this point, and there were instances of apparent over-optimism and a lack of realism by participants in focus groups. In some cases advisers felt that they could offer the best service by helping someone to see that it would be wiser *not* to go ahead with a business, that the venture may be ill advised, and would place them in financial difficulty. However, this was seen as a potential competing priority for some advisers or initiatives, where payment is awarded on the basis of businesses started, rather than the provision of what may prove sound advice.

3 STAGE 1: PRE-DECISION

The focus group evidence indicated that a range of myths may apply across the full timescale of starting a business, from the first inkling an individual may have about going into business, through dealing with banks and business support agencies, to the first stages of trading and beyond.

This section, and the two which follow, examine myths relating to particular stages of the start-up process. The first is 'pre-decision' – i.e. the period before an individual definitely decides in favour of, or against, starting a business. Myths applicable here are likely to be very general, relating to, for example, whether the individual thinks they have the skills, knowledge and education to move forward; whether their level of social disadvantage is too great; whether they need to have an initial 'big' idea etc.

Essentially, therefore, this section distinguishes between Avoiders and Thinkers, examining whether there are myths that will discourage people from even beginning to think about starting a business and what these myths are.

3.1 FACTORS WHICH MAKE AN AVOIDER

The telephone survey explored why some of those categorised as Thinkers in the 2003 Household Survey of Entrepreneurship had gone on to become Active Avoiders by 2005 (see Table 4). Although they had only gone as far as considering the prospect of starting a business, the main concerns that pushed people away from going through with their intentions related to operational issues, such as debt, profit and working hours.

Of the factors listed, the most important, and likely to have a negative impact, were 'obtaining finance' (cited by 29% of Thinkers who became Avoiders), the amount of time involved in running a business (cited by 14%), and the complexity of red tape (7%). These are explored in more detail in Sections 4 and 5. The financial factor had considerable prominence, and was cited as a disincentive by almost one in three respondents, whereas the next most important reason for not proceeding was 'Happy with my job'. For one in five respondents their current employment situation was not sufficiently uncomfortable, and did not provide enough 'push', to make them seek an alternative. Other concerns were either centred upon high levels of risk-aversion (loss of security, general fear of failure), as opposed to misconceived risk, or were only cited by a small percentage of the sample.

Looking at the list of reported reasons shown in Table 4, individuals can be viewed as taking a holistic view of the entire process of start-up, and the impacts of running a business on their lives. In other words there are a wide number of concerns related to moving from being a Thinker to a Doer – or retreating and becoming an Avoider. The most important of these, at this particular stage in the start-up process, involve financial and time commitments. Since this stage is crucial, how pertinent these concerns are, and whether they are underpinned by fact, will be explored in greater depth in later sections.

Table 4 What stopped 2003 Thinkers from starting? (n=83)

Reason given	Percentage
Getting finance for the business	29%
Happy with my job	20%
Amount of time involved	14%
Losing security of current job	7%
Chance business might fail	7%
Complexity of regulation	7%
Economic climate	6%
Only ever 'just a thought'	6%
Bad health	6%
Not knowing how to start	5%
Worry of insufficient sales, orders, profits	5%
Age	4%
Continuing in education	4%
Not having an idea	2%
Fear of debt	1%
Fear of adding to existing debt	0%
Bad experience	0%

3.2 THE IMPORTANCE OF NEW IDEAS IN START-UP

This section examines respondents' understanding of the processes of business ownership and acquisition, and tests how accurately people estimate the proportion of existing businesses that were started from scratch. Incorrect estimation of the true number may indicate the existence of a myth, that having a new idea is more important than it really is, and/or that people exaggerate the difficulty of starting a business from scratch. For many people, buying an existing business may be preferable, and easier, than starting a completely new business.

3.2.1 Myths about starting versus buying

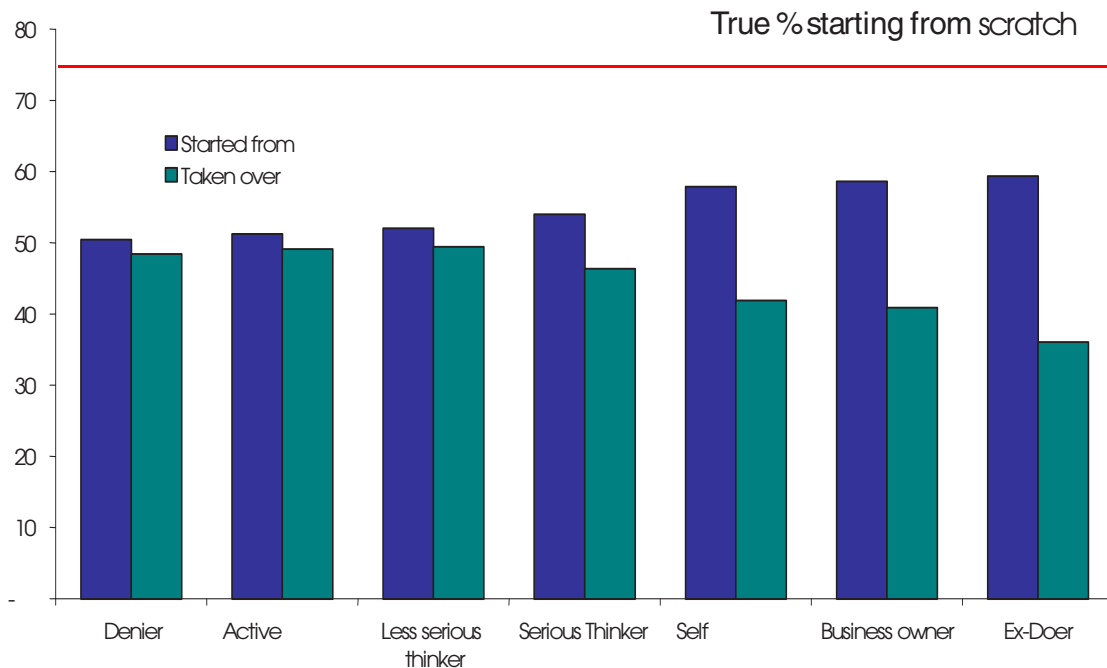
Survey respondents were asked to estimate the proportion of existing owner-managers buying a business, as opposed to starting from scratch. Overall, respondents believed that just over half of businesses, some 54%, start from scratch. Statistical evidence is scant, but estimates suggest that this figure differs significantly from the true proportion, which is that approximately 3 out of every 4 new businesses, i.e. 75%¹⁴ (Figure 1) are 'created' rather than bought or taken over.

As can be seen in Figure 1, estimates of these proportions vary according to entrepreneurial status. However, even the closest estimates - from Doers, fall some way short of this 75% mark. Thus, it seems to be reasonably clear that people, including some who have gone through the process of business start-up, tend to assume that starting from scratch is more difficult than is actually the case. This may

¹⁴ Household Survey of Entrepreneurs 2001, from a base of n=359. The Federation of Small Businesses members survey 2004 reported a figure of 73% starting from scratch.

decrease their chances of establishing a business of their own, and, if they also believe that they lack the financial capacity to buy an existing business (see Section 4.5 below), the problem is further compounded.

Figure 1 Respondents' estimates of the proportion of businesses started from scratch versus taken over



Myth No.1

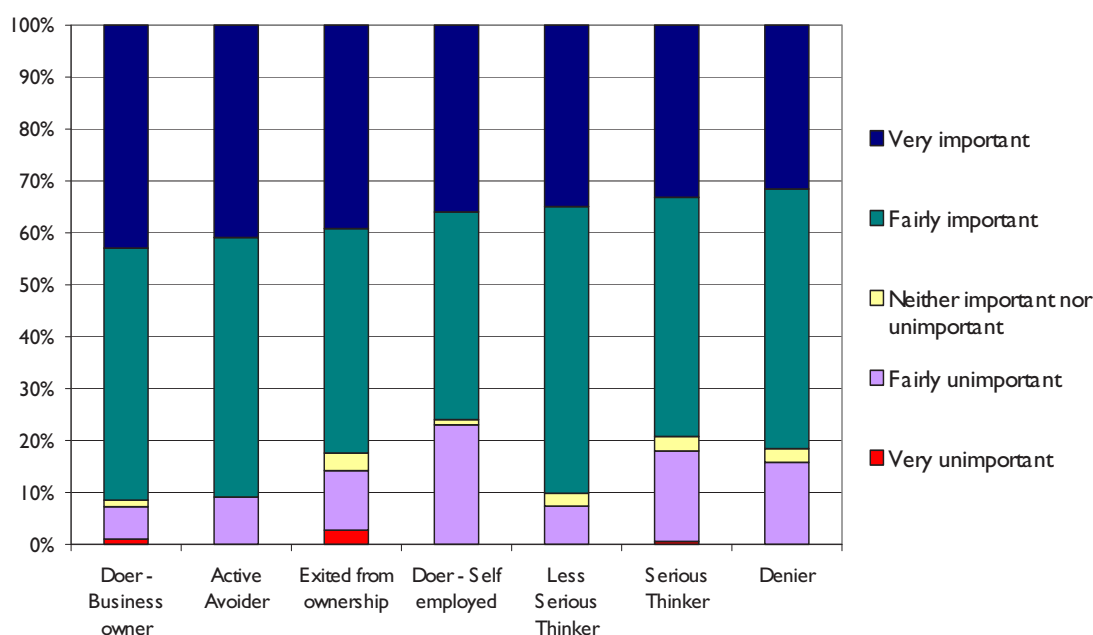
Most people underestimate how many businesses are started from scratch, believing start-up to be more difficult than it really is.

3.2.2 Do you have to be innovative?

The Phase 2 survey also asked participants to rate the importance of a new or innovative idea in starting a successful business (see Figure 2). An overwhelming majority of Deniers, Active Avoiders and those who had 'Exited from Ownership' (since 2003) rated a new or innovative idea as 'Very' or 'Fairly' important for the success of a business, compared with significantly lower proportions of both Thinkers and Doers.

As in the focus groups, young people (under the age of 25) were most susceptible to believing in the importance of a new idea; no other group diverged significantly from the average.

Figure 2 Entrepreneurial status and rating the importance of a new business idea



3.3 WHICH IS MOST LIKELY TO LAST, A NEW START-UP OR AN EXISTING BUSINESS?

Respondents were then asked to estimate which of the two routes, starting a business from scratch or buying an existing one, was likely to have the best prospects for survival (Table 5).

