

# Skills for self-employment

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# **Skills for self-employment**

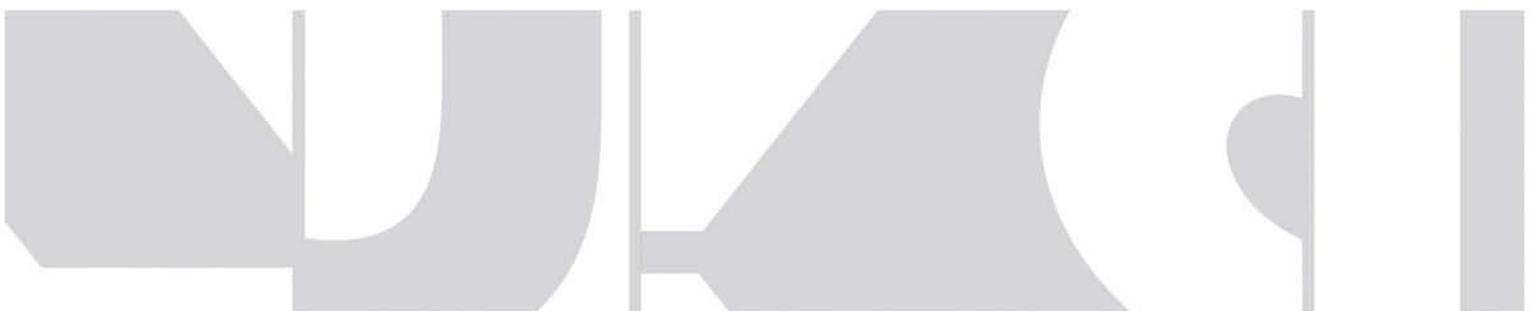
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# Foreword

The UK Commission for Employment and Skills is a social partnership, led by Commissioners from large and small employers, trade unions and the voluntary sector. Our mission is to raise skill levels to help drive enterprise, create more and better jobs and promote economic growth. Our strategic objectives are to:

- provide outstanding labour market intelligence which helps businesses and people make the best choices for them;
- work with businesses to develop the best market solutions which leverage greater investment in skills;
- maximise the impact of employment and skills policies and employer behaviour to support jobs and growth and secure an internationally competitive skills base.

These strategic objectives are supported by a research programme that provides a robust evidence base for our insights and actions and which draws on good practice and the most innovative thinking. The research programme is underpinned by a number of core principles including the importance of: ensuring **'relevance'** to our most pressing strategic priorities; **'salience'** and effectively translating and sharing the key insights we find; **international benchmarking** and drawing insights from good practice abroad; **high quality** analysis which is leading edge, robust and action orientated; being **responsive** to immediate needs as well as taking a longer term perspective. We also work closely with key partners to ensure a **co-ordinated** approach to research.

This Evidence report, which was undertaken by the Institute of Employment Studies, draws together a wide range of evidence on the importance of skills for the self-employed. This is one of the most comprehensive reviews and syntheses undertaken in the UK of the evidence on the relationships between skills and self-employment. As such the study provides an invaluable resource to inform policy in this area covering business start-up, support for unemployed to become self-employed, enterprise education, and business growth.

Sharing the findings of our research and engaging with our audience is important to further develop the evidence on which we base our work. Evidence Reports are our chief means of reporting our detailed analytical work. Each Evidence Report is accompanied by an

executive summary. All of our outputs can be accessed on the UK Commission's website at [www.ukces.org.uk](http://www.ukces.org.uk)

But these outputs are only the beginning of the process and we will be continually looking for mechanisms to share our findings, debate the issues they raise and extend their reach and impact.

We hope you find this report useful and informative. If you would like to provide any feedback or comments, or have any queries please e-mail [info@ukces.org.uk](mailto:info@ukces.org.uk), quoting the report title or series number.

**Lesley Giles**  
**Deputy Director**  
**UK Commission for Employment and Skills**

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## Executive summary

This small scale, explorative research study looks at the hitherto relatively under-researched question of the role of skills and training in the development of self-employment. It draws on a literature review, data analysis from the Labour Force Survey, and a series of expert interviews.

We summarise here the main findings from the research and, where appropriate, we highlight possible policy implications of those findings, although given the small scale, exploratory nature of the study, some of these issues would benefit from further investigation (and the report highlights possible avenues for new research to fill these gaps: see section 6.7). In thinking about policy we do not, for the most part, recommend specific interventions. Rather we highlight the kinds of considerations that policy-makers should be aware of when designing interventions.

### Trends in self-employment and characteristics of the self-employed

The study is set against the background of **steady recent growth in self-employment** in the UK to 13 per cent of the employed workforce, coupled with **increased policy interest in promoting self-employment** in general, and as an option for unemployed and disadvantaged people in particular.

