



Report



**Federation of Small Businesses  
Scotland**

**Micros Untapped:**  
*Realising the employment  
potential of micro-businesses*

Rocket Science UK Ltd  
November 2012



**Federation of Small Businesses**  
*The UK's Leading Business Organisation*

# Contents

<b>Executive Summary</b>	<b>1</b>
Recommendations	4
<b>1 The evidence: issues and themes</b>	<b>9</b>
<b>2 Practical approaches</b>	<b>33</b>
<b>3 Micro-businesses and employability</b>	<b>41</b>
<b>4 Conclusions</b>	<b>46</b>
<b>Appendix 1: Micro-businesses and employment</b>	<b>50</b>
<b>Appendix 2: Recruitment intentions and motivation</b>	<b>55</b>
<b>Appendix 3: Contributing to the employability agenda</b>	<b>59</b>
<b>Appendix 4: Methodology</b>	<b>65</b>
<b>Appendix 5: Interviews</b>	<b>66</b>
<b>Appendix 6: Aide Memoires</b>	<b>67</b>
<b>Appendix 7: FSB Voice of Small Business Survey June 2012</b>	<b>71</b>
<b>Appendix 8: References</b>	<b>73</b>

Richard Scothorne  
Rocket Science UK Ltd  
2 Melville Street  
Edinburgh EH3 7NS  
T: 07774 141 610  
E: richard.scothorne@rocketsciencelab.co.uk

# Executive Summary

## Context

The Federation of Small Businesses (FSB) commissioned this report against the background of significant concern about the level of unemployment in Scotland and the need to understand more about how to help micro-businesses realise their potential for growth through recruitment.

Since the start of the recession in 2008, there has been a strengthening focus on tackling unemployment across Scotland – both through helping unemployed people find work and supporting job creation. This is reflected in the recent refreshment of Workforce Plus (Working for Growth<sup>1</sup>), with its emphasis on joining up local economic development and employability approaches, the development of collaborative 'employer offers', and a strengthening focus on youth unemployment<sup>2</sup> – all of which the FSB has warmly welcomed.

At a local level, major private and public partnership efforts have been emerging around youth unemployment (e.g. the Edinburgh Guarantee). There has been a growing emphasis on the 'demand side', through employer engagement strategies and efforts to make it as easy as possible for businesses to recruit staff (e.g. through the Opportunities Fife Single Point of Contact). Some of this effort has been devoted to disaggregating the business market and developing distinctive 'offers' for the different parts of the market. As part of this positioning, the partners leading some local initiatives have decided to focus on smaller employers as Work Programme primes and their sub-contractors have tended to concentrate on larger employers to get the volume of vacancies that their financial models require.

Micro-businesses (businesses with fewer than 10 employees) make up nearly 94% of Scottish businesses and provide 27% of the private sector jobs in Scotland<sup>3</sup>. This underplays their significance in tackling unemployment. Over 40% of unemployed people who find work in the private sector go to work in a micro-business or become self-employed<sup>4</sup>. European research suggests that 26% of recruits to micro-businesses across the EU are long-term unemployed people<sup>5</sup>. Micro-businesses therefore provide a disproportionate number of opportunities for those previously unemployed and a significant part of Scotland's 'demand side'. The issue about whether micro-businesses are realising their full potential to create jobs – and the ways in which they can be helped to achieve this potential – is therefore important.

---

<sup>1</sup> Working for Growth: A refresh of the Employability Framework for Scotland (2012), Scottish Government.

<sup>2</sup> Action for Jobs – Supporting Young Scots into Work: Scotland's Youth Employment Strategy (2012), Scottish Government

<sup>3</sup> Scottish Corporate Sector Statistics (2011), p.27

<sup>4</sup> Urwin, P and Buscha, F (2012). Back to Work: The role of small businesses in unemployment and enterprise. Federation of Small Businesses.

<sup>5</sup> cf 14% for Small and Medium and 9% for those employing over 250, de Kok et al, 2011

With this in mind, the FSB commissioned this report to provide an insight into this untapped potential, specifically exploring:

- Micro-business approaches and attitudes to recruitment – and the obstacles they experience when recruiting.
- How micro-businesses can be helped to minimise and manage the risks of recruitment and negotiate the obstacles.
- How policy and practice can be designed to help micro-businesses recruit.

### **Key features of micro-businesses relevant to recruitment**

Through our interviews, focus groups and survey work we have identified five features of micro-businesses which need to be taken into account when designing appropriate support for recruitment.

#### ***Micro-businesses are a particularly diverse customer group***

- As businesses grow, they converge in terms of some of their key features to become more like each other – but most businesses pass through the micro-business stage. At this stage, businesses vary widely from single person enterprises, with the goal of making an adequate living for one person, to team start-ups, with high growth ambitions and significantly higher job creation potential.
- The micro-business group is therefore highly diverse. Their reasons for employing - and their approaches to employment, as well as their experience of recruitment also vary greatly.
- It is therefore important to disaggregate carefully the group to understand the different situation and requirements of each business and put in place appropriate responses.

#### ***There are distinctive issues around recruitment for micro-businesses***

- The smaller the business, the more recruitment is intrinsically linked to business growth. A job is more likely to be created because the business needs to do something new to grow or take a new direction. A single job in a micro-business will have a significant impact on that business.
- Micro-business owners are less likely to have experience of recruitment, and the recruitment and management of staff.
- Micro-businesses also have less financial resilience compared with larger businesses.
- Many owners feel they do not have the skills and support they need to tackle the process of recruitment.

### ***Micro-business owners develop highly flexible approaches to employment***

- Many micro-businesses experience fluctuations in capacity, both from year to year and within a year. For example, for a very small business, one additional order or the loss of one client will have a disproportionate impact. This means that:
  - Micro-businesses tend to look for employees who can be highly flexible and dynamic in a small team.
  - Micro-businesses can find it difficult or daunting to grow by creating whole jobs. There is a tendency to employ part-time or casual and see how this goes, with a view to making the post full-time. However, the types of people attracted to a casual/part-time vacancy are less likely to be interested in a full-time job were one to be offered.
  - Rather than recruiting an employee, some micro-businesses will sub-contract work at peak times to other micro-businesses. These in turn may sub-contract work back when they are busy.

### ***Recruitment presents micro-businesses with a range of risks and difficulties***

- Micro-business owners have a keen sense of the risks involved in recruiting new staff, but in most cases their perception of risks does not match with the actual scale or nature of the risks involved. Of particular concern is the threat to the survival of the business if the person recruited turns out to be wrong for the job or difficult to manage. Conversely, many of the micro-businesses owners we talked to, who were uncertain about whether to recruit, said they would definitely recruit if they were confident that they would be able to find someone who was reliable, committed and conscientious.
- Some of the information available to business about these risks can make them appear even more alarming to micro-business owners. But there is also evidence that the right kind of guidance can significantly reduce the perceived scale of risk and/or the reality of these risks and help micro-businesses move on to successful recruitment.
- The disproportionate effect that the added administrative burden involved in recruitment and employment has on micro-businesses can also be off-putting and time-consuming and seems to discourage recruitment. For example, frequently cited were worries that business owners lacked sufficient up-to-date knowledge and confidence to comply with employment law and payroll regulation.

### ***Micro-businesses often have limited capacity to manage staff***

- Many micro-businesses have experienced difficulties beyond the recruitment stage, particularly if it has been hard to find the right recruit, or a new recruit is unable to meet the requirements of the job that has been created.
- Some owners expressed considerable unease about their lack of skills and experience in managing staff – and the time that it might take. The issues include:
  - How to find the time to induct and train a recruit properly.

- How to help recruits progress to more skilled roles and greater responsibility.
- How to manage performance effectively and fairly without fear of running into problems with employment law.

## Recommendations

Our research into micro-business approaches to employment leads to the following recommendations.

### ***1. The significance and diversity of micro-businesses***

- 1.1. National and local job creation and employability programmes need to recognise the significance of micro-businesses as creators of jobs and employers of unemployed people, by developing tailored approaches with the aim of helping micro-businesses grow through recruitment.
- 1.2. These should include support services to help micro-businesses manage risk and negotiate the obstacles that make a difference to whether and when they recruit.
- 1.3. Services should be made widely available to micro-businesses, even if their growth projections are modest compared with the typical thresholds for funded support. It should be recognised that recruitment will not always be the most appropriate outcome for the micro-business.
- 1.4. Local employability partnerships are appropriate delivery vehicles of micro-business recruitment support because of their blend of employability and economic development expertise.
- 1.5. Local strategies should carefully disaggregate the micro-business market and ensure that the diversity of the market is appreciated when understanding needs and designing appropriate responses. A different mix and degree of support will be required by each business depending on size (even within the micro category), the experience of the business owner and the readiness of the business to recruit.
- 1.6. Support services to help micro-businesses grow through recruitment should be actively marketed through existing networks (e.g. FSB/Chambers of Commerce membership and more informal local micro-business networks) – and through professional advisers (banks and accountants) – to ensure they reach beyond ‘the usual (well connected) suspects’.

## **2. Micro-businesses have distinctive needs**

- 2.1. Support services prior to recruitment need to offer detailed advice on HR issues for businesses with the least experience of - or confidence in - recruiting and managing staff. These should be closely linked to the growth goals of the business and should include:
  - Clarifying the most appropriate role for a recruit.
  - Exploring the practical implications of recruitment for the role and skills of other staff including the business owner.
  - Helping the owner create a clear job description and person specification.
  - Seeking appropriate candidates in a cost effective way.
  - Creating a relevant contract of employment that protects both employee and employer, setting out roles and functions, expectations and a code of conduct.
  - Dealing with the administrative demands of recruitment (e.g. payroll, insurance).
- 2.2. In addition to helping create a specific, sustainable job, this support should help:
  - The development of leadership and management skills.
  - The effective use of staff skills.
  - Create closer, demonstrable links between these skills and continued business growth.
- 2.3. Support for recruitment should therefore be placed firmly in the context of a wider business support service.
- 2.4. The significance of support to help micro-business owners design, create and manage full-time jobs is such that at the Scottish level, we recommend that the Scottish Government should create an HR support fund to complement and strengthen the long-term impact of the proposed national wage subsidy scheme and to help local employability partnerships and Business Gateway provide a sustained source of HR support for micro-businesses who are planning to recruit.
- 2.5. Information about recruitment (e.g. on the Business Gateway website) should include a specific section for micro-businesses. This means that it should:
  - Focus on the issues which are particularly important to micro-businesses when recruiting.
  - Set recruitment clearly in the context of business growth and the need to be clear about the role and contribution of a recruit and the implications for the focus and productivity of other staff.
  - Provide advice on how to handle recruitment with minimal administrative and HR resources.
  - Guide owners to appropriate sources of personalised help.

- Encourage a realistic assessment of risk by describing the actual probabilities of risk and incidence around recruitment ('myth busting') and how to minimise and manage the most common risks.

### **3. *Helping micro-business owners gain a more realistic sense of risk around recruitment***

- 3.1. There should be a coordinated effort to help micro-business owners gain a realistic view about the actual level of risks around the different aspects of recruitment. Many of these are significantly lower than perceived risk levels. This means that national agencies, small business bodies and local employability partnerships should work together to promote some of the most important facts about the level and type of risk involved in recruiting – and how to minimise and manage these.

### **4. *The significance of personalised help in supporting micro-business growth through recruitment***

- 4.1. The landscape of support for micro-business growth and recruitment is likely to remain complex and hard to navigate because of the different aspects of support and the range of public and private suppliers. While there is scope to clarify and simplify this landscape of support, practical solutions should focus on the provision of trusted and experienced individuals, who can help micro-businesses clarify their needs, navigate the recruitment process and sustain support through to skills use and development in work.
- 4.2. We recommend that local employability partnerships work with Business Gateway to appoint dedicated advisers to help micro-businesses clarify their recruitment needs, take them through the difficulties and obstacles, and minimise risks through, for example, helping them put appropriate contracts in place for all recruits.
- 4.3. This role can be played by full-time staff focusing on recruitment support (such as those being appointed under the Business Gateway brand in Highland and Edinburgh). An alternative model would be for the Scottish Government to contribute to the cost of using private sector HR professionals, many of whom offer reduced rates for support to micro-businesses with a view to developing a long term relationship. Voluntary business mentors, such as those available through the Scottish Chambers of Commerce may also have an important role to play for some micro-businesses.
- 4.4. Those appointing advisers should draw on the extensive evidence now available about the skills, experience, knowledge, contacts and personal commitment of effective advisers. While some of the most effective advisers have managed small businesses, it is at least as important to be knowledgeable about HR issues and display a strong commitment to helping others succeed in business and to understanding and responding to their specific needs and situation.



## **5. Support for micro-businesses around recruitment should focus on business growth objectives rather than welfare to work objectives**

- 5.1. It is central to the success of local approaches that their aim is business sustainability and growth rather than the recruitment of unemployed people. But there are practical ways of maximising the contribution of micro-businesses to the welfare to work agenda.
- 5.2. The support service must ensure that it is listening to and fully understanding micro-business requirements and responding to these rather than being driven by the need to place unemployed clients into work.
- 5.3. Local partners can maximise the proportion of new vacancies filled by unemployed people by ensuring wherever possible that potential candidates have the skills, attitudes and behaviours that employers are looking for. For micro-businesses candidates who will fit in, work flexibly and be effective team workers are particularly valued.
- 5.4. Local employability partnerships should be encouraged to pilot the development of a fully integrated economic development/business development/skills and employability approach, as suggested in Working for Growth, by using a focus on micro-businesses. This will provide them with a clearly defined and specific target group, which our work shows is likely to benefit from such a joined up approach.

## **6. Private and informal sources of support for micro-businesses are important and need to be involved**

- 6.1. For most micro-businesses, the support provided by professional advisers, business colleagues and membership organisations is at least as important as current publicly funded support. It will be important to ensure that the significance of these sources of support and intelligence – and the opportunity they provide in reaching out to the micro-business market – is fully recognised in developing any local response. In particular:
  - Local partnership structures focusing on support for micro-businesses should include professional advisers and membership organisations. This will ensure that they are able to draw on the knowledge and insights of these contacts when designing and refining their services.
  - Local partnerships can significantly enhance their market penetration and impact and the effective dissemination of information by using these routes to the market.
  - While our research indicated that many micro-businesses could only consider using a free source of support for recruitment, some micro-businesses may prefer to use private sector sources of advice and these should be promoted alongside any free public service.

## **7. Policy makers and practitioners at the national and local level have complementary roles to play**

- 7.1. It makes sense, in terms of business support, to focus at the national level on larger businesses and particularly high growth businesses and at the local level on smaller businesses.
- 7.2. The role of **national policy** should therefore be to:
- Create an appropriate and empowering context for local support.
  - Establish and implement an evaluation framework for local initiatives that will provide a common basis for assessing impact and identifying effective practice.
  - Support the creation of effective means for sharing learning and building professional skills in employer engagement and micro-business recruitment
  - Support the funding of HR support for micro-businesses wishing to recruit.
- 7.3. The role of **local partners** should be to:
- Develop collaborative approaches to local micro-business engagement and recruitment support, integrated into a wider business support service.
  - Work closely with the full range of public and private partners and with membership bodies, specifically the FSB and Chambers of Commerce, and with professional advisers (banks and accountants) to ensure wide ownership and access to networks to promote the service.
- 7.4. This means that, while it is important for national policy makers to recognise the significance of micro-businesses, it is the role of local practitioners to convert this recognition into practical local responses.

## **8. Skill development and sharing of practice can enhance the effectiveness of recruitment support for micro-businesses**

- 8.1. The quality and impact of a recruitment support service depends almost entirely on the experience, expertise and inter-personal skills of those providing support. There should therefore be a focus on ensuring that they have the right skills, experience, knowledge and contacts. In particular the measurement of the performance of the service should be based primarily on feedback from micro-business clients, rather than solely on numbers helped.
- 8.2. The Scottish Government should support a Scottish learning network which focuses on the learning around growth and recruitment among micro-businesses to encourage the refinement of practical approaches and fully realise the employment potential of micro-businesses.

# 1 The evidence: issues and themes

In this section of the report, we explore the recruitment potential of micro-businesses and develop a picture of how micro-businesses view and approach employment. We set out the risks, difficulties and obstacles that micro-business owners perceive and experience when considering becoming an employer or expanding their workforce and offer some insight as to how these perceptions might shape interventions to create jobs. We have drawn on existing research, the results of a survey conducted for this study, focus groups and individual interviews with micro-businesses (Appendix 4: Methodology on page 65) to identify the following themes around micro-businesses and recruitment – all of which have significant implications for both policy and practice.

## 1.1 The recruitment potential of micro-businesses

Around 93% of the private sector enterprises in Scotland have fewer than 10 employees<sup>6</sup> and account for 27% of private sector employment. Recent FSB research shows that micro-businesses represent at least as important a route into employment as large businesses<sup>7</sup>. This research, which analysed UK Labour Force Survey Statistics in order to provide a better understanding of the role small businesses play in employment, showed that of the unemployed who gain work in the private sector, small and micro-businesses were significant employers (Figure 1).

Destination	Percentage of moves from unemployment to private sector employment	
Self employed	17%	
Micro-businesses (10 or fewer)	24%	
Small businesses (11-49)	27%	All small: 68%
Medium businesses (50-250)	20%	All SMEs: 88%
Large businesses (250+)	12%	

Data based on samples from 'post-2008' UK Labour Force Survey sample (2008 quarter 4 – 2001 quarter 1)

**Figure 1:** Current routes to private sector employment for unemployed people (UK) [Source: Analysis of UK Labour Force Statistics in Urwin, P and Buscha, F (2012). Back to Work: The role of small businesses in unemployment and enterprise. Federation of Small Businesses.]

<sup>6</sup> Scottish Corporate Sector Statistics 2011

<sup>7</sup> Urwin, P and Buscha, F (2012). Back to Work: The role of small businesses in unemployment and enterprise. Federation of Small Businesses.

What are the current recruitment intentions of micro-businesses in Scotland? The survey conducted as part of this study asked a range of questions about intentions and motivations around recruitment (Appendix 2, page 55). The responses show that:

- Overall, a quarter of respondents are thinking about recruiting – but this figure rises to over one third for the larger micro-businesses.
- 31% of respondents felt that their business generates ‘enough work at the moment to need extra help’ - though a smaller proportion were actually thinking about recruiting.
- Only 10% are downsizing their businesses (though it is clear from our interviews that others have in the last 2 years).
- The main motivation for thinking about recruitment appears to be the opportunity to grow the business, with only 2% strongly agreeing that they need staff with different skills to ‘diversify or change direction’.

There therefore seems to be **significant job growth potential** among micro-businesses based on our sample of 580 respondents.

## 1.2 Micro-businesses are a particularly diverse customer group

The micro-business group is very diverse. The survey for this study produced enough returns to allow us to distinguish between the returns of different sizes of micro-businesses. The answers to most questions varied significantly across the size range. Our interviews revealed that this diversity is not just about size: the businesses run by the owners participating included:

- Professional service businesses, construction businesses, vehicle hire, retail, furniture making, car maintenance and repair. So the jobs they wish to create vary widely from professionally qualified through skilled tradesmen to administration and unskilled manual work. However, many of the jobs they had created or planned to create were clearly realistic for those currently unemployed and many were ‘entry level jobs’, with employers emphasising the significance of attitude, application, commitment, reliability and ‘getting on well with people’.
- Long-standing one-person enterprises, which typically are supported within a family. Many of these are small businesses meeting a local or specialist need and with little intention of growing through recruitment – beyond the use of family members on an ‘as needed’ basis.
- Small businesses which managed a varied (sometimes seasonal) workload by drawing in short term staff or sub-contractors, sometimes as part of an informal network of similar businesses which ‘loaned’ and took back staff according to their respective order books.
- Businesses which had tried employing people but were now pleased to be back to being single-person enterprises.

- Businesses which had started very small and steadily grown, using a variety of arrangements to respond to growing demand for their service, including part-time, seasonal and full-time staff.

All these businesses are micro-businesses - but they have very different histories, ambitions and needs. Capelleras et al. (2004)<sup>8</sup> have analysed the different employment growth characteristics of micro-businesses and describe a distinctive and remarkably similar pattern of growth among new micro-business start-ups in areas in Spain and England.

Four distinctive patterns of micro-business employment growth emerge from their analysis:

- Larger start-ups which tended to decline in size from 6 to 4 jobs in England and 7 to 5 jobs in Spain over a 4 year period (c8% of the sample).
- Slow growers which tend to start with 3 members of staff and slowly increase employment over time to 5 (c46% of the sample).
- Fast-growing firms, starting with less than 5 jobs and moving to about 18 jobs over 4 years (England) and to 14 jobs over 5 years in Spain. These make up 16-19% of the sample.
- A stable small sized group which average 3 jobs in England and 2 in Spain (43% of sample in England and 32% in Spain) which neither grow nor shrink.

Micro-businesses therefore vary significantly by size, ambition and potential. However, in this size range, business growth is strongly related to recruitment. This reinforces the need to ensure that support to help micro-businesses recruit can identify and respond to the individual situation and requirements of each business - and that there are dangers in providing generic support or information.

