

Nascent Graduate Entrepreneurs

A National Council for Graduate Entrepreneurship (NCGE) report exploring the impact of student debt on graduates' plans to set up a business.

Supported by Barclays Bank*

The National Council for Graduate Entrepreneurship (NCGE) is an independent organisation whose aim is to raise the profile of graduate entrepreneurship and increase the number of students and graduates (within five years of graduation) seriously considering engaging in business start-up in all its forms, including self employment.

Nascent Graduate Entrepreneurs

Foreword

Student debt is a fact of life and is expected to increase as university fees are introduced in England in 2006. The level of debt is now approaching, on average, £12k per student on graduation and is forecast to increase.

As a new generation of students emerges with an expectation of considerable debt upon graduation, so their concerns relating to debt appear to have decreased. The availability of the Student Loan, and the proven earnings differential offered by a degree, have perhaps helped in this respect.

But there are inevitably casualties from an increasing debt ridden graduate population and entrepreneurial flair and spirit may well have been expected to be one of them: will our graduates really risk further financial strain by setting up in business?

Surprisingly, the answer is yes, they will.

'Nascent Graduate Entrepreneurs' paints a picture of graduates anxious to reduce the burden of debt, but not at the expense of their enterprise dreams. If anything, it is postgraduate education recruitment that is most at risk as graduates clearly aim to work off their debts either by creating their own enterprise or through salaried employment, and it is further study that will take a back seat for a while.

This report confirms that the challenge to NCGE, HEIs and government is to nurture the enterprise flair expressed in year one of higher education, through to the final year and beyond. This means recognising, encouraging and rewarding students and graduates whose fledgling enterprises could be success stories and an inspiration to the next generation of graduate entrepreneurs.

Ian Robertson
Chief Executive

National Council for Graduate Entrepreneurship

1. Methodology

The research was conducted by NOP on behalf of Barclays Bank and the National Council for Graduate Entrepreneurship (NCGE) between 31 May 2005 – 7 June 2005 among 2,005 current students; 668 interviews with students in the first year of their study, 583 in their second year, 561 in their third year and 193 in their fourth or subsequent year of study.

Barclays has undertaken a survey of student debt for several years and this research is part of this ongoing body of work.

2. Background

In the final term of the 2004/5 academic year the average student expected to graduate with a debt of £11,900. Ten years ago this figure stood at around £3,400. Is the level of student debt now stopping students from setting up their own businesses?

The NCGE funded an extension of the Barclays study of the student cohort of 2005 to allow a more detailed investigation into whether student debt is affecting future career plans – and in particular their plans to set up a business.

* The NCGE funded an extension of the longstanding Barclays Report into Graduate Debt in 2005 to examine the links to entrepreneurship. Copies of the Barclays reports can be accessed at www.barclays.com

3. Summary of findings

There is no evidence from this research that student debt is causing fewer students to set up in business. While students are concerned about their levels of debt, this concern does not cause them to abandon their plans to set up their own businesses.

This survey suggests that the main effect of student debt is to curtail plans to continue education, to start paid employment sooner or to take a gap year to review options.

Starting up in business is a serious intention for about a third of all students who would consider doing this at some stage in their lives, and which around four per cent would like to do immediately after graduating.

This small core of students who have immediate plans to set up in business do not feel constrained by their debts and are if anything motivated by their debts to strike out and work for themselves after graduating.

4. Conclusions

This report offers good news. Student debt is not likely to dampen the entrepreneurial spirit in English universities, at least at the point of tuition fees being introduced in 2006. However, the report does show that the future execution of student entrepreneurial plans is likely to be dampened as students consider scaling down their ventures or undertaking alternative income-generating activities to firstly pay off their student debt.

The need to pay off debt before starting a new venture may be symptomatic of misperceptions about the nature of debt repayments to the Student Loan Company. There may be emerging myths that will need to be dispelled. The issue of student debt and its potential impact on graduate entrepreneurship has yet to be fully understood.