The **self-employed are a very heterogeneous group** of people working on their own account, from entrepreneurs and small business proprietors to freelancers and subcontractors. At one end of the spectrum there is no clear boundary between the self-employed and employees, while at the other end the boundary between the self-employed and owner-proprietors of small firms is often equally blurred. Only one in five self-employed people have any employees and most of these have only very few.

The self-employed are also **diverse in their reasons for becoming self-employed**. They include growth-driven 'opportunity' entrepreneurs, 'lifestyle' self-employed, and 'necessity' entrepreneurs, driven into self-employment by inability to secure a salaried job.

The heterogeneous nature of self-employment, and the diverse reasons for becoming self-employed can be influences both on the performance of the businesses established by the self-employed, and the skills and development needs of the self-employed themselves.

There is strong evidence that **cultural and attitudinal factors** influence both the likelihood of someone choosing self-employment and their chances of making a success of it. Being self-employed and being successful at it are much more likely among people with family backgrounds of entrepreneurship; there is similar evidence that cultural factors contribute to the persistence of regional patterns of self-employment incidence (high or low).

In this light a key **policy implication** relates to the **importance of reinforcing social and cultural competences**. The research shows clearly how social and cultural factors (often acquired through family and social networks) can predispose people to self-employment and help make them good at it. An absence of these factors is hard to compensate for in training and other support provision, but in designing interventions, policy-makers should consider how to incorporate factors such as:

- establishing and reinforcing participation in entrepreneurial networks;
- the key function that can be played by ‘enterprise role models’.

## **Education, training, skills and self-employment**

The evidence on the relationship between **educational background** on the one hand and entry to and success in self-employment on the other is complex and mixed. The relationship also varies between occupations and sectors. Thus in some sectors and occupations (e.g. skilled trades in construction) self-employment is more of a ‘norm’ than in others. Overall, however, someone is more likely to be self-employed if they have **no qualifications** than if they have some, but among those with qualifications there is no clear relationship between the **level of qualifications** and the likelihood of being self-employed.

As far as **occupational skills** are concerned, the research looks at broad occupational groups, and finds, at the top end of the skill spectrum, no evidence that the self-employed are less likely to have **high level skills** than employees in the same occupation. At the bottom end of the spectrum, however, the self-employed are more likely than employees to have **no formal qualifications**. This last finding does not necessarily imply a real skills deficit among the self-employed; it may simply mean that the least skilled jobs in any occupation are more likely to be done by self-employed workers.

Unsurprisingly, research suggests that **prior work experience**, particularly if it includes previous spells of self-employment, contributes to success in self-employment.

When it comes to the generic **competences required for success in self-employment** (over and above any occupational skills which may be required), the evidence suggests that a wide range are important, including:

- values, beliefs and attitudes (e.g. action orientation, desire for independence, initiative, creativity etc.);
- 'soft' skills including interpersonal, communication and networking skills;
- realistic awareness of the risks and benefits of self-employment;
- functional business skills (financial, HR management, market research);
- relevant business knowledge (legislative, taxation, sources of finance etc.).

The relative importance of each of these may vary between the nature of the business (growth-oriented or lifestyle, for example), and between the different stages of the self-employed lifecycle (pre-entry; entry and survival; growth etc).

The evidence shows, however, that compared with employees, the self-employed need the ability to **combine and deploy a wider range of competences**.

There is **little robust or systematic evidence** on how far the existing self-employed, or the potential self-employed (whether currently unemployed, employed or inactive) possess these skills and competences, although several small scale studies suggest that many self-employed/potential self-employed may have difficulties due to:

- insufficient self-awareness of own skill needs, and lack of self-assessment as 'business people';
- lack of business experience and/or lack of relevant business training: with particular reference to skills such as cash flow/financial management, marketing/winning business, creating and management business systems;
- insufficient 'soft' skills, including interpersonal skills;

- lack of staff management skills (where relevant).

Existing research raises the possibility, however, that self-employment can **enhance skill utilisation**, with some self-employed individuals able to have more control over and make better use of their human capital, outside the constraints of an organisation.

Compared with employees, **the self-employed are only half as likely to participate in work-related training or education**. In part this is likely to reflect the over-representation of people with no qualifications among the self-employed (people with no qualifications are less likely than others to participate in training). It may also be partly because many self-employed have low earnings and work long hours, making it difficult for them to afford the money or time to invest in skill development. The research evidence does not, however, reveal whether the self-employed compensate for this by finding other ways to update their skills, through informal learning or on-the-job skill development. It does, however, raise an important question about whether, over time, this lower level of work-related training leads to a widening skills gap employees and the self-employed, as the latter fail to update and develop their skills and competences (certainly there is some evidence that this may be an issue in particular sectors, such as construction)

## **Policies to promote and support self-employment**

There is a long tradition in many countries of **self-employment start-up (subsidy) schemes** for the unemployed and a large volume of evaluation evidence.