This suggests that personalised support – providing advice, reflection and signposting – will be particularly important for this group in order to provide a practical way both of helping owners clarify their specific needs in terms of their recruitment requirements and putting together an appropriate response from the range of support available.

The diversity begs the question of where limited resources should be targeted to produce the greatest return in terms of recruitment and related business growth.

We heard a lot of evidence from larger micro-businesses, that they found it easier to recruit after they had recruited once. This is reinforced by the evaluation of the Recruit Project in Sutherland (see page 34), where a significant proportion of very small businesses helped to recruit for the first time said they would be able to recruit again with minimal or no help: the fears diminish and the obstacles are more familiar. So, in terms of need and additionality there is a strong case for targeting HR based advice at first time

---

<sup>8</sup> Capelleras, J-L, Mole, K, and Greene, F. (2004) Start up size and subsequent growth: English and Spanish new businesses Compared. CSME Working Paper No 83.

recruiters, some of whom will produce a long-term return because they will go on to recruit others (25% of those on the Sole Trader Initiative in North West Wales who recruited one person went on to recruit another during the 3 year pilot). Another, much smaller, target group would be the larger start-ups identified as potential fast growers by Capelleras.

### **Issues for policy makers:**

- *There is no 'typical' micro-business: the group displays an exceptional diversity from long term one person enterprises to fast growth businesses 'passing through'. It is therefore difficult to construct 'a policy for micro-businesses'.*
- *The smaller the business, the harder it is to separate recruitment issues from business growth issues (i.e. they can't grow without recruiting) – so it is particularly important to encourage and support an integrated local approach to support for micro-businesses.*
- *What this means in practice is:*
  - *Sustained support for the Business Gateway service and brand – and for this service to be embedded within a wider local offering of micro-business support in each Local Authority area and managed and promoted as 'one service'.*
  - *Clear recognition of the significance of micro-businesses as employers – and in particular as employers of unemployed people – in developing and refining national support for welfare to work.*
  - *Providing support for systematic learning and sharing of practice in helping micro-businesses to recruit.*

### **Issues for practice:**

- *The diversity of the micro-business group means that – more than any other business grouping – support needs to be tailored to the specific situation and need of each business. This is likely to require personal support – both to help the business owner clarify their need and to create an appropriate way forward which draws on the array of existing support.*
- *As a corollary, generic advice and information is less likely to be valuable – and may even be unhelpful and off-putting.*
- *The evidence suggests that the obstacles to taking on the first employee seem particularly high – but once a micro-business owner has done it once they will find it easier to do it again. It is the smallest micro-businesses for whom support is likely to make the most difference (in terms of whether they recruit or not) and it is the larger micro-businesses that currently are more likely to recruit.*

- *The targeting of a micro-business support service therefore needs to have very clear objectives, in terms of both markets and service offer:*
  - *HR support is most in demand from smaller micro-businesses and can have the objective of helping the owners of smaller micro-businesses with the potential for growth into the habits and practices of recruiting*
  - *Business strategy and marketing may be a greater need for larger micro-businesses in further increasing their workforce.*

### **1.3 There are distinctive issues around recruitment for micro-businesses**

Our focus groups and interviews have helped us identify some distinctive issues around recruitment for micro-businesses.

A frequent comment was that micro-businesses tend not to have HR (or legal) expertise or experience – owners felt that this was not recognised by some public agencies / schemes.<sup>9</sup>

*The co-owners of a gardening franchise were given a financial incentive to employ (but then did so unsuccessfully – they had too few applicants then selected a recruit who did not perform). As a result they said: 'We held back employing people for a few months while we did some research and we spoke to some HR companies'.*

A new employee makes a significant difference to a micro-business and can substantially change its dynamics and capacity. With so few staff working together, people need to get along.

*The owner of a fish resale business with ~3 employees told us that 'in a micro-business, priority one is making sure the workplace is harmonious...when we are such a small number everyone has to get on with each other.' As a result he gets all staff to agree to the final selected candidate during recruitment – he noted that this is particularly important in a small community where people are likely to have existing relationships.*

As a corollary, every employee is critical and their performance is reflected directly and rapidly in the 'bottom line'. Some reported that a micro-business (unlike a larger business) can't carry any 'deadweight'.<sup>10</sup> Micro-businesses can find that they have little capacity to provide cover for employees who are not available, for example from maternity leave, sickness or other absences.<sup>11</sup> This makes 'getting the right person' even more important. For at least some of the micro-businesses we talked to this included not recruiting people who were likely to cause such capacity issues.

---

<sup>9</sup> Six businesses referenced this

<sup>10</sup> Two businesses referenced this

<sup>11</sup> Three businesses referenced this

*The owner of a travel agency with ~4 staff explained that if people are absent through sickness the rest of the staff just end up working harder: 'I am in 6 days a week but I am no better off'.*

*'We don't have... the ability to move people into covering jobs where people are absent'. (Owner of a car repairs garage with ~4 employees)*

Another difference between micro- and larger businesses can be that employees are required to undertake a broad range of tasks (including some unforeseen)<sup>12</sup>.

*'It's all hands to the pump at all times [and you have to] turn your hand to many different tasks'. (Owner of tour operator with ~2 employees).*

*The co-owner of a caravan park with ~1 seasonal employee told how he needed that employee to be someone who could do a whole range of tasks and be able to be trained in many new tasks. He gave the example of bigger companies calling in contractors to fix a pot hole whereas they need to do themselves.*

Much of the practical support focusing on helping micro-businesses recruit has, as a result, concentrated on providing HR advice (see Section 3: Practical Approaches). This has often been set in a wider context of business growth support – that is, starting with the need for and viability of recruitment as part of a business growth strategy, and providing a rounded service from a variety of sources.

#### **Issues for policy makers:**

- *The lack of HR resources in most micro-businesses means that any administrative demands around recruitment have a disproportionate impact on the effective running of the business. In the absence of this capacity, it is important to ensure that demands on micro-businesses around recruitment are realistic, and support around the HR/administration tasks as accessible as possible.*

#### **Issues for practice:**

- *The provision of HR advice is a priority when helping micro-business recruit. This advice needs to be firmly set in a business growth context.*

---

<sup>12</sup> Two businesses referenced this



## 1.4 Micro-business owners develop a highly flexible approach to employment

Our interviews revealed a highly flexible and dynamic approach to creating capacity to respond to changing demand for micro-business goods and services. In part this is a response to the 'feast or famine' nature of some micro-businesses – trying to manage significant fluctuations in demand for their services which may be about winning or losing contracts or about seasonal demand – or a combination of both.

If anything this flexibility and dynamism appears to be increasing as micro-businesses try to ensure that they are meeting fluctuating demand while not incurring unnecessary costs when demand is lower. This applies most to micro-businesses at the smaller end of the size range, though as businesses grow in size they often have a significant 'fringe' of highly flexible workers who can be called on as needed.

We came across a number of approaches in our discussions:

- Micro-businesses which work as part of an informal network of similar businesses, sub-contracting back and forth between each other as needed, in response to fluctuating demand.
- Sub-contracting to freelance staff outside such a network. The FSB's 'Voice of Small Business Survey' conducted in June 2012 (see Appendix 7 on page 71) revealed that around a third of their membership in Scotland regularly sub-contract work to other self-employed people. The majority of members cited the sporadic nature of their work as the main reason for operating in this way. However, over a third (38%) reported that they simply could not afford to recruit permanent staff, while 26% said they were concerned about the regulatory risk of employing staff.

*'I would rather work with a pool of associates than employ someone – because you know they have already done the job.'* (Self employed with a translation business.)

- Providing short-term/part-time opportunities among a network of people known and trusted by the owner – who may be based in their own homes and not at the workplace.
- Drawing on family members as needed.

*'Legislation hasn't caught up with this and seems to be based on long-term, full-time 40 hour a week employees working at a workplace.'* (Edinburgh focus group)

There are a number of different issues at play here:

- Many owners expressed a general preference to recruit full-time, reliable, committed staff – and much of the alternative behaviour stems from not being able to find such people. So there is a significant issue about how to help potential recruits display the disciplines, flexibility and reliability that smaller businesses need.
- Some micro-businesses need to grow more gradually than the addition of a new full-time recruit may allow. Many of the businesses referred to the big jump involved in taking on their first or second recruit (increasing employment by 100% and 50% respectively). For many this can be a step too big to take at one time and they preferred to expand in a more manageable way, by taking on part-time staff and expanding their hours as the business grew. Wage subsidies can be one way of helping micro-businesses manage this transition to a full-time recruit financially, but this only deals with the financial risk, while it is clear that many of the perceived risks and difficulties around recruitment are not related to money.
- From one of the focus groups, there emerged a strong view that the evolving pattern of part-time, flexible staffing and sub-contracting was becoming well established and valued – while the legislative framework was based on the idea of full-time, long-term employees. While this pattern may have been driven by difficult economic times, it may reflect an effective response to business needs and so recruitment advice should be able to take clients through the different approaches possible to enhancing business capacity.
- We did hear some limited evidence that a preference for sub-contracting and using freelance staff was related to an exaggerated sense of the risks and difficulties involved in recruiting – so a support service may contribute to a change in this way of operating in some micro-businesses.

***Issues for policy and policy makers:***

- *Micro-businesses are highly creative and flexible in putting in place the support they need to respond to wide fluctuations in demand for their goods and services. It is important that this is recognised when national policy around employment and employment support is being developed.*

***Issues for practice:***

- *For some micro-businesses the conventional approach of recruiting a full-time member of staff may be inappropriate. It will therefore be important to help micro-businesses explore the full range of ways in which they may enhance their capacity before agreeing a solution.*
- *Some micro-businesses need to be helped to expand their capacity in a series of smaller steps rather than the big steps involved in taking on full-time employees. While a wage subsidy can help to negotiate this step it only deals with one aspect of the risks and difficulties experienced by micro-businesses and without the context of a wider support service its impact may be diminished and it may*

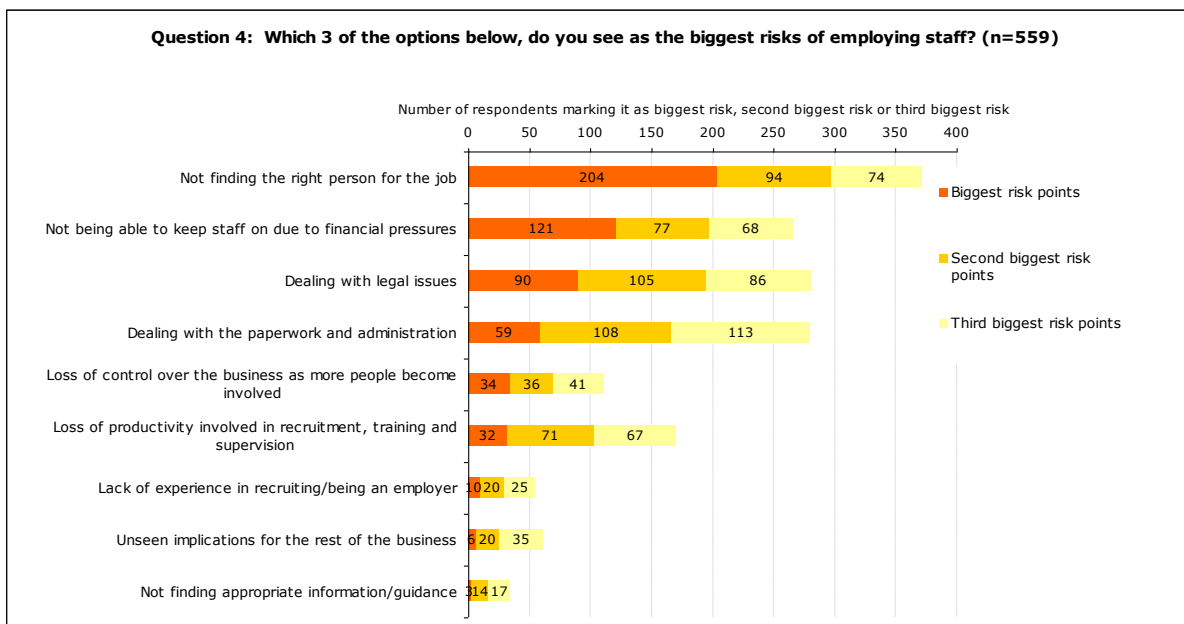
*encourage some owners to recruit in ways that may not prove robust in the longer term.*

## 1.5 The risks, difficulties and obstacles around recruitment

Most of the micro-business owners we talked to had a keen sense of the risks involved in recruitment. The perceived risks include:

- Getting the role of the new recruit right.
- Getting the recruitment and interview process right and avoiding 'discrimination'
- Avoiding the 'wrong person'.
- Not being able to afford a recruit – 'Will I be able to sustain the cost of this position?'
- The impact on a 'lifestyle' business: would it enhance or distract from the chosen 'lifestyle'.
- The costs that may be involved in employing someone, including:
  - The costs of recruitment
  - Salary costs plus on costs like NI and pension costs
  - The costs of underperformance
  - The costs of dismissal
  - The costs of sickness/maternity/paternity
  - The costs of health and safety requirements
- Being able to respond quickly and effectively to poor performance.

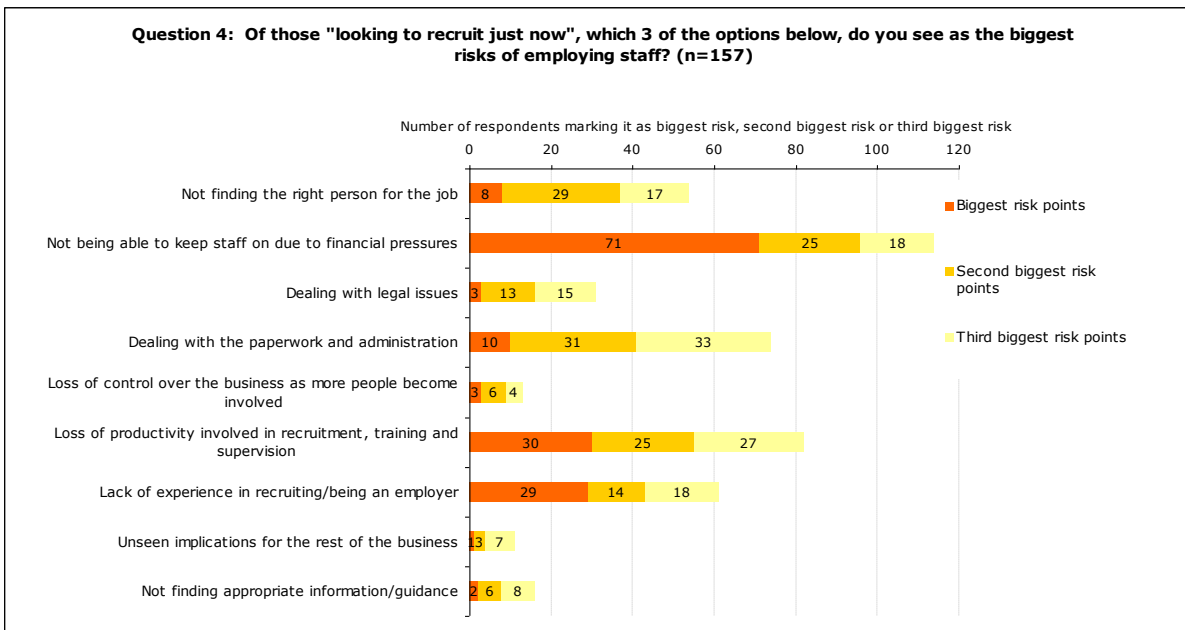
Among all respondents the biggest risks around recruitment (Figure 2, below) were 'not finding the right person for the job', 'not being able to keep staff on due to financial pressures', 'dealing with legal issues' and 'dealing with paperwork and administration'.



**Figure 2:** Perceived risks of employing staff [Source: FSB/Rocket Science survey 2012]

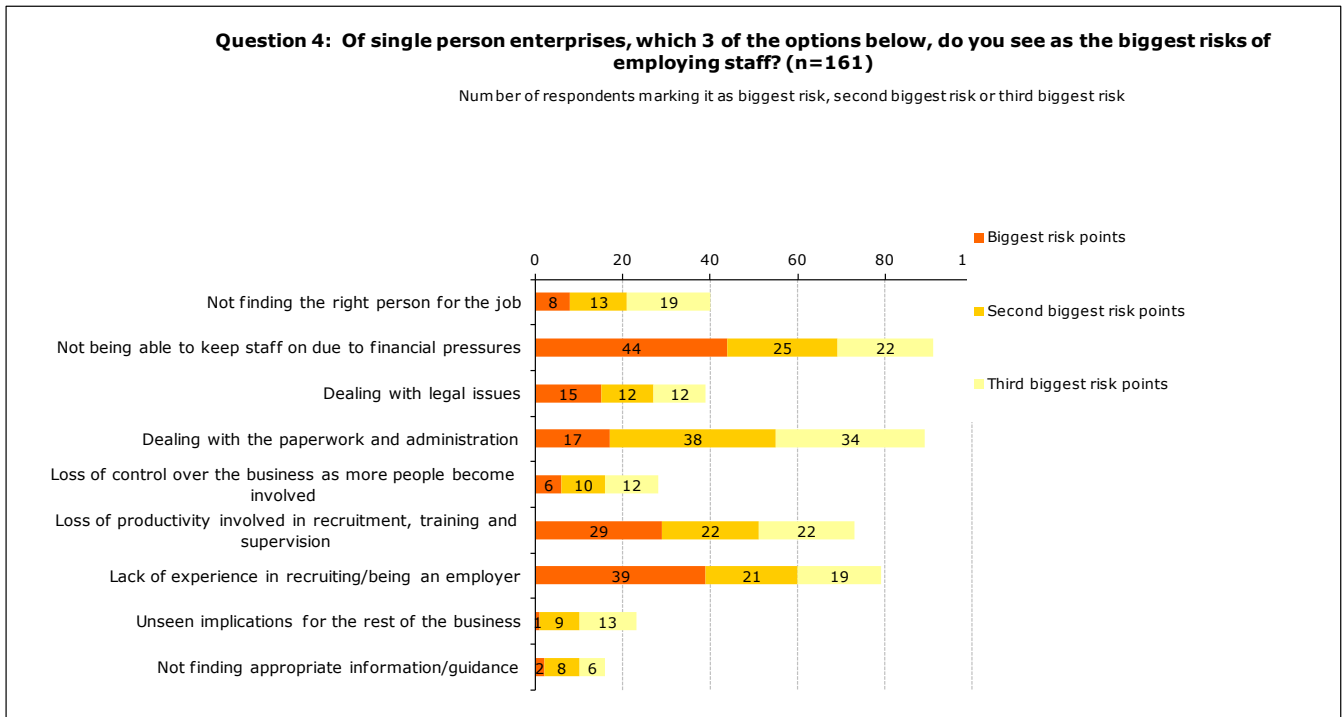
Single-person enterprises also selected 'not being able to keep staff on due to financial pressures' and 'dealing with paperwork and administration', but this group were more concerned than those already employing about 'lack of experience in recruiting/being an employer' and 'loss of productivity involved with recruitment, training and supervision'.

The relative significance of these risks changed significantly for those who were already employers, with 'not finding the right person' easily outweighing all other risks. 'Lack of experience in recruiting/being an employer' and 'loss of productivity involved with recruitment, training and supervision' were also much more important for them than the sample as a whole.



**Figure 3:** Perceived risks of employing staff by those looking to recruit now [Source: FSB/Rocket Science survey 2012]

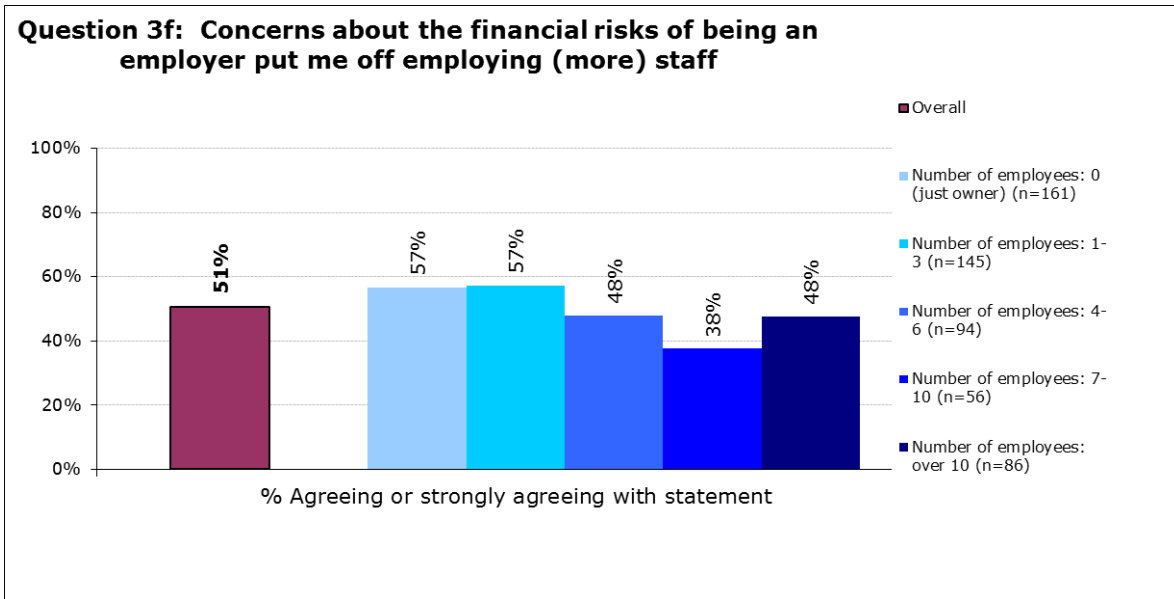
The pattern for single-person enterprises (Figure 4, overleaf) reflected the pattern for those thinking about recruiting, but the 'lack of experience in recruiting/being an employer' took on added importance.



