

Heart of Recovery

The KDB Survey of UK Shareholder-Directors, October 2008

Management Summary

- Birmingham will be the entrepreneurial heart of the UK's economic recovery over the next few years, according to this new analysis of shareholder-directors across the country, which ranks the Midlands capital in the top slot
- However, London and its environs continue to dominate the top ranking postcodes for entrepreneurial vigour, boasting six of the top ten rankings
- Other entrepreneurial hotspots outside of the capital and its environs revealed in the KDB study include:-
 - Brighton (3rd)
 - Bristol (7th)
 - Nottingham (8th)
 - Leicester (11th)
 - Sheffield (12th)
 - Warrington (13th)
 - Manchester (15th)
 - Peterborough (17th)
 - Bournemouth (18th)
 - Coventry (20th)
- This is economically important as company directors are the principal agents of wealth creation in entrepreneurial Britain, making a disproportionately large contribution to national and local taxation, as well as to the local economy in their area

- Shareholder-directors, who have an immediate and vested interest in their company's health, capital value and profitability, are a good proxy for entrepreneurial vigour, and are the part of the business community in the UK that is most motivated to forge a return to economic health.
- This study has established a ranking model for entrepreneurial vigour which combines statistics on the sheer number of shareholder-directors in each postcode and region of the UK, with the concentration of shareholder-directors, measured as a proportion of all directors in the area
- The regional aggregated picture is even more revealing, showing that regions away from the capital are most likely to provide the engine room of economic recovery. The four regions registering significantly above the national average score of 100 are, in order:-
 - The Midlands
 - Anglia
 - The North West
 - South Central
- In Scotland, although below the national average as a whole, there are key entrepreneurial hotspots, including:-
 - Glasgow (Index 125)
 - Aberdeen (Index 114)
 - Edinburgh (101)
- Similarly, Welsh hotspots are found in:-
 - Cardiff (122)
 - Swansea (111)
- For government and economists, the findings of this study are significant, when it comes to directing initiatives designed to stimulate health and recovery in the 'real economy' following the recent financial markets crisis
- A high concentration of shareholder-directors is also indicative of the health, robustness and resilience of local economies
- The findings are also of interest to marketers targeting high-net-worth individuals around the country, whether for investment products, property, motor vehicles, high-value retail products, luxury holidays, and many more

Introduction

Across Europe's largest economies, the recent business picture has been one of gloom. The underlying cause, of course, is the credit crunch. Whether directly affected by the crunch, or merely apprehensive about it, consumers are hesitating before spending and businesses are thinking twice before investing or employing.

There is now no question that fallout from the financial markets crisis is affecting Britain's 'real' economy. The price of commodities and staple foods has risen; the availability of business and consumer credit has tightened; inflation figures are oscillating around 5% per annum; unemployment is soaring; and (depending on which economic model you follow) Europe is in, or on the brink of, recession.

At this point, however, it is instructive to look at past experience in slow economic times. Both the stock market crash of 1987 and that of 2003 took around 18 months to recover somewhere near former median levels. If we take the public capital markets as a proxy not merely of investor confidence, but also of underlying confidence and returning robustness in the real economy, then today times may be tough, but not suicidal as much media hysteria would have the world believe.

Recovery from the current economic slowdown will require wealth creation and strong leadership from companies large and small. Large firms, which employ ranks of clever economists to factor in cyclical changes such as that we are experiencing now, have no doubt predicted the current tough times, even if they might not have foreseen its severity. However, large companies, with over 500 employees only represent 41% of the country's turnover. The rest is delivered by smaller businesses. In fact, firms with fewer than 100 employees represent 43% of the nation's turnover – two percentage points higher than large companies.

Therefore, economists looking beyond the current troubled times towards a period of recovery, will be very interested in where the most dynamic, wealth creating firms are likely to be located in the country. On a tactical basis, marketers will also be interested in this picture, in that it helps to identify the most vibrant local economies, and therefore the most fertile markets for sustaining current revenues

In order to draw a map of the country, identifying areas with concentrations of those smaller businesses most likely to be generating economic recovery, data analysts KDB has used the proxy of company directors who also hold a shareholding in their firms. This data provides an effective indicator of entrepreneurship, as shareholder-directors are greatly incentivised by the improvement of company earnings, in that they are entitled to a share of the resulting profits in the form of a dividend.