- Early studies showed that these schemes are often high cost per participant, and with high levels of deadweight and relatively low survival rates, and little measurable impact on participants' subsequent employability. Reducing deadweight by targeting on disadvantaged and longer-term unemployed tends to reduce levels of survival and jobs created.
- Recent evidence, particularly from countries such as Germany (where there has been major investment in such programmes) yields more positive results, possibly because more sophisticated evaluation methods have been used, and because longer-term results have been better than short-term impacts.
- The **mode of financial support (allowance or grant/loan)** makes a difference to scheme performance.

- Such programmes rarely include formal training provision, although it is common for mentoring, advice and guidance to be offered. Some evidence (e.g. from Prince's Trust programmes in the UK) suggest that **mentoring and similar support provision** enhances survival rates, but there is little evidence of what form of support works best for which particular groups.
- Finally, there is some evidence that selection and assessment processes determining eligibility for such schemes are important in ensuring a **good match between the individual's human capital (both skills and prior experience) and the specific requirements of the self-employed business** being established (it is not simply a question of having a viable business plan, but also of ensuring that the potential entrepreneur's human capital is appropriate to delivering that plan).

Three very general **policy messages** of relevance to self-employment programmes emerge from the study and should be borne in mind when designing support measures.

The first relates to **clarity about policy objectives**. Different parts of government will have different policy emphases towards self-employment. Thus, for example, the Department for Business, Innovation and Skills (BIS) has a particular interest in business start-up and growth, while the Department for Work and Pensions (DWP) is more concerned with self-employment as a route out of unemployment.

However, research suggests that self-employment schemes for the unemployed or disadvantaged groups as well as broader initiatives to promote entrepreneurship through the education system, suffer from ambiguity and lack of clarity about objectives. For example, it is often unclear whether the object of a programme is to reduce unemployment directly, to enhance the long-term employability of participants, to stimulate enterprise and small firm growth in the economy, or some combination of these. How the objectives are formulated is, however, crucial to:

- the design of the intervention and the relative emphasis that is placed on reducing deadweight and on targeting disadvantaged groups; and
- the evaluation and cost-benefit assessment of the schemes' performance: schemes which perform well in moving people from benefits to self-employment, may be poor performers in terms of business growth and innovation (and vice versa).

The second message relates to the **motivations and rationale** which drive the self-employed and their activities. The evidence shows important differences between necessity entrepreneurs, lifestyle self-employed, and opportunity entrepreneurs, in terms of skill needs, business performance and growth orientation. All these groups benefit from support, including skills and mentoring interventions, but they are likely to need different kinds of support, structured differently, taking account both of their backgrounds and their business aspirations. Market segmentation of support provision in this way is likely to be essential for cost-effective intervention.

The third general message is that a similar segmentation of provision and support according to the **life-cycle of self-employment** is also beneficial. The different stages (pre start-up, start-up and survival; and growth) are likely to require a different balance of

support between financial support and human capital support. Equally the precise nature of any support (e.g. formal training, or mentoring, or other kinds of advice and guidance) is likely to vary between the different stages of self-employment, and the kinds of providers best placed to provide that support will also vary. Provision needs to be designed flexibly to accommodate this variation.

Turning to specific policy implications relating to the design of self-employment initiatives, the research highlights the importance of the process of **assessment of candidates for self-employment support**. In designing interventions, policy-makers need to give particular attention to methods for assessing the suitability of candidates for self-employment support. This is not simply a question of assessing the viability of a business plan (important though that is); rather the performance and success of the businesses set up by the self-employed can be influenced by:

- the expectations of potential self-employed people, including their expectations of the income potential of their business (which may often be unrealistic);
- their level of preparedness for the demands of self-employment;
- mismatches between the (occupational) background and skills of the newly self-employed and the nature of their business.

This suggests that those involved in supporting potential self-employed people need to pay greater attention to these factors in advising potential entrepreneurs, and in assessing their business plans. More generally successful self-employed people need to possess and deploy a wide range of competences (both 'hard' and 'soft'); this needs to be taken into account in the selection process and in the advice given to potential start-ups, especially when they are subsidised by the state. It is not simply a question of whether this person has a viable business idea, but also of whether they have (or can reasonably be expected to acquire) the full range of competences necessary to make a go of it.

Looking at **specific disadvantaged and other groups** which have been the targets of self-employment and start-up programmes (examples from the literature cover women, disabled people, people from minority ethnic groups, ex-offenders and others), there are few universal findings about 'what works', and many specific examples of more or less successful interventions for different groups.