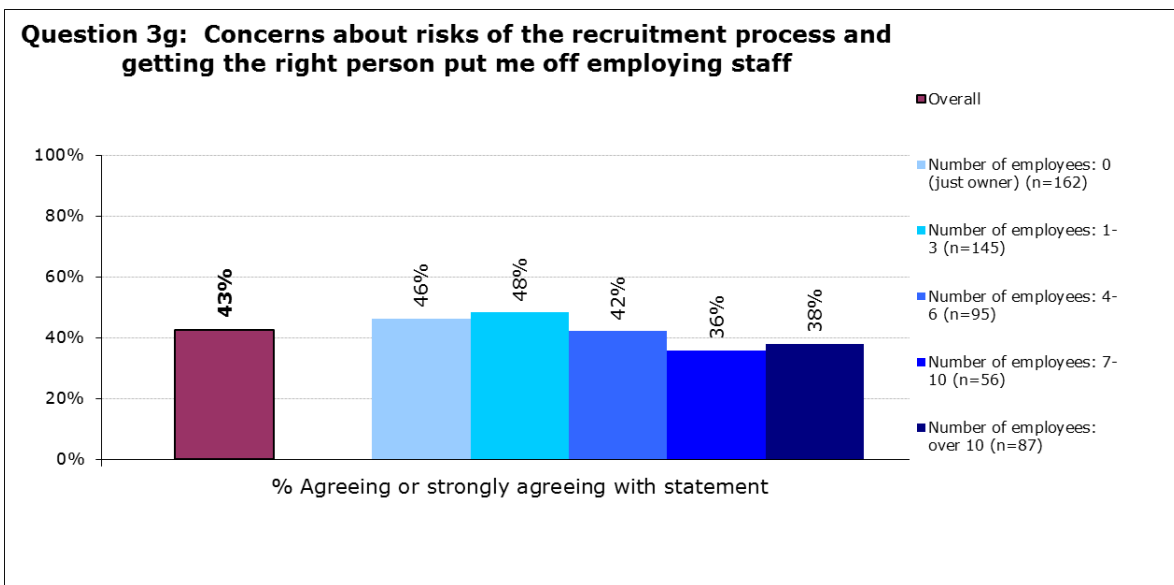
**Figure 4:** Perceived risks of employing staff by single person enterprises [Source: FSB/Rocket Science survey 2012]

We asked specifically about three areas of risk: **financial risk** ('concerns about financial risks of being an employer put me off employing [more] staff'); **recruitment risk** ('concerns about risks of the recruitment process and getting the right person put me off employing staff'); and **legal risk** ('concerns about the legal/regulatory risks of being an employer put me off employing staff'):

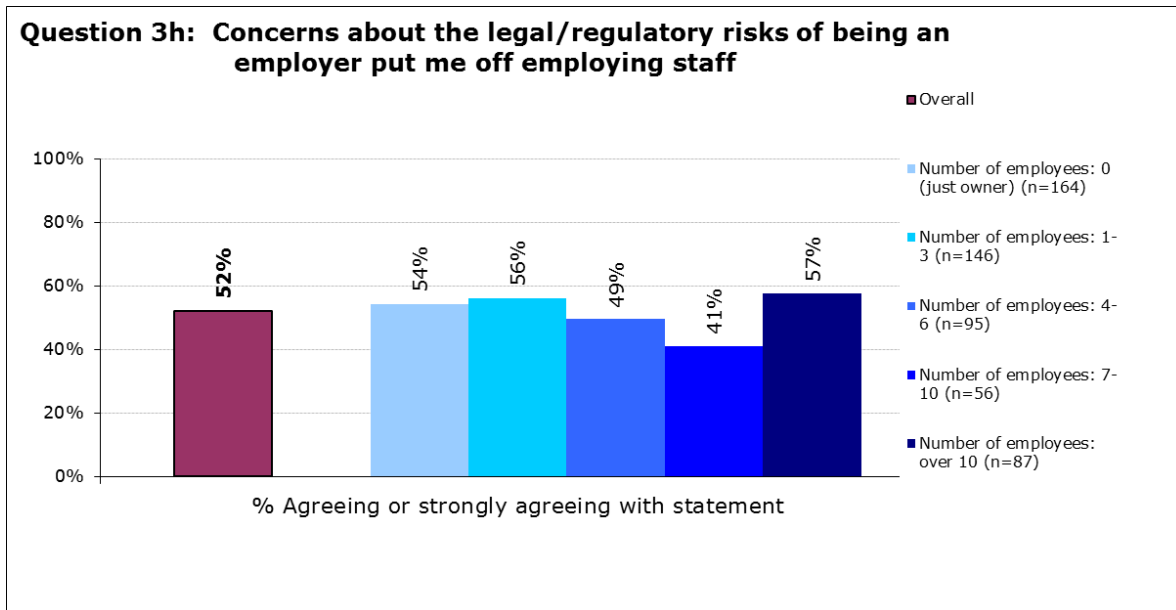
- Many/most employers were 'put off employing staff' by the financial risks (51%), recruitment risks (42%) or the legal risks (52%).
- Single person enterprises were a little more likely than other businesses to be put off than small businesses by the financial risks (56%), recruitment risks (46%) or the legal risks (54%).
- The majority of those identifying one of these as a risk which 'puts them off employing staff' were put off by all three of these risks (i.e. financial risks, recruitment risks and legal risks). This was particularly true of single person enterprises – of those expressing agreement/disagreement to all three risks 45% of single person enterprises agreed that all three risks 'put them off employing staff' with only 10% disagreeing in all three cases that these risks 'put them off employing staff'.



**Figure 5:** Proportion concerned about financial risks of employing staff [Source: FSB/Rocket Science survey 2012]



**Figure 6:** Proportion concerned about risks of recruitment process and not getting the right person when employing staff [Source: FSB/Rocket Science survey 2012]



**Figure 7:** Proportion concerned about legal/regulatory risks of employing staff [Source: FSB/Rocket Science survey 2012]

It was clear that some interviewees had been exposed to 'horror stories' where recruitment or employment had backfired on a business, particularly in terms of:

- Businesses recruiting unsuitable employees.
- Businesses finding themselves challenged when sacking employees (e.g. unfair dismissal).
- Time spent on administrative burdens.

We were told numerous such second-hand accounts (and also some from interviewees' own experiences) and these are likely to be much repeated among these individuals' business networks.

During one of the focus groups, we explored in more detail the perceived risks around how difficult and expensive it might be to sack poorly performing staff. It became clear that the anxieties were related to the participants' regular experience of managing poor performance. In other words, if they were consistently able to find reliable and committed staff this anxiety would not be an issue for them. This has significant implications for business support services in ensuring that more 'work ready' candidates are available for employment. This reflects the work of Richard Layard,<sup>13</sup> which suggests that employers employ people in direct proportion to the number of genuinely work ready candidates they are presented with.

<sup>13</sup> Layard, R, Nickell, S and Jackman, R (2005), *Macroeconomic Performance and the Labour Market*, Oxford University Press.

There was a noticeable gap between the perception of risk and the evidence-based realities of the risk:

- Those we talked to regularly raised the risk of being taken to an Employment Tribunal. In fact, the risk of a successful tribunal outcome is negligible. For small businesses (i.e. employing 49 or below) which have not had previous Tribunal experience the chance of being taken to Tribunal is 0.006% (Saridakis et al., 2006<sup>14</sup>).
- A specific example of apparent risk based on a lack of HR expertise was about the EU Working Time Directive (the 48 hour rule). Fears being expressed at one focus group that if an employee (unknown to the business owner) took on another part-time job (taking them over the 48 hour limit) without telling the owner, the owner would be liable for a fine. In reality this will almost never be the case.

While many of the risks appear to be regularly overstated by the micro-businesses we interviewed, there are significant risks that businesses take in recruiting people and also some difficulties and obstacles that they report either themselves or others experiencing. We heard a number of examples where it was clear that these difficulties had put them off recruiting.

These risks, difficulties and obstacles were almost all around three interlinked areas which are described in Figure 8 overleaf:

---

<sup>14</sup> Saridakis, G., Sen-Gupta, S., Edwards, P., Storey, D.J. (2006) Employment Tribunal Cases: The Impact of Enterprise Size on Incidence and Outcomes. CSME Working Paper No 89.



<b>Type of issue</b>	<b>Examples of specific areas</b>	<b>Difficulties and obstacles</b>	<b>Risks</b>
<b>Legal and regulatory issues around recruitment</b>	Calculating and paying wages – student loan payments, PAYE tax, sick pay  Dismissals – getting process right to avoid tribunal  Employee rights - maternity leave, sick pay, other absence  Health and Safety legislation	Time/money to gain and update knowledge on regulations  Time/money to undertake administration around regulations  Employee absence – finding cover  Requirement for staff qualifications in some markets	Employees choosing to use their rights in ways that damage business  Failing to comply (especially around dismissals) leading to legal action/tribunals
<b>The recruitment process</b>	Finding the right person  Not finding the wrong person – ‘can’t get rid of staff’	Time/money to gain and update knowledge on how to recruit (including contracting etc.)  Time/money to undertake administration around recruitment	Taking someone on who chooses to use their employee rights in ways that damage business  Undertaking recruitment but not finding a suitable candidate  Personality clashes in small team
<b>Financial issues around recruitment</b>	Base costs of employment – (minimum) wage, NI  Pensions	Time/money used in staff inception/training  Initial low productivity of a new recruit  Time/money to gain and update knowledge on new pension legislation	Having too many employees for workload  Risk of key staff leaving with associated cost  Risk to business of tribunals/legal actions  Risk of impact on business due to staff error

**Figure 8:** Issues around recruitment as identified by micro-business owners [Source: Rocket Science interviews 2012]

**Examples of legal and regulatory risks and difficulties:**

- *'Legislation stops me [employing someone]'. Owner of three small businesses with ~0 employees*
- *'We would increase staffing but the legislation is such a minefield now'. 'For everyone like me the biggest fear is this sort of thing [tribunals and dismissals]'. (Owner of a travel agency with ~4 employees).*
- *'When you work 100hrs per week you don't have time for paperwork'. (Co-owner of a restaurant with ~1 seasonal employee).*
- *'I am likely to have a break before replacing this individual [who had not performed]...the experience has somewhat put me off recruiting in the future.'* (Co-owner of a family chemical manufacture business with ~10 employees)
- *We spoke to the owner of a small nursery. New legislation means that some roles in nurseries require specific qualifications. 'One of the issues is the availability of quality qualified staff'; another is that 'qualified job seekers often choose to get better jobs elsewhere'.*
- *'I am looking to take someone on. The problem with employment for me is health and safety.'* Owner of a door and furniture restoration business with ~1 employee.

**Examples of recruitment risks and difficulties:**

- *'We didn't think it would be easy to find the right person ... but we didn't think it would be this hard.'* As a result of a negative experience the co-owners of this gardening services franchise decided to delay taking on another member of staff for a few more months.
- *The owner of a telemarketing call centre with ~10 employees said that she felt there were 'loads of risks': 'when we advertise a job we get a wealth of applications – last vacancy we had we had 300 applicants... 40% don't show for interviews.'* She finds it time consuming and expensive to go through this process. She has work for 20 people but she currently employs only 10 people.

**Examples of financial risks and difficulties examples:**

- *'I am put off recruiting – the direct cost of employing people is high. 'If you need to fire people, the process is hard and expensive in costs and management time'.*

For some micro-businesses, recruitment and subsequent employment are seen as fraught with difficulty. In our interviews, recruitment of staff seemed at best to be a bearable necessity, while for some it was so undesirable they were considering or undertaking downsizing. For these people having fewer employees would make their lives easier (and might increase their income).

*We spoke to the owner of car restoration garage with ~4 employees who had already downsized around 10 years ago after finding more work. More employees were not making him more money. He now 'wonders whether doing it alone would make an easier life and more money'.*

*The owners of a 100 seat restaurant downsized some years ago to a 30 seat restaurant to try to make some money for themselves (they previously paid staff but made a loss). They report making very little money but would 'rather be closed more and earn less money than take someone else on'.*

*One business woman had given up an IT micro-business to own a croft and was hoping not to employ anyone in future following her bad experiences. This is both a lifestyle choice (doesn't want the employment red tape) and a business choice (employment red tape costs too much of her money). For her the red tape issues include working out how to pay people sick pay, working tax credit, people with student loans etc.: 'It is not any one of these things – it's all of them together... the administrative burden becomes too much at some point'*

*The owner of an animal care business in Fife with ~3 employees told us of the 'burden' of employing people and the costs (which means that she and her husband find they are working for £2 per hour while paying staff £6-£7 per hour). 'I am carrying the [emotional and financial] burden of all these jobs and it is weighing heavy – so I have put the business up for sale'.*

*'I have taken legal advice this year on a couple of occasions [in relation to employment issues] and the balance seems tipped too far in the direction of the employee over the employer...Emotionally this means I regret taking employees on but logically we need them to run the business. It is time-consuming and tiring to sort this out.'* (Co-owner of a family chemical manufacture business with ~10 employees).

*'We are trying to automate so we don't have to employ as many people'. Owner of a specialist sport equipment manufacture and export business with ~14 employees*

**Issues for policy makers:**

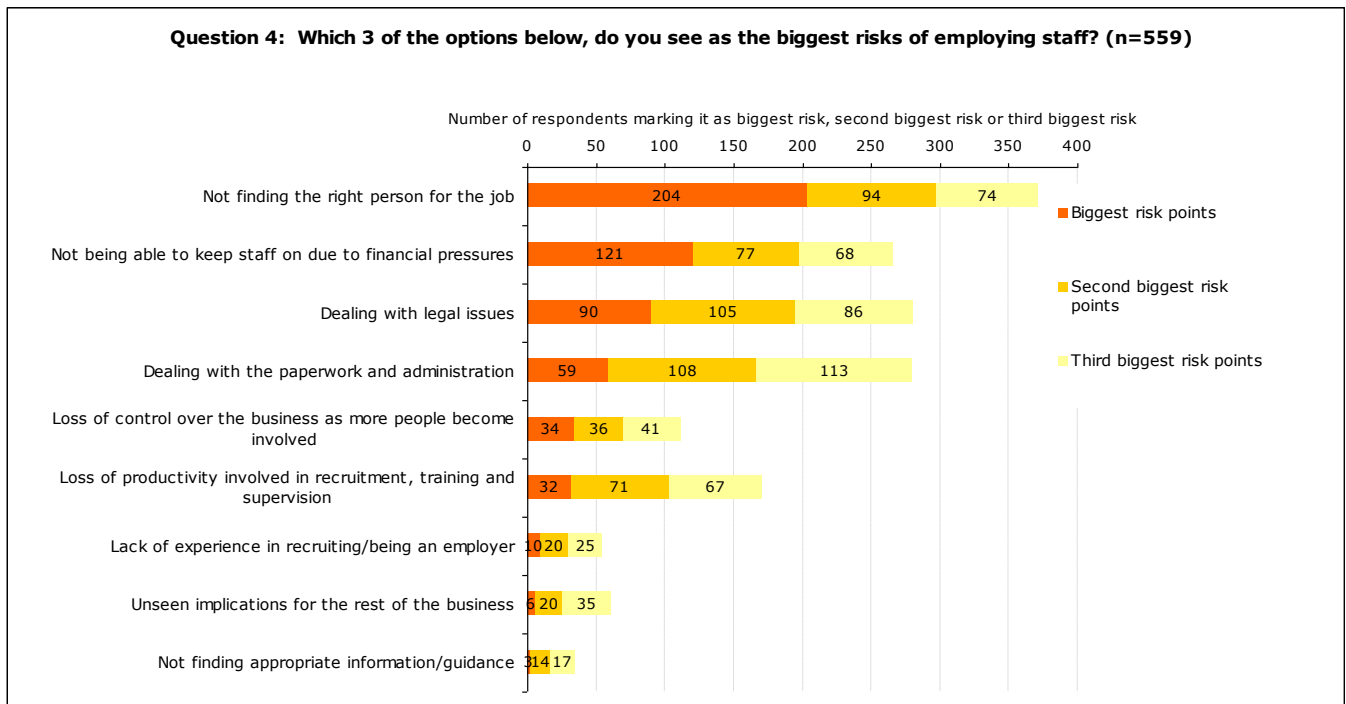
- *The perceived risks associated with employment appear to be a major factor in businesses limiting their growth. There does appear to be a significant gap for many micro-business owners between perceived and actual risks. There is a role for national agencies in promoting some of the realities around these risks and ensuring that misconceptions are challenged. In addition there is a role to promote clear and simple messages around the practical realities of some key areas which create anxiety like the EU Working Time Directive.*

**Issues for practice:**

- *The consistency of perceived risks that we came across means that there is a vital role for local support to play in helping owners to gain a more realistic sense of risks – and in helping them to minimise and manage them. This is likely to involve placing the risks around recruitment in the wider context of their business stability, viability and priorities – in other words, ensuring that the business is well placed to benefit from recruitment.*
- *In particular there appear to be opportunities to:*
  - *Provide clear and simply information – designed specifically for micro-business use – about common potential risks, their actual incidence, and how to minimise and manage them*
  - *Help them clarify the role and functions of a new recruit to ensure that the appointment maximises benefit to the business*
  - *Support them through the recruitment process to ease progress through the administrative obstacles and legislative fears*
  - *Provide advice on creating an appropriate contract which sets out the role and tasks, expectations on both sides and a code of conduct*
  - *Provide advice on the core aspects of inducting, managing and supporting a new recruit – a simple list of dos and don'ts*

## 1.5 Getting the match right

Our survey (Figure 9, below) reveals that 'not finding the right person for the job' is seen as the biggest single risk of employing staff (though interestingly, for those who are on the verge of recruiting, long term affordability is seen as a much more significant risk):



**Figure 9:** Biggest perceived risk of employing staff [Source: FSB/Rocket Science survey 2012]

However, our interviews revealed that the issue of 'match' goes beyond the matching of a vacancy with an appropriate candidate. It starts well before this and goes on after placement and covers questions such as:

- What are the strengths and weaknesses of current business manager and other staff? How could a recruit complement these?
- What kind of role do I need the new employee to play?
- What kind of employee will fit in well as a member of the team and contribute to the culture of the business?
- What are the implications for the roles and focus of existing staff?
- What space will this free up for the business owner and where should they focus this time? What skills/knowledge/systems do they need to gain to fulfil any new role effectively (e.g. more time on marketing/business development)?
- Will the new recruit be able to adapt flexibly to the rapidly changing needs in a small business? (This question appears to be asked particularly about young people.)

Evidence from mentors currently working with micro-businesses emphasised the significance of their support in helping business owners clarify the most appropriate role and tasks for a new recruit to fulfil, and working through the practical implications for them (e.g. where should they focus any time that would be freed up?) and other staff (e.g. does this provide an opportunity to enhance their responsibilities?).

There was a common refrain from the micro-businesses that support services claimed to be customer (i.e. business) focused but in practice did not really listen to their needs: they were meeting their own objectives in offering potential recruits (i.e. placing unemployed/young people) rather than helping business owners clarify their needs and then responding to these. This has two significant implications for service design and delivery:

- The local recruitment service for micro-businesses needs to be able to offer a range of potential recruits, including those who are newly redundant and those who are in work who may be looking for a change. Only in this way will local partners ensure that they are providing a genuinely 'demand-led' service. In other words, the service needs to have business growth objectives rather than welfare to work objectives. It could be argued that in this way longer term welfare to work objectives will best be served, because it builds trust in the service and may lead to more jobs being created.
- Local support services for young/unemployed people face a challenge in raising the sights of their clients and ensuring that they can compete with others – who may have already worked – in a highly competitive labour market. Employer surveys (see Appendix 7 on page 71) show clearly that it is soft skills that they value most highly – and miss most frequently.

Many owners expressed disaffection with the quality of young people. While most of those we engaged with accepted that there are some very able and committed young people out there, they struggle to find them. We heard from several owners who said they had decided not to employ school leavers again. There is a need to explore this area in more depth as there are likely to be a number of issues around this, for example:

- Do young people find jobs with micro-businesses appealing?
- Are micro-business owners being presented with a group which is not representative of young people?
- How skilled and confident are micro-business owners at managing, developing and motivating young people?

Some of the issues around appropriate recruits were about the lack of the habits and disciplines of work – turning up on time, behaving responsibly, understanding the impact of day to day performance on business viability. Employers recognised that work experience and work trials were two ways of helping to embed these kinds of disciplines and behaviours. There was in particular an emphasis by owners on young people gaining an in-depth experience of work as the best way to prepare young people for work.

