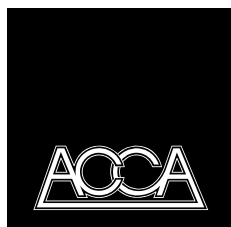




financial challenges facing graduate entrepreneurship

REPORT OF THE SEMINAR 22 JUNE 2004



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financial challenges facing graduate entrepreneurship:
report of the seminar 22 June 2004

Financial challenges facing graduate entrepreneurship

THE REPORT

This report aims to provide a record of the main points emerging from the seminar staged on 22 June 2004 by ACCA, with support from the National Council for Graduate Entrepreneurship (NCGE). It seeks to reflect on the thoughts, concerns and pertinent questions raised by speakers and delegates during the event.

THE ISSUE

Research indicates that graduates are one of the most entrepreneurial groups of people and that nearly half of all undergraduates would consider setting up their own business after university. There is, however, a significant mismatch between this research and the number who actually go on to set up in business. What are the reasons for this? Could student debt act as a barrier? While student debt is increasing year on year and the number of student bankruptcies more than tripled between 2002 and 2003, financial challenges may be just one of the many barriers graduates face when setting up in business.¹

THE KEY MESSAGES

The key messages were:

- There is evidence to suggest that the sharp increase in student debt since 2000 has had a negative impact on the graduate start-up market.
- There is concern that graduate entrepreneurship will suffer as a result of further increases in student debt, given the introduction of top-up fees post-2006.

- Finance and student debt should not be considered in isolation - resources, support, motivation and confidence are equally important factors which affect the decision and ability to start up a business.
- There is a lack of understanding about the processes and influences which affect students and graduates' career choices and, therefore, thorough research to identify the processes should be conducted.
- Banks can play a key role in developing solutions for graduates which could include debt counselling, business and finance education and the introduction of a finance scheme similar to the Small Firms Loan Guarantee (SFLG).
- The new NCGE should set itself a brokerage role with accountants, business support organisations, banks and Government departments and agencies, to ensure that there are joined-up policies and initiatives.
- Universities and regional development policies can promote entrepreneurship by taking a holistic, multi-dimensional and 'soft-sell' approach.

THE DELEGATES

The audience of 60 invited individuals represented key stakeholders from the academic world, professional service providers, Government departments and agencies, national agencies supporting entrepreneurship, and business support practitioners.

¹ 'Key indicators', which empirically support statements made, are listed on pages 10–11.

THE PROGRAMME

Chaired by Professor Robin Jarvis, Head of Small Business ACCA, the programme began with a series of presentations and case studies. A panel discussion included questions and observations from the invited audience. The conclusions session identified the main issues from the seminar and posed a series of pertinent questions.

Presentations

Presentations were delivered by:

- Professor Robert Blackburn, Director of Research, Kingston Business School and HSBC Professor of Small Business
- Tim Evans, Project Manager, National Council for Graduate Entrepreneurship
- Martyn Robertson, Head of Business Start-up, Leeds Metropolitan University
- Dr Richard Roberts, Head of SME Research, Barclays Bank
- Sue Morgan, Entrepreneur Action Plan (EAP) Education Manager, Welsh Development Agency

Case studies

Graduate entrepreneurs, Charlie Osmond, Founder and Co-managing Director, Fresh Minds, and Charlotte Bram, Founder, Therapy Coffee Bar and Therapy Communications, each made a short presentation of their experiences before taking questions from the audience.

Panel discussion

The panel discussion was chaired by Professor Robin Jarvis with:

- Bill Hallahan, Senior Policy Adviser – Business Start-Ups, Small Business Service
- Hannah Essex, Vice-President, National Union of Students (NUS)
- Professor Paul Hannon, Professor of Incubation and Enterprise at the University of Central England in Birmingham, and the Institute of Small Business Affairs Enterprise Education Group
- Dr Richard Roberts, Head of SME Research, Barclays Bank
- Sue Morgan, EAP Education Manager, Welsh Development Agency

Conclusions

The conclusions from the event were collated and presented by Professor Hannon.

Summary of the presentations

The summary outlines interesting issues discussed by the presenters. Full copies of the presentations can be accessed at www.accaglobal.com/smallbusiness/ge04

PROFESSOR ROBERT BLACKBURN, 'THE FUTURE OF GRADUATES IN BUSINESS: OPPORTUNITIES AND THREATS'

The presentation aimed to provide a context for the day by identifying the scale and importance of graduate enterprise, profiling student life and the implications for graduate business ownership. It discussed the potential opportunities and threats emerging from the new regime of higher education (HE) funding.