Nevertheless the following **policy considerations** appear to be particularly relevant to support for (some) disadvantaged groups to enter self-employment:

- highly tailored provision taking account of participants' skill levels and experience;
- packages including 'holistic' support addressing other (non-skill) elements of personal circumstances which may act as barriers;
- taking account of related personal development needs including confidence-building and basic soft skills;

- helping participants to establish realistic expectations about running a business (including chances of success, and likely income levels).

While there is a range of skills and human capital-related provision associated with self-employment start-up programmes, there appears (from the limited literature available) to be much less provision targeted at **helping existing self-employed** people maintain, develop and update their skills.

What little evidence there is, however, highlights the importance of responsive, flexible, modular provision to fit in with the demands of the business.

As far as **enterprise education within the formal education system** is concerned, there is a consensus that it should incorporate not only technical business skills, but also a wider approach to encouraging ‘enterprise culture’ and associated life skills (including innovative mindsets, independence etc.).

Until recently it appears that, in the UK, greater progress in enterprise education has occurred within the school system and the higher education system, while the further education (FE) system has lagged somewhat in ‘mainstreaming’ enterprise education. This is despite the fact that occupations with high self-employment densities include intermediate and skilled manual occupations, for which the FE system is a key provider of occupational skills. There is also some evidence that self-employed in these occupational groups may not regard themselves as ‘business people’ and may not have the relevant managerial skills and enterprise orientation relevant to success to self-employment.

A **policy implication** from the limited evidence considered in this report is that, while a range of recent developments in the FE sector are attempting to remedy this gap, there is a prima facie case for greater emphasis on both hard and soft enterprise skills within FE provision.

Inevitably, given the diffuse nature of the provision of enterprise education, and that impacts are observable only over longish periods of time, there is very little robust evaluation of the impacts of enterprise provision within education: while some studies have identified impacts of specific provision from longitudinal data, there is little evidence on what kind of provision is more or less effective, for what kind of students, or on what elements of provision make the difference. Research on **pedagogical approaches** highlights a number of key issues including:

- the balance between 'hard and soft skills';
- the need for practical experiential learning;
- the training and (practical business) experience of teaching staff;
- the commitment of senior management in education to enterprise teaching;
- the tension between specialisation or embedding enterprise education in a wider range of courses;
- the value of certification.

# 1 Introduction and context

This report summarises the findings and conclusions of a small scale, explorative study looking at the role of skills and training in the development of self-employment. The research is set against the dual background of:

- renewed government interest in promoting self-employment in general, and encouraging it as an option for unemployed and disadvantaged groups in particular;
- the observation that discussion of skills policy in the UK focuses predominantly on the skills demanded by *employers* for business success and the skills required by *employees* for successful careers. There is much less emphasis, in this discussion, on the skills necessary for entry to and success in self-employment.

## 1.1 Policy background

Prior to the UK coalition government taking power in May 2010, Conservative politicians highlighted a policy intention to promote self-employment<sup>1</sup>, referring to previous programmes in the 1980s and 1990s to support unemployed people into self-employment<sup>2</sup>, and stressing the importance of an effective system of ‘mentoring’ as a means of delivering to participants of such programmes, the necessary skills and knowledge for success in self-employment.

This emphasis on self-employment promotion appeared in the new government’s programme. For example, a key action in the ‘structural reform plan’ issued by the Department of Work and Pensions in July 2010 (DWP, 2010), was articulated as follows:

Develop options to promote self-employment to the unemployed, and give them access to the advice and support they need to start their own business

i. Develop financial support options, coupled with mentoring for supporting would-be entrepreneurs into self-employment

ii. Preparatory work to put in place targeted new self-employment support, subject to the Spending Review

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<sup>1</sup> See, for example, a speech by David Freud (Shadow Minister for Welfare Reform) in November 2009: [http://www.employment-studies.co.uk/policy/resources/121109\\_freud.pdf](http://www.employment-studies.co.uk/policy/resources/121109_freud.pdf)

<sup>2</sup> The Enterprise Allowance Scheme and its successor, the Business Start-up Scheme.

iii. Develop wider business support options to ensure there is an effective offer for unemployed people, working with the Department for Business, Innovation and Skills

In similar vein, the structural reform plan issued at the same time by the Department of Business, Innovation and Skills (BIS, 2010a) set out the following objective:

Create a stronger entrepreneurial culture

- i. Subject to the Spending Review, work with the Department for Work and Pensions to develop options to support unemployed people in setting up their own business, including 'Work for Yourself'
- ii. Work with Department for Education to develop a proposal for enterprise education in schools, further education and higher education

Subsequently, DWP has announced the *Work for Yourself* programme<sup>3</sup>, to be rolled out alongside the new *Work Programme* (a unified active labour market measure bringing together and replacing a range of previous welfare-to-work schemes, 'New Deals' etc.), with an emphasis on providing support to would-be unemployed entrants to self-employment by giving them access to business mentors/coaches and start-up loans. Specifically, DWP announced, when inviting contractors to tender for the *Work Programme* in late 2010<sup>4</sup>:

"We plan to introduce Work for Yourself next year and want to develop a simple and un-bureaucratic system that brings about a step-change in the way that enterprise is promoted as a route back to work."