**Issues for policy makers:**

- *There are a number of policy strands that are currently being reinforced in schools, through enterprise development approaches and the implementation of Curriculum for Excellence, both of which tackle some of the issues about young people and employability that were raised by micro-business owners. There may be scope for the active promotion of well managed micro-businesses as a place where teamwork and a wide range of experience provide a good place to start a career.*
- *The value of a young person having a significant experience of doing a valued job in a workplace was stressed by many owners as a way of helping develop appropriate disciplines and behaviours. This is reflected in current moves to look radically at work experience and make it a better and more valuable experience.*
- *There is a need to explore in detail the issue of small businesses and their engagement with young people – both in terms of the questions raised above and the extent to which jobs in small businesses can provide a strong grounding for a career.*

**Issues for practice:**

- *Helping micro-business owners identify appropriate roles and tasks for a new recruit and fully realising the benefit of recruitment by building the skills of existing staff, combined with ensuring a good match between requirements and the skills and attitudes of a recruit will enhance the sustainability of recruitment as part of a business growth strategy.*
- *Many micro-businesses need help to clarify an appropriate role for a recruit – one that clearly complements existing owner and staff skills and experience and will make a difference to business productivity and profitability.*
- *This needs to be complemented by support which helps owners think through the practical implications for the roles and skills of the owner and other staff in order to gain greatest value from a new recruit.*
- *The local employer offer for micro-businesses needs to be set within a wider recruitment offer including short term unemployed people and those in work and wanting a change to ensure that micro-businesses are helped to find the recruit they need. This may require partnership working with private sector agencies – while ensuring that micro-businesses can avoid the fees payable, which for most will not be affordable.*
- *There is a need to ensure that those supporting and training unemployed people are focusing on the soft skills identified by employers as essential<sup>15</sup>.*

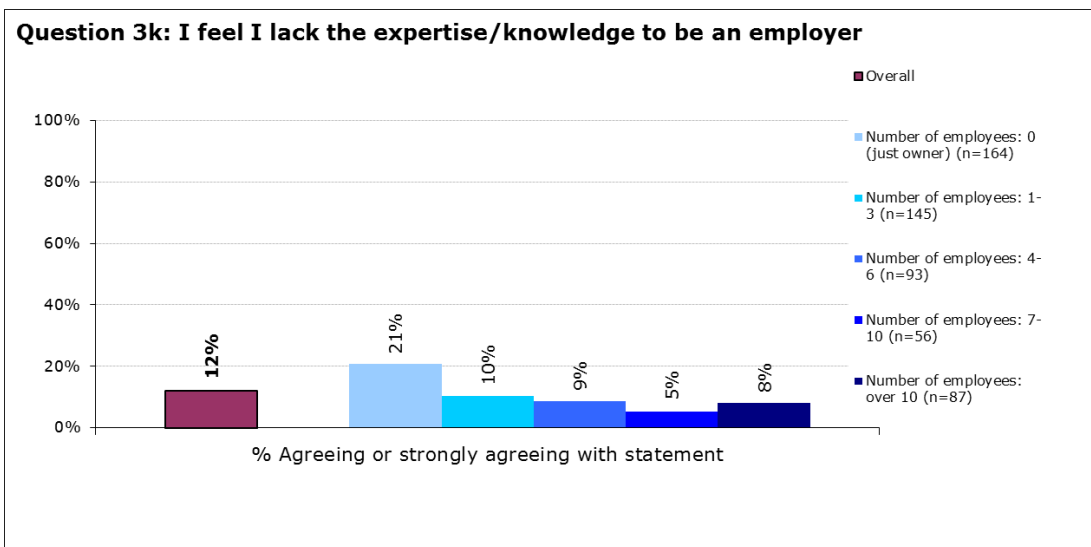
---

<sup>15</sup> As set out, for example, in the Fife Employer Standard, Rocket Science, 2012 for Opportunities Fife

## 1.6 Managing staff and creating 'confident recruiters'

There was unease among many of the micro-business owners we talked to about their lack of skills and experience in managing staff – and the time that it can take. Nearly all the participants in one focus group agreed that they would welcome the opportunity to develop their skills in managing staff but they were not aware of any programmes that provided this kind of support.

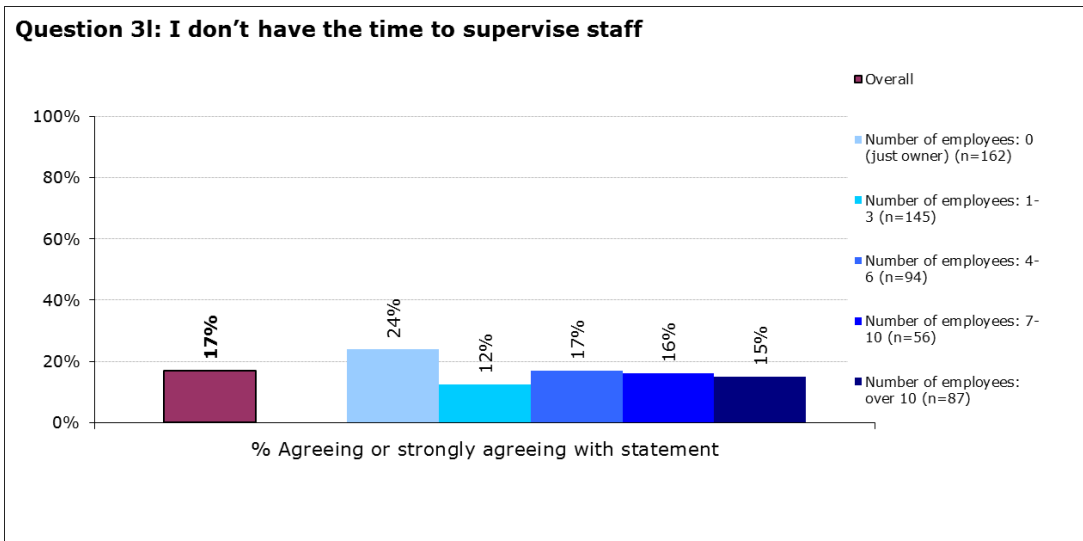
This was not reflected in the survey responses (Figure 10, below), which revealed that only 12% felt they 'lack the expertise/knowledge to be an employer'. However, 21% of single person enterprises felt they lack the expertise/knowledge, so this seems to be an issue that is – predictably – concentrated on the smaller micro-businesses.



**Figure 10:** Lack of expertise/knowledge as perceived by micro-business owners [Source: FSB/Rocket Science survey 2012]

17% agreed that they 'don't have the time to supervise staff' (Figure 11 overleaf). This includes 25% of single person enterprises but also 15% of small businesses.





**Figure 11:** Lack of time to supervise staff as perceived by micro-business owners [Source: FSB/Rocket Science survey 2012]

For some the lack of knowledge / experience around recruitment and managing people can be dealt with through research, support and learning - after which they feel able to recruit more confidently.

*In the course of one of our telephone interviews an owner of three small businesses who uses some self-employed contractors but no employees changed in his attitude from being strongly against employment (as there were too many risks and difficulties) to a recognition that if he knew more about the health and safety requirements of employment he might take on a member of staff.*

It is not always easy to provide appropriate support - and sometimes support can make matters worse.

*The owner of a bookkeeping service who employs someone for administrative support for only 5 hours per week was looking to take on a Modern Apprentice but she was put off by the attitude and requirements of someone who came to her workplace to assess the health and safety implications for the potential Apprentice.*

We found that some micro-businesses are run by what we have called 'confident recruiters'.<sup>16</sup> These owners are aware of the risks they face during recruitment but are realistic about the actual level of these risks and feel confident that they can deal with any issues that arise. Although they were not under-recruiting, the risks, difficulties and obstacles they faced made them feel that recruitment was a 'business necessity' that they are capable of managing rather than a 'positive experience'. The risks and difficulties

<sup>16</sup> Seven interviewees and several focus group members could be categorised this way

they identified included the time spent on PAYE, dismissal proceedings, sick pay and maternity leave.

The fact that the owners we talked to included such people means that local learning groups focusing on the issue of managing staff (i.e. based on peer learning and sharing) may be an appropriate way of developing confidence about how best to manage staff.

***Issues for policy and policy makers:***

- *Knowledge and confidence about managing staff – and the common issues that arise and how to deal with them – should form part of any national approach to small business support.*

***Issues for practice:***

- *Some micro-business owners (particularly single person enterprises) felt that they would like to be more knowledgeable and confident about managing staff – but they were unaware of any sources of such support. This strand of work would be valued within a local approach to supporting recruitment by micro-businesses.*

## 2 Practical approaches

This section of the report reviews some past and present initiatives to help micro-business owners recruit successfully.

Local initiatives that focus specifically on helping micro-businesses recruit are surprisingly thin on the ground, both in the UK and internationally. However, there is a growing interest in the significance of the opportunity that micro-businesses present – both in terms of job creation and specifically in creating opportunities for unemployed people.

In the Highlands, the Highland Employability Partnership (Highland Works), with Highland Council and European assistance, has funded Business Gateway in the Highlands to develop a Specialist Recruitment Service to provide a complementary offer to its mainstream services for SMEs. A complete package of free, personal, local support is available to guide small businesses through the entire recruitment process. Although these initiatives focus on SMEs, the structure of employment in the Highlands means that most of those who are using the support to date are micro-businesses.

Two specialist advisers have been employed to 'address all employability and employment law matters to enable employers or potential employers to consider their capacity to employ, to overcome potential barriers to employment growth and to prepare for recruitment'.

Businesses are referred by the Business Gateway advisory team and Highland Works partner agencies. Typically the businesses they deal with have not recruited before – they don't have HR policies, contracts or structure in place. The most common tangible form of help has been the production of an appropriate contract of employment for new staff which sets out the role and tasks involved, the mutual expectations and a code of conduct. Other issues regularly covered include financial implications, employment law and Health and Safety requirements. There is significant signposting to other services – for example, for grants and training funding.

*'Our clients are terrified – of doing something wrong, getting stuck with the wrong person. They don't know where to start.'*

The experience of the advisers is that the long lasting family business is the most cautious when it comes to recruiting, whereas young business owners are more likely to 'go for it'.

*'Some of the businesses have definitely recruited when they wouldn't have without the support – they say they would have given up because of bureaucracy, uncertainty around contracts and tax/NI – and no time to do their homework properly.'*

From a start in April 2012 the advisers have (to October 2012) helped 160 small businesses during the first six months. Almost a third of these businesses have created new posts and advertised them, and half of these have taken on their first employees.

Alongside this, Highland Council runs a long standing Employment Grants Scheme, but Business Gateway stress the significance of providing recruitment advice first with businesses proceeding to gain EGS support if appropriate. To help ensure this the Specialist Advisers get in touch with all those businesses who apply direct to the Highland Council EGS (i.e. without going through BG) to check if they need any help in thinking through the job and the issues around the recruitment process. The focus of the engagement is about helping owners think through *'what can commonly go wrong and how to mitigate the risks around recruitment: our job is to take the fear out of recruitment'*. Their experience is that micro-businesses in the Highlands previously found it very difficult to access unbiased support around the recruitment process.

This initiative was based on a previously successful partnership managed approach which operated in rural and fragile areas across the Highlands – The Recruit Project – which started with the appointment of a dedicated adviser to working with small businesses across Sutherland, providing them with support to take them through the whole process of recruitment. The positive conclusions from a review and the achievement of key objectives resulted in a recommendation to extend the project. As a result, the project was extended for a two year period and geographically into Skye, Lochalsh, Wester Ross and the town of Wick. The Recruit Project was evaluated in 2004<sup>17</sup>. The evaluation report recorded that a total of 145 jobs had been created:

*"80% of the micro-businesses involved said that they would have recruited anyway but were equally adamant that the recruitment had taken place earlier as a result of the support from Recruit Project staff, who had made the process quicker and easier. Consequently, 53% said that they would contact project staff again if they decided to recruit. Of those who would not, 67% stated that it was because they had a better understanding of the recruitment process – again another positive outcome for the Recruit Project."*

Overall, the report recommended the further roll out of the approach.

The Recruit Project was in turn was based on the Sole Trader Initiative pilot in North West Wales which involved the appointment of two full-time business mentors backed by a strong partnership approach (including local banks and accountants as well as the FSB) to maximise the reach of the approach. Over the 3 years of the Sole Trader Initiative pilot the project reported that 800 sole traders had become involved, of which 400 had recruited 500 people. Despite a clear focus on this as a business development initiative the strong working relationship with Jobcentre Plus helped ensure that 75% of recruits were previously unemployed. The key features of the Sole Trader Initiative were<sup>18</sup>:

- An overarching partnership of key organisations which were committed from the top.
- A strong focus on the specific business needs of each micro-business.

---

<sup>17</sup> Compass (2004), The Recruit Project Evaluation, for Highland Opportunities Ltd

<sup>18</sup> Rocket Science (2000), Developing micro-businesses through help with recruitment, for Highlands and Islands Enterprise

- Very active promotion of the support available through those who worked with sole traders (e.g. banks, accountants, FSB) and through evening workshops – to ensure a high awareness and that the partners were not just reaching well informed and connected business owners.
- A comprehensive local network of relevant organisations and individuals within them, so that clients could be introduced personally to individuals within sometimes daunting bureaucracies.
- Experienced and very dedicated business advisers who could over time fulfil the role of mentor.
- A Guide to Employing People which presented employing people as a positive action and guided micro-business owners through its complexity.

While the above kind of comprehensive support remains rare, a number of local authorities in Scotland run wage subsidy schemes. South Lanarkshire Council runs two wage subsidy schemes – one to help businesses employ 16 and 17 year olds (South Lanarkshire Youth Jobs Fund) and one to help them recruit 18-24 year olds (South Lanarkshire Jobs Fund). Over the last 2 years 40% of employers helped through the Youth Jobs Fund have been micro-businesses, while since its launch in April 30% of applicants to the Jobs Fund have been micro-businesses.

With about 50% of micro-businesses approaching the fund already receiving advice from Business Gateway; most applicants have had support around thinking through the recruitment process before they reach the Council. But for those who approach the fund without a referral from Business Gateway about half need additional help: about Employer's Liability Insurance, setting up payroll systems (signposting to the business's accountants), Health and Safety issues (signposting to NHS Scotland's Healthy Working Lives Team) and topics such as NI holidays (when referrals were made to a dedicated support team at HMRC until it was recently disbanded). In practice therefore most applicants to the fund have been able to gain support around the HR and related issues around recruitment and the fund administrators see this additional support as central to recruitment success.

There have been a range of evaluations and more substantial studies of the impact of wage subsidy schemes. One of the more significant synthesising reviews of the impact of national wage subsidy schemes (Marx, 2005<sup>19</sup>) draws on a wide range of evaluations of wage subsidy schemes and identifies a consistent conclusion: that the net employment impact of wage subsidy schemes is significantly lower than predicted, even using pessimistic assumptions. *'This appears mainly due to larger than expected deadweight losses and, to a lesser extent, substitution effects.'* One of the reasons stated for this is that particularly at times of high unemployment, target groups for recruitment are large and varied and employers tend to 'skim' the more able while still getting a subsidy. However, it is important to stress that this review – and many others like it – focus on the extent to which these schemes achieve their objective of helping priority unemployed

---

<sup>19</sup> Marx, I. (2005) Job subsidies and cuts in employers' social security contributions: The verdict of empirical evaluation studies. Changing Social Policies for Low-Income Families and Less-Skilled Worker in the EU and US, University of Michigan.

groups gain work – and not the extent to which subsidies encourage businesses to recruit when they otherwise wouldn't.

In Edinburgh, a partnership made up of Capital City Partnership, City of Edinburgh Council, Jobcentre Plus, Skills Development Scotland and NHS Lothian are taking forward an approach which targets SMEs – and particularly smaller SMEs – as a key source of job growth and recruitment. The recruitment support service provided by the partners will be embedded within a much more comprehensive service with a shared focus on business growth and incorporating Business Gateway and Council services that engage with SMEs like Trading Standards, Planning and Building Regulations.

At Falkirk Council, the Employment and Training Unit has put together a comprehensive package of support for SMEs and (explicitly) micro-businesses to help them recruit young people. The relevant components of this are:

- An Employment Recruitment Incentive, which provides up to 50% of wages for 12 months for the recruitment a young person, together with all the costs of training that might be incurred and the management of this training.
- An 'Employer Pledge', which local employers sign up to – stating their commitment to giving Young People an opportunity.
- A specialist service for micro-businesses around putting Health and Safety compliance in place. This involves a workplace visit and assessment, covering the costs of all the action needed to be compliant, as well as payment of the additional premium that might be required under their Employer's Liability Insurance when they take on a young person. In addition, the Council are able to carry out Training Needs Assessments for the other staff of a micro-business to take account of the new responsibilities that might be made possible by the recruitment of a young person.
- The Council is also able to employ an apprentice and second them to a small business while the business is helped to build the capacity to manage the administrative tasks involved. This help is available for between 13 and 26 weeks.

The Council's approach particularly encourages the recruitment of Modern Apprentices because of the focus on skill development as well as employment.

The experience of Falkirk Council is that:

- Micro-businesses want people who can help with some of the administrative tasks that may be involved when taking on a new employee (i.e. 'doers not just advisers').
- There is a need to help micro-businesses through the particular obstacle presented by Health and Safety compliance as they move from 4 to 5 employees.
- They have identified a need for specialist HR advice and support for micro-businesses – in terms of both recruitment and retention – but they have not found a way to fund this.

Falkirk Council is about to carry out a Scottish Government funded survey of local SMEs and micro-businesses with a view to identifying the specific issues and obstacles they feel they face when recruiting young people. They will be using this to develop a guide to the recruitment of young people specifically targeted at small businesses. Like other Councils Falkirk Council is working closely with its partners to ensure that the employability aspects of their work are fully integrated into a wider and more coherent business development support service.

There are other variations around the approach of Falkirk Council in terms of 'employing and seconding' people. One example is provided by Working Rite which provides SMEs with a young person on a full-time work placement lasting up to 6 months. Working Rite organises the recruitment process (providing the employer with a final choice), deals with all the paperwork, covers all the costs of tools and clothing and provides support both to the young person and the employer through the secondment period. The employee pays the trainee a weekly allowance. Although there is no obligation on the employer to provide a job or apprenticeship at the end of the placement the retention rates are very high.

At a national level, under the Youth Contract employers may claim up to £2,275 when they recruit an 18-24 year old through the Work Programme and retain them for at least 6 months. Jobcentre Plus runs the Small Business Recruitment Service, which provides telephone support for small businesses thinking about recruiting an unemployed person.

Business Gateway is the main source of information and advice for SMEs in Scotland. This service is now being more closely integrated with Local Authority services under the new contract arrangements, and with other sources of SME support, and in November 2012 a new website was launched which presents business support in a more integrated way. The new website provides clearly structured information on a range of topics including employment and training. Additional help is available to businesses that pass a turnover threshold. In a number of Local Authority lead areas Business Gateway has started running workshops on recruitment.

The other significant resource for personalised support for micro-businesses at the national level is the business mentoring scheme (Business Mentoring Scotland) managed by the Scottish Chambers of Commerce with financial support from Scottish Enterprise. Mentoring support is available for up to 12 months for any growing business more than one year old. Following a recent extension to the Highlands and Islands the scheme is now available to businesses across Scotland. There are now approximately 800 experienced business mentors who provide support to a small business over a 12 month period. Our interviews suggest that a significant proportion of those supported are micro-businesses.

Skills Development Scotland are active around two strands of work relevant to this report:

- Helping people gain a high quality work placement and the skills they need to meet employer requirements (eg through the employer certified Work Readiness Certificate - which is supported by the FSB)
- Developing a specific offering around the needs of SMEs, which will form part of a more integrated national approach. They have just launched their new employer website (Our Skillsforce) and contact centre service which will provide employers with a simple and interactive way of engaging on skill requirements.

We discussed in our interviews with micro-business owners what an appropriate recruitment support service should be like. Eight businesses made a point of saying that they would prefer micro-business services that were delivered free of charge by public agencies rather than paid-for private providers. These included a number saying that they would only consider support around recruitment if it was free (these were not people who regularly recruited). On the other hand, one business suggested that public agency support can be out of date (so would rather get private support), and two others felt that it was more important to be helped to recruit the right person than worry about the cost.

The practical responses to issues around small businesses and recruitment – together with responses from our interviews - reveal some clear features:

- The main objective of action is around the placement of unemployed people – and particularly young people – into work, rather than business growth through recruitment. Some, like Highland, Falkirk and Edinburgh, are very keen to place their activities in the context of business growth and a wider more coherent business development service.
- There is a focus on mitigating the financial risks of recruitment through wage subsidies. However, while these can help to reduce the financial anxieties of some business owners our discussions have made clear that these need to be set within a wider context of advice on HR and administrative issues for it to fully meet the support needs of micro-businesses. Recruitment subsidies can provide an appealing 'hook' to engage micro-businesses but without appropriate support there is a risk that the employment potential of micro-businesses will not be realised.
- There is a focus on SMEs but less so on micro-businesses which are explicitly targeted only by Falkirk, and by Business Gateway advisers in Highland. However, the profile of clients tends to be dominated by micro-businesses because of their greater need for support and because they make up over a quarter of the business population.
- There are different stages to the recruitment process and it is important to structure support around these stages and to get the different kinds of support in the right order. In Figure 12 (overleaf) we have identified the stages that have emerged from our discussions, together with the likely sources of support at each stage.