Table 5 Likely success of starting from scratch, versus buying a business (by entrepreneurial status)

	Start-up		Equally successful		Taking over		Don't know	
Avoiders	115	24.4%	52	11.0%	251	53.3%	53	11.3%
Denier	80	26.1%	37	12.1%	154	50.2%	36	11.7%
Active Avoider	35	21.3%	15	9.1%	97	59.1%	17	10.4%
Thinkers	47	26.6%	27	15.3%	75	42.4%	28	15.8%
Less Serious Thinker	22	28.6%	11	14.3%	31	40.3%	13	16.9%
Serious Thinker	25	25.0%	16	16.0%	44	44.0%	15	15.0%
Doers	102	31.2%	38	11.6%	138	42.2%	49	15.0%
Self employed	44	29.7%	16	10.8%	62	41.9%	26	17.6%
Business owner	58	32.4%	22	12.3%	76	42.5%	23	12.8%
Ex-Doers	9	20.5%	9	20.5%	19	43.2%	7	15.9%
Total	273	26.8%	126	12.4%	483	47.4%	137	13.4%

As can be seen from Table 5, close to half (47%) of the survey's respondents believed that taking over an enterprise was more likely to be successful than starting from scratch. Avoiders were the most likely to believe this to be the case (53%) and,

within that, Active Avoiders even more so, (almost 60%). Doers, as might be expected, were more optimistic about the chances of businesses starting from scratch; over 31% believed they would be the most successful. Ex-Doers, though admittedly a small group, were the most pessimistic about the relative success of businesses started from scratch – only one in five thought they would be more successful.

Both categories of Avoiders stand out as more inclined to believe that buying an existing business is likely to be the more successful route. Evidence from Europe suggests that this impression is correct, that a transferred business is indeed more likely to survive in the medium term than a new start-up¹⁵, a pattern with which the sample is in broad agreement.

However, it also seems clear that there is a fairly prevalent belief that start-up may be more difficult than it actually is. This provides an initial confirmation that the ‘myths and legends’ thesis has substance, in broad terms for a sizeable minority.

3.3.1 Estimating the time to get started

Thinkers estimate that a business will take substantially longer to establish than is the case in reality. The SBS Annual Survey 2003 found that 82% of businesses were started in less than six months, and 92% in less than a year. The majority of Doers and Ex-Doers - around three-quarters - set their business up in six months or less. However, only two-fifths of Thinkers reckon that they would be able to start trading within this timescale, a significant difference. Serious Thinkers were slightly more likely to think that they could set up a business in six months, but were also more inclined than other groups to assume it would take over 2 years (10% of Serious Thinkers, against 5% of Doers/Ex-Doers). Both females and people from ethnic minorities are also significantly more likely to anticipate set-up times in excess of six months.

Myth No.2

Some people are deterred from starting a business because they overestimate how long the process takes.

¹⁵ Research from Austria (Voithofer, 2002) indicates that 96% of transferred businesses were still trading five years after succession, compared with 75% for new start-ups.

4 STAGE 2: MOVING TOWARDS START-UP

This section considers the factors that affect individuals who have not dismissed the idea of going into business out of hand, and who are at the stage of moving towards start-up. This is the period when, after having the initial idea, the entrepreneur is grappling with the practical side of starting their business – market and product research, business planning etc.

Myths in this phase would be expected to centre upon how important various preparation processes are to the eventual establishment and, ultimately, success of the business. Responses should pinpoint those areas where Avoiders' and Thinkers' responses diverge significantly from those of the more experienced Doers – i.e. where there is a myth that certain processes are substantially more or less important than in reality. For example, if Doers consider a process more important than other groups, it is reasonable to assume that this has contributed to their success. Such information could enable advisors to recommend the areas in which potential entrepreneurs could most profitably focus their energies.

It should be noted that, in the survey, participants were asked whether a particular process was important or not, and then to rate *how* important. The 'neutral' option was not presented as a choice (respondents had to volunteer it on their own initiative). Since the response in this category was generally negligible, it has been omitted from most of the tables in this section.

4.1 THE DIFFICULTIES OF OBTAINING FINANCE

4.1.1 How important is it to have finance in place?

A number of questions on preparation during the pre-trading period centred on the importance of finance. This section will examine the topic of finance in more depth, in order to draw out any myths that may exist. There is more research into this than most other areas of start-up, and it appears to be one of the most prevalent concerns which leads Thinkers to abandon plans to start a business.

Table 6 shows that the overwhelming majority of respondents thought that having finance in place during the planning stages is important to eventual business success. Although self-employed Doers rate this slightly lower than other groups, the difference is not significant. In each group between 76% and 82% believe having finance in place is 'Very important'.

No myth is immediately apparent – in a very broad sense, all groups rate finance as equally important and there is no reason to challenge this view. The issue to be pursued is whether or not, having recognised this importance, people believe that finance will be available and if that belief is correct.

Table 6 How important is having finance in place during the planning stages? (n=1,018)

	Very important		Fairly important		Fairly unimportant		Very unimportant	
Avoiders	383	81.3%	83	17.6%	4	0.8%	-	-
Denier	250	81.4%	53	17.3%	3	1.0%	-	-
Active Avoider	133	81.1%	30	18.3%	1	0.6%	-	-
Thinkers	140	79.1%	37	20.9%	-	-	-	-
Less Serious Thinker	63	81.8%	14	18.2%	-	-	-	-
Serious Thinker	77	77.0%	23	13.0%	-	-	-	-
Doers	254	77.9%	65	19.9%	4	1.2%	1	0.3%
Self employed	111	75.5%	32	21.8%	3	2.0%	-	-
Business owner	143	79.9%	33	18.4%	1	0.6%	1	0.6%
Ex-Doers	36	81.8%	7	15.9%	1	2.3%	-	-
Total	813	79.9%	192	18.9%	9	0.9%	1	0.1%

4.1.2 Bank loans

Research suggests that finance for SMEs is fairly readily available. As already mentioned (Section 1.2, p2), Cruikshank¹⁶ found ‘there is little evidence that demand for appropriate debt finance [from SMEs] is not being met.’ Cruikshank also recorded that, in general, rejection rates for loans were in the range of 10-20%, of these, two out of every five were refused because of a poor business plan or levels of extant debt. The others – 8% of sampled SMEs – either had insufficient capital, or had just been established, and therefore lacked a track record. Whether or not this group had viable projects is hard to judge, but the level of risk attached to the proposed debt was, almost inevitably, evaluated as higher than that for established companies.

A recent study by Warwick Business School¹⁷ found that start-ups were less likely than established businesses to have their finance applications rejected (4% vs 12%), but again, figures do not include businesses that fail to go ahead at all, anticipating the possibility of rejection. This research also found that sole traders were five times ‘more likely to experience discouragement’ from seeking finance than partnerships (10% vs 2%). There was reinforcement of this need for caution from the Competition Commission’s 2002 analysis of the lending patterns of Clearing Banks to SMEs¹⁸. It reported that the banks adopted a highly conservative stance, with an emphasis on existing businesses rather than start-ups, because of the perception of higher risk. This emphasis was also reflected in marketing activity, which was designed to attract *existing* businesses, which apply for loan finance in greater numbers, and are then (as the Warwick study found) rejected in greater numbers.

The evidence cannot take account of the unknown numbers who dismiss themselves and never apply for a bank loan in the first place, yet it must contribute to their discouraging perceptions of bank practices. Both Cruikshank and a study by NatWest¹⁹ found that external finance (not solely restricted to finance for start-up) is

¹⁶ Cruikshank (2000)

¹⁷ Fraser (2004)

¹⁸ Competition Commission (2002)

¹⁹ NatWest/SER Team (2003)

sought by only 35-40% of SMEs (although in the NatWest case, this only included those seeking loans from NatWest), with the others reliant on internal sources of funds or more 'informal' borrowing (credit cards, overdrafts, mortgages etc.). Fraser (2004) showed that over 50% of SMEs use overdrafts and credit cards, while 24% use term loans and 6% use grant aid or friends and family to finance their businesses. Data also indicates that micro firms are least likely to seek external finance, with around one-third of small firms apparently not seeking it at all. Bank loans, however, do become more important if further financing is required once a business has been established.

In general, therefore, a substantial number of small and micro businesses do use some form of bank lending to finance or, more likely, partly finance their start-up, and rejection rates, while higher than for more established firms, do not appear excessively high. The Competition Commission (2002) noted that, while there is 'a lack of transparency in the determination of availability and price of overdrafts and general purpose business loans', SMEs are, on the whole, satisfied with overall bank performance and 'the cost and availability of lending are, in general, not a problem'. Between 80-90% of respondents to a 2001 ACCA survey²⁰ were of the opinion that overdrafts and term loans were 'easy' to acquire.

Relating success in seeking finance to entrepreneurial status, the 2003 Household Survey of Entrepreneurship found that, amongst an (admittedly small) sample of Thinkers who had applied for finance to start a business (requesting a mean amount of £137,000), half had no difficulty in obtaining funds from the first source approached; 17% were unable to obtain any finance, and a further 12% received only some of the money required. Survey respondents in the current research were pessimistic – there was a 50/50 split between those who would regard it as 'difficult' to get a start-up business loan in the next six months, and those who would regard it as 'easy'. Only 9% assumed it would be 'very easy' to obtain a loan, while 16% thought it would be 'very difficult'. Doers and Thinkers rated their chances at roughly the same level, and both groups were more optimistic than Avoiders.

Pessimism was more marked amongst the less well-off – 60% of DEs thought that they would find it difficult to get a loan, and over one-fifth of the C2DE group assumed that it would be 'very difficult', compared with only 14% of those in 'better-off' groups - ABC1s. This dichotomy is backed up by ACCA (2001), which found that one of the two major finance gaps among SMEs is amongst socially excluded individuals attempting to start a micro-business, and who find it difficult to raise small scale debt finance. The other gap is small high-growth businesses which require equity risk finance.

The questionnaire also asked respondents to estimate the proportion of applicants for business loans who were successful. As noted above, between 80 and 90% of applications are successful. Therefore, respondents choosing 'around three-quarters' or 'nearly all' would be fairly accurate. Overall, only 18% of respondents chose one of these responses, around 50% thought a quarter of loan applicants or less would be successful²¹. Respondents from social classes DE were more pessimistic than the other groups about the chances of rejection, with 59% indicating that they thought that only one quarter or fewer applicants would be successful. Of

²⁰ Tucker & Lean (2001)

²¹ The survey invited responses within specified ranges (e.g. about one in ten, about a quarter etc.), rather than an open response. Thus it is not possible to perform any comparison of means, since this cannot be reliably inferred from the data.

course, this may well be based on their experience, that personal bank loans are indeed more difficult to obtain, and because these past experiences vary, so the expectations of different groups inevitably differ.

Myth No.3

People may be deterred from starting their own business as they believe it is difficult to obtain a bank loan.

4.1.3 Grant aid

A question about the availability of grant aid from the government evoked a relatively high percentage of 'Don't knows', accounting for some 12% of the sample. The group with the highest proportion of 'Don't know' was, perhaps surprisingly, the Doers (15%), particularly the self-employed. Avoiders had the lowest proportion of 'Don't know'.

Overall, a majority of the respondents indicated that they thought it would be difficult to obtain grants or loans from government sources, with just over one-third believing it would be 'very difficult'. This feeling was particularly strong among Doers and Ex-Doers – in fact half of the Doers group thought that obtaining a grant would be 'very difficult'. In general, the more contact a person had had with the entrepreneurial process, the more difficult they thought obtaining grants or loans would be. There was a particularly strong, significant difference between Doers and Avoiders. Interestingly, respondents from social class DE were more likely to think that grants would be easy to obtain (42%), which, in their case, may be true – a greater range of funding is likely to be targeted on particular groups, indicating that these respondents are not, in fact, suffering from a myth.