Most recently, under the *Work for Yourself* umbrella, DWP has announced a New Enterprise Allowance (NEA)<sup>5</sup> scheme to be piloted in Merseyside, prior to national rollout.

"NEA will be available to people who have been claiming Jobseekers Allowance for 6 months or more. It will provide access to business mentoring and offer financial support. To receive financial support, the applicant will have to demonstrate their business idea is viable and has growth potential. Objectives, scope and method of the research"

Like the original Enterprise Allowance Scheme (EAS) in the 1980s (see section 1.1 of the Annex), the programme will offer a weekly allowance (similar to what the person would have received in benefit had they remained unemployed), but unlike EAS there is also the offer of

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<sup>3</sup> <http://www.dwp.gov.uk/docs/pfg-jobs-welfare.pdf>

<sup>4</sup> <http://www.dwp.gov.uk/docs/work-programme-qanda.pdf>

<sup>5</sup> <http://www.cdfa.org.uk/2011/03/08/dwp-invites-expressions-of-interest-for-new-enterprise-allowance-scheme/>

a small loan to assist with start-up capital (a key criticism of EAS was that there was no support to help overcome capital barriers to entry).

It would seem, therefore that:

- after a couple of decades of neglect<sup>6</sup>, **self-employment as a route into the labour market for unemployed and inactive people** is receiving greater policy emphasis;
- there is growing recognition of the case for this approach to be coupled with a focus on **support for development of the skills necessary for success in self-employment**, whether this be through ‘mentoring’ of participants or similar, or through a higher profile being given to ‘enterprise’ in the education system itself.

## 1.2 Objectives, method and scope of this research

With this policy context, the key purpose of the research is to review what is known from UK and international evidence about the skills and knowledge relevant to entry and success in self-employment, and how they can be most effectively delivered, particularly to unemployed, inactive and disadvantaged groups within labour market programmes for these groups.

The research methodology contains three elements.

- **Background analysis**, providing descriptive statistics on the nature and extent of self-employment in the UK, primarily drawn from the Labour Force Survey (LFS), to provide a context to the research (the LFS analysis is presented in full in a separate Annex to this report, and is referred to at relevant points in the main body of the report).
- A **desk-based review of relevant research and policy literature**, drawing on academic research, and ‘grey literature’ such as policy documents and evaluations of interventions. In practice, the literature was narrowed down to a long-list of more than 400 documents. Around 200 are directly cited in the report, and included in the bibliography.
- **Expert interviews** with researchers, policy-makers and practitioners in relevant areas (22 expert interviews were undertaken, and are listed in an Annex below: section 7).

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<sup>6</sup> While the various New Deal programmes introduced after 1997 included self-employment options, this route did not have the policy emphasis it received in the 1980s and early 90s, which was reflected in relatively small numbers of programme participants taking this route.

Examples and views drawn from the interviews are included in the main text at appropriate points, but the interviews also acted as a sounding board for the key points emerging from the research and a source for many of the studies and policy examples cited in the report.

It is important to stress that the research focuses primarily on self-employment, on programmes to encourage self-employment (particularly among the unemployed) and on the skills relevant to self-employment (particularly in the start-up phase). There is a wider literature about small businesses in general and the skills required by their managers and owner proprietors, and also a literature about the promotion of enterprise skills, entrepreneurship and ‘intrapreneurship’<sup>7</sup> within the wider population. This research and evidence overlaps with that considered in the present study, and there are no firm boundaries. However, while we draw where appropriate on these literatures, full coverage of these would excessively broaden the scope of this small study: wherever possible, therefore, we have attempted throughout to retain our central focus on self-employment<sup>8</sup>.

### **1.3 What do we mean by ‘self-employment’?**

A notable feature of UK self-employment, as in other countries, is its diversity. Most data sources (including the LFS) rely on self-assessment of the survey respondents as to whether they are self-employed (which may differ from their assessment for other purposes, such as taxation<sup>9</sup>, or employment law). These sources usually define self-employment in terms of independence or autonomy, in the sense that the self-employed are those working on their own account, rather than for an employer in a conventional employment relationship (see Bryson and White (1997) for a discussion). The group of people satisfying this definition is, however, very heterogeneous, covering a variety of types of work exhibiting varying degrees of autonomy or independence in practice, including, for example:

- entrepreneurs and small business proprietors;
- independent professional workers (in the arts and liberal professions, for example);

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<sup>7</sup> Which relates to entrepreneurial behaviour within a larger organisation.