This report provides a number of initial insights from which conclusions can be drawn:

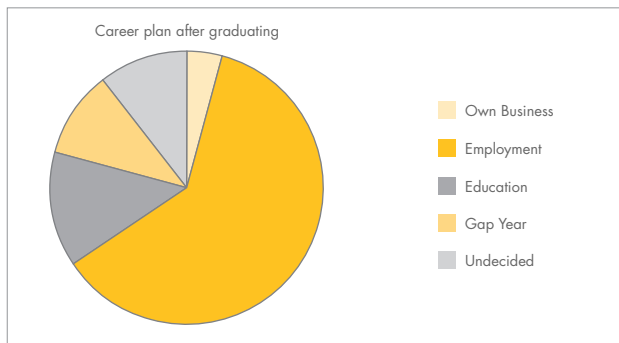
- 1 Clearly changes to perceptions and actual start-up rates of new graduate ventures need to be monitored from this point forward, particularly the potential for effects on economic growth. Monitoring differentiations in effects across subjects and sectors will be important.
- 2 Students need to clearly understand the conditions for debt repayment to the Student Loan Company with informative examples and specific cases of debt management for those students considering setting up their own ventures.
- 3 Students who feel that future plans are likely to be affected by debt, by deferring or scaling back, need to be identified by universities and further supported through relevant careers advice and the building of personal debt management capability.
- 4 Access to traditional debt finance from banks by aspiring graduate entrepreneurs will need to be monitored to check for any effects of student debt on bank lending decisions for financing new graduate start-ups. The Small Business Service (SBS) and Her Majesty's Treasury (HMT) should consider looking at opportunities for targeted intervention in this area if required e.g. through a modified Small Firm Loan Guarantee Scheme (SFLGS.)
- 5 The drop in student entrepreneurial aspirations from university entry to exit requires further investigation to understand key influencing factors.
- 6 Positive role models and exemplars need to be presented in the media to help dispel any myths about the negative effects of debt on graduate entrepreneurship.

5. Detailed Results

5.1. Student business and career expectations

In the last term of the 2004/5 academic year, four per cent of all undergraduates had a career plan that envisaged setting up a business immediately after they finished university.

Career plans



Base: all students

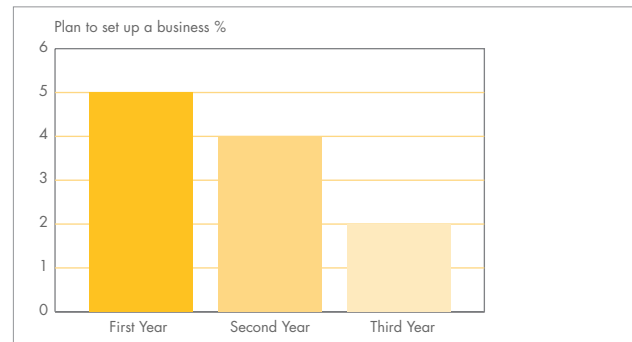
For the majority of students, 59 per cent, their career plan was to get a job, while the second most popular direction was to continue studying with 13 per cent choosing this route.

Taking a gap year was the preferred option for ten per cent of students, and the same proportion admitted that they were undecided about their future career plans.

5.2. Changes in career plans while studying

Although overall four per cent of students say their career plan is to set up their own business, the figure varies from five per cent of all students in their first year of study to two per cent of students in their third or final year of study. Clearly this can be affected by a number of factors: level of experience and education, exposure to entrepreneurship, peer pressures, careers advice, media influences and changing attitudes towards risk and debt.

Career plans by year of study



Base: all students

The longer a student studies, the less likely they are to plan to set up in business.

The key question here is whether this change over a period of time is a consequence of the individual's level of debt or not, assuming that the debt increases with every year of study.