<b>Stage</b>	<b>Need</b>	<b>Appropriate support</b>	<b>Provided by</b>
<b>1</b>	Do I need another person?	<i>Personal advice/mentoring</i>	<i>Local recruitment service Mentor</i>
<b>2</b>	Reviewing current business stability and viability and the financial risks and benefits of recruitment.	<i>Personal advice/mentoring</i>	<i>Local recruitment service Mentor</i>
<b>3</b>	The roles and tasks that will add the greatest value and allow other staff to focus on tasks that they are good at or otherwise needed.	<i>Personal advice/mentoring</i>	<i>Local recruitment service Mentor</i>
<b>4</b>	Creating job description and person specification	<i>HR support</i>	<i>Local recruitment service Mentor</i>
<b>5</b>	Reducing financial risks during transition	<i>Applying for wage subsidy</i>	<i>Local Authority</i>
<b>6</b>	Health and Safety accreditation if needed	<i>HR support</i>	<i>Local recruitment service HSE, private HR</i>
<b>7</b>	Promoting the job or other form of matching	<i>HR support</i>	<i>Local recruitment service JCP, private HR</i>
<b>8</b>	Vetting, short-listing and selection process	<i>HR support</i>	<i>Local recruitment service JCP, private HR</i>
<b>9</b>	Finalising and agreeing contract of employment	<i>HR support</i>	<i>Local recruitment service JCP, private HR</i>
<b>10</b>	Putting in place payroll services/NI/Employer's Liability Insurance	<i>Professional support/HR support</i>	<i>Local recruitment service, Accountant</i>
<b>11</b>	Designing and implementing induction process	<i>HR support</i>	<i>Local recruitment service, private HR</i>
<b>12</b>	Skills development for recruit and other staff	<i>National or local support</i>	<i>SDS, Training Provider</i>
<b>13</b>	Staying in work and healthy	<i>Occupational health</i>	<i>NHS</i>

**Figure 12:** Micro-business needs and current sources of support [Source: Rocket Science interviews 2012]

What this description of the stages of recruitment reveals is that:

- There is a need for different service providers to be working closely together and carefully coordinated around the needs of a particular micro-business client.
- It would be easy for a micro-business to miss out the first three stages yet they are fundamental to successful recruitment and it will be important to ensure that wage subsidies don't encourage this 'skipping'.
- The current focus on wage subsidies belies their relatively modest role in a much wider array of support needs (though this is not to belittle their function as providing a valuable 'hook' to attract clients and their interest).
- There is considerable scope to mix both public and private provision.
- The relationship created during the recruitment process can be sustained into a longer term relationship around staff, management and leadership development.
- The key features of 'what works' appear to be:
  - A comprehensive support service focused on the issues and tasks around recruitment as described above.
  - Reducing the financial risk of a new recruit through a wage subsidy – while ensuring that the other support needed for the recruitment process is available.
  - A personal and personalised approach which ensures that requirements are clearly thought through and an appropriate response is put together.
  - Active promotion of support for micro-business growth through recruitment – through membership networks, professional advisers (banks and accountants) and local business networks, where possible supported by short workshops and appealing documentation (e.g. 'How to grow through recruitment.'). This active marketing is needed to get information and awareness beyond the 'usual suspects' – well-connected businesses.
- While there appear to be distinct short- and long-term benefits from focusing on business growth through recruitment rather than on welfare to work objectives, it is clear that there is significant scope to help those on welfare fill the vacancies created. Central to this will be the extent to which micro-business owners feel able to consider unemployed candidates and the other ways in which they feel able to contribute to the employability agenda. In the next section we consider these issues in more detail.

### 3 Micro-businesses and employability

In the previous section the focus on welfare to work objectives when developing recruitment support for micro-businesses was clear. In order to explore the extent to which micro-businesses felt keen and/or able to engage with the employability agenda we asked survey respondents whether they would consider helping an unemployed person find work through a number of means:

- Offering a short work placement (up to 10 weeks) to the right person to undertake a specific project
- Offering work experience to a college/university student (up to 6 weeks)
- Offering a short work experience taster to a school pupil (e.g. 2 weeks)
- Actively seeking to recruit an unemployed person (rather than one from another job) so long as they could do the job
- Helping young people understand what employers are looking for

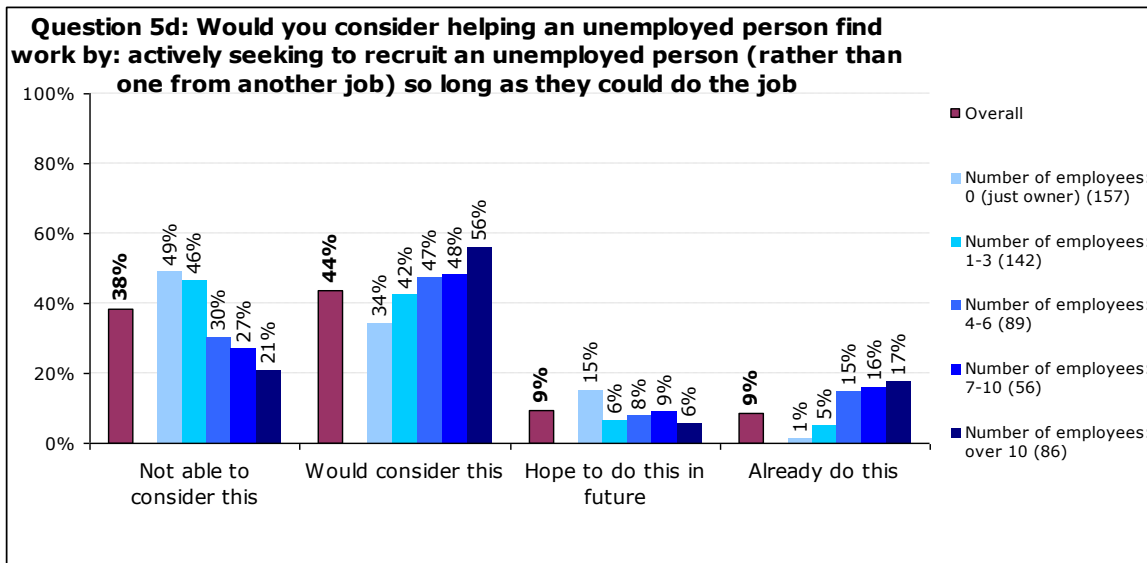
In each case, the majority of respondents were either already doing this, hoping to do it or would consider doing it which suggests a general willingness to contribute to the agenda. So, for example, a total of 62% of respondents would consider recruiting an unemployed person, hope to do so, or already have (as long as they can do the job).

<b>Means of support</b>	<b>Not able to consider</b>	<b>Would consider</b>	<b>Hope to do</b>	<b>Already do</b>
<i>Offering a short work placement (up to 10 weeks) to the right person to undertake a specific project</i>	42%	42%	10%	6%
<i>Offering work experience to a college/university student (up to 6 weeks)</i>	37%	41%	10%	11%
<i>Offering a short work experience taster to a school pupil (e.g. 2 weeks)</i>	47%	29%	7%	17%
<i>Actively seeking to recruit an unemployed person (rather than one from another job) so long as they could do the job</i>	38%	44%	9%	9%
<i>Helping young people understand what employers are looking for</i>	31%	51%	9%	10%

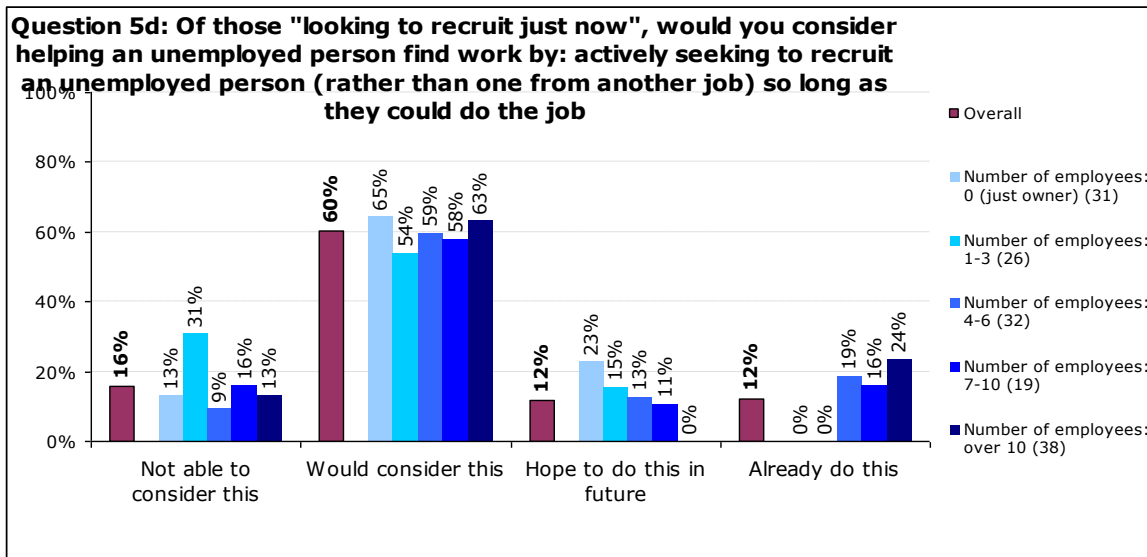
**Figure 12:** Ability of micro-business owners to contribute to the employability agenda [Source: FSB/Rocket Science survey, 2012]

The more detailed responses show that:

- Larger micro-businesses are more likely to consider recruiting from welfare and are more likely to have done it already – but for those looking to recruit now there is no significant difference across the size range.
- Across the size range those businesses who are thinking of recruiting now, are more likely to feel able to contribute than the wider population.
- The smallest micro-businesses show the biggest rise in likelihood of contributing.



**Figure 13:** Extent to which micro-business owners would consider helping an unemployed person find work [Source: FSB/Rocket Science survey, 2012]



**Figure 14:** Extent to which micro-business owners who are looking to recruit now would consider helping an unemployed person find work [Source: FSB/Rocket Science survey, 2012]

Although we were not able to test this, it seems likely that it is the need to increase staff capacity that lies behind this shift: in other words, when there is clearly work to be done micro-business owners are happy to consider a wide range of candidates.

The scale and pattern of the response around work experience showed no significant difference between the general population and those about to recruit. This may suggest that work experience candidates are not seen as a source of productive capacity.

### ***Use of welfare to work schemes***

Interviewees confirmed their perception that there are advantages to using welfare to work schemes for micro-businesses:

- They provide financial incentives to take on recruits (i.e. various wage subsidy schemes both local and national)
- It is easier/cheaper/faster to employ a recruit presented by a welfare to work scheme than to advertise, sift, interview and employ personally (or use a recruitment consultant).

In addition, most of the interviewees asked were keen on the concept of supporting unemployed people into work through their business and many had already tried, normally after being approached by a welfare to work or young person support scheme.

There were a few examples of success stories with people staying for years after recruitment from such a scheme.

*A Solicitor with ~2 employees took on a staff member through the Future Jobs Fund who they have retained.*

*The owner of a plant maintenance engineering business with ~8 employees has sought subsidies, grants and funding to take on young people and unemployed people in the past. Since the biggest factor discouraging him from recruiting is wage and training costs, this has been a good source of support for his business. He finds though, that the hassle and administrative burden of these schemes is off-putting. He also finds it confusing to see who is offering which support. There are plenty of providers but the names change and new ones come along all the time.*

However, some interviewees who had experience of taking a recruit through a welfare to work programme were negative about it. There were three areas of concern:

- For some businesses welfare to work schemes had provided unsuitable recruits who had either left or been dismissed quickly<sup>20</sup>.

---

<sup>20</sup> Six businesses gave examples of recruitment from such schemes to provide unsuitable recruits.

*The owner of an optical dispensary with ~2 employees successfully recruited a member of staff who has remained long-term: 'It happened that [organisation] turned up at the right time... of 3 placements 2 were terrible but the third turned into a full-time [employee]'*

*The owner of family run car repair business with ~6 employees said he was not interested in taking on unemployed people, even if they were vetted and described as a good worker, because he has experience of having individuals referred to him who seemed good on paper but were not in reality suitable. He is looking for the sort of person who would respond to a job advert in the paper of their own accord.*

- We were told by many that welfare to work schemes which offer recruits to micro-businesses are often presenting the wrong sort of people – many particularly talked of young people being unsuitable<sup>21</sup>.<sup>22</sup> There was a perception that these businesses were being sent the wrong people because the welfare to work programmes were focusing on placing their own individual clients rather than considering the business's need properly.
- For some businesses it wasn't the quality of the available recruits but the difficulty of using the welfare to work schemes<sup>23</sup>.

*The owner of a catering business who employs ~ 6 employees takes on unemployed people already. He says he will take any applicant that is presentable, punctual, flexible has a decent work ethic, and some basic experience in the field of catering. His experience of Jobcentre Plus was poor as they send too many applicants for jobs and most are not appropriate – they are applying because they have to.*

*The owner of a child-minding business with ~4 employees is currently overemploying because of a responsibility to keep on staff even though demand for the business has reduced. She uses Jobcentre Plus to reduce the time wasted through recruitment – they provide the contracts and the (pre-screened) applicants.*

*The owner of car restoration garage with ~4 employees was approached to take on an unemployed young person who, he was told, was keen to work in a garage. Not only was the recruit not suitable but the (unidentified) agency presented a large volume of health and safety requirements – 'I haven't got time to read a telephone book's worth of A4.'*

*One owner of a car repairs garage with ~4 employees was upset that the college who he worked with to arrange an apprentice seemed more interested in getting its payments than either supporting the apprentice or making it work for the business. This business owner felt this was a particular shame as, in his opinion, micro-businesses offer some of the best training opportunities due to their breadth of work activities.*

<sup>21</sup> Young people were variously described as having a poor work ethic, lack of training, or other negative features

<sup>22</sup> Ten businesses discussed this

<sup>23</sup> Four businesses reported being put off by the red tape/paperwork / hassle involved

Various options were suggested for how people should be approached including visits, telephone calls, leaflets, emails – these could either be the best or the worst way of contacting people depending on their personal approach/business needs.

It is important to stress the small sample involved here. In the FSB's June 2012 version of their latest Voice of Small Business Survey which involved a much larger survey sample of small businesses (most of them micro-businesses) which had engaged with a range of bodies about recruitment and training in the previous 12 months (see Appendix 7 on page 71). This revealed (Figure 15, below) a high level of satisfaction with the usefulness of the service offered by Business Gateway, Jobcentre Plus and Local Authorities. Interestingly Recruitment Agencies had the highest usage, but the satisfaction levels were significantly lower:

Organisation	% of recent users regarding service as 'very useful' or 'useful'
Jobcentre Plus	72%
Local Authority	70%
Business Gateway	68%
Recruitment Agency	28%

**Figure 15:** Satisfaction with services supporting recruitment [Source: FSB Voice of Small Business Survey, June 2012]

Overall, it is fair to say that there is a general willingness to engage with the welfare to work agenda but it is clear that this willingness has been challenged by the way in which organisations have sometimes delivered the service, and in particular by an apparent focus on meeting their organisational objectives and funding requirements rather than understanding and responding to the needs of individual micro-businesses. Micro-businesses can be put off recruiting by bad experiences and it is important for local service providers to do everything possible to minimise the chances of this happening through welfare to work provision.

## 4 Conclusions

In this section we present our conclusions under six critical questions:

- Is there evidence that micro-businesses are 'under recruiting' – and, if so, to what extent?
- Is there evidence that policy changes and practical support can make a difference to the scale and success of recruitment by micro-businesses?
- What are the most important areas for intervention/support and what kind of return can be expected?
- Is it possible to prioritise micro-businesses in terms of support – in other words, are there target groups that may bring better returns?
- What are the lessons for engagement and prioritisation by public sector partners?
- What are the respective roles for public and private sector support?

### 4.1 Are micro-businesses 'under recruiting'?

There is strong amount of evidence that micro-businesses are not recruiting as many people as they could:

- Our survey and interviews convey a strong sense of the extent to which perceived risks and practical obstacles put owners off recruiting.
- The limited number of initiatives which have focused on helping micro-businesses grow through recruitment provide some evidence that the right kind of support can make a difference to the recruitment intentions of micro-businesses and at worst help accelerate recruitment. It is noteworthy that recruitment usually happens relatively quickly after engagement with the service – in other words the scope for recruitment is there but it is not happening.
- The Sole Trader Initiative helped 400 micro-businesses recruit over a period of 3 years, but we have not seen any analysis of additionality. The Scottish model which was based on its design – the Recruit Project – continued for 6 years on the basis of its success in making a difference to the recruitment intentions of micro-businesses and both the evaluations showed at least 20% additionality. The latest initiative based on the STI model in the Highlands, involving the appointment of two full-time Business Gateway staff focusing solely on helping small businesses recruit has since April 2012 helped over 50 small businesses move into a recruitment process. Significantly, many of those helped to recruit by the Recruit Project felt that they had gained the knowledge and confidence to recruit again without external help, which indicates the potential for longer term benefits from the approach.



- While there is strong evidence that many micro-businesses are 'under recruiting', on the basis of our limited evidence it is difficult to assess the *scale* of under recruitment involved.

## 4.2 Can policy changes and practical support make a difference?

As set out above the scale of the outcomes from current and past initiatives indicate that a difference has been made to a micro-business's propensity to recruit, or at least bringing recruitment forward and providing business owners with the skills to recruit again. There is a range of differences that intervention to support recruitment can make:

- Placing recruitment firmly in the context of business growth:
  - Is recruitment appropriate or will it risk businesses stability or viability?
  - What role and tasks should the recruit carry out that will contribute to business growth?
  - What are the implications for the role and skills of other staff?
- Enhancing job creation.
- Bringing forward recruitment and reducing the demands that the recruitment process makes on the business owner (so they can focus on the business).
- Ensuring a better match between need and recruit, with subsequent impact on business health.
- Possible improvements in succession in micro-businesses when the owner retires (because there are employees who can take over).

## 4.3 What are the most important areas for intervention and support?

- The most effective areas for intervention and support appear to be helping micro-businesses to:
  - Be confident that recruitment is appropriate and is likely to contribute to the business's growth and stability.
  - Place recruitment in a wider business development context and ensure that a wider package of support is put in place as needed. This will include helping the owner and other members of staff develop the skills to move into the new roles made possible by recruitment.
  - Clarify an appropriate role and tasks for a recruit.
  - Develop an appropriate contract which sets out clearly the responsibilities of the job, mutual expectations and a code of conduct.
  - Recruit the right person through careful sifting.

- Deal with the administration involved in terms of compliance and systems, particularly around tax/NI, Health and Safety and, in due course, pensions.
- Providing follow up support to both recruit and owner.
- Some owners were keen to find ways of developing their staff management skills and confidence.

#### **4.4 Is it possible to prioritise micro-businesses in terms of support?**

- Our survey shows that the likelihood of recruiting increased significantly across the size range: the largest micro-businesses are much more likely to be thinking about recruiting than the smallest ones. However, it was also clear that the greatest risks and difficulties are perceived/experienced by those recruiting for the first time and the most successful micro-business recruitment support initiative we have identified focused specifically on sole traders.
- When there are limited resources it is likely that a focus on the smallest micro-businesses will make the greatest difference to recruitment and enhance the likelihood that at least some of these businesses will continue to grow because they become more familiar with the process.
- Although it is not possible from our work to pinpoint those businesses within each size range which are more likely to recruit, the research by Capelleras suggests that the initial size of a micro-business at start up can be an effective indicator of its longer term recruitment potential.

#### **4.5 What are the lessons for engagement and prioritisation by public sector partners?**

- Many of the micro-businesses we talked to felt more engaged with their peers, with their banks and accountants, and with membership organisations like the FSB and local Chamber of Commerce than with public sector support services. They found it very difficult to distinguish between the offers of the different public sector organisations and were on the whole not aware of the full range of support available.
- Any effort to support micro-business growth through recruitment therefore needs to be accompanied by a very active promotional effort making full use of these networks.
- There was a general willingness to be involved in helping to design such a service at the local level and to provide feedback on possible approaches and initiatives.
- However, there was also frustration that agencies did not engage them in an open way – they had a tendency to focus on asking about specific services or offers and *'they never ask us open questions'*.

- This mirrored a frustration about their experience of service delivery around recruitment support – which they felt often focused on the welfare to work objectives of the service provider rather than listening to and responding to the needs of the micro-business.

#### **4.6 What are the respective roles for public and private sector support?**

- There are numerous sources of help around recruitment for small businesses. As well as the main sources of Business Gateway and Jobcentre Plus these include banks, accountants, business peers, friends and relatives, membership organisations, a range of private sources (e.g. HR consultants), as well as Skills Development Scotland (which is strengthening its focus on SMEs). We did not identify any clear consensus about the relative role and value of public and private sector support.
- However, we have suggested that a focus on smaller micro-businesses will both respond to the group with the greatest need for support and make the most difference to whether (and when) a micro-business will recruit. On the whole a free service, at least initially, was very appealing (and some would only consider a free service because they felt they could not afford anything else) but it needed to be relevant and of high quality.

## Appendix 1: Micro-businesses and employment

Micro businesses provide a significant proportion of the jobs in most local economies – and an even higher proportion of the new jobs being created:

- Between 2002 and 2010, 85% of the growth in the EU's net employment came from SMEs; within this, the highest growth rate was found in micro/small enterprises (MS enterprises).<sup>24</sup>
- Between 2000 and 2009 in Scotland, small and micro enterprises were an increasingly significant contributor, with an increase of 23% in the number of MS enterprises.<sup>25</sup>
- Over the same period, Small Enterprises were an increasingly significant contributor to employment growth, outstripping the growth of medium enterprises and more than compensating for the small decline in large enterprises.<sup>26</sup>
- Rural areas in Scotland are particularly dependent on micro-businesses, which make up approximately 40% of total enterprises in the Western Isles, Argyll and Bute, the Shetland Islands and the Scottish Borders. When small enterprises are also included, this goes up to between 60% and 80%.<sup>27</sup>
- In 2011, the number of micro-businesses in Scotland was 287,770 – 93.5% of total Scottish enterprises. (see Figure 16 below)

	2010	2011	Change	% Change
<b>Total no. of Micro businesses</b>	277,425	287,770	+10,345	+3.7
<b>National total of enterprises</b>	297,905	307,770	+9,865	+3.3
<b>Micro business as a % of national total enterprises</b>	93.1	93.5		

**Figure 16:** Scale of micro-business in Scotland [Source: Scottish Corporate Sector Statistics (2011), p.27]

<sup>24</sup> de Kok et al (2011), p.6

<sup>25</sup> Scottish Corporate Sector Statistics 2009 quoted in FSB Scotland and Slims Consulting (2009), p.9

<sup>26</sup> Scottish Corporate Sector Statistics 2009 FSB Scotland and Slims Consulting (2009), p.9

<sup>27</sup> *ibid*, p.12

- Between 2010 and 2011, the number of micro businesses grew by 10,345 (3.7%) in Scotland, outstripping the level of growth of national businesses (9,865 : 3.3%).
- Despite a fall of 60,190 (3%) in total national employment between 2010 and 2011, total employment in micro businesses over the same period increased by 6,060 (1.2%). This could, of course, be partly down to the number of enterprises shrinking from small or medium enterprises to micro businesses or related to the tendency for the number of new start-ups to increase in a recession as people lose jobs and start their own business because they find it difficult to find a conventional job. (Figure 17 below).

	2010	2011	Change	% Change
<b>Micro-business total employment</b>	521,340	527,400	+6,060	+1.2
<b>National total employment</b>	1,995,480	1,935,290	-60,190	-3
<b>Micro-business as a % of national employment</b>	26.1	27.3		

**Figure 17:** Employment in micro-businesses compared with total employment in Scotland  
[Source: Scottish Corporate Sector Statistics (2011), p.27

### What kind of people do micro-business recruit?

Figure 18 (overleaf) shows that across the EU micro-businesses are notable for the extent to which they employ long term unemployed people and older people.

Business feature	Micro (< 10 employees)	Small (10 – 49 employees)	Medium sized (50 – 249 employees)	Large employers (> 250)
% employment in non-financial business sector in EU	30%	20%	17%	33%
% of total employment growth 2002 - 2010	58%			
% workforce recruited from LTU	26%	14%		9%
% of recruits under 25	9%	15%		17%
% of recruits over 50	22%	16%		18%
% of employees PT	18%			14%
% who use fixed term contracts	50%	75%		87%

**Figure 18: Significance of micro-businesses as employers in the EU** [Source: de Kok et al (2011) adapted and represented by Rocket Science

In the UK some of these figures are reinforced by the findings set out in the FSB's recent publication, *Back to Work*<sup>28</sup>:

- Employment in smaller firms is significantly more important in rural, compared with urban areas.
- Among unemployed people, we are significantly less likely to see individuals whose occupation is in the skilled trades – such as plumbing, carpentry and bricklaying – securing employment opportunities in the largest firms.
- Unemployed and non-participant women who move into work are particularly likely to secure a job in a micro-business.
- Unemployed and non-participant individuals aged 16 to 24 who make the transition to employment are significantly more likely to secure work in small or medium sized firms. More generally, the oldest workers (above retirement age) and the youngest workers, aged 16 to 24, are significantly less likely

<sup>28</sup> Urwin, P and Buscha, F (2012). *Back to Work: The role of small businesses in unemployment and enterprise*. Federation of Small Businesses.

to be working in larger firms.

- The unemployed and non-participants without a degree are significantly less likely to secure employment in a firm of 250+ employees, compared with micro-businesses.
- The unemployed and non-participants moving into employment in large firms are two-and-a-half times more likely to do so under temporary contract, when compared with those moving into micro-businesses.

These findings show clearly that SMEs and, within these, micro-businesses, play a key role in recruiting those who are unemployed.

The Report also stresses the significance of micro-businesses as a source of entrepreneurial talent and growing businesses:

*"74 per cent of those we observe becoming self-employed with employees come from the self-employed who previously had no employees, while a further 13 per cent come from the ranks of employees in micro-businesses."*

### **What stops micro businesses from recruiting?**

A survey of 500 UK enterprises (of which 62% of whom were single person enterprises and 38% employed less than 20 workers<sup>29</sup>) explored the reasons why they didn't recruit more workers:

- *Why don't you recruit?*<sup>30</sup>
  - Don't need anyone 67%
  - Can't afford it 34%
  - Administrative burden 27%
  - Lack of confidence in the economy 19%
  - Enjoy my independence 19%

Only 13% of the businesses surveyed would consider taking on an apprentice, despite 72% being aware of government promotion of apprenticeships<sup>31</sup>.

From a survey of 2,255 UK micro business owners in 2011<sup>32</sup>:

- 50% of micro businesses find it hard to find the right person to fill a vacancy<sup>33</sup>.
- 47% expressed concerns about the ability of school-leavers with A-levels or equivalents to have the right skills for their micro business<sup>34</sup>.

<sup>29</sup> Intuit (2011), 'One Giant Leap: The Vital First Step to Becoming an Employer', p.7

<sup>30</sup> *ibid*, p.18

<sup>31</sup> *ibid*, p.27

<sup>32</sup> British Chamber of Commerce (2011), p.4

<sup>33</sup> *ibid*

<sup>34</sup> *ibid*

The specific issues around recruitment are underpinned by broader issues about viability and profitability. A survey of 848 micro businesses by FSB Scotland found that the main barriers/obstacles to success were the economy (65%), increased costs in raw materials/fuel/energy (42%), profit taxes like corporation tax and VAT (36%) and employment taxes like NI and PAYE (33%).

There are also problems facing micro-businesses when dealing with conventional avenues of business support in Scotland. A report on job losses in small and micro-businesses by FSB Scotland (Slims Consulting) argues that Scottish Enterprise and Business Gateway support is often conditional on ambitious growth targets that most micro and small businesses cannot meet<sup>35</sup>.

*'We want the companies we work with to be inspired to raise their sights and ambitions and consider their business from a global perspective. If you don't, you risk being left behind.'* – Scottish Enterprise website<sup>36</sup>.

*'To increase the number of businesses which enter Business Gateway's 'Growth Pipeline' – this provides intensive one-to-one adviser support to small businesses with the greatest growth potential. The aim is that this will accelerate these companies into SE's account and client management programme.'* – Business Gateway objective, outlined in FSB/Slims Report<sup>37</sup>.

The report points out that the focus on 'growth' is not what micro businesses are looking for in a recession. Their primary need is for support to help them survive an economic downturn. For businesses without the resources to simply withstand the impact of a recession or a stagnant economy, the demanding growth targets of much of the available support can be counterproductive.

---

<sup>35</sup> FSB Scotland and Slims Consulting (2009), p.20

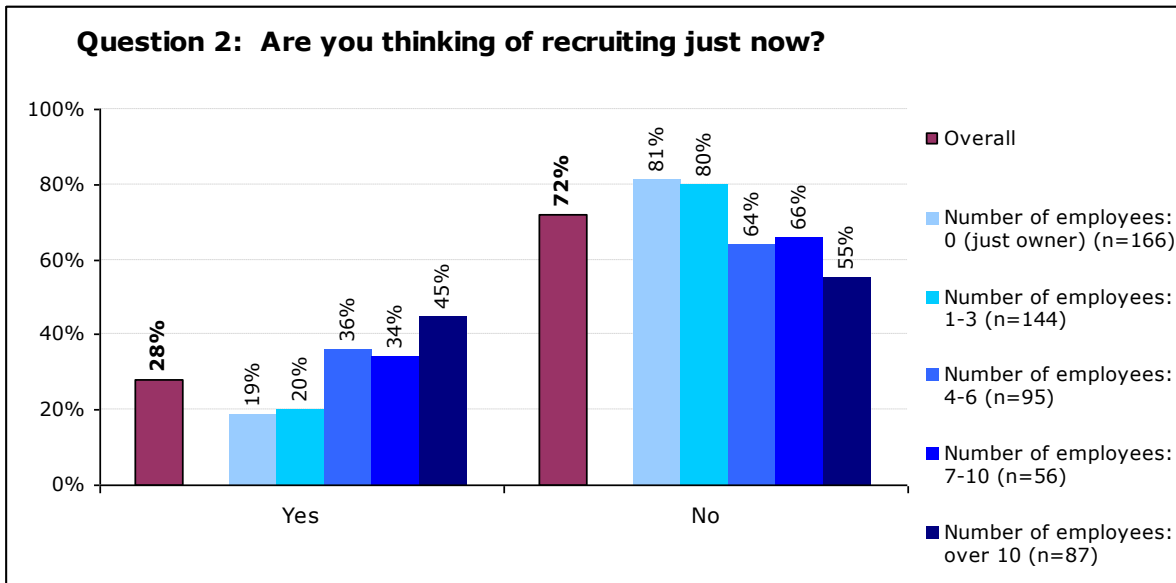
<sup>36</sup> <http://www.scottish-enterprise.com/grow-your-business.aspx>

<sup>37</sup> FSB Scotland and Slims Consulting (2009), p.20



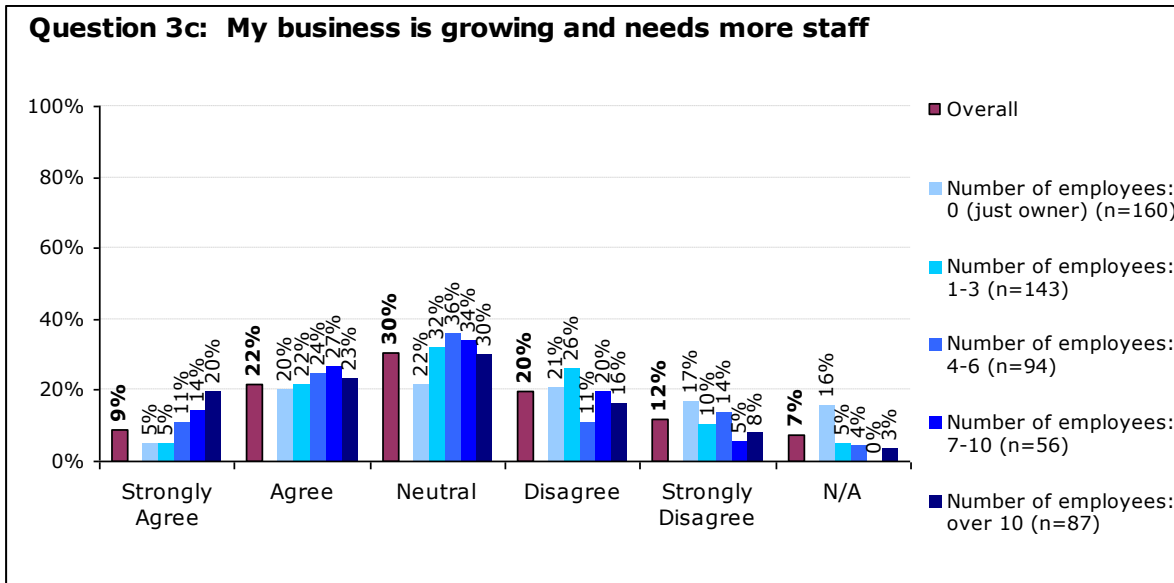
## Appendix 2: Recruitment intentions and motivation

In response to a question about current recruitment intentions (Figure 19, below) showed that 28% are 'thinking of recruiting just now'. This includes 34% of 7-10 employee businesses and 45% of those employing more than 10) but only 19% of single person enterprises (and 20% of 1-3 employee businesses).



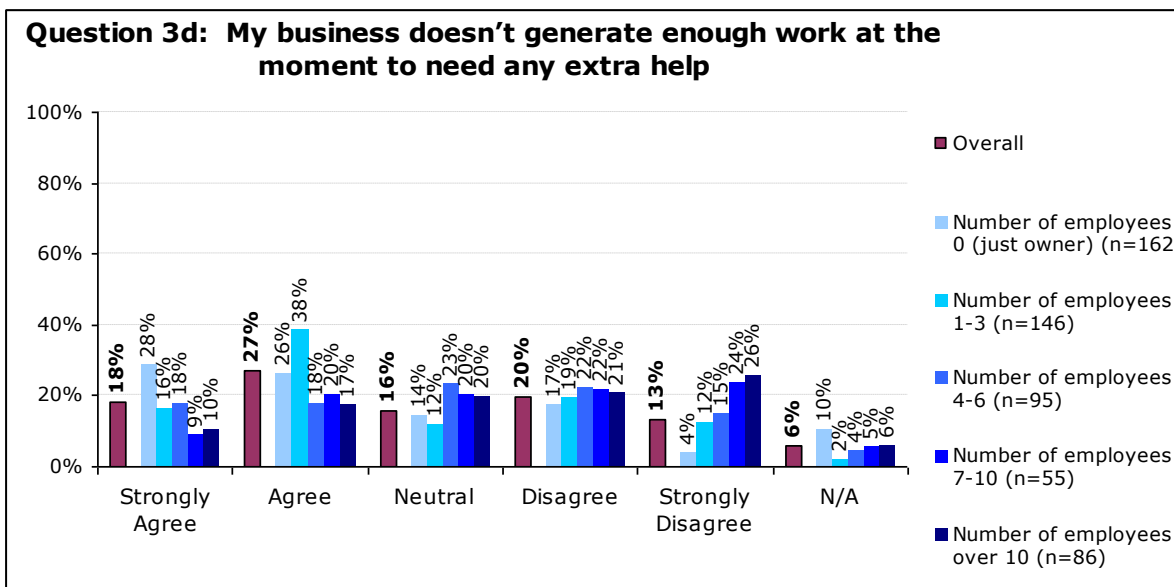
**Figure 19:** Proportion of respondents thinking of recruiting just now [Source: FSB/Rocket Science survey 2012]

In terms of the need to recruit, responses were evenly divided with some whose 'business is growing and needs more staff' (31%), some whose business is not (32%) 10% agreed that they are 'downsizing' (27% disagreed, 36% strongly disagreed).



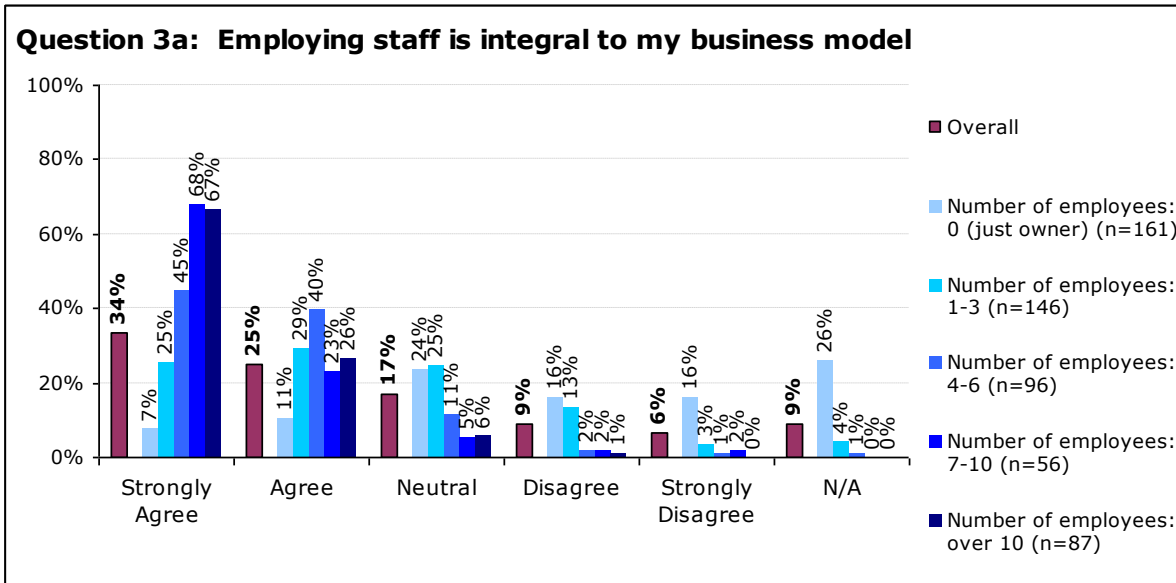
**Figure 20:** Proportion of businesses growing and needing more staff [Source: FSB/Rocket Science survey 2012]

33% felt that their business generates 'enough work at the moment to need extra help' (cf only 28% are 'thinking of recruiting just now'). This includes 21% of single person enterprises and 31% of 1-3 employee businesses who generate enough work to need extra help.



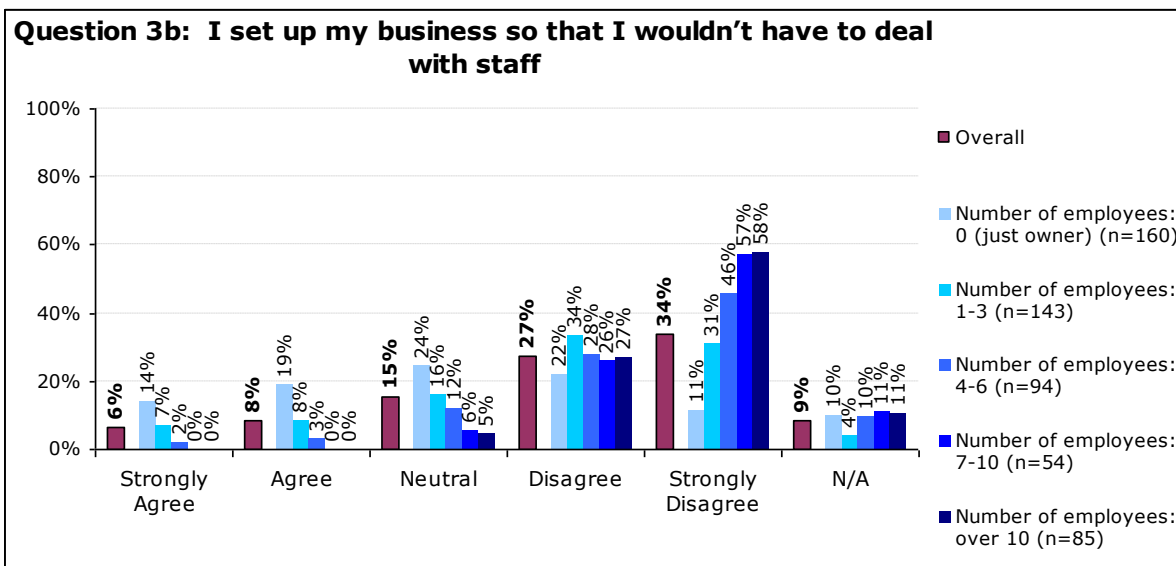
**Figure 21:** Proportion of businesses not generating enough work now to need any extra help [Source: FSB/Rocket Science survey 2012]

Employment is 'integral to the business model' of most (59%). This includes only 18% of single person enterprises compared to 91% of 7-10 employee businesses.