<sup>8</sup> Although we also use terms such as ‘entrepreneurship’ and ‘enterprise’, because these are often used interchangeably with ‘self-employment’ in the research and policy literature.

<sup>9</sup> As pointed out in a recent report from the Office of Tax Simplification (OTS, 2011), the system of National Insurance Contributions (NIC), provides an incentive for ‘false self-employment’, because

- skilled manual craft-workers;
- farmers;
- some categories of home-workers or 'outworkers';
- 'labour only' subcontractors (e.g. in the construction industry, although recent tax changes are likely to have reduced this component of self-employment).

Clearly some of these correspond quite well to the model of autonomy and independence implicit in the popular conception of self-employment, while others might better be seen as 'disguised employees'. It is not possible to distinguish 'degrees of self-employment' in the aggregate survey data, and inevitably these data include a number of people who, in many respects, are closer to employees than the notion of 'working for oneself' or 'running one's own business' would suggest. Our main interest, however, is in self-employment in the latter senses, despite these difficulties in data interpretations, which need to be borne in mind in reading this report. Some self-employed people will, have employees and will be proprietors of their growing businesses; typically, however, these businesses will be rather small (owners and directors of larger businesses, while sharing many of the characteristics of self-employed people, are often employees of the businesses they run, and also share many characteristics with other senior employees). The LFS shows that just under 20 per cent of the self-employed have staff of their own, and most of these have only very few employees<sup>10</sup>. Further, as can be seen from Figure 1.1, most (2.7m out of 3.9m) of the self-employed describe themselves as 'working for myself' (only 14 per cent of whom have employees). Much smaller numbers describe themselves as sole director of their own business, running their own business or professional practice, or as a partner in their own business or professional practice, and as expected, the latter are much more likely to have employees<sup>11</sup>.

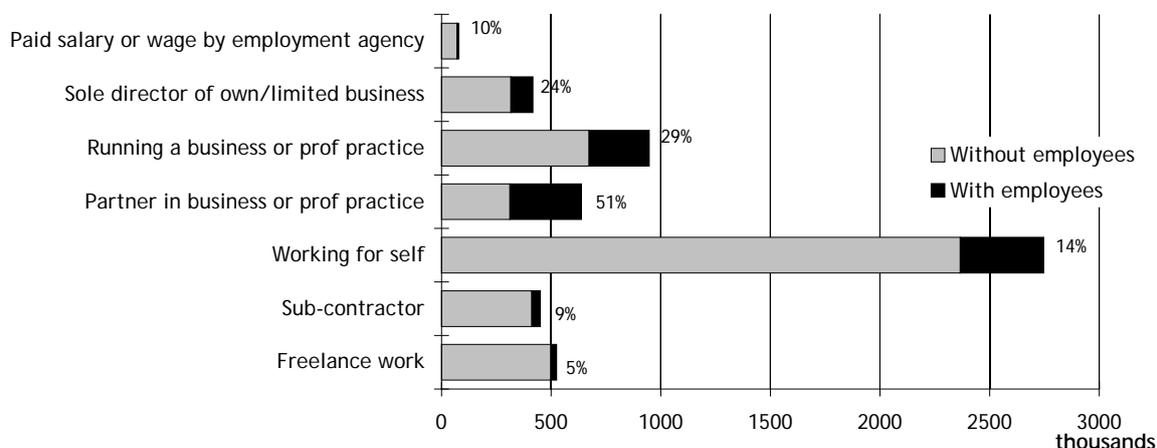
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of the lower rates of NIC charged on self-employment than on employee income. The report makes recommendations to clarify the employee: self-employed boundary for tax purposes.

<sup>10</sup> See also the discussion in section 2.2 of the Annex.

<sup>11</sup> Note: the categories in Figure 1.1 are not mutually exclusive (e.g. a self-employed person might describe themselves both as working for self and as undertaking freelance work).

**Figure 1.1 Whether self-employed have employees, by mode of self-employment, 2010**



Source: Labour Force Survey (April-June quarter 2010)

Note: %s indicate percentage of each mode who have employees

## 1.4 Why do people become self-employed?

It is important to understand the underlying reasons and motivation for self-employment entry.

- First because the skills required and the propensity or willingness to acquire them may themselves depend on why a person chooses to become self-employed: e.g. whether they are driven to create a profitable, growing business; or are choosing self-employment for 'lifestyle' reasons; or because they feel pushed into self-employment, by inability to find work as an employee. One overarching theme in the literature is that skills requirements and skills needs are influenced by the reasons for being self-employed (Heinonen and Akola, 2007a).
- Second it is important, because some research finds that motivation is a factor which can influence success and performance in self-employment (for example, the evidence review in Kellard et al., 2002).
- Finally, it is also important to understand the motivations of self-employed individuals, in order to ensure that initiatives supporting and encouraging self-employment adequately convey the risks and benefits of self-employment to potential entrepreneurs, and that

they do not play to inaccurate perceptions of these risks and benefits (Benz, 2009; Dawson et al., 2009).

#### **1.4.1 Motivations: necessity and opportunity entrepreneurship**

One of the distinctions most widely made in the literature is between 'necessity' and 'opportunity' entrepreneurs. Necessity entrepreneurs are motivated by 'push' factors driving them into self-employment, such as a lack of suitable jobs in paid employment, leading to self-employment as an economic necessity. Opportunity entrepreneurs, by contrast, are 'pulled' into self-employment through choice, although there is no consistent definition in the literature about the extent to which 'opportunity' entrepreneurs really exploit an existing market opportunity<sup>12</sup>, or whether this is a residual category of those who are not forced 'necessity' entrepreneurs, but are simply those who enter self-employment voluntarily (Block and Sandner, 2009 take this approach to identifying opportunity entrepreneurs).

There is limited evidence from a small number of surveys on which portions of the self-employed population are necessity and opportunity entrepreneurs. Lomax et al. (2007a) find from the England Household Survey of Entrepreneurship 2007, that 51 per cent of those starting a business or becoming self-employed in the preceding four years had done so to take advantage of a business opportunity. They find that 18 per cent of survey respondents who had recently moved into entrepreneurship had done so purely because of having no better choices for work, although a further 11 per cent said that lack of better choices had contributed to their decision. The results suggest a difference between the motivations of those moving into self-employment and those who have recently become business owners. Those who were self-employed were significantly more likely than those owning a business to say that they had moved into entrepreneurship out of necessity (21 per cent of the self-employed versus nine per cent of business owners) (Lomax et al., 2007a, p.53). Evidence for the UK from the Global Entrepreneurship Monitor also suggests fairly low levels of necessity entrepreneurship (those reporting that they have no better opportunities for work), with 16 per cent of 'total early-stage entrepreneurial activity' (TEA)<sup>13</sup> being formed of necessity entrepreneurs, compared to 43 per cent of TEA by those who report that they are taking advantage of a business opportunity (Bosma and Levie, 2009, Table 3, p.21).

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<sup>12</sup> The Global Entrepreneurship Monitor, for example, acknowledges a spectrum of motivations, defining those saying they have 'no better choice of work' as necessity entrepreneurs, and those who started a business 'to take advantage of a business opportunity' as opportunity entrepreneurs. Those giving a mixture of reasons are treated separately (see Thompson et al., 2010).

In this context, the work of Dawson et al. (2009) is particularly interesting. First, their analysis finds little evidence for the existence of ‘necessity’ entrepreneurship<sup>14</sup> at all.

Second, however, and more interestingly, their work, rather than treating ‘opportunity’ entrepreneurship as a residual category, looks in more detail at the range of ‘positive’ reasons for self-employment choice. Thus, they note that it is very unusual for self-employment to be driven by identification of demand: a market niche. Instead:

“type of entrepreneurial activity (professional, family business), the need for independence and/ or financial reward, and, particularly in the case of women, lifestyle considerations” seem to be much more significant (Dawson et al., 2009, p.15).

Having ruled out ‘necessity entrepreneurship’ and ‘identification of market demand’ as dominant motivations for self-employment entry, Dawson et al. nevertheless find great heterogeneity in individuals’ (generally positive) decisions to enter self-employment. In particular, they identify four broad “motivational dimensions” underlying these decisions:

- existence of opportunity to start a business
- occupational norms (i.e. the nature of an individual’s profession, if they have one)
- lifestyle reasons (e.g. relating to balancing family and working life)
- opportunity afforded by having resources available to support a new business venture.

Finally, however, as Henley (2007) points out, a key weakness bedevilling many studies exploring individuals’ motivations to enter self-employment, is the fact that that cross-sectional data may not accurately represent the true motivations and aspirations of individuals. Relying on individuals to recall why they entered self-employment introduces the possibility of retrospective self-justification. His analysis of longitudinal data from the British

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<sup>13</sup> TEA includes those involved in setting up a business and owner-managers of new businesses.

<sup>14</sup> This research covers 1999-2001 (when the LFS included extra questions on self-employment motivations) which, as the authors acknowledge, was a time when the UK experienced sustained growth and falling unemployment. The conclusions might not, therefore, be generalisable (indeed as noted above, many authors have argued that ‘necessity’ entrepreneurship remains a key feature of self-employment in the UK and elsewhere).