	Own Business %	Employment %	Education %	Gap Year %	Undecided %
Overall	4	63	13	10	10
Male	5	63	13	11	8
Female	3	62	14	9	11
First Year	5	60	13	10	11
Second Year	4	58	16	11	10
Third Year	2	78	9	5	6
Further Year	2	78	9	5	6
No debt	4	59	18	9	10
Small dept	4	62	13	10	11
Large debt	4	65	12	10	8

Base: all students

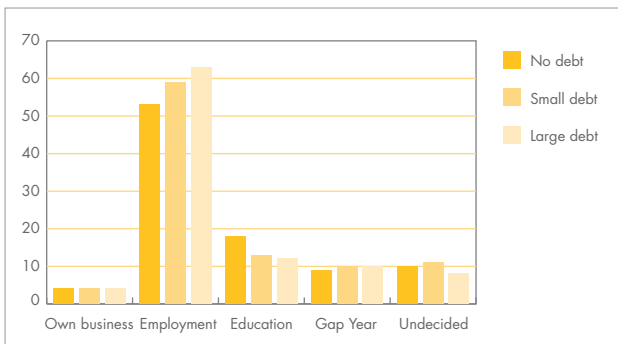
5.3. Size of debt and career plans

The following information suggests that debt is not the influencing factor in making students less interested in setting up their own business.

The median level of debt held at the time of interview by those with a small debt was £4,240 whilst the median for large debt was £11,133.

This chart shows that the desire to set up a business remains the same regardless of students' levels of debt. By contrast the intention to continue studying seems to decrease as levels of debt increase; the desire to start work straight away increases with increasing debt.

Career plans by level of debt



Base: all students

These figures suggest very strongly that the main effect of increasing levels of debt is to make students less likely to continue studying and more likely to enter paid employment as soon as possible.

5.4. Debt and long term business plans

We have seen that those students who hope to set up in business immediately after graduating are a small and distinct group within every year group.

However there is a much larger group of students who are attracted by the idea of setting up in business at some stage in the future; it seems that the student body is divided into those who would consider running their own business, and those for whom the idea is quite unappealing.

I would possibly consider setting up my own business alone or with others in the foreseeable future	38%
I cannot envisage setting up my own business alone or with others in the foreseeable future	32%
I would seriously consider setting up my own business alone or with others at some point in the future	29%

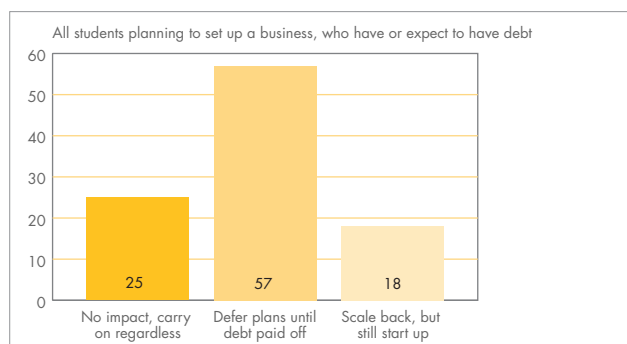
Base: all students

We asked the question directly of those individuals who did want to set up their own business either immediately on graduating or at some stage in the future, and who had or expected to have debts by the time they graduated, about the effect they felt their debt would have on their plans to set up in business.

The results below show that for the majority of these students, 57 per cent, their debt would cause them to defer or scale back their plans without eroding their essential desire to set up their own business.

A quarter of students held even stronger views about debt and their business plans, saying that their debt would have no impact and they would carry on with their business plans regardless of their student debts.

Effect of student debt on business plans

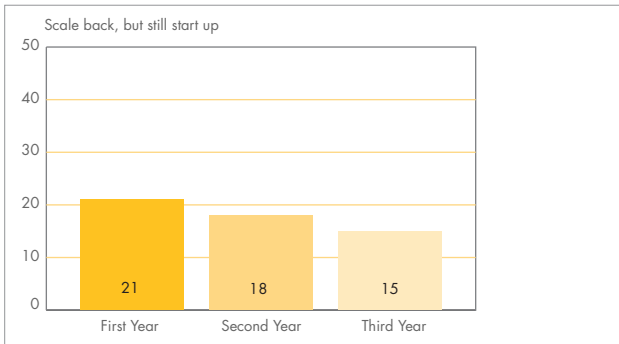


Base: all students who would ever consider setting up in business and who anticipate having debts