4.2 THE IMPORTANCE OF PLANNING AND PREPARATION

4.2.1 Preparing the idea

Respondents were asked to rate the importance of researching products in the pre-start-up phase, to the eventual success of the business. This specifically relates to the qualities of the product or service itself, rather than assessment of demand for the product or service (probed in a different question). The results show that the sample strongly agrees with the proposition that product research is important, with no significant difference between the various groups (Table 7). Across the range of entrepreneurial status, three out of every four people regarded product research as 'Very important' and an additional one in five (21% or more) rated it as 'Important'. The consistency was quite marked. Therefore, Thinkers and Avoiders do not appear to be susceptible to a myth, and, in theory, along with other groups, are aware of the need to execute an adequate degree of product research, if they choose to start a business.

Table 7 How important is product research in the planning stages to business success? (n=1,011)

	Very important		Fairly important		Fairly unimportant		Very unimportant	
Avoiders	364	77.9%	100	21.4%	3	0.6%	-	-
Denier	229	75.6%	71	23.4%	3	1.0%	-	-
Active Avoider	135	82.3%	29	17.7%	-	-	-	-
Thinkers	135	76.7%	38	21.6%	2	1.1%	-	-
Less Serious Thinker	57	74.0%	18	23.4%	1	1.3%	-	-
Serious Thinker	78	78.0%	20	20.0%	1	1.0%	-	-
Doers	253	78.1%	66	20.4%	4	1.2%	1	0.3%
Self employed	113	77.4%	31	21.2%	1	0.7%	1	0.7%
Business owner	140	78.7%	35	19.7%	3	1.7%	-	-
Ex-Doers	34	77.3%	9	20.5%	1	2.3%	-	-
Total	786	77.7%	213	21.1%	10	1.0%	1	0.1%

Respondents were then asked about the importance of a ‘thorough and complete’ business plan. Since this is one of the key elements in support given to nascent entrepreneurs, the expectation would be that all groups would rate it as highly important. However, there were some clear divisions between the groups. Although all categories of respondent considered a business plan to be ‘important’ (96%), Doers were significantly *less* likely to rank it as ‘Very important’ (68%, as opposed to 82% for the other groups combined) (Table 8).

Table 8 How important is a thorough and complete business plan? (n=1,014)

	Very important		Fairly important		Fairly unimportant		Very unimportant	
Avoiders	381	81.6%	75	16.1%	8	1.7%	2	0.4%
Denier	252	83.2%	46	15.2%	2	0.7%	2	0.7%
Active Avoider	129	78.7%	29	17.7%	6	3.7%	-	-
Thinkers	147	83.1%	27	15.3%	2	1.1%	1	0.6%
Less Serious Thinker	62	80.5%	14	18.2%	1	1.3%	-	-
Serious Thinker	85	85.0%	13	13.0%	1	1.0%	1	1.0%
Doers	222	68.1%	77	23.6%	16	4.9%	8	2.5%
Self employed	99	66.9%	32	21.6%	9	6.1%	5	3.4%
Business owner	123	69.1%	45	25.3%	7	3.9%	3	1.7%
Ex-Doers	37	84.1%	4	9.1%	3	6.8%	-	-
Total	787	77.6%	183	18.0%	29	2.9%	11	1.1%

Interestingly, though, Ex-Doers rated the development of a business plan more highly – it is possible that this may be a reflection of why they moved out of business ownership, looking back on mistakes made in their own career with the benefit of hindsight, but we have no data to verify this. Additionally, while only around 1-2% of Avoiders and Thinkers dismissed a business plan as ‘Fairly or Very unimportant’, around 7%, or three times as great a proportion of Doers and Ex-Doers did.

However, a recent study²² of SME financing did find that 15% had their loan applications rejected because of inadequate business plans, so their importance should not be dismissed, merely placed in perspective.

Myth No.4

Thinkers and Avoiders tend to overrate the importance of a business plan and fear that they will be unable to produce one of the right standard.

4.2.2 Assessing market demand

In focus group discussions about preparing business plans, there was evident confusion about what is meant by demand and how to assess it (see Section 2.5). Therefore survey respondents were asked to rate the importance of assessing the demand for their potential product or service, before the business was launched. Perhaps unsurprisingly, this is rated as the most important factor of the five processes, ranked as very or fairly important by 99.5% of the sample. Doers and Ex-Doers, in particular, were more likely to rate this as very important in the overall success of a business (Table 9).

Table 9 How important is assessing market demand? (n=1,016)

	Very important		Fairly important		Fairly unimportant		Very unimportant	
Avoiders	380	81.0%	86	18.3%	3	0.6%	-	-
Denier	245	80.3%	58	19.0%	2	0.7%	-	-
Active Avoider	135	82.3%	28	17.1%	1	0.6%	-	-
Thinkers	144	81.4%	33	18.6%	-	-	-	-
Less Serious Thinker	66	85.7%	11	14.3%	-	-	-	-
Serious Thinker	78	78.0%	22	22.0%	-	-	-	-
Doers	272	83.4%	52	16.0%	-	-	1	0.3%
Self employed	118	80.3%	27	18.4%	-	-	1	0.7%
Business owner	154	86.0%	25	14.0%	-	-	-	-
Ex-Doers	37	84.1%	7	15.9%	-	-	-	-
Total	833	82.0%	178	17.5%	3	0.3%	1	0.1%

The questionnaire was not able to probe the understanding of respondents or the comprehensiveness of their market research, only to ask the straightforward question about whether such activity is valuable. In the focus groups, estimates of income for use in business plans were derived from the earnings of established similar businesses, rather than current or forecast levels of demand for their products and services.

The distribution of low projected incomes corresponds with more robust evidence from the 2003 Household Survey of Entrepreneurship, where 12% of Thinkers provided turnover estimates under £10,000, and a further 18% under £25,000, suggesting a level of subsistence income for one-third of Thinkers. Overall, all

²² Fraser (2004)

Thinkers estimated their income in their first year of trading at an average of £153,760, compared with Doers²³, reporting an average of £292,172.

Myth No. 5

Many believe that a small business can't generate much turnover in its first year, and so underestimate their potential income.

4.3 OTHER SKILLS AND ISSUES TO CONSIDER

Respondents were also invited to volunteer their own ideas on factors they thought might be important to the preparations of a putative business-owner. Responses have been grouped into fourteen broad themes. Some 592 people volunteered an answer, with each supplying, on average, around two extra themes which may be important.

As well as reiterating the value of research/product knowledge etc. (which accounted for 12% of all responses), respondents stressed commitment (15%) and the value of networking and access to mentoring (13%). This was corroborated by focus group discussions, where participants valued highly the information or advice that they received face-to-face, rather than written material from institutions. Marketing, customer service and picking the right staff/location/equipment etc. were all singled out as important by 9-10% of respondents. This indicates that the sample had a more inclusive view of 'preparation' than might have initially been assumed, impinging into operational areas, as well as the longer-term planning and strategy processes highlighted by the evidence above on the perceived importance of business plans.

Of the factors seen as 'very important' in the planning stages of start-up, the sample considered the assessment of market demand to be the *most* important (a third of respondents, and the most popular response among all groups). This arose consistently and its understanding requires exploration.

The factors rated next most important were having a business plan (21% of respondents) and having finance in place (18%). Interestingly, these two factors were rated as 'most important' by the same proportion in each group, among Doers (18%), Deniers (21%) and Less Serious Thinkers (19%). However, Serious Thinkers and Active Avoiders rated 'having a business plan' as more important. 'Having a new idea' was the least popular choice, chosen by only 7% of respondents as 'most important', and ranked particularly low by Doers, which fits well with the broader evidence available²⁴.

4.3.1 Organising a pension

People were asked whether they thought that running a small business would make it difficult to arrange a pension. In all classifications of entrepreneurial status, there was a majority - around two-thirds - who agreed with the proposition that it was hard to organise a decent pension. However, those who had managed a small firm

²³ Annual Small Business Survey (2003). This survey recorded sales turnover from businesses aged 1-2 years.

²⁴ Voithofer (2002) indicates 96% of transferred businesses were still trading five years after succession, and 75% of new start-ups, showing that a new idea is not essential for longevity in business.

proved to be more pessimistic than either Thinkers or Avoiders: just under half of Doers and Ex-Doers agreed strongly with the proposition, compared with 40% of Avoiders and 36% of Thinkers. Among Doers and Ex-Doers, the older age groups (over 45) are far more likely to strongly agree that pensions are hard to organise, than the younger business owners.

There are two possible explanations: (a) this is now a more pressing issue for them, and they are currently finding it hard to organise a pension and/or (b) they have more experience of organising pensions, both within and outwith the world of small business, on which to base their conclusions. In fact, the age of the entrepreneur was the only variable for which significant differences between cohorts could be observed, suggesting that, if anything, younger people, while generally pessimistic, are not as concerned as they perhaps should be. However, this age-related pattern is more likely to be a general observation about the pensions system, rather than purely to do with owning a small business or not.

5 STAGE 3: STARTING AND OPERATING

This section considers issues which become 'live' when starting and operating a business. In contrast to the tasks undertaken in the planning stages, the entrepreneur must deal with a host of new concerns when their firm is actually established and competing in the marketplace, ranging from earning enough money, through dealing with government bureaucracy, to the amount of time a new owner-manager is likely to spend making their nascent firm a going concern.

5.1 ESTIMATING THE TIME COMMITMENT

In terms of working hours, there was widespread acknowledgement that running your own business is likely to involve longer hours than a job as an employee. Some 80% of the sample disagreed strongly with the proposition that a new business would *not* take up more than 35 hours per week. Active Avoiders were the group with the highest level of disagreement with this statement (86%), which may go some way to explaining why they are unlikely to start a business. The only group to reveal a substantially more optimistic assessment of their likely working week was Serious Thinkers, although, even here, 72% disagreed strongly with the proposition. According to Barclays (2003), owners of SMEs work an average of 63 hours per week, rising to 67½ hours for sole traders, confirming the general views of respondents.

In general then, people's assessment of the hours needed to run a business was fairly accurate and therefore, though discouraging to some, did not represent a myth.