The Importance of Directors

In fact, the whole company director community is economically important. The UK's 2.83 million company directors are the principal agents of wealth creation in entrepreneurial Britain, whether in smaller owner-managed companies, or in large established enterprises. Their collective basic pay amounts to over £200bn per year (around twice the annual NHS budget), excluding dividend payments and the capital from company sales. Their housing property is worth in excess of a trillion pounds, with directors paying more than £5.7bn annually in Council Tax. Their overall annual value to the Exchequer is around one third of income tax receipts, even though they make up just over 11% of the working population and only 6% of the total adult population. Moreover, entrepreneurial owner-managed companies with fewer than 100 staff employ 34% of the nation's workforce, or some 8.7 million livelihoods.

Areas with a higher proportion of company directors will tend to be wealthier, more prosperous, and more likely to grow economically, than areas not so blessed. Many commercial market analysis and target marketing models use the concentration of directors in an area as an indicator of affluence and local market vibrancy. However, it is shareholder-directors who provide the best proxy of wealth and entrepreneurship – indicating relative economic recovery potential of local economies and marketplaces.

This KDB study analyses the country district by district, making it possible to identify where the concentrations of shareholder-directors lie.

In fact, this indicator is of interest to a number of different communities. It provides economists and governmental planners with another tool for assessing the strength of local economies. It offers branch-based businesses an additional element for their network planning. And it acts as an important local sustainable wealth indicator for the targeting strategies of marketers in consumer sectors such as automotive, financial services, holidays, leisure and retail, as well as B2B services such as accountancy, publishing, IT and telecoms, and so on.

The Research – Main Findings

In order to provide an up-to-date picture of entrepreneurship around Britain, KDB has analysed the main areas around the country, defined by postcode area. The presence of shareholder-directors was analysed in three main ways:-

- By density, expressed as a percentage of the total adult population
- By sheer volume, for each postcode area, regardless of the density of businesses in the area
- As a combined index of density and volume, equating to an Index of British Entrepreneurship

A number of key findings emerged from this analysis:-

- In terms of density (shareholder-directors as a proportion of all directors), the top twenty areas are all some distance from London and the South East. Representation by region includes:-
 - Dorchester, Truro and Taunton in the West Country
 - Carlisle, Lancaster and Blackpool in the North West
 - Southend, Ipswich and Norwich in Anglia
 - Stoke-on-trent in the Midlands
 - Llandrindod Wells and Swansea in Wales
- Overall, the top twenty areas in the shareholder-director density table shows a distinct bias to The North West and the West Country

	Principal Town/City	Postcode	Shareholder Directors	Shareholder Directors as % of all directors
1	Dorchester	DT	7037	34.0%
2	Carlisle	CA	7976	33.4%
3	Truro	TR	7286	32.9%
4	Hereford	HR	5291	32.7%
5	Taunton	TA	8725	32.5%
6	Dudley	DY	11690	32.5%
7	Southend-on-sea	SS	18367	32.4%
8	Lancaster	LA	9125	32.3%
9	Blackpool	FY	7786	32.3%
10	Ipswich	IP	16191	32.3%

- However, density of shareholder-directors needs to be balanced with sheer volume, in order to arrive at a balanced and reliable indicator of British Entrepreneurship.
- This is highlighted by the pattern emerging from the KDB analysis when organised by sheer volume. With this view, six of the top ten ranked areas are in London or its immediate environs
- A glance at the top twenty list for volumes of shareholder-directors also shows a tendency towards major cities – Bristol, Manchester, Nottingham Sheffield, Leeds, Coventry, Glasgow – although the geographical spread is fairly representative of the whole country.

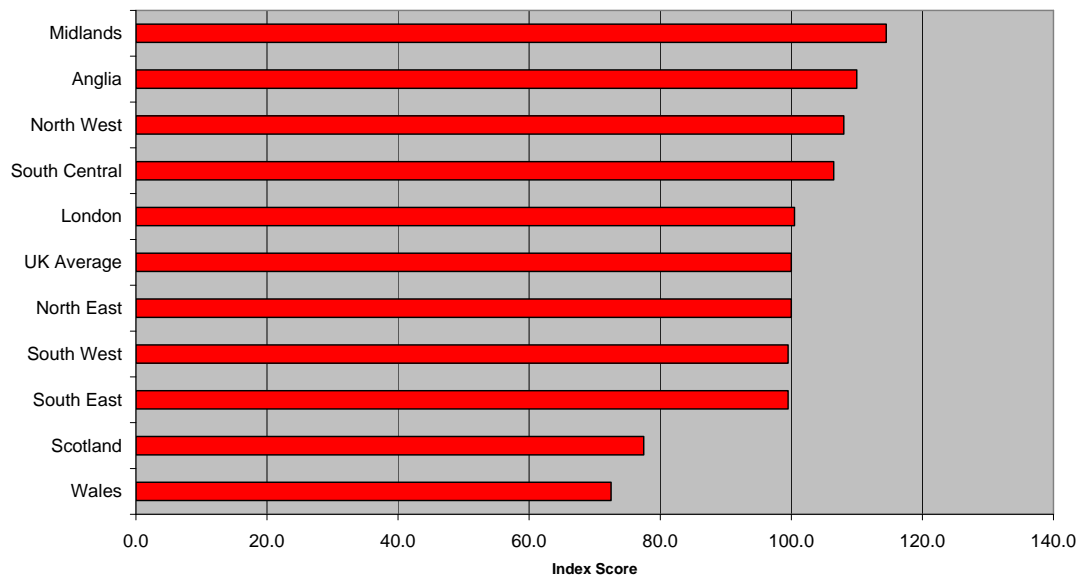
	Principal Town/City	Postcode	Shareholder Directors	Shareholder Directors as % of all directors
1	Birmingham	B	63959	25.9%
2	West London	W	54554	16.5%
3	South West London	SW	38638	18.6%
4	North London	N	34584	24.1%
5	Guildford	GU	31872	15.3%
6	Brighton	BN	31849	31.4%
7	North West London	NW	31392	22.4%
8	Bristol	BS	30623	26.6%
9	Harrow	HA	30250	27.9%
10	Manchester	M	28981	23.9%