- The main challenge to address as a result of increasing levels of student debt will be on attitudes both of graduates and financiers to starting an enterprise. For example, to what extent will accumulated debt pose a barrier to potential funding bodies when assessing a graduate's start-up business loan?
- Students are not a homogeneous group. There will be significant variations in debt between different students, backgrounds, locations and courses.
- The effect of increased levels of student debt may affect behaviour. This could have both a potentially positive and negative effect on graduate entrepreneurship. Students may choose to stay at home and therefore have less exposure to new environments, consequently becoming more risk adverse and possibly less entrepreneurial. At the same time, students will be more likely to have work experience in order to fund themselves through university, which may have a positive effect on entrepreneurship.

- There is a picture of uncertainty for the graduate start-up market, as graduates will enter the labour market with higher levels of debt. Will the requirement to pay off debt stimulate an employee (as opposed to a business-owning) culture?

TIM EVANS, 'NATIONAL COUNCIL FOR GRADUATE ENTREPRENEURSHIP'

Tim Evans discussed the reasons why the NCGE has been established, its role, progress to date and key priorities for the new organisation.

- There is a significant gap between the number of graduates who want to set up in business and those who actually go on to set up in business. There appears to be a great deal of interest in business start-up but this needs to be cultivated and assisted to reach fruition.
- The NCGE will aim to raise the profile of entrepreneurship and starting a business within higher education institutions and, by building on best practice, will aim to increase the number of students and graduates who give serious thought to start-up in business.
- Promoting entrepreneurship, improving understanding of the issues, helping organisations to work together and influencing policy and delivery, will be the key priorities for the NCGE.
- The NCGE is the first UK Government-sponsored national agency for graduate entrepreneurship. It was established with support from the Department of Trade and Industry (DTI) Small Business Service (SBS) and the Department for Education and Skills (DfES).

MARTYN ROBERTSON, 'UNIVERSITY PROGRAMMES AND INITIATIVES FOR GRADUATES TO GAIN ACCESS TO FINANCE AND RESOURCES'

The presentation demonstrated how a university programme, run at Leeds Metropolitan University, has introduced a range of measures and initiatives to help students think about entrepreneurship as a career choice and assist them to address the challenges of gaining access to finance and resources.

- 'Business start-up @ Leeds Met' aims to adopt a holistic approach to entrepreneurial studies to promote creativity and innovation. The programme 'soft sells' student entrepreneurship within higher education, both to students and academics.
- Music road shows, 'bar wars' events and Student Union sports club officer training are just a number of initiatives which are used to promote entrepreneurship. The programme aims to point out to students that if they can run a sports club or a bar, then they have many of the skills required to run a business.
- Research by 'Business start-up @ Leeds Met' has revealed that aspirant entrepreneurs generally come from family-owned businesses, have had some sort of entrepreneurial education at university, are taking a 'creative' degree in the arts/ design faculties and have parental support (emotional and/or financial) for their chosen career as an entrepreneur.
- Feasibility study grants, committed bank managers on board the programme, on-site advisers who access finance and business incubation packages can address the problems of accessing finance and resources. Students who are determined to start a business can usually access finance and resources by thinking creatively; a student may have significant debts but he or she might also have a computer or car which can help to start up a business.

- Finance, or rather access to finance, is a problem for aspirant graduate entrepreneurs. Equally important are resources and support, motivation, confidence and ability.

DR RICHARD ROBERTS 'CURRENT AND FUTURE TRENDS IN GRADUATE ENTERPRISE – A BANKING PERSPECTIVE'

Richard Roberts provided a review of current trends in graduate start-up businesses and funding. He discussed future developments and the possible role of the banking sector.

- There is some evidence that the sharp increase in debt since 2000 may have already taken the 'edge off' the graduate start-up market. There is concern that post-2006, with changes to higher education (HE) funding, there will be an even greater effect on the graduate start-up market. Average levels of graduate debt after the changes to funding in 2006 are estimated to be in the region of £20,000–£30,000.
- The sources of start-up funding for graduate businesses mirror that of 'non-graduate' sources of start-up finance, with personal sources of finance rather than bank finance funding most business start-ups. If traditional sources of finance are exhausted by graduates (as they have increased levels of student debt and resources from parents may also become depleted) then there will be an equity gap which the banks may not necessarily be able to fill.
- Student debt is emerging as a significant issue in New Zealand. There have been debate and calls requesting that banks ignore the student debt when providing finance. A recent ruling by the New Zealand Banking Ombudsman, however, stated that student debt should be taken into account.

- Banks will have a role to play in developing solutions to the challenges posed by student debt and the effect this has on graduate entrepreneurship. Banks may well support more debt counselling, encourage increased awareness of business and financial issues among graduates and perhaps work with Government and intermediaries to introduce new schemes which take the special needs of graduates into account, such as a graduate version of the Small Firms Loan Guarantee (SFLG).

SUE MORGAN, 'WHAT BUSINESS SUPPORT ORGANISATIONS CAN DO – SUPPORT FOR GRADUATE ENTREPRENEURS IN WALES'

Sue provided an outline of the Entrepreneurship Action Plan for Wales which underpins the various programmes introduced to support entrepreneurship generally and that of young people and graduates, in particular.

- The graduate programmes are one of a range of actions and initiatives to change attitudes, embed entrepreneurship education and stimulate entrepreneurial behaviour in Wales. A plethora of media campaigns, events, guides and publications aims to change attitudes and promote entrepreneurship. The multi-dimensional approach aims to engage individuals in entrepreneurship across all ages and groups.
- The Knowledge Exploitation Fund focuses on cultural change, skill levels and commercialisation of ideas developed in further education (FE) and higher education (HE) institutions. The Entrepreneurship Scholarship Programme provides bursaries for those starting up in business.
- The Young Enterprise Graduate Programme provides students aged 18–25 with an opportunity to experience running their own business and 'entrepreneurship'. Students participate either as part of their degree course or on a voluntary basis.

Between 2003–04, 118 students from HE and FE institutions participated and established 30 companies.

- The Graduating to Enterprise Programme (G2E) is available to anyone who has been involved in HE or FE and would like to start a business. Since 1999, over 4,000 students have participated in the programme. Between 2003 and 2004, 143 people set up in business and 1,433 students registered on G2E.
- According to the *Higher Education Business Interaction Survey 2001–2002*, 19% of total UK graduate start-up businesses are in Wales. With just 5% of the population, Wales has proportionately the highest level of graduate start-ups in the UK.

THE CASE STUDIES: CHARLIE OSMOND, FOUNDER AND CO-MANAGING DIRECTOR, FRESH MINDS, AND CHARLOTTE BRAM, FOUNDER, THERAPY COFFEE BAR AND THERAPY COMMUNICATIONS

The speakers outlined their experience of starting their businesses which included the following points.

- The keys to success when starting up in business are to gain skills and experience and make important contacts.
- Working in a business is a useful incubation process for thinking about how to go on and do it oneself.
- At graduation most students have less commitments and a great opportunity to have a go – what is there to lose? It becomes more difficult later on, when one has other responsibilities.
- Student debt was an issue for one case study in terms of getting a business start-up loan, but although a number of banks refused loans, one bank did grant a loan despite the debt.

Main themes of the seminar

ARE THERE FINANCIAL CHALLENGES FACING GRADUATE ENTREPRENEURSHIP?

The effect of increases of student debt for lenders

Most entrepreneurs start their businesses with personal sources of finance. Dr Richard Roberts, Barclays Bank, demonstrated that the sources of start-up funding for graduates mirror that of 'non-graduate' start-up business finance. If traditional sources of start-up finance – personal finance and money from friends and family – are exhausted, then there is an equity gap. Banks will not be able to provide this finance and so this equity gap could affect the graduate start-up market.

Will large levels of student debt affect the bank's decision as regards approving a business loan? The Government should work with the banking sector to develop schemes and initiatives to deal with any challenges that the graduate start-up sector may face when accessing finance. Deferral schemes for repayment of student loans for graduate entrepreneurs until turnover reaches a substantial level, of say £30,000, could be introduced to support this sector, as could a graduate entrepreneur version of the SFLG.

The effect of increases of student debt for students

How will entrepreneurial students respond to the increases in student debt and will different students respond differently? Higher levels of debt may be a barrier in terms of aspirations, with students and their parents seeing the attractions of salaried work rather than those of becoming an entrepreneur. Although the Government's student loan scheme does not have to be repaid until certain income levels are achieved, students now have a mix of debt, which not only includes student loans, but overdrafts, bank loans and credit card debt, which require prompt repayment. Not only the level, but the type of student debt should be examined in further detail.

A number of commentators argue, however, that those with the drive, motivation and a sound business idea will always find finance. Finance is one of the many factors which affect a business start-up – mind-set and attitude are equally important. Finance cannot be considered in isolation when discussing entrepreneurship.

PRIORITIES FOR THE NATIONAL COUNCIL FOR GRADUATE ENTREPRENEURSHIP

The Chair asked the panel and the invited audience to identify priorities for the NCGE. These were:

- Understanding and influencing are two critical processes. NCGE will need to be clear about how its impact will be measured. What difference will NCGE have made during the next 5–10 years? It will be important to set such time horizons to allow for time lags.
- The NCGE should facilitate and drive dialogue between DfES/DTI and other Government departments and agencies at all levels. There is evidence of policy conflict that needs to be recognised and resolved. NCGE has a critical role in shaping joined-up policy.
- The NCGE should be demand driven and therefore have an important role in making connections with students and graduates, directly and through student bodies and initiatives. It should direct students to the finance channels available to them.
- The NCGE has a clear brokerage role with banks and other professional service providers to influence thinking and the development of initiatives.

Conclusions

Is there a financial challenge for graduate entrepreneurs? Will mounting student debt inhibit the growth of graduate entrepreneurship? Experts conclude that we do not yet know all the answers nor do we fully understand the processes and influences on graduate entrepreneurship and how these change over time and across different contexts. It is clear from the seminar, however, that the specific financial challenges which face potential graduate entrepreneurs must be examined and addressed if this important sector is to be supported and encouraged to be entrepreneurial.

There is a philosophical question about education and the value of universities which should be answered, as this will in turn, shape the policies to encourage graduate entrepreneurship. Should students embark on university seeing it as a means to get a good job, to engage with student life and gain broad life experience or as a means to develop entrepreneurial skills to set up a business?

There are likely to be many challenges ahead in enhancing the graduate start-up sector. This is still a new, emerging market and all stakeholders are still learning about how it works and how to influence processes and outcomes. The development of any initiatives must be demand led rather than supply driven, working with students, their educators and their families.

Key indicators

The Key indicators provide empirical evidence and data to support statements made throughout the seminar report. Information in this section was highlighted during the seminar.

LEVELS OF STUDENT DEBT

Barclays Bank figures show that graduates left university with average debts of £10,997 in 2002 and this figure is expected to be reported as £12,500 for 2003.

81% of total debt is owed to the Student Loans Company, with the average now owed at £9,192. Average debt to the banks remained consistent, only declining slightly from £2,187 in 2001 to £2,148 in 2002. Debts owed to credit cards increased from £760 in 2001 to £903 in 2002.

INDICATORS THAT STUDENT DEBT IS AN ISSUE WHEN STARTING UP A BUSINESS

'Business start-up support for young adults delivered by the Prince's Trust: a comparative study of labour market outcomes', by Meager, Bates and Cowling (2003), demonstrated that over a third of the Prince's Trust clients were educated to first-degree level or higher. The Prince's Trust is the UK's leading charity for young people; the business programme targets 18-30 year olds who are unemployed, educational under-achievers and ex-offenders, to help them start their own business. Before receiving Trust funding, applicants must have been refused funding from other sources.

Both the Global Entrepreneurship Monitor (GEM) data and the Small Business Service (SBS) Household Survey recognise that there is a strong underlying fear of debt. According to the Household Survey the main barriers to entrepreneurial activity are financial. Around half of those not currently in business and would-be entrepreneurs are afraid of debt, are not sure they

could get the finances together and/or are afraid that things might not work out.

GEM 2003 demonstrated that 'Education continues to be an important driver of entrepreneurship, although interestingly, entrepreneurship among those with university degrees fell between 2002 and 2003'.

DESIRE FOR GRADUATES TO BECOME ENTREPRENEURS

NatWest survey 2003 stated that, 'Nearly half of all undergraduates would consider setting up their own business after university'.

GEM data 2001 demonstrate that higher levels of education are associated with more participation in entrepreneurship.

LEVELS OF GRADUATE ENTREPRENEURSHIP

The SBS Household Survey 2001 found that although graduates are more likely than non-graduates to be self employed, only 4% of young graduates (aged under 30) are self-employed, with 83% working as employees.

According to the Higher Education Statistics Agency (HESA) First Destinations Survey 2001/2002, 1.4% of graduates went into self-employment (with 62.8% moving into employment).