5.2 DEALING WITH BUREAUCRACY & RED TAPE

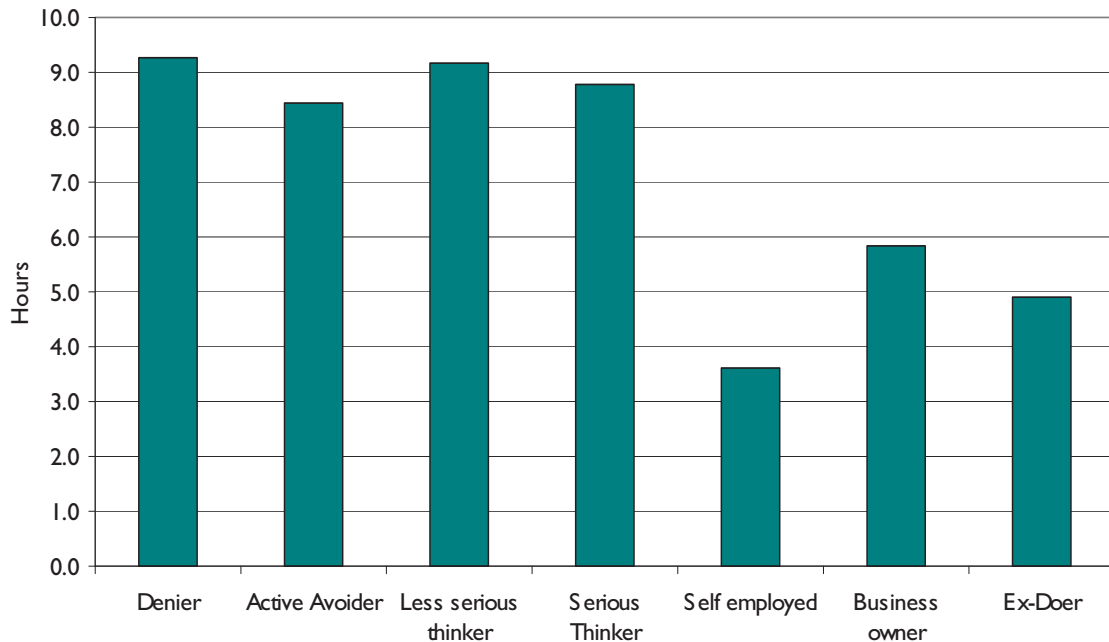
Just over three-quarters of the sample agreed that there is 'far too much' bureaucracy involved in running a small business. Barclays (2003) reports that only 35.5% (22½ hours) of a typical working week is spent on sales and production/service delivery (the 'work' of the business), with the remaining 40 hours spent in support tasks (customer queries, dealing with suppliers, marketing, accounts etc.). These additional tasks bring no extra income into the business, but require substantial inputs of time. In focus groups, people expressed concern about whether they possessed the necessary skills for these tasks; they felt proficient at their core business activity, but not at tasks such as marketing and promotion.

Those from poorer socio-economic backgrounds (C2DEs) are more likely to think that there is too much red tape involved in running a small business. Some 61% of this group agreed strongly with the proposition, compared with only 52% of ABC1s. Thinkers and Avoiders tend to exaggerate the burden of red tape, estimating that it would take up almost 9 hours per week (Figure 3). Females gave significantly higher estimates of the requirements of red tape than males, as did people from ethnic minorities.

Barclays (2003) estimates the actual weekly time spent on a (fairly narrow) definition of red tape ('legal requirements' and 'health & safety issues') is between 2½ and 4 hours, or around 4-6.5% of the sample's average working week of 63 hours. This latter estimate is close to the weekly average of 5¼ hours suggested by Doers and Ex-Doers in the survey, for time spent dealing with government paperwork and regulations, with the burden on business owners substantially higher than among the

self-employed (5¾ hours and 3½ hours, respectively). The report from Warwick University²⁵ did find that red tape, along with staffing, was regarded by SMEs as the highest problem area in running their business (production issues represented the least problem.)

Figure 3 Estimated time spent on regulation by entrepreneurial status



Myth No.6

Overestimating the time needed to deal with red tape is likely to deter some Thinkers and Avoiders from starting a business.

5.2.1 Tax advantages

Overall, of those responding, two-thirds of the sample thought that there were tax advantages to being self-employed, although there were significantly more Thinkers (73%) and Avoiders (77%) than Doers (61%). Some 16% of total respondents said they did not know whether there were tax advantages to being self-employed. As might be expected, this lack of knowledge is smallest among Doers (10% answered 'Don't know') and highest among Avoiders (21%). This presumably affects their 'into self-employment' income calculations adversely. Women were significantly more likely than men to believe that tax advantages existed, though significantly more women than men also answered 'Don't know'.

It appears that the message that there are tax breaks available is getting through to people who are seriously thinking of starting a business, although there is a distinct possibility that they are being somewhat over-optimistic, assuming the tax advantages are more generous than in reality.

²⁵ Fraser (2004)

Myth No.7

An over-optimistic assessment about potential tax breaks for the self-employed may lead to people attempting non-viable start-ups.

5.3 THE FEAR OF FAILURE

Fear of failure is prevalent for both Avoiders and Thinkers, for some this relates to fearing that they may fail, for others fear of the consequences of such failure dominate. This distinction was evident in the responses of focus group participants, some of whom concentrated on the practical aspects of failure, while others were most concerned about the impact on reputation and self esteem. The Household Survey of Entrepreneurship 2003 reported that 58% of Avoiders and 36% of Thinkers recorded '*the chance that your business might fail*' as a barrier to starting a business. This was in addition to related questions such as *worry of insufficient sales, orders or profits*, reported by 52% of Avoiders and 43% of Thinkers.

5.3.1 Estimates of failure rates

Whilst fear of failure is rated quite highly and is likely to act as a deterrent, it is far from clear whether people possess accurate knowledge of business failure rates. The indications suggest not. A systematic over-reporting of failure rates could well form a causal connection with fear of failure and, if expectations of failure rates are exaggerated, a downward revision of estimates may help to remove this barrier.

Table 10 Proportion of firms expected to have closed within a year (n=1,002)

	Around 5%		Around 10%		Around a quarter		Around half		Around three quarters		Nearly all (more than 9/10)	
Avoiders	11	2.4%	49	10.5%	157	33.8%	165	35.5%	75	16.1%	8	1.7%
Denier	7	2.3%	33	11.0%	119	39.5%	94	31.2%	43	14.3%	5	1.7%
Active Avoider	4	2.4%	16	9.8%	38	23.2%	71	43.3%	32	19.5%	3	1.8%
Thinkers	6	3.4%	12	6.9%	52	29.7%	58	33.1%	42	24.0%	5	2.9%
Less Serious Thinker	3	3.9%	4	5.3%	22	28.9%	29	38.2%	18	23.7%		0.0%
Serious Thinker	3	3.0%	8	8.1%	30	30.3%	29	29.3%	24	24.2%	5	5.1%
Doers	16	5.0%	23	7.2%	88	27.7%	130	40.9%	55	17.3%	6	1.9%
Self employed	11	7.8%	7	5.0%	42	29.8%	59	41.8%	22	15.6%		0.0%
Business owner	5	2.8%	16	9.0%	46	26.0%	71	40.1%	33	18.6%	6	3.4%
Ex-Doers	3	6.8%	4	9.1%	11	25.0%	20	45.5%	6	13.6%	0	0.0%
All	36	3.6%	88	8.8%	308	30.7%	373	37.2%	178	17.8%	19	1.9%

Note: respondents were presented with the options shown above, rather than asked for their own estimate of failure rates.

Table 10 shows responses to a request to estimate the proportion of new businesses respondents would expect to fail in their first year; Table 11 looks at their estimates of survival for three years and beyond. Overall, the sample was slightly more pessimistic than optimistic about the short-term chances of survival for new businesses – 56% of respondents would expect 50% or more of new businesses to have failed within a year of start-up (Table 10). 'In reality, VAT data suggest this is closer to 10%, and data from Barclays Bank around 17%; the proportion of

respondents supplying an estimate *above* this level was 88%. Gender is again a source of difference, but here males are significantly more pessimistic than females – some 48% of males expect up to a quarter of firms to fail, compared with just 37% of females. Ethnicity also records a significant difference; with those from minorities much more likely to demonstrate optimism with 26%, or one in four of this group, recording the correct proportion of less than 10% failing.

Table 11 Proportion of firms expected to still be running after three years (n=968)

	Around 25%		Around 35%		Around 50%		Around 65%		Around 75%	
Avoiders	147	32.7%	97	21.6%	117	26.1%	48	10.7%	40	8.9%
Denier	90	31.1%	57	19.7%	79	27.3%	35	12.1%	28	9.7%
Active Avoider	57	35.6%	40	25.0%	38	23.8%	13	8.1%	12	7.5%
Thinkers	56	34.1%	27	16.5%	41	25.0%	24	14.6%	16	9.8%
Less Serious Thinker	26	36.6%	12	16.9%	17	23.9%	11	15.5%	5	7.0%
Serious Thinker	30	32.3%	15	16.1%	24	25.8%	13	14.0%	11	11.8%
Doers	108	34.5%	54	17.3%	91	29.1%	28	8.9%	32	10.2%
Self employed	47	33.3%	18	12.8%	49	34.8%	13	9.2%	14	9.9%
Business owner	61	35.5%	36	20.9%	42	24.4%	15	8.7%	18	10.5%
Ex-Doers	14	33.3%	8	19.0%	10	23.8%	5	11.9%	5	11.9%
All	325	33.6%	186	19.2%	259	26.8%	105	10.8%	93	9.6%

Respondents are similarly more pessimistic in their medium-term expectations – whereas around two-thirds of businesses survive to the three year mark, 80% considered that a much smaller proportion of firms would be this long-lived (Table 11). There is a significant difference between genders and, again, females are better at predicting survival, with 21% estimating the correct proportion of two-thirds, compared with 18% of males. Figure 4 highlights the levels of pessimism among all respondents.

A supplementary question was asked, to determine whether knowledge of actual failure rates would alter respondents' views on starting their own businesses, as focus group discussions had indicated that it might. The revelation that only around 10% of businesses fail in their first year had no effect on the intentions of around two-thirds of those people who wrongly estimated the proportions in earlier questions (Table 12). Some encouragement, however, could be derived from the positive movement that did occur, in as many as one-third of respondents. The group whose outlook on starting a business changed the most were Thinkers (both Less and More Serious), over half of whom became more positive about their prospects than previously. Deniers were the least likely to be more positive than before. This question was the only one of its kind in the survey but illustrates the importance of accurate information in dispelling myths and encouraging people to start a business.