- So to obtain a balanced picture of the size and significance of shareholder-directors around the country, the KDB study turned both measures into an index (100 = average) and then combined these indices into an integrated metric
- This integrated index of British Entrepreneurship revealed some interesting and unexpected results:-
 - Birmingham, not London, came at the top of the table for its shareholder-director community, indicating that the Midlands may provide the heart of the UK's economic revival over the next few years.
 - This point is underlined by the appearance of other Midlands centres in the top twenty rankings, including Nottingham, Leicester and Coventry.

- London nevertheless dominated the top ten rankings, confirming the importance of the capital and its neighbours in turning round the current downturn
- Brighton was a surprising third, showing that this South Coast centre has become an economic force as much as a charming spa town, However, Only Bristol represents the West Country in this combined index, showing the importance of the city to the region's economy
- Several northern centres – Sheffield, Warrington and Manchester – figure in the Entrepreneurship top twenty. The appearance of Manchester – often called Britain's 'second city' after London – is perhaps expected. However, Sheffield is evidently a key centre for entrepreneurial activity in South Yorkshire, and Warrington (sitting close to the M6 and almost equidistant between Liverpool and Manchester) is another entrepreneurial hotspot
- While the top ten in the KDB Index of Entrepreneurial Britain is dominated by London and the South East, the region's significance dwindles in the top fifty, representing just a third (16) of these centres. This compares with a similar figure of a quarter (13) of the top fifty entrepreneurial centres represented by areas in the North.

Rank	Principal Town/City	Postcode	Entrepreneurship Index
1	Birmingham	B	268
2	West London	W	217
3	Brighton	BN	170
4	South West London	SW	168
5	North London	N	165
6	Harrow	HA	158
7	Bristol	BS	156
8	Nottingham	NG	155
9	Tonbridge Wells	TN	153
10	North West London	NW	151
11	Leicester	LE	151
12	Sheffield	S	150
13	Warrington	WA	149
14	Reading	RG	146
15	Manchester	M	145
16	Guildford	GU	138
17	Peterborough	PE	138
18	Bournemouth	BH	137
19	Chelmsford	CM	137
20	Coventry	CV	135

Index of Entrepreneurship - 2008



- The regional aggregated picture shows that regions away from the capital are most likely to provide the engine room of economic recovery. The four regions registering significantly above the national average score of 100 are, in order:-
 - The Midlands
 - Anglia
 - The North West
 - South Central
- However, the authors of this report have noted the importance of giving precedence to the more granular, postcode-level statistics, as centres of high entrepreneurial activity may be masked from economists, policymakers and marketers by the aggregated regional averages

Conclusion

As the highly motivated generators of almost half the nation's annual wealth, smaller businesses are likely to be the engine room of the nation's economic recovery. And those smaller businesses are run and managed by the country's community of shareholder directors. Therefore, an analysis of where they are located – in terms of volume and concentration – helps to identify the UK's entrepreneurial hotspots. In turn, this allows policymakers to direct governmental support where it is most likely to bear fruit, whether to regenerate entrepreneurial activity, or to encourage it where it is already strong.

Since the presence of shareholder-directors is also an indicator of local economic health, this study also provides marketers with a map of wealth hotspots around the country – a critical factor for firms that are looking to maintain and grow revenues in a contracting marketplace.