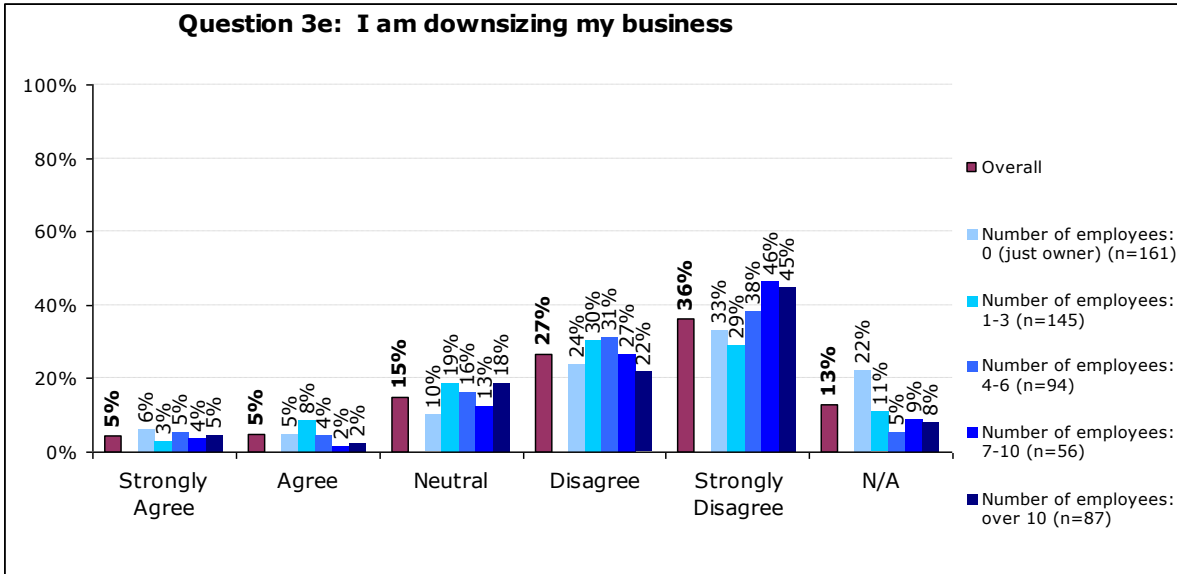
**Figure 22:** Proportion of respondents who consider employing staff is integral to their business model [Source: FSB/Rocket Science survey 2012]

33% of single person enterprises agree that they 'set up their business so they wouldn't have to deal with staff' (33% disagree); no businesses with 7 or more staff agree with this.



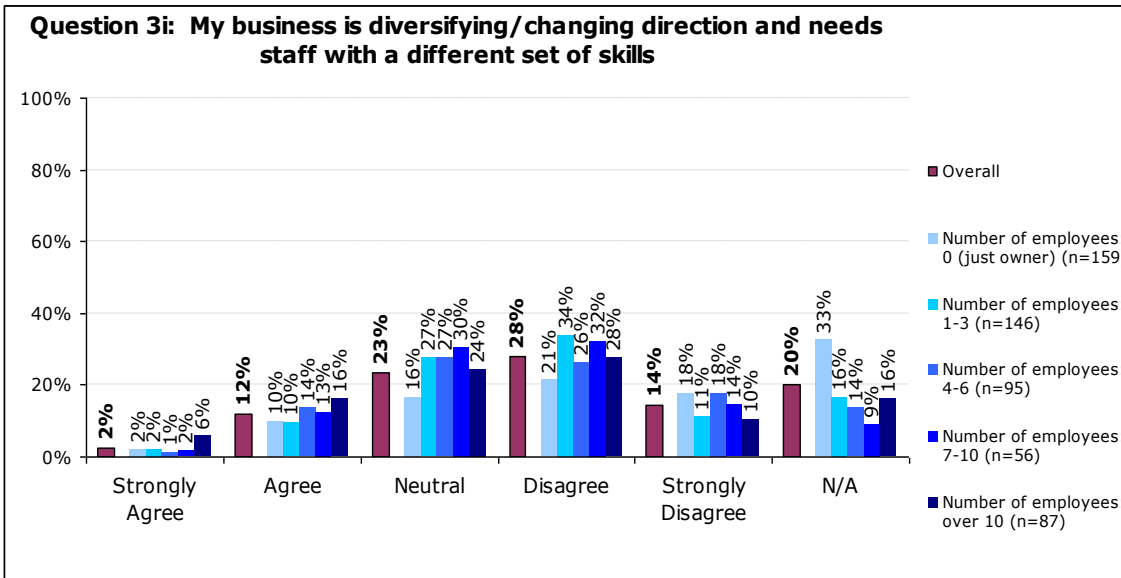
**Figure 23:** Proportion of respondents set up their business so they would not have to deal with staff [Source: FSB/Rocket Science survey 2012]

The survey suggests that most micro-businesses are not currently downsizing – though it was clear from our discussions that many have already done this in the last 2 or 3 years. 63% disagreed or strongly disagreed that they were downsizing and only 10% agreed.



**Figure 24:** Proportion of respondents downsizing their business [Source: FSB/Rocket Science survey 2012]

The survey also explored the extent to which recruitment needs were being driven by the need for new skills to diversify or change direction. 14% said their business was 'diversifying / changing direction and needs staff with a different set of skills' – mostly at the larger end of the spectrum. 33% of single person enterprises and 20% overall felt this question was not applicable to them.



**Figure 25:** Proportion of respondents needing staff because of diversification/changing direction [Source: FSB/Rocket Science survey 2012]

## Appendix 3: Contributing to the employability agenda

We asked respondents whether they would consider helping an unemployed person find work through a number of means:

- Offering a short work placement (up to 10 weeks) to the right person to undertake a specific project
- Offering work experience to a college/university student (up to 6 weeks)
- Offering a short work experience taster to a school pupil (e.g. 2 weeks)
- Actively seeking to recruit an unemployed person (rather than one from another job) so long as they could do the job
- Helping young people understand what employers are looking for

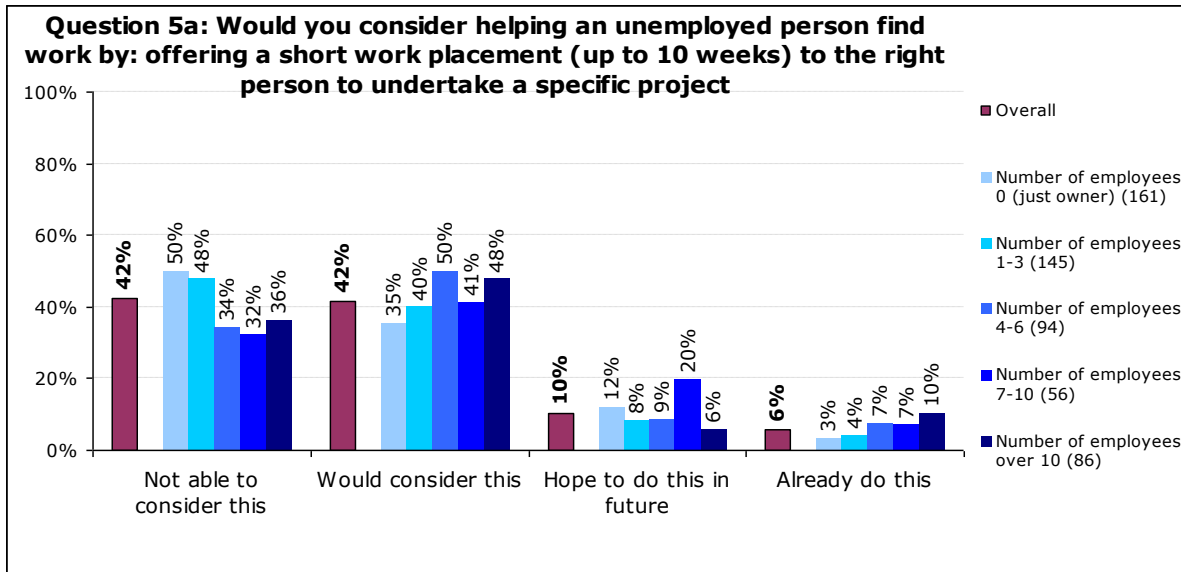
In each case the majority of respondents were either already doing this, hoping to do it or would consider doing it.

<b>Means of support</b>	<b>Not able to consider</b>	<b>Would consider</b>	<b>Hope to do</b>	<b>Already do</b>
<i>Offering a short work placement (up to 10 weeks) to the right person to undertake a specific project</i>	42%	42%	10%	6%
<i>Offering work experience to a college/university student (up to 6 weeks)</i>	37%	41%	10%	11%
<i>Offering a short work experience taster to a school pupil (e.g. 2 weeks)</i>	47%	29%	7%	17%
<i>Actively seeking to recruit an unemployed person (rather than one from another job) so long as they could do the job</i>	38%	44%	9%	9%
<i>Helping young people understand what employers are looking for</i>	31%	51%	9%	10%

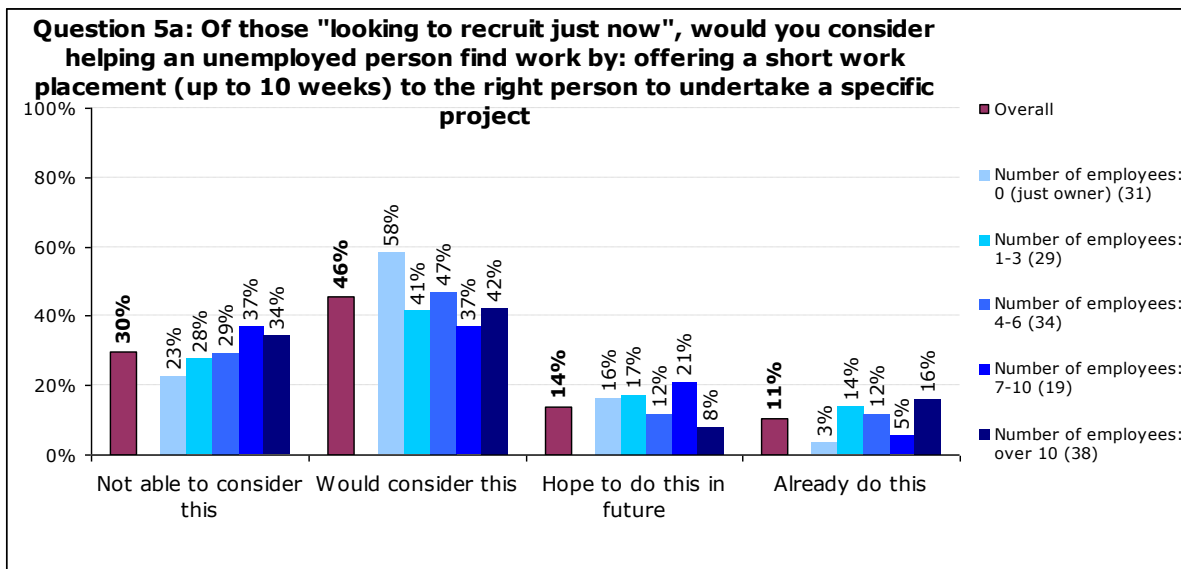
**Figure 26:** Respondents by their current ability to contribute to the employability agenda [Source: FSB/Rocket Science survey 2012]

In each case smaller businesses and single person enterprises were the most likely to respond that they are 'not able to consider' supporting unemployed people in these ways.

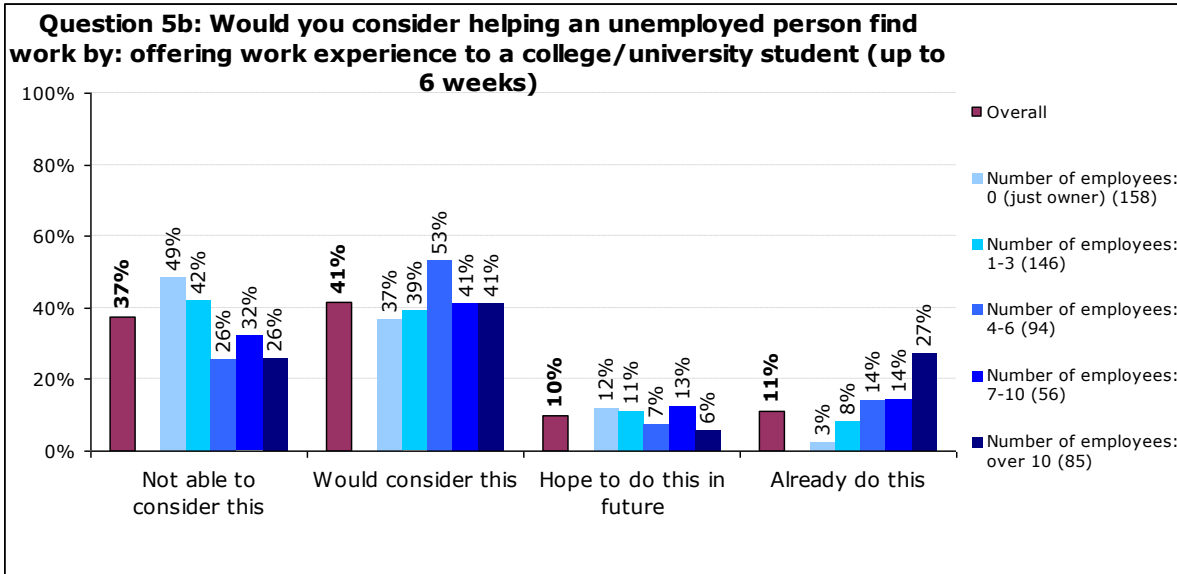
Looking only at those businesses 'thinking of recruiting just now' they were less likely to feel that they are not able to consider supporting unemployed people in these ways. In particular, single person enterprises who are 'thinking of recruiting just now' are less likely to feel that they are not able to consider for example while 50% of single person enterprises are not able to consider a short work placement (up to 10 weeks), only half as many (23%) of those 'thinking of recruiting now' are not able to consider such a placement.



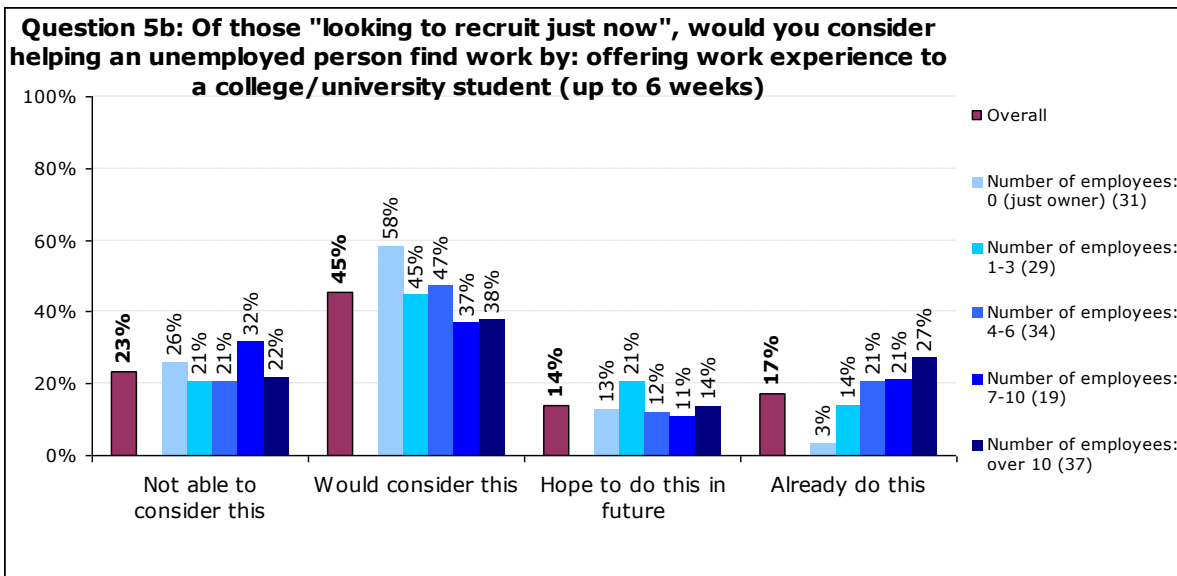
**Figure 27:** Proportion of respondents able to consider helping an unemployed person through a work placement [Source: FSB/Rocket Science survey 2012]



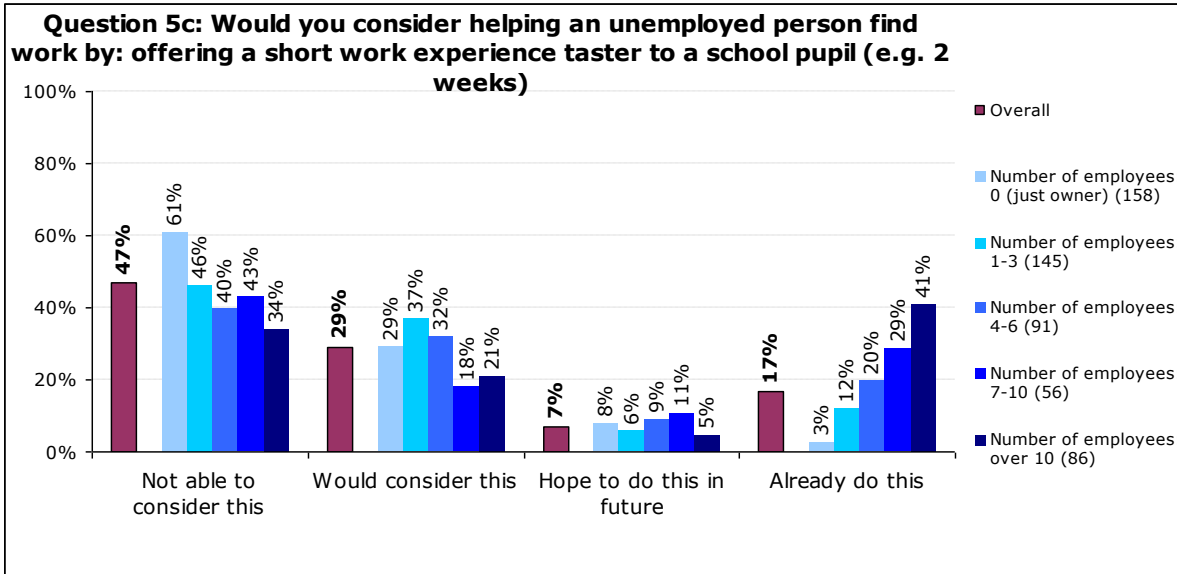
**Figure 28:** Proportion of respondents looking to recruit now who feel able to consider helping an unemployed person through a work placement [Source: FSB/Rocket Science survey 2012]



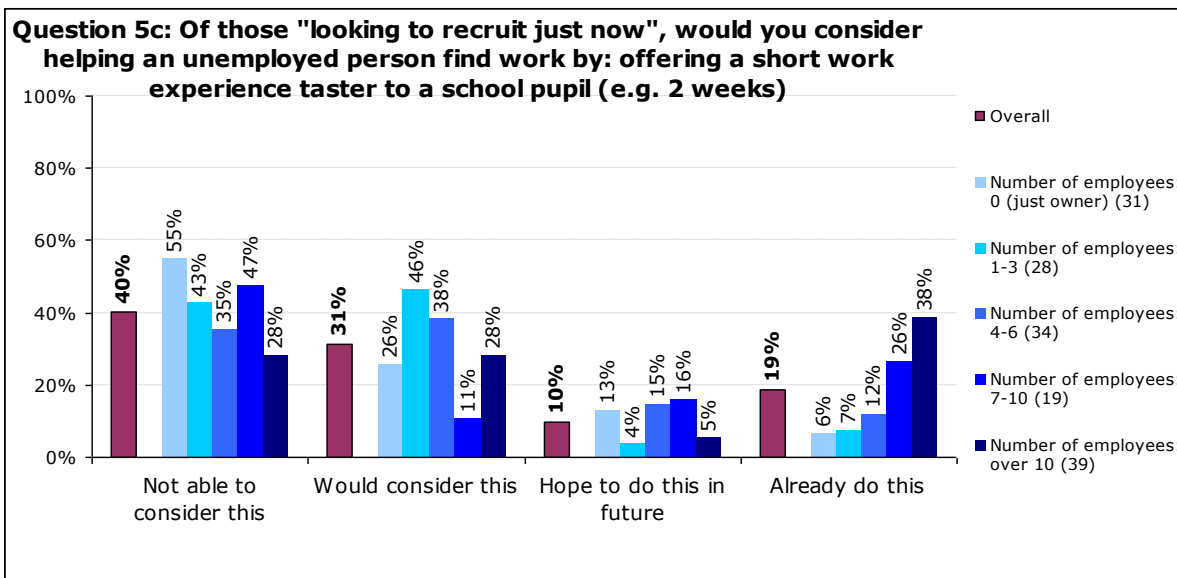
**Figure 29:** Proportion of respondents who would consider helping an unemployed person through work experience [Source: FSB/Rocket Science survey 2012]



**Figure 30:** Proportion of respondents looking to recruit now who feel able to consider helping an unemployed person through work experience [Source: FSB/Rocket Science survey 2012]

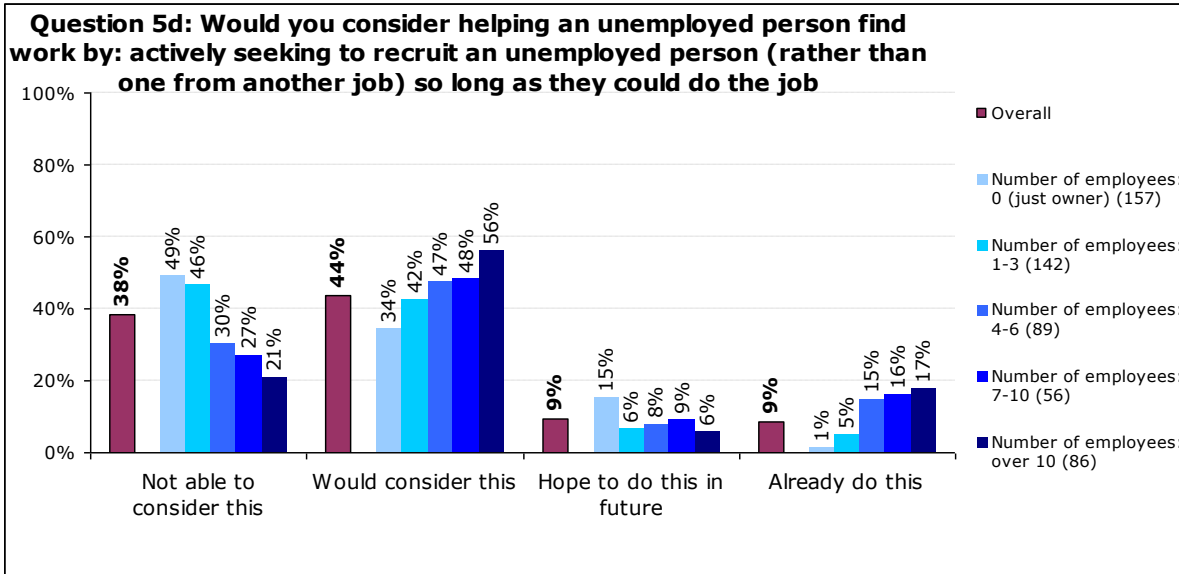


**Figure 31:** Proportion of respondents who would consider helping school pupil through work experience taster [Source: FSB/Rocket Science survey 2012]

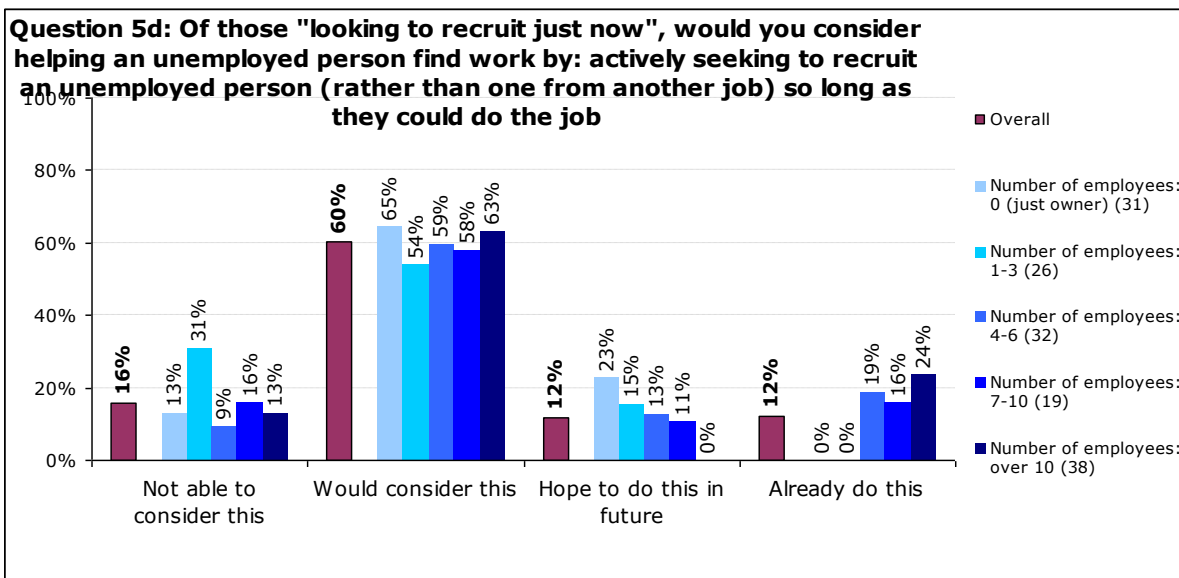


**Figure 32:** Proportion of respondents looking to recruit now who would consider helping school pupil through work experience taster [Source: FSB/Rocket Science survey 2012]

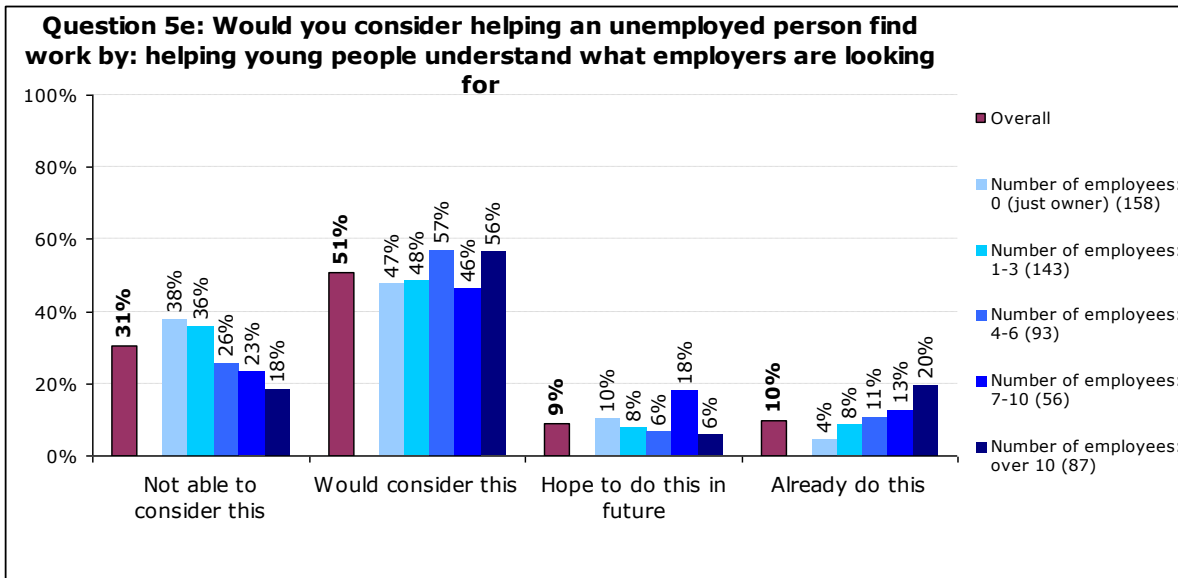




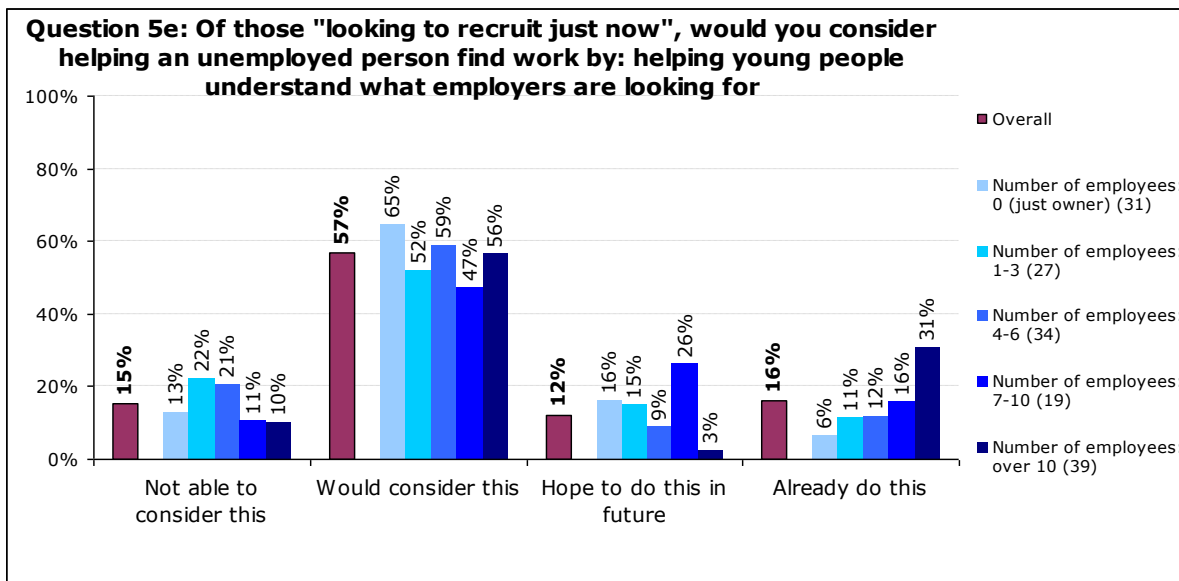
**Figure 33:** Proportion of respondents who would consider recruiting an unemployed person [Source: FSB/Rocket Science survey 2012]



**Figure 34:** Proportion of respondents looking to recruit now who would consider recruiting an unemployed person [Source: FSB/Rocket Science survey 2012]



**Figure 35:** Proportion of respondents who would consider helping young people understand what employers are looking for [Source: FSB/Rocket Science survey 2012]



**Figure 36:** Proportion of respondents looking to recruit now who would consider helping young people understand what employers are looking for [Source: FSB/Rocket Science survey 2012]

## Appendix 4: Methodology

Our approach involved:

- A review of the research around micro-businesses and recruitment – including their significance as employers. The key references we drew upon are set out in footnotes or in Appendix 7 on page 71.
- A review of projects which focus on helping micro-businesses grow through recruitment. In practice we found very few directly relevant initiatives either in the UK or further afield.
- Interviews with micro-business owners. We conducted telephone interviews with 31 business owners across all regions of Scotland (this required 113 telephone calls to 82 businesses). We also conducted short face-to-face interviews with 8 business owners at the Scottish Business Convention 2012.
- Participating in focus groups in Inverness, Edinburgh and Fife (Kirkcaldy) to explore issues around micro-businesses and recruitment. These were organised by the FSB and involved a total of 32 micro-business owners.
- An electronic questionnaire was sent out to FSB members. The survey was completed on line by 580 respondents. Not all respondents answered every question and the lowest response for any question was 536.
- Interviews with stakeholders (e.g. Scottish Government, Skills Development Scotland, Jobcentre Plus) and other key individuals (e.g. mentors providing support to micro-businesses).

All our interviews (face to face and telephone interviews) used Aide Memoires which are included in Appendix 6 on page 67. Aide Memoires were also developed for the focus groups and these are also included in Appendix 6. The stakeholders interviewed are included as Appendix 5 on page 66.

## Appendix 5: Interviews

Tom Craig, Fiona Farr, Joanne Farrow, Danny MacDonald, Jackie Galbraith, Julie Bilotti, Scottish Government.

Joe Brown, Head of Better Regulation and Industry Engagement, Scottish Government

Elisabeth Stark, Head of Industries and Entrepreneurship, Scottish Government

Karen Jackson, Head of Enterprise and Tourism, Scottish Government

Iain Ferguson, Gordon McGuinness, Mike O'Donnell, Marion Beattie, Skills Development Scotland

Sandra Cuthbertson, Routes to Inclusion Development Officer, South Lanarkshire Council

Simon Carey, Regeneration and Inclusion Manager, South Lanarkshire Council

Jane Gair, Highland Council

Duncan MacKenzie, Business Gateway, Highlands

Pamela Smith, Falkirk Council

Genna Nelson, Mentoring Project manager at Edinburgh Chamber of Commerce

Nick Davies, Mentor

Erick Davidson, Founder and Managing Director, Tayburn (Mentor)

Mary Jarvie, Mary Jarvie Associates

Karen Davidson and Andrew Marshall Roberts, Scottish Business in the Community

Margery McBain, Managing Director, Gravitare HR

## Appendix 6: Aide Memoires

### **FSB Scotland Employment Project 2012 Aide Memoire for FSB member focus groups**

*Purpose is to gain insights into the current use of recruitment/skill development services, experience of engagement with local public sector partners, key issues around recruitment. Aim to develop a constructive discussion about the kind of support that would make the biggest difference and the key features of such support. This will allow us to advise stakeholders about how to target and design support that will make a difference to micro-businesses in terms of their contribution to employment and related aspects of the employability agenda.*

Introduction to the study and ambitions for it – i.e. being able to advise policy makers and practitioners about how to design and target appropriate support.

Areas for discussion:

- Current situation of each business and whether they have recruited recently or plan to – explore reasons behind this.
- For those with no plans to recruit explore reasons and extent to which there is any scope for appropriate support to make a difference to their decision.
- Teasing out any obvious distinctions between those recruiting and those not recruiting.
- Have they had experience of an approach or support from local public sector partners? What was it like? How could it have been better?
- To what extent do they feel that local and national services meet the needs of small businesses?
- What are the main sources of local support that participants use and experience of these?
- What would a great recruitment support service need to look like to meet the needs of micro-businesses specifically? What would the components be? How would it be best delivered? How should such services be designed?
- When recruiting, would they consider candidates who are currently unemployed and particularly unemployed young people?
- What other kind of opportunities would they feel able to offer those seeking work (or to help those at school gain insights into the world of work)?

## FSB Scotland Employment Project 2012

### Aide Memoire for FSB member telephone interviews

*Purpose is to gain insights into how micro-business leaders think and behave and identify what kind of opportunities there might be for policy or practice interventions that will help and encourage micro-business leaders to recruit staff or otherwise contribute to the employability agenda.*

*Introduction to project etc...*

1. Features of the business and current situation:
  - Why do you run a small business?
  - Products, services, markets
  - Number of staff, what they do
  - Do you need staff all the time or do your requirements change with orders/time of year etc.?
  - Role of business leader, how this has changed and how you expect it to change in the foreseeable future.

*[Need (sensitively) to identify status of business in current market conditions.]*
2. Do you have ambitions to grow your business? If so:
  - Why do you want to grow your business?
  - What kind of changes would growth involve?
  - Would you need to recruit staff to do this? [Explore both yes and no answers – i.e. why?]
  - What kind of size would you like to be ideally?
  - What might limit the growth you can achieve?
3. Have you recruited in the last 2 years? If not continue to Question 4.
  - If so:
    - Why did you decide to recruit?
    - What did you see as the risks of recruiting?
    - What were you able to do to reduce these risks?
    - Who has helped you (e.g. accountant, friend/relative, Jobcentre Plus etc.) – and what kind of help did you find useful?
    - Explore any support service they have they used and their experience of each – responsive, understood needs, offered good solution etc.
    - What would a great support service for recruitment look like? (accessible, relevant, knowledgeable).
    - What were the most difficult parts of recruiting someone?
    - What was your experience of recruiting someone like? To what extent did it contribute to your business in the way you had hoped?
    - What would your advice be to another small business thinking of recruiting?

**[Go to Q4]**
4. **[If haven't answered 3]** Are you thinking of recruiting in the next 12 months?  
**[If not go to Q5.]**
  - Why are you thinking of recruiting?
  - What do you see as the benefits of recruiting?
  - What do you see as the risks involved?
  - What do you think you might appreciate help with?
  - What would encourage you to recruit?

**[Go to Q5]**

5. [***If haven't answered 3 or 4***] Have you ever considered recruiting anyone? What are the main reasons why you haven't considered this? Can you see any benefits in having more staff?
6. Have you been approached by anyone offering to help with the growth of your business or recruiting someone or providing work experience?
  - If 'yes':
    - Was this experience helpful and constructive?
    - Was the offer clear and relevant to your situation?
    - What could have made it more helpful and appealing?
  - If 'no':
    - Would you welcome help with growing your business?
    - What would be the best way to approach you? [e.g. email, leaflet, phone call, visit]
7. Would you be willing to contribute to designing a support service for small businesses to make sure it met the needs of small businesses and the demands on them? What would be the best way of you making this contribution? [short workshop – breakfast or early evening; email; telephone discussion etc.]. What would be the main points you would want to make?
8. With unemployment – particularly youth unemployment – being very high, are there ways in which you would be keen to help (e.g. providing work experience etc.)?
9. How distinctive do you think are the needs and situation of micro-businesses? Do you think support for them needs to be designed specifically for them or are their needs similar to larger small businesses?
10. To what extent is your current situation typical of the small businesses you know?

## **FSB Scotland Employment Project 2012**

### **Aide Memoire for discussions with stakeholders**

*For use with contacts in Skills Development Scotland, Jobcentre Plus, Scottish Government (Business and Industry Employability; Skills and Lifelong Learning - including Youth Employability and Skills Division) training providers, CoC Edinburgh, SBC, FE Colleges, Local Authorities. [Questions will vary by organisation and its focus and responsibilities.]*

- Current interest in micro-businesses and their significance to the employability and skills agenda.
- Current action or focus on helping micro-businesses grow, develop skills, recruit staff.

- Extent to which feel that policy, programmes and provision meet the specific needs of micro-businesses and whether and how these needs are taken into account in developing and designing programmes and initiatives.
- Sense of key requirements of micro-businesses to create the conditions for recruitment.
- Current take up by micro-businesses of services/support offered by organisation and trends in this.
- Issues around micro-businesses as a target market and around focusing on it. Exploring how these issues could be tackled.
- Perceptions of key organisations for engagement with micro-businesses and supporting their growth. Respective roles of key agencies in the micro-business market.
- What kind of information would help you align policy, programmes and initiatives to reflect the needs and significance of small businesses?

### **FSB Scotland Employment Project 2012 Aide Memoire for discussions at Convention**

Purpose: Quick discussions to gain wider range of views from small businesses. 5 – 10 minutes maximum. If small groups form, have open discussion.

- Are you recruiting or planning to – and reasons for this (or for not recruiting)?
- What are the issues and obstacles do you feel you face around recruiting additional staff?
- What kind of service/support would help overcome these and encourage you to recruit?
- What is your experience of support and engagement activities?
- How else would you like to contribute to the employability agenda and what would help you to do this?



## Appendix 7: FSB Voice of Small Business Survey June 2012

### Do you contract one or more self-employed persons to undertake regular work for your business?

Scotland	n=275
Yes	33%
No	67%

### Which of the following, if any, explains your reason(s) for contracting a self-employed person?

Scotland	n=89
Weighted	86
The nature of the work is sporadic	61%
My business cannot afford to recruit permanent staff at the moment	38%
I am concerned about the regulatory risk of employing staff	26%
Other (please specify below)	17%
I would rather be in business on my own without any employees	10%
I cannot find permanent staff	3%

### We asked members to rate how useful contact had been in the last 12 months with various types of organisations in relation to recruitment, work experience or training

		Very useful	Quite useful	Not very useful	Not at all useful	Unsure
Total	314	37	118	83	63	13
		12%	38%	26%	20%	4%
Weighted Total	305	36	114	81	61	13
		12%	38%	26%	20%	4%
A school	31	2	7	10	8	5
		6%	22%	31%	25%	16%
A college	38	4	13	15	6	1
		10%	33%	38%	15%	3%
Business Gateway	34	6	17	6	3	2
		17%	51%	17%	9%	6%
Local authority	22	3	13	5	2	-
		13%	57%	22%	9%	-
SDS	26	3	9	11	3	1
		11%	33%	41%	11%	4%
Jobcentre Plus	43	5	26	5	6	1
		11%	61%	11%	14%	2%
Recruitment agency	52	7	8	16	20	1
		13%	15%	31%	39%	2%

Private training provider	43	6	16	8	11	2
		14%	39%	18%	25%	5%
Voluntary organisation	16	1	6	6	3	-
		6%	38%	38%	19%	-

### Have you taken on a modern apprentice in the last 12 months?

Scotland	n=281
Weighted	273
Yes	3%
No	97%

### Reasons given why members had not taken on an apprentice were as follows:

Scotland	n=256
Weighted	248
There are no apprenticeships relevant to my sector	45%
My business model doesn't require an apprentice	36%
I am uncertain about whether the business can afford an apprentice	24%
I do not know enough about what it might involve	12%
The length of time that the apprentice will be training offsite/away from the business is too long	7%
I had a bad experience previously	4%
Other (please specify below)	3%

### Have you ever provided work experience or a placement for a young person within your business?

Scotland	277
Weighted	269
Yes	48%
No	52%

### Reasons given for why they did so are as follows:

Scotland	131
Weighted	127
Approached by an individual keen to gain work experience	42%
I feel strongly about supporting young people in my area	33%
Approached by a training provider/school/college	33%
Approached by family/friends to help out a relative	28%
As a pre-recruitment tool (to see if the candidate is suitable)	24%
My business needed extra resource but taking on staff is too expensive	8%
Other (please specify below)	2%

## Appendix 8: References

Capelleras, J-L, Mole, K, and Greene, F. (2004) Start up size and subsequent growth: English and Spanish new businesses Compared. CSME Working Paper No 83.

de Kok, J., Vroonhof, P., Werhoeven, W., Timmerma, N., Kwaak, T., Snijders, J., and Westhof, F (2011) Do SMEs create more and better jobs?  
[http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/do-smes-create-more-and-better-jobs\\_en.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/supporting-documents/2012/do-smes-create-more-and-better-jobs_en.pdf)

Marx, I. (2005) Job subsidies and cuts in employers' social security contributions: The verdict of empirical evaluation studies. Changing Social Policies for Low-Income Families and Less-Skilled Worker in the EU and US, University of Michigan.

Layard, R, Nickell, S and Jackman, R (2005), Macroeconomic Performance and the Labour Market, Oxford University Press.

Mole, K.F., Hart, M., Roper, S., and Saal, D.D. (2009). Broader or deeper? Exploring the most effective intervention profile for public small business support. CSME Working Paper No 105.

Saridakis, G., Sen-Gupta, S., Edwards, P., Storey, D.J. (2006) Employment Tribunal Cases: The Impact of Enterprise Size on Incidence and Outcomes. CSME Working Paper No 89.

Urwin, P and Buscha, F (2012). Back to Work: The role of small businesses in unemployment and enterprise. Federation of Small Businesses.