Figure 4 Proportions of respondents correctly estimating business survival and failure rates

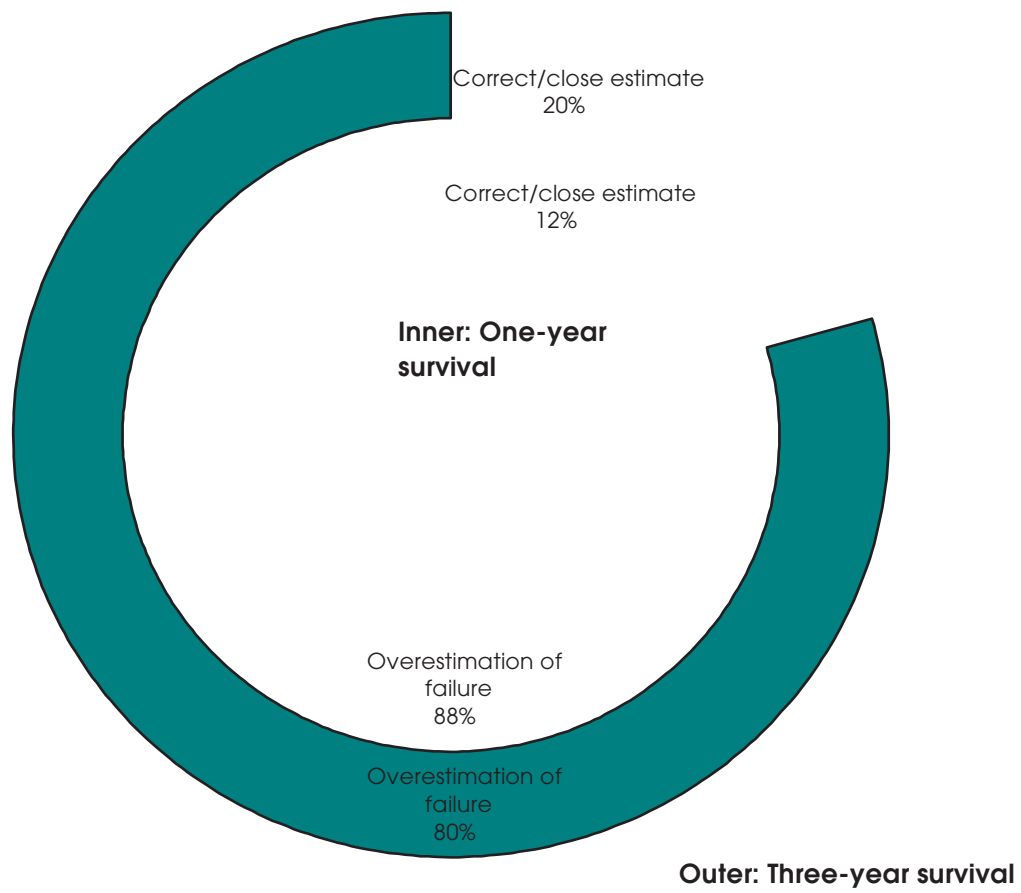


Table 12 Effect on intentions of starting on learning true survival rates (n=1,002)

	Still would not set up		No different		Slightly more positive		Much more positive	
Avoiders	20	4.3%	325	70.0%	72	15.5%	47	10.1%
Denier	15	5.0%	224	74.4%	34	11.3%	28	9.3%
Active Avoider	5	3.1%	101	62.0%	38	23.3%	19	11.7%
Thinkers	2	1.1%	76	43.7%	53	30.5%	43	24.7%
Less Serious Thinker		0.0%	31	41.3%	31	41.3%	13	17.3%
Serious Thinker	2	2.0%	45	45.5%	22	22.2%	30	30.3%
Doers	5	1.5%	219	67.8%	53	16.4%	46	14.2%
Self employed	4	2.7%	98	66.7%	27	18.4%	18	12.2%
Business owner	1	0.6%	121	68.8%	26	14.8%	28	15.9%
Ex-Doers	0	0.0%	24	58.5%	8	19.5%	9	22.0%
All	27	2.7%	644	64.3%	186	18.6%	145	14.5%

Myth No. 8

An overestimation of business failure rates may deter some people from going into business for themselves.

5.3.2 The reasons for failure

Survey respondents were asked to speculate about the various factors which may lead a business to fail; in other words, to expose the underpinning assumptions for their expectations of failure rates. The two most important factors cited were interlinked, and both related to the actual operation of the business - the lack of a market (cited as 'very important' by 80% of respondents) and a poor quality product or service (76%).

These were followed by 'lack of money' at the start of the venture and 'lack of a business plan', both cited as a 'very important' factor contributing to the failure of a business by 64% of respondents. However, it is noticeable that Doers are more sceptical about the value of a business plan than other groups, and far more likely to regard start-up capital as crucial - over 70% in the self-employed group indicated that not having enough money at establishment is a 'very important' factor in failure. Over 90% of the sample thought that these four factors were 'important' (instrumental) factors which would contribute to failure.

The factors rated *least* significant, particularly amongst Thinkers, are the influence of red tape/bureaucracy, and not being able to raise a large enough loan. Loans were rated far lower in importance by business owners than by other groups, backing up their comments elsewhere on sources of start-up capital (their own savings, and funding from family and friends, are seen as more significant).

6 SO, WHAT ARE THE MYTHS?

This section highlights eight myths, described and analysed in Sections 2-5. There is evidence that for each of these myths there is (a) an asymmetry of information between particular groups and/or (b) insufficient reliable information for the general population to make decisions relating to entrepreneurship. Section 1 noted that myths may either impede entrepreneurship, in circumstances where risks are perceived to be greater than they are; or encourage starting a business by suggesting that riskiness is lower than in reality. Only one of the myths described below (tax advantages) falls into the category of promoting entrepreneurship inappropriately, whilst the others are partly responsible for restricting the supply of entrepreneurs.

1. Around the same number of entrepreneurs buy an existing business as start from scratch

In actuality, around three-quarters of business are started from scratch, a far higher proportion than estimated by respondents to the survey. Even business-owners estimate that only 60% of firms have been established by their current owners, while Avoiders report an almost 50/50 split. The myth is presumably fed by the assumption that it is much harder to establish a business than is actually the case (regardless of whether that business goes on to be a success).

2. It takes years to start a business from scratch

Thinkers and Avoiders over-estimated the time it would take to set up a business. In general, while most firms are established within six months, non-Doers estimated only 40% of firms made it within this limit. While the starting points used by the two groups are not entirely clear - Thinkers may regard themselves as having 'started' already, for example - it is clear that people may be deterred from establishing their own business by the length of time they assume it would take to get it off the ground.

3. It's hard to get a bank loan to start a business

Studies estimate that only 10-20% of applicants for a business loan get rejected. Only 20% of respondents guessed that this was the correct figure. There are some caveats - (a) start-ups with no track record are more likely to be rejected, and (b) those from lower socio-economic groups who lack initial capital are indeed likely to find it difficult to obtain, reflected in the higher level of pessimism about bank loans among this group. Nonetheless, the belief that banks are likely to reject a much higher proportion of loan applications that they do is widespread, and constitutes a myth militating against start-up.

4. A business plan is the most essential element in starting up

In the survey, Doers and Ex-Doers downplayed the importance of the business planning process, in favour of obtaining sufficient start-up capital; while Thinkers and Avoiders regarded a business plan as more essential to success. The myth, therefore, is that the plan is the be-all and end-all, rather than a learning tool to enable the entrepreneur to get the best out of their business proposition, and highlight strengths and weaknesses. More attention should be paid to the underlying processes of planning and understanding topics such as 'demand'.

5. Small businesses don't generate much turnover in their first year

A significant minority of Thinkers project that turnover for a small firm would not exceed £25,000 in the first year of trading, and the mean of their overall estimates is around 40% lower than the mean turnover actually achieved by small businesses. The myth that it would be difficult, if not impossible, to make a decent living from a small firm in its early years of operation could be a major factor in dissuading people from starting a business.

6. Small firms spend half their time dealing with red tape

While there is general agreement among all groups that there is 'far too much' bureaucracy involved in running a small business, Thinkers and Avoiders over-estimate the time spent dealing with red tape. Their average estimate was around 9 hours per week, compared to the 5 hours actually taken by Doers and Ex-Doers. This mythical extra four hours of regulatory burdens may well dissuade some people from starting their own business.

7. Most small firms fail within the first year

The exact opposite is true: the overwhelming majority of small firms - around 80-90% - survive for at least a year. However, this myth has wide currency among both business-owners and other groups, with only 9% of the survey sample correctly guessing the true survival rate, and 57% assuming that half or more of all small firms fail to last twelve months. This myth about failure rates wrongly inflates the degree of risk felt by those thinking about starting their own business, and will deter risk-averse groups from proceeding further.

8. There are significant tax advantages to being self-employed

Thinkers were more positive that the self-employed got tax breaks than Doers, by a margin of 73% to 61%. While there definitely are some tax advantages, it appears that Thinkers may be overestimating how great these advantages are in reality. This optimism may lead to an 'over-supply' of self-employment, which proves unsustainable when individuals realise that the tax gains are not as large as they supposed.

7 TACKLING MYTHS

7.1 OVERVIEW

It is worthwhile here to restate the ways in which this study has classified and chosen to deal with perceptions of risk and reactions to 'myths'. Low levels of entrepreneurial activity, in response to risk and uncertainty, fall into three main categories: (a) where there is a genuinely high level of risk attached to aspects of start-up - to address this, policy should attempt to reduce this risk, e.g. through subsidies and loan guarantees; (b) some individuals are simply more averse to taking risks than others, based on the same (correct) information, reducing their chances of forming a business – tackling this is best achieved through similar policies as (a), that is, reducing the level of risk rather than attempting to reduce aversion to risk; and (c) misconceived risk, whether based on inadequate information or ineffective processing of information, which leads some people to wrongly assume that the riskiness of starting or buying a business is higher than it is in reality, contributing to a suboptimal supply of new entrepreneurs.

This report has focused on category (c). In many ways, the issues considered in relation to starting and running a business are universal, what differs is the perception of them and how easily they may be tackled. Policy recommendations connected with this category clearly must centre on correcting misconceptions held by individuals or groups, at various stages in the process of setting up a business. Broadly, this will be achieved through either (i) correcting the wrong information on which individuals base their perceptions and/or (ii) providing training to enhance individuals' ability to process information, making their perceptions and conclusions more accurate.

7.2 TARGETING INFORMATION

The evidence suggests the need to segment clients according to age, gender and employment status (particularly experience of long-term unemployment) and to tailor the content, and, more specifically, the delivery of advice and guidance appropriately. In tone and content the awareness and confidence levels of different groups need to be recognised, helping all groups to realise that many 'mythic' problems are, in fact, soluble. In terms of delivery this probably means relating information in a way that people can easily identify with – via case studies and quite specific, colloquially worded questions which they can identify with.

Starting early, in order to counter the development of misperceptions, seems worthy of serious consideration – to stop myths before they start, and allow young people to communicate the information at home, rather than expecting adults to always seek it out. This suggests that an expansion of Enterprise education in schools would be worthwhile.

For those concerned about benefits, or immigration status, impartial, clearly stated advice and information needs to be made available, and very obviously so, from an impartial source. Some are prevented from proceeding by a fear of revealing their circumstances. They need to be able to assess their position without feeling at risk. Similarly 'into self employment' calculations would be helpful, taking account of benefits and Working Tax Credits, but available from a source that people regard as unbiased and confidential.

The following section contains tentative suggestions for dismantling the myths outlined above. The research made no attempt to evaluate these suggestions – these are simply the research team’s first thoughts on possible interventions.

7.2.1 Avoiders

Avoiders are the furthest from the business start-up process, having either spurned starting their own business after contact with an enterprise agency, or never having really thought about it in the first place. At least some of this negative attitude stems from their misperceptions of running their own business, in particular the amount of time taken to set up a business and, once established, to deal with red tape, and the possibilities of obtaining bank finance.

The major hurdle facing attempts at outreach to this group is that they are unlikely to have contact with enterprise agencies. Therefore, efforts to realign their perceptions have to be more general, using channels aimed at the general public. The most effective way to reach such people is probably through stories in the news media, rather than advertisements, flyers, road shows etc., using case studies of actual companies, for example, to correct misperceptions about the business world. Many local newspapers have a regular business section, which could be used for stories on, for example, the relationship between banks and small firms, or outlining the timetable for starting an actual firm. It would also be useful to conduct awareness-raising initiatives among agencies not directly linked to business development, particularly those that deal with the unemployed or similar groups, in order to direct more potential entrepreneurs to the right starting place.

7.2.2 Thinkers

The best ways to reach Thinkers are somewhat different. Members of this group are already interested in starting a business, and may have had some contact with business start-up agencies. As such, misperceptions which may deter them from reaching start-up kick in at a later stage than for Avoiders, and can be addressed more directly. Again, using examples taken from reality seems to be the best way to counter instances where Thinkers are working from an erroneous information set – methods could include the use of mentoring by small business owners, or networking events, which could also incorporate elements of training of use to both Thinkers and actual owners. Training courses purely for Thinkers, on topics such as market research or how to deal with red tape, would also be beneficial in facilitating more efficient and effective processing of information, thereby reducing misconceptions.

7.2.3 Myths fuelling social exclusion

Some groups are more prone to believe in certain myths than others. The above policy recommendations are best seen as broad guidelines on how to reach the groups in general, but need to be tailored, in order to get the messages across to different sections of society. For example, some Avoiders may be frightened of losing their assets by investing in a business, while others have no assets to lose in the first place, and may be disillusioned with ‘the system’ after being on benefits. Both groups may be unlikely to start their own business, but the approach taken to convince them of the worth of entrepreneurialism, and the avenues of publicity chosen, would be rather different.

The most obvious example are those people in lower socio-economic groups D and E, who are more likely to believe that finance is harder to obtain, and that it takes longer to start a business than is the case in reality. This in fact seems to be the case, that those who are less well-off correctly foresee that they are unlikely to obtain loan finance and are therefore less likely to seek it. They are also less likely to know

an entrepreneur, and have fewer role models to draw on in this area. In this case, a more direct approach may help – stories in newspapers etc. are less likely to have an impact on these disaffected groups, as opposed to a seminar or attempts at mentoring or work experience, if they show an interest in business. The issue of the uneven impact or disproportionate susceptibility to myths, particularly in relation to socio-economic class and experience of the labour market, requires further investigation, as people's response may indeed be a rational result of their experiences, rather than inaccurate perceptions.

Similarly, people from ethnic minorities are more likely than other groups to believe that it takes a long time to start a business, and that red tape is an onerous commitment. While tackling general myths via the standard routes described above, approaches could be made to ethnic community organisations to organise seminars on specific topics, and tailor advice accordingly. However, it should be noted that the number of people from ethnic minorities in the sample was relatively small – small enough that we cannot distinguish between different ethnicities – and that further research would be needed to properly direct policy to such groups.

7.2.4 Myths by gender

There are also differences between males and females within the sample. On the whole, it is fair to say that females are slightly more pessimistic and risk-averse than males, and support may need to be more intensively targeted and lengthy to encourage them into entrepreneurial activity. The only myth which males are more likely to believe than females is that most small firms fail within a year; therefore, mentoring schemes etc. directed at men need to take this into account, perhaps by using a range of businesses which are well-established, rather than more recent start-ups. Both males and females may need clarification, but particularly with females there might need to be encouragement too.

7.2.5 Delivering advice

Transaction costs relating to information are also an issue, with implications for policy action. People often choose not to seek information or investigate issues, because of the costs of doing so, either direct costs or charges or opportunity costs, in that the time spent searching could be time spent earning. Where they do seek an answer they may quite reasonably choose to pursue the lowest cost option, that is face-to-face, anecdotal advice. The likelihood of this, and the fact that it may also be inaccurate, needs to be recognised in considering policy options to address or counter myths.

The focus groups, though only a small part of the discussions, did provide some indicators about potential delivery methods for advice and support. Despite the fact most groups comprised people in self-employment related initiatives of different sorts, a lack of access to information on start-up processes, finance, and legal issues was still evident in many groups. At times, those attending focus groups reported learning so much from hearing other people's views and experiences and sharing information and knowledge as part of the research activity, that it gave them 'a great deal to do and think about before starting in business'. Indeed the response of the participants to focus groups was very positive. Feedback strongly suggested that much had been learned through this form of facilitated discussion and the exchange of views within a structured framework. The Avoiders and Thinkers, in particular, reported that they found both the contributions of information from the facilitators and the experiences of Doers helpful in clarifying their ideas and filling gaps in their knowledge. This was notably the case in these discussions, concerning perceptions of business failure rates.

Focus group participants attending courses tended to rely on those courses to cover all the necessary stages of start-up. The courses themselves have a considerable amount of content to communicate, inhibiting the informal exchange of information. Yet, as noted above, information delivered face-to-face and considered personally appropriate, seems likely to be the most effective way to address concerns.

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APPENDIX 1 FOCUS GROUP SURVEY

Name:

Gender: Male/Female

Age: <25 25-34 35-44 45-49 50-54 55-60 60+

Ethnicity: White Mixed Asian/Asian British Black/ Black British Other

Please state your highest educational qualifications (circle)

No qualification GCSE/O-levels A-levels

Degree Postgraduate Degree Other

Your current employment status

Employed Unemployed Self-employed

On a self-employment training course Other (please specify)

Please indicate your current or most recent job title

Which of the following apply to you? (tick one of the following)

a) I have never thought about starting my own business

↳ **The following questions (1-7) are not applicable to you**

b) I currently run my own business

↳ **Please answer questions 1-7**

c) I have previously run my own business, but am not presently self-employed

↳ **Please answer questions 2-7**

d) I am considering starting my own business

↳ **Please answer questions 3-7**

e) I have considered, but rejected, the idea of starting my own business

↳ **Please answer questions 4-7**

1. How long has your present business been established?

<1 year; 1-2 yrs; 2-5yrs; 5 yrs+

2. If you previously ran your own business, why do you no longer do so?

3. What size is/was/will be the business?

(a) no. of employees _____ (b) sales turnover (£)

4. What factors would (or did) motivate you in setting-up a business?

5. **Business Description:** *Please describe the main activity of your business (product, service etc). or business idea...*

6. Would you consider purchasing/taking over an existing business (as opposed to start-up from scratch)? Y/N

Why would you make this decision?

7. What, in order of importance, do you (or, if currently in business, did you) consider to be the main *barriers* to your setting-up a business?

(Please feel free to list up to three)

1. _____

2. _____

3. _____

APPENDIX 2 TELEPHONE SURVEY

Q.No.		Code	Route
INTRO	<p>Please can I speak to (named respondent)?</p> <p>IF NAMED RESPONDENT IS AVAILABLE:</p> <p>Good morning/afternoon/evening, my name is from NOP Research Group. We are carrying out a survey on behalf of the “Small Business Service” an agency of the “Department of Trade and Industry”. You may remember that we spoke to you in the autumn of 2003 about your views on business. We would now like to carry out a short 10 minute follow up interview to see what you are doing now and to ascertain your views about different aspects of running a business.</p> <p>Would you be able to help us?</p> <p>ADD IF NECESSARY: ‘We are interested in your views. You do not need to be running a business to take part in the survey’.</p> <p>ADD REASSURANCES IF NECESSARY: Your answers will be treated in the strictest of confidence and your name will not be revealed in any reporting of the results. NOP Research Group is an independent research agency governed by the Market Research Society’s Code of Conduct. There will be no sales approach as a result of this call. For most people the interview will last less than 10 minutes.</p> <p>GO TO S1 (or Q1TXT if previously screened)</p>		
Q.1.	<p>ASK ALL THINKERS. OTHERS GO TO FILTER BEFORE Q.4.</p> <p>When we interviewed you in the autumn of 2003 you said that you were thinking about starting your own business or buying into an existing business or thinking about becoming self employed. Are you still thinking about this? PROBE CAREFULLY TO ASCERTAIN WHICH OF THE PRECODES RESPONDENT IS.</p> <p>IF RESPONDENT SAYS THEY WERE NOT PREVIOUSLY THINKERS ASK: ‘And can I just check if you were then or are now running your own business?’ IF YES CODE 4, IF NO CODE 5.</p> <p>INTERVIEWER NOTE: IF RESPONDENT ASKS. BUYING INTO A BUSINESS DOES NOT INCLUDE BUYING SHARES.</p> <p style="text-align: right;">Yes, this is still the case</p> <p style="text-align: right;">No, I have decided against it</p> <p style="text-align: right;">No, I have bought or stated my own business or become self employed</p> <p style="text-align: right;">No, I was not thinking of buying into an existing business or becoming self employed because I was already doing this</p> <p style="text-align: right;">No, I have never thought about starting my own business or becoming self employed</p>	<p style="text-align: center;">()</p> <p style="text-align: center;">1</p> <p style="text-align: center;">2</p> <p style="text-align: center;">3</p> <p style="text-align: center;">4</p> <p style="text-align: center;">5</p>	<p style="text-align: center;">THINKER – Q.2.</p> <p style="text-align: center;">ACTIVE AVOIDER – Q.3.</p> <p style="text-align: center;">DOER – Q.5.</p> <p style="text-align: center;">DOER – Q.5.</p> <p style="text-align: center;">Q.6.</p>
Q.2.	<p>ASK IF THINKER (Q.1 Code 1):</p> <p>And can I just check, when you say that you have thought about starting your own business, buying into an existing business or becoming self-employed is this something you would say you have? READ OUT ALL STATEMENTS – SINGLE CODE ONLY.</p> <p style="text-align: right;">Given serious thought to and which will almost certainly happen at some stage in the future</p>	<p style="text-align: center;">()</p>	<p style="text-align: center;">SERIOUS THINKERS</p>

	future	1	- Q.13
	Given serious thought to and which is likely to happen at some stage in the future	2	
	Given some thought to and which may possibly happen at some stage in the future	3	LESS SERIOUS THINKERS - Q.13.
	Not given much thought to but might like to do some day	4	
Q.3.	ASK IF PREVIOUSLY A THINKER BUT IS NOW AN ACTIVE AVOIDER (Q.1 Code 2) What stopped you from starting a business or made you decide against it? PROBE FULLY: What else? DO NOT READ OUT. ALLOW DK AND REF. CODE ALL THAT APPLY	()	
	Not having an idea for a business	01	
	Not knowing how to start and run a business, get hold of premises, equipment or staff	02	
	The amount of time or work involved/effect on domestic responsibilities or family life	03	
	Getting the finance for the business	04	
	Fear of getting into debt	05	
	Fear of adding to existing debt / not being able to keep up with repayments	06	
	The economic climate	07	
	Losing the security, income or good promotional prospects from your current job	08	
	The chance that your business might fail	09	
	Worry of insufficient sales, orders or profit	10	
	Your age	11	
	Never pursued it seriously / just a thought / never wanted to do it	12	
	Had / found a good job / was happy with my job	13	
	Continuing in education right now / The complexity of regulations relating to starting a business	14	
	Bad experience in the past / past experience	15	
	Other (SPECIFY)	16	
	-----	17	
	None of these	18	
	Don't know		

			Q.13.
	ASK ALL DOERS. OTHERS GO TO FILTER BEFORE Q.6.		
Q.4.	When we interviewed you in the autumn of 2003 you said that you owned or part owned your own business or were self employed either as your main activity or as a sideline. Please can I just check if this is still the case? IF YES CHECK: And are you self employed or running your own business? IF YES CHECK: And is this a main activity or as a sideline? IF NO LONGER IN BUSINESS CHECK: And were you self employed or running your own business?	()	
	Yes, I am running my own business as a sideline	1	DOER – BUSINESS OWNER – Q.13.
	Yes, I am running my own business as a main activity	2	
	Yes, I am self employed as a side line	3	DOER – SELF EMPLOYED – Q.13.
	Yes, I am self employed as my main business activity	4	
	No, I am no longer running my own business	5	DOER – BUSINESS OWNER – Q.4a
	No, I am no longer self employed	6	DOER – SELF EMPLOYED – Q.4a
	No, I was never a business owner or self employed	7	Q.6.