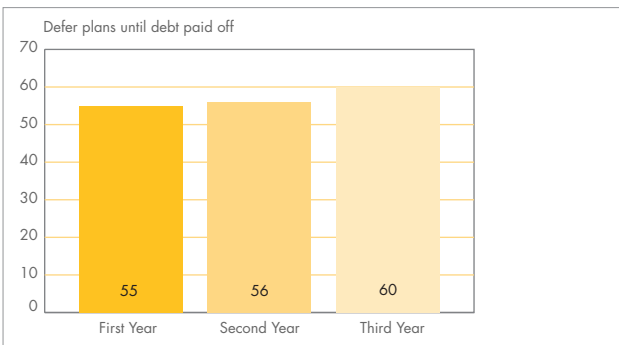
We have already seen that there is some softening of views as students progress through their period of study and this can be observed again here, as

we see that an increasing proportion of students feel they must defer or scale back their business plans the longer they study.

Effect of student debt on business plans by year of study

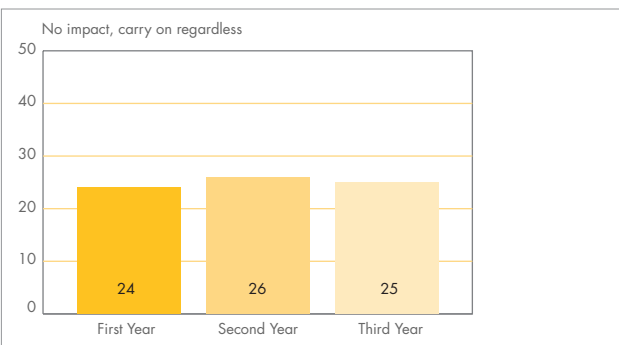


Base: all students who would ever consider setting up in business and who anticipate having debts



Base: all students who would ever consider setting up in business and who anticipate having debts

The third and 'core' group of students who want to set up in business and say they will carry on regardless of their level of debt, retain this view in each year of study.



Base: all students who would ever consider setting up in business and who anticipate having debts

5.5. Debt and future plans, including borrowing for business

Around a third of all students feel that student debt would have some impact on their ability to borrow money to set up in business; slightly fewer feel student debt would make it difficult to borrow money for other reasons.

The following table shows the proportion of all students who totally agree with the following two statements:

The level of student debt will make it more difficult for new graduates to...	Totally agree with statement
... borrow money to fund setting up a business	36%
... borrow money for other reasons	31%

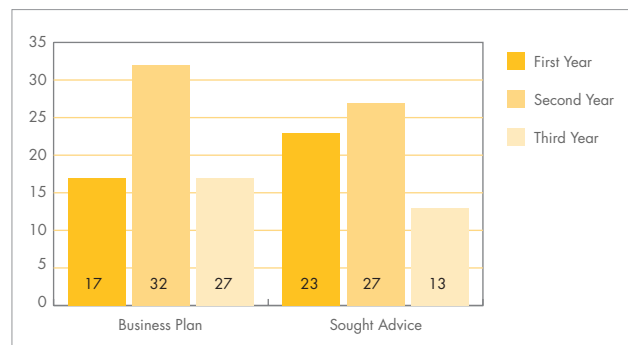
However it must be noted that very few students have taken any steps at this stage to try and secure business funding.

Only three per cent of students who would like to set up in business have tried to find finance for their business idea.

5.6. Steps taken towards starting up in business

A quarter of students who say they would like to set up in business have written a business plan while at university. Business related activity seems to peak in students' second year of study, including seeking advice and writing a business plan.