Household Panel Survey (BHPS) suggests that most transitions into self-employment are not anticipated more than a year in advance; instead, Henley proposes that particular events (such as job loss or job dissatisfaction) encourage individuals to move into entrepreneurship. Although this does not negate the importance of motivational factors, it does suggest a need to take a dynamic view of reasons for entering self-employment, rather than viewing these as fixed for each individual. His analysis also suggests (echoing findings in SFEDI, 2006) that many individuals do not undergo formal training to prepare for self-employment. He suggests that this combination of rapidly-formed intentions and lack of preparation raises concerns about the preparedness of individuals for self-employment.

### **1.4.2 Motivation and business performance**

Much research suggests that 'necessity' entrepreneurs are found in lower-growth sectors, and are less likely to show high performance. This has been found in relation to those moving off benefits (Kellard et al., 2002), with more limited evidence on the role of motivation in the broader population (see Burke et al., 2002). More recent research, however, using rigorous multivariate methods, paints a more nuanced picture. In particular, Block and Sandner (2009) find that once the degree of match or mismatch between the occupational qualifications of the self-employed and the nature of their business is controlled for, the performance difference between necessity and opportunity entrepreneurs disappears: that is, it is because necessity entrepreneurs are more likely to exhibit such a mismatch that their businesses perform less well, rather than anything do with their motivations per se<sup>15</sup>.

### **1.4.3 Non-pecuniary motivations**

Many accounts of opportunity entrepreneurship assume that an economic judgment is being made, and that the 'opportunity' being exploited is a business or pecuniary one. This does not fully describe all the diverse motivations for entering self-employment. Given other authors' findings<sup>16</sup> that, for many, self-employment does not tend to pay very well compared

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<sup>15</sup> See also section 4.1.4 where we discuss the implications of this finding for the kind of support and advice that may be required in self-employment schemes for the unemployed or disadvantaged.

<sup>16</sup> It is a well-established finding (Meager et al. 1996, Knight and Mackay 2000) that, compared with employees, the self-employed are disproportionately concentrated at the top and the bottom of the earnings distribution. There is a large group of self-employed with very low earnings (even when the tendency for the self-employed to under-report earnings is allowed for), especially when expressed as an hourly rate, because of the long working hours of the self-employed (see our analysis from the LFS in section 2.2 of the annex. It is also of interest to note that the evaluation of the Prince's Trust start-up programme (Meager et al. 2003), showed that many of the newly self-

with wage employment, Benz (2009) stresses that people may have non-financial reasons for entering self-employment, such as job satisfaction: for instance, he finds that the same individual tends to have greater job satisfaction in self-employment than in employment (perhaps offsetting any lower financial returns). However, if entrepreneurs or potential entrepreneurs are not making an informed choice (suffering from lower incomes because they have failed to assess the likely pay-offs from self-employment) then policy needs to be cautious in incentivising start-ups (Benz, 2009). Policymakers also need to be conscious that the choice of self-employment to achieve independence and flexibility may mean that many of those who are self-employed want to sustain themselves but are not necessarily interested in business growth and expansion (the 'lifestyle self-employed': see for example Platman, 2003, on older freelancers; Kirkwood, 2009, on self-employed women).

The relationship between motivation and performance is not, however, straightforward. On the one hand, it might be expected that those with a non-pecuniary motive may be less likely to maximise their profits, since other concerns may take priority (Blanchflower and Oswald, 1990; Cressy, 1995, Burke et al., 2002). However, non-pecuniary motivations<sup>17</sup> such as job satisfaction, a wish to benefit others or desire for independence may mean that greater efforts are invested in the business venture. Nevertheless, the extent to which these efforts are channelled into profit-making activities will affect the financial performance of the business. There is some empirical evidence, from analysis of the British National Child Development Study, that desire to be one's own boss does have a positive relationship with business financial performance; this appears to be particularly the case for men, perhaps because (it is argued) of women's childcare responsibilities (Burke et al., 2002).

#### **1.4.4 Motivations among different groups**

Certain groups are more likely to cite 'push' (necessity) rather than 'pull' (opportunity) motivations for entering self-employment (Dawson et al., 2009). Those with higher levels of education (particularly those with degree-level qualifications) are more likely to choose self-employment for the 'independence', and less likely to cite 'family business', 'no jobs available

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employed supported by the programme enjoyed very low earnings (between a quarter and a third earned less than £50 per week).

<sup>17</sup> Despite the important role of non-pecuniary factors, it is interesting to note that other authors have found that the most important single predictor of choice of mode of work remains the expected income differential: see Cowling et al. (2004), Cowling and Mitchell (1997), Fujii and Hawley (1991).

locally' or 'redundancy' as motