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The UK has a regional inequality problem – levelling the playing field for entrepreneurs could help

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Regional inequality is a long-standing problem in the UK that successive governments haven't been able to get to grips with. The Labour government is aiming for economic growth, but this will only happen by boosting the UK's regions and nations along with London and south-east England.

The UK's economy is the most regionally imbalanced in the industrialised world. This has a damaging effect on productivity and economic performance, both key enablers of rising living standards.

Although “levelling up” is not part of the government's vocabulary, reducing the wide economic divide between London and the rest of the UK remains high on its agenda. However, levelling-up policies have been criticised for being fragmented and lacking coherence, particularly because of the emphasis on large infrastructure investments. Infrastructure is only one of many factors that play into the long-term productivity differences in the UK.

Entrepreneurship and innovation are also central to regional economic competitiveness. But business start-up and scale-up rates are significantly higher in London and the south of England, particularly along the M4 and M3 corridors. These geographical variations are persistent over time.

The lack of high-growth start-ups in the rest of the UK is particularly important. These businesses are mainly located in and around London, with only a thin spread across the rest of the country. In a list of the UK's 100 fastest-growing companies, 36 are in London, with a further 15 in south-east England.

These rapidly growing companies make a disproportionate contribution to job creation, innovation and economic growth. A 2009 report found that 6% of high-growth firms create more than 50% of jobs. This proportion has remained stable over the years, even during times of recession.

Entrepreneurship needs the right environment to thrive – places that offer a “fertile soil” with support, talent, finance, markets and connections to start and grow companies. As such, entrepreneur-led levelling up needs an approach that develops these “ecosystems” in the parts of the UK that have fallen behind more prosperous areas.

Entrepreneurial ecosystems are environments that bring together not only those who want to start businesses but also the people and institutions who support them. They need mentors with expertise and experience, employees with the right skills, investors who take calculated risks and intermediaries who can make connections.

Nurturing new businesses

So what does it take to build all of this? Our research on the emergence and maturing of ecosystems offers some important lessons.

It needs foundations. Particularly important are educational institutions that equip students with an entrepreneurial mindset. They support enterprise creation and companies that attract and nurture skilled employees – the kind of people who may be future entrepreneurs or early hires in high-growth companies.

But it takes time. The foundations of today's successful ecosystems were laid more than a decade ago. Progress is often slow and hard to measure because elements in the ecosystem interact and evolve in unpredictable ways. As such, it is important to focus on long-term indicators of success. This includes those that are difficult to capture – things like willingness to pursue business opportunities despite the risk of failure, for example.

Thriving entrepreneurial ecosystems are characterised by virtuous circles, with success creating the ingredients that drive further success. Successful entrepreneurs, managers and investors frequently reinvest their wealth and experience in their local ecosystem as serial entrepreneurs, business angels, mentors or board members.

And even business failures can have positive effects on the ecosystem. Failures can trigger a recycling process as former employees are hired by other local companies.

Recognising that it takes an ecosystem to raise a start-up means that collaboration is vital. Outcomes will be limited if ecosystem players – companies, investors, experienced entrepreneurs, support organisations and so on – focus only on their own narrow interests. But if they connect and work together for the wider benefit of the ecosystem then everyone can gain from the successes.



Connecting with others is a vital part of building entrepreneurial ecosystems. Rawpixel.com/Shutterstock

Many of the features that underpin successful ecosystems are about building culture and relationships. This includes events, mentoring and networks that enable peer-to-peer learning and celebrate role models.

And it's not always about having a local focus. Some activities to support high-growth entrepreneurs benefit from being delivered at the national or regional level. For example, public sector venture capital funds (government money that's invested in start-ups that might struggle to source private investment) are more effective if delivered at scale. Ecosystems also need to develop links with other locations to tap into their knowledge, skills and resources.

As successful ecosystems are typically based around large cities, it is essential that they develop strong connections with the smaller communities around them to prevent inequalities emerging within regions.

Ultimately, building ecosystems requires government funding but not government management. For example, the Scottish government's Ecosystem Fund provides financial support for grassroots initiatives that may otherwise struggle to get off the ground.

Successful systems are built from the ground up, with community members – typically successful entrepreneurs – taking on the leadership role. The role of government should be funding it, not running it. Public funding can give ecosystems momentum to drive the growth that narrows the UK's regional inequalities.