Steps taken towards setting up a business by year of study

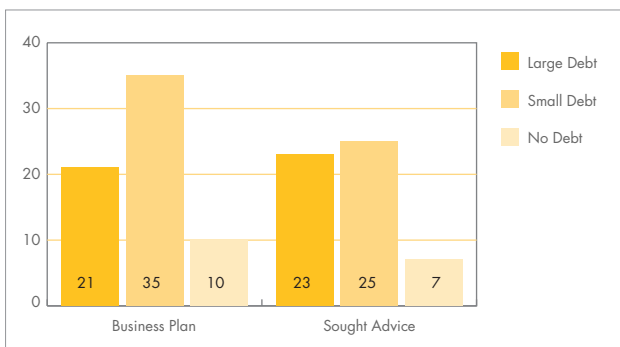


Base: all students who would like to set up business on graduation

There are no signs that students' levels of debt are actually holding people back from seeking advice or writing business plans.

Students with small or large debts are more likely to have taken these first steps towards setting up their own businesses than students with no debts at all as illustrated in the following chart.

Steps taken towards setting up a business by level of debt

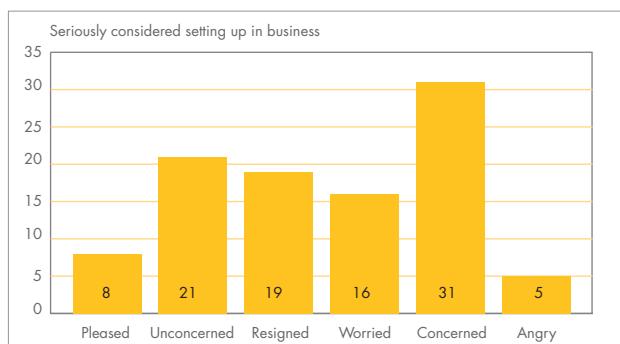


Base: all students who would like to set up in business on graduating

There are in fact signs that in some situations student debt has a motivating influence in spurring people on to set up their own businesses.

Students most commonly describe themselves as feeling 'concerned' about their levels of debt. The second most often cited feeling students have towards their debt is 'unconcern' as shown below.

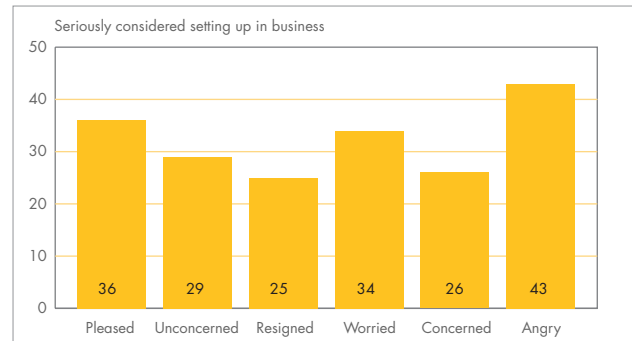
Present financial feelings



Base: all students

Students who feel 'angry' about their current financial situation are the most likely group to say that they would seriously consider setting up in business in the future.

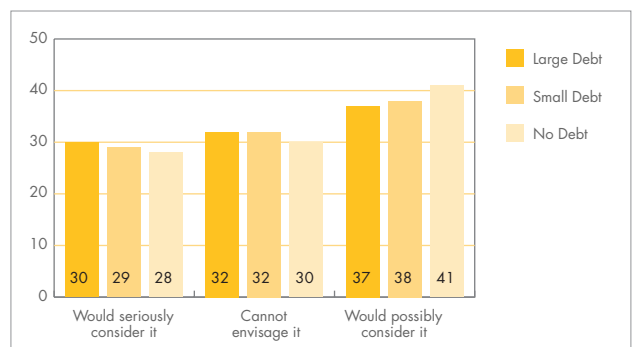
Present financial feelings by seriously consider setting up in business



Base: all students who would like to set up in business on graduating

Looking at this same issue, whether students agree that they would 'seriously consider setting up in business alone or with others at some point in the future' according to the size of student debt, as opposed to their feelings towards it, shows the same lack of relationship between business debt and effect on business plans.

Description of current position towards setting up in business alone or with others



Base: all students who would like to set up in business on graduating

The even spread of answers to this question regardless of levels of debt suggests that students have an attitude or view about setting up their own business which is firmly embedded, and linked to other factors such as perhaps personality type or family background, rather than their own experience of student debt.