The results have delivered some expected results (such as the preponderance of the capital in the top ten rankings), along with some important and less expected findings (such as the entrepreneurial significance of Birmingham, Bristol, Brighton and Nottingham). Finally, key centres in the top twenty rankings are also seen to be fairly evenly spread around the country, with representation for the North East, the North West, East Anglia, the Midlands, the South and the South West.

Methodology

During October 2008, KDB analysed records of 2.5m UK companies in order to map shareholder-director concentrations and volumes around the country, on a postcode area basis. This level of geography balances the need for statistically significant volumes, with the desire for detailed insights. The resulting KDB Index of Entrepreneurship combines a measure of the relative concentration of shareholder-directors as a proportion of all directors in an area, with the sheer volume of shareholder-directors in that area compared to the national norm.

Index of British Entrepreneurship

Ranking by combined index of density and volume of shareholder directors in the area

	Principal Town/City	Postcode	Combined Index
1	Birmingham	B	268
2	West London	W	217
3	Brighton	BN	170
4	South West London	SW	168
5	North London	N	165
6	Harrow	HA	158
7	Bristol	BS	156
8	Nottingham	NG	155
9	Tonbridge Wells	TN	153
10	North West London	NW	151
11	Leicester	LE	151
12	Sheffield	S	150
13	Warrington	WA	149
14	Reading	RG	146
15	Manchester	M	145
16	Guildford	GU	138
17	Peterborough	PE	138
18	Bournemouth	BH	137
19	Chelmsford	CM	137
20	Coventry	CV	135
21	Portsmouth	PO	135
22	Stockport	SK	132
23	Southampton	SO	129
24	Kingston upon Thames	KT	129
25	Southend-on-sea	SS	127
26	Gloucester	GL	126
27	Hemel Hempstead	HP	125
28	Glasgow	G	125
29	Leeds	LS	124
30	Oxford	OX	123
31	Derby	DE	123
32	Redhill	RH	122
33	Norwich	NR	122
34	Cardiff	CF	122
35	Newcastle upon Tyne	NE	122
36	Ipswich	IP	119
37	Northampton	NN	119
38	South East London	SE	116
39	Doncaster	DN	115

40	Aberdeen	AB	114
41	Bath	BA	114
42	Preston	PR	113
43	East London	E	113
44	Exeter	EX	111
45	Swansea	SA	111
46	York	YO	111
47	Stoke-on-trent	ST	110
48	Rochester	ME	109
49	Milton Keynes	MK	109
50	Stevenage	SG	108
51	Slough	SL	105
52	Dudley	DY	104
53	Chester	CH	103
54	Walsall	WS	102
55	Edinburgh	EH	101
56	Swindon	SN	101
57	Colchester	CO	101
58	Croydon	CR	98
59	Blackburn	BB	98
60	Bolton	BL	96
61	Ilford	IG	96
62	Dartford	DA	96
63	Oldham	OL	96
64	Enfield	EN	96
65	Lancaster	LA	95
66	City of London	EC	95
67	Plymouth	PL	95
68	Taunton	TA	94
69	Crewe	CW	94
70	Carlisle	CA	94
71	Bromley	BR	93
72	Cambridge	CB	93
73	Hull	HU	93
74	Liverpool	L	92
75	Dorchester	DT	92
76	Torquay	TQ	91
77	Shrewsbury	SY	91
78	Worcester	WR	91
79	Blackpool	FY	91
80	Truro	TR	90
81	Llangollen	LL	90
82	Twickenham	TW	89
83	Romford	RM	89
84	Newport	NP	88
85	Wakefield	WF	87
86	Canterbury	CT	87
87	Middlesborough	TS	86
88	Lincoln	LN	85

89	West Central London	WC	85
90	Wolverhampton	WV	85
91	Huddersfield	HD	85
92	Bradford	BD	85
93	Watford	WD	85
94	Luton	LU	83
95	Darlington	DL	83
96	Sutton	SM	83
97	Hereford	HR	83
98	Wigan	WN	80
99	Salisbury	SP	80
100	Harrogate	HG	79
101	St Albans	AL	79
102	Telford	TF	76
103	Kirkcaldy	KY	74
104	Motherwell	ML	74
105	Halifax	HX	74
106	Dundee	DD	73
107	Falkirk	FK	71
108	Galashiels	TD	69
109	Durham	DH	69
110	Uxbridge	UB	69
111	Paisley	PA	68
112	Kilmarnock	KA	68
113	Llandrindod Wells	LD	68
114	Inverness	IV	64
115	Perth	PH	63
116	Shetland	ZE	62
117	Dumfries	DG	60
118	Sunderland	SR	59
119	Caithness	KW	56
120	Stornoway	HS	36