Q.4a	<p>ASK ALL DOERS WHO ARE NO LONGER ENTREPRENEURS (Q.1 Code 5 or Q.4 Codes 5 and 6)</p> <p>And please can you let me know the reasons why you feel you are no longer in business or self-employed? PROBE FULLY: And what else? UNTIL RESPONDENT HAS NO FURTHER COMMENT.</p> <p>-----</p> <p>-----</p> <p>-----</p> <p>-----</p>	<p>(-)</p> <p>Null 1</p> <p>Don't know 2</p> <p>Refused 3</p>	<p>Q.13.</p>
Q.5.	<p>ASK ALL PREVIOUS THINKERS WHO ARE NOW DOERS (Q.1 Codes 3 and 4)</p> <p>You said that you are now running your own business or that you part own your own business or that you are self employed either as your main activity or as a sideline. Please can I just clarify if</p> <p style="padding-left: 100px;">You are running your own business as a side line</p> <p style="padding-left: 100px;">You are running your own business as a main employment activity</p> <p>-----</p> <p style="padding-left: 100px;">You are self employed as a side line</p> <p style="padding-left: 100px;">You are self employed as a main employment activity</p>	<p>()</p> <p>1</p> <p>2</p> <p>3</p> <p>4</p>	<p>BUSINESS OWNING DOER – Q.13.</p> <p>DOERS SELF-EMPLOYED – Q.13</p>
Q.5a	<p>ASK ALL AVOIDERS (LABELLED FROM THE ORIGINAL SAMPLE)</p> <p>Please can I check, do you own or part own your own business either as main employment activity or as a sideline?</p> <p>IF YES: ‘And can I just check are you running your own business as a main employment activity or as a side line?’</p> <p style="padding-left: 100px;">Yes, you are running your own business as a side line</p> <p style="padding-left: 100px;">Yes, you are running your own business as a main employment activity</p> <p>-----</p> <p style="padding-left: 100px;">No, am not a business owner</p>	<p>()</p> <p>1</p> <p>2</p> <p>3</p>	<p>BUSINESS OWNING DOER – Q.13.</p> <p>Q.5b</p>

	Now / near future	1	THINKER – Q.10.
	Within the next two years or so	2	
	Further in the future	3	
	Don't know / only a vague idea	4	
	Decided against it	5	ACTIVE AVOIDER – Q.11.
Q.10.	ASK IF CLASSIFIED AS A THINKER AT Q.7 AND Q.9 (Q.7 Codes 1-4 or Q.9 Codes 1-4) – NOT Q.1 Code 1		
	And can I just check, when you say that when you say that you have thought about, starting your own business, buying into an existing business or becoming self-employed is this something you would say you have? READ OUT ALL STATEMENTS – SINGLE CODE ONLY.	()	
	Given serious thought to and which will almost certainly happen at some stage in the future	1	SERIOUS THINKERS – Q.13.
	Given serious thought to and which is likely to happen at some stage in the future	2	
	Given some thought to and which may possibly happen at some stage in the future	3	LESS SERIOUS THINKERS – Q.13.
	Not given much thought to but might like to do some day	4	
Q.11.	ALL AVOIDERS (Q.8 Code 2 or Q.9 Code 5)		
	Have you ever personally owned or part-owned a business or been self employed in the past? PROMPT. READ OUT IF NECESSARY.	()	
	No – never	1	Q.12.
	Yes - in the last year	2	
	Yes - in the last five years	3	
	Yes - in the last ten years	4	
	Yes - in the last twenty years	5	
	Yes - more than twenty years	6	
	Other (SPECIFY)		
	-----	7	
	Don't know	8	OTHER AVOIDER – Q.13.

Q.12.	<p>ALL WHO HAVE NEVER OWNED OR PART OWNED A BUSINESS OR BEEN SELF EMPLOYED IN THE PAST (Q.11 Code 1 EXCEPT IF Q.7/5 (EXCEPT IF Q.9 Code 1-4) OR Q.9/5 = ACTIVE AVOIDERS GO TO Q.13.)</p> <p>Have you EVER considered starting a business or buying into an existing business or becoming self employed?</p> <p>INTERVIEWER NOTE: THIS DOES NOT INCLUDE BUYING SHARES INTO A BUSINESS</p>	<p>()</p> <p>Yes 1</p> <p>----- No 2</p> <p>Don't know 3</p>	<p>ACTIVE AVOIDER - Q.13</p> <p>OTHER AVOIDER - Q.13.</p>
Q.13.	<p>BUSINESS IDEA</p> <p>ASK ALL</p> <p>How important do you think it is to have a new idea in order to start a business that will become successful?</p> <p>IF IMPORTANT: 'Is that fairly important or very important'?</p> <p>IF UNIMPORTANT: 'Is that fairly unimportant or very unimportant'?</p> <p>SINGLE CODE</p> <p>Very important</p> <p>Fairly important</p> <p>(DO NOT READ OUT): Neither important nor unimportant</p> <p>Fairly unimportant</p> <p>Very unimportant</p> <p>Don't know</p> <p>Null</p>	<p>()</p> <p>1</p> <p>2</p> <p>3</p> <p>4</p> <p>5</p> <p>6</p> <p>7</p>	<p>Q.14.</p>
Q.14.	<p>Do you think most business owners started a new business from scratch or do you think most took out over an existing business? SINGLE CODE</p> <p>Start from scratch</p> <p>Take over an existing business</p> <p>Other (SPECIFY)</p> <p>-----</p> <p>----- Don't know</p>	<p>()</p> <p>1</p> <p>2</p> <p>3</p> <p>----- 4</p>	<p>Q.14a</p> <p>Q.15.</p>

		Null	5	
Q.14a	<p>ASK ALL WHO GAVE AN ANSWER AT Q.14 (Codes 1-3)</p> <p>And of those people who have set up their own business what proportion of people do you think <u>have</u> started their business from scratch and what proportion of people do you think <u>took over</u> an existing business?</p> <p>(SHOW ONLY IF Q.14 Code 3): And what proportion of people <u>do you think</u> ADD IN OTHER FROM Q.14 Code 3? Please give your answer as a percentage. Please give an approximate guess. And so what proportion would you say</p> <p>INTERVIEWER NOTE: ENTER FIGURES AS A PERCENTAGE. PERCENTAGES AT Q.14a WILL NEED TO ADD UP TO 100% UNLESS RESPONDENT SAYS DON'T KNOW AT ONE OF THE OPTIONS.</p> <p>Start their business from scratch <input type="text"/><input type="text"/><input type="text"/> %</p> <p>Don't know 1</p> <p>Null 2</p> <p>Take over an existing business <input type="text"/><input type="text"/><input type="text"/> %</p> <p>Don't know 1</p> <p>Null 2</p> <p>SHOW ONLY IF CODED AT Q.14 Code 3: Specified other show text <input type="text"/><input type="text"/><input type="text"/> %</p> <p>Don't know 1</p> <p>Null 2</p>			Q.15.
Q.15.	<p>ASK ALL</p> <p>And which do you think would be more difficult to do, to start a new business from scratch or to take over an existing business? SINGLE CODE</p> <p>Start from scratch 1</p> <p>Take over an existing business 2</p> <p>Other (SPECIFY)</p> <p>----- 3</p> <p>Don't know 4</p> <p>Null 5</p>			Q.16.
Q.16.	<p>And who would you expect in general to be the most successful, people who start a new business from scratch or people who take over an existing business? SINGLE CODE</p> <p>Those who start from scratch 1</p>			

	Those who take over an existing business	2																																																							
	(DO NOT READ OUT): Both about the same	3																																																							
	Don't know	4	Q.17.																																																						
Q.17.	<p>If someone was planning to start a new business how important would each of the following kinds of preparation be in influencing whether the new business performs well or badly? READ OUT EACH IN TURN – ROTATE ORDER. SINGLE CODE.</p> <p>IF IMPORTANT ASK: And is that fairly important or very important?</p> <p>IF NOT IMPORTANT ASK: And is that fairly unimportant or very unimportant?</p>																																																								
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Q.18.	<p>Is there any other kind of preparation that you think would be very important for a business owner in helping his or her new business to perform well?</p> <p>INTERVIEWER NOTE: PLEASE ENTER NEXT FORM OF PREPARATION ON THE NEXT SCREEN. RESPONDENT ALLOWED 5 OTHERS. PROBE FULLY: What else?</p> <p>-----</p> <p>-----</p> <p>-----</p> <p>-----</p> <p>-----</p> <p>-----</p> <p>Null 1</p> <p>Don't know 2</p> <p>Refused 3</p>																																																								
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Q.19.	<p>IF TWO OR MORE CODED AS 'VERY IMPORTANT' AT Q.17 OR Q.18 ASK Q.19. OTHERS GO TO Q.20.</p> <p>You mentioned several forms of preparation that you think are important in helping a new business to perform well. Which one of these do you think would be MOST important? Would it be</p> <p>-----</p> <p>-----</p> <p>-----</p> <p>-----</p> <p style="text-align: right;">Null 1</p> <p style="text-align: right;">Don't know 2</p> <p style="text-align: right;">Refused 3</p>	<p>()</p> <p>(-)</p>	<p>Q.20.</p>
Q.20.	<p>ASK ALL</p> <p>Have you, or have any friends or family members, set up in business, or tried to, in the last year or so?</p> <p style="text-align: right;">Yes – respondent 1</p> <p style="text-align: right;">Yes – only friends or family 2</p> <p style="text-align: right;">Both 3</p> <p style="text-align: right;">-----</p> <p style="text-align: right;">No 4</p> <p style="text-align: right;">Don't know 5</p>	<p>()</p>	<p>Q.21.</p> <p>Q.23.</p>
Q.21.	<p>ASK ALL CODED 1-3 AT Q.20:</p> <p>Did you/they try to get a bank loan to set up this business?</p> <p style="text-align: right;">Yes, respondent 1</p> <p style="text-align: right;">-----</p> <p style="text-align: right;">Yes, only friends or family 2</p> <p style="text-align: right;">-----</p> <p style="text-align: right;">Yes both 3</p> <p style="text-align: right;">-----</p> <p style="text-align: right;">No 4</p>	<p>()</p>	<p>Q.22.</p> <p>Q.22a</p> <p>Q.22.</p> <p>Q.23.</p>
Q.22.	<p>IF CODE 1 AND 3 AT Q.21. OTHERS GO TO Q.23.</p> <p>How easy or difficult did you find it to get a bank loan to set up this business? Was it ..</p> <p>ADD IF NECESSARY: Think about the most recent time you applied for a bank loan</p>		

	to set up a business.		()	
		Very easy	1	
		Fairly easy	2	
		Fairly difficult	3	
		Very difficult	4	
		Don't know	5	Q.23.
Q.22a	IF CODE 2 AT Q.21. OTHERS GO TO Q.23. How easy or difficult did they find it to get a bank loan to set up this business? Was it .. ADD IF NECESSARY: Please answer for the most recent experience of either your friend of a family member applying for a business loan.		()	
		Very easy	1	
		Fairly easy	2	
		Fairly difficult	3	
		Very difficult	4	
		Don't know	5	Q.23.
Q.23.	ASK ALL Supposing you were to try to set up in business in the next six months, how easy or difficult would you expect it would be to get a business loan from a high street bank?		()	
		Very easy	1	
		Fairly easy	2	
		Fairly difficult	3	
		Very difficult	4	
		Don't know	5	Q.23a
Q.23a	And what proportion of applicants who apply for a business loan from a high street bank would you expect to be successful? Please given an approximate guess. READ OUT:		()	
		Around one in ten	1	
		About a quarter	2	
		Around half	3	

		Around three quarters	4																																																		
		Nearly all, that is more than 9 out of 10	5																																																		
		Don't know	6																																																		
		Null	7	Q.24.																																																	
Q.24.	<p>How much do you agree with the following statements? READ OUT – ROTATE ORDER. SINGLE CODE ONLY FOR EACH STATEMENT. IF AGREE ASK: And is that agree slightly or strongly? IF DISAGREE ASK: And is that disagree slightly or strongly?</p> <table border="1"> <thead> <tr> <th></th> <th>Agree strongly</th> <th>Agree slightly</th> <th>Neither agree nor disagree</th> <th>Disagree slightly</th> <th>Disagree strongly</th> <th>Don't know</th> <th></th> </tr> </thead> <tbody> <tr> <td>If I wanted to start a new business it would be relatively easy to get a grant or a loan provided by the Government or by my local authority to assist me</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> <td>6</td> <td>()</td> </tr> <tr> <td>There's far too much bureaucracy and red tape involved in running a small businesses</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> <td>6</td> <td>()</td> </tr> <tr> <td>It's hard to organise a decent pension if you're running a small business</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> <td>6</td> <td>()</td> </tr> <tr> <td>There are currently tax advantages to being self-employed</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> <td>6</td> <td>()</td> </tr> <tr> <td>If I started a new business it would not take up more time than working a full-time job of 35 hours per week</td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> <td>6</td> <td>()</td> </tr> </tbody> </table>				Agree strongly	Agree slightly	Neither agree nor disagree	Disagree slightly	Disagree strongly	Don't know		If I wanted to start a new business it would be relatively easy to get a grant or a loan provided by the Government or by my local authority to assist me	1	2	3	4	5	6	()	There's far too much bureaucracy and red tape involved in running a small businesses	1	2	3	4	5	6	()	It's hard to organise a decent pension if you're running a small business	1	2	3	4	5	6	()	There are currently tax advantages to being self-employed	1	2	3	4	5	6	()	If I started a new business it would not take up more time than working a full-time job of 35 hours per week	1	2	3	4	5	6	()		SEE BELOW
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Q.24a	<p>ASK ALL THINKERS (Q.1 Code 1 or Q.7 Code 1-4 or Q.9 Code 1-4) AND AVOIDERS (Q.1 Code 2 or Q.8 Code 2 or Q.9 Code 5). OTHERS GO TO FILTER AT Q.24b</p> <p>If someone running their own business works for 40 hours a week, how many hours out of those 40 do you think he or she has to spend dealing with government paper work and regulations? Please give an approximate guess. ALLOW RANGE 0-40.</p> <p>Hours: <input type="text"/> <input type="text"/></p> <p>Don't know 1</p> <p>Null 2</p>				SEE BELOW																																																
Q.24b	<p>ASK ALL DOERS (Q.1 Code 3/4 or Q.4 Code 1-6 or Q.5a Code 1 or 2 or Q.5b Code 1 or 2). OTHERS GO TO FILTER BEFORE Q.25.</p> <p>How many hours in an average week do you think you spend dealing with Government paperwork and regulations? Please give an approximate guess.</p> <p>ADD IF NECESSARY: And can I just check that is all on Government Paper work? ALLOW RANGE 0-999</p> <p>Hours: <input type="text"/> <input type="text"/> <input type="text"/></p>			()																																																	

		Don't know	1	SEE BELOW
		Null	2	
	ASK ALL THINKERS (Q.1 Code 1 or Q.7 Code 1-4 or Q.9 Code 1-4). OTHERS GO TO FILTER BEFORE Q.27.			
Q.25.	If you were to set up a business, how long do you think it would take to set up, that is from when you had your original idea or decided to do it to the time you actually started trading? PROBE TO PRECODES. SINGLE CODE.		()	
	Six months or less		1	
	More than six months but not more than a year		2	
	More than a year but not more than two years		3	
	More than two years		4	
	Don't know		5	SEE BELOW
	ASK ALL DOERS (Q.1 Code 3/4 or Q.4 Code 1-6 or Q.5a Code 1 or 2 or Q.5b Code 1 or 2). OTHERS GO TO Q.28.			
Q.27.	When you set up your business, how long did it take to set up, that us from when you had your original idea to the time you actually started trading? PROBE TO PRECODES.		()	
	Six months or less		1	
	More than six months but not more than a year		2	
	More than a year but not more than two years		3	
	More than two years		4	
	Don't know		5	Q.28.
	FAILURE RATES			
Q.28.	ASK ALL What proportion of new businesses would you expect to fail in their first year after start up? Please give an approximate guess. Would you think it was? READ OUT. SINGLE CODE. IF 'DON'T KNOW' PROBE FOR BEST ESTIMATE.		()	
	Around 5%		1	
	Around 10%		2	
	Around a quarter		3	
	Around half		4	
	Around three quarters		5	
	Nearly all, that is more than 9 out of 10		6	
	Don't know		7	
	Null		8	Q.29.

Q.29.	<p>And what proportion of new businesses would you expect to be still running 3 years after they set up? Please give an approximate guess. Would you think it was? READ OUT. SINGLE CODE. IF 'DON'T KNOW' PROBE FOR BEST ESTIMATE.</p> <p style="text-align: right;">Around 25% 1</p> <p style="text-align: right;">Around 35% 2</p> <p style="text-align: right;">Around 50% 3</p> <p style="text-align: right;">Around 65% 4</p> <p style="text-align: right;">Around 75% 5</p> <p style="text-align: right;">No idea 6</p>	()	SEE BELOW
Q.30.	<p>ASK Q.30 OF ALL EXCEPT THOSE CODED '1' AT Q.28 AND '4' OR '5' AT Q.29. OTHERS GO TO Q.32.</p> <p>In actual fact around 10% of new businesses fail in their first year. This means that out of every 10 businesses which start up one will fail in its first year. Three years after they were initially set up 65% of new businesses – around 2 out of every 3 – are still running. Does this make you feel more positive about starting your own business, or does it make no difference? SINGLE CODE</p> <p style="text-align: right;">Much more positive 1</p> <p style="text-align: right;">Slightly more positive 2</p> <p style="text-align: right;">(DO NOT READ OUT): No different 3</p> <p style="text-align: right;">I still would not set up my own business 4</p> <p style="text-align: right;">Don't know 5</p>	()	

Q.32.	ASK ALL									
	Business can fail for a wide variety of reasons, and of course not all businesses that cease trading should be presumed to be failures. But for those businesses which do fail, how important do you think each of the following reasons might be?									
	IF IMPORTANT ASK: And is that fairly important or very important?									
	IF NOT IMPORTANT ASK: And is that fairly unimportant or very unimportant?									
	PROMPT IF NECESSARY: And is that an important or unimportant reason why a business might fail? READ OUT – ROTATE ORDER.									
		Very important	Fairly important	Neither important nor unimportant	Fairly unimportant	Very unimportant	Don't know	Null		
	Not having enough money at the start	1	2	3	4	5	6	7		()
	There being no market for the product or service	1	2	3	4	5	6	7		()
	Poor quality of the product or service	1	2	3	4	5	6	7		()
Not having a proper business plan	1	2	3	4	5	6	7	()		
Too much competition	1	2	3	4	5	6	7	()		
Not being able to get a big enough loan	1	2	3	4	5	6	7	()		
Too much red tape and bureaucracy	1	2	3	4	5	6	7	()		

APPENDIX 3 DBS FOCUS GROUP PROFILES

Table A1 Standard Occupational Classification

SOC Major	Female	Male	Total
Senior Managers	1%	6%	4%
Professionals	9%	22%	16%
Associate Professionals	18%	17%	17%
Clerical admin.	20%	5%	12%
Skilled trades	3%	12%	8%
Personal services	16%	3%	9%
Sales & customer services	5%	6%	6%
Plant & machine operatives	0%	4%	2%
Elementary	4%	8%	6%
Not classified	24%	16%	20%
Total numbers	79	99	178

Table A2 Highest Qualification of participants

Highest qualification	Frequency	Percentage
No qualification	18	10%
GCSEs	47	26%
A-levels	40	22%
Degree	53	30%
Postgraduate degree	18	10%
Not known	2	1%

Table A3 Employment Status

	Female	Male	Total
Employed	29%	21%	25%
Unemployed	18%	32%	26%
Self employed	16%	16%	16%
Employed and self-employed	5%	2%	3%
Employed, on a self-employment training course	4%	1%	2%
Unemployed, on a self employment training course	28%	27%	28%

Authors: Durham Business School

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Paul Braidford
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Ian Stone

This document can be accessed online at www.sbs.gov.uk/analytical

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The views expressed in this report are the authors' and do not necessarily reflect those of the Small Business Service or the Government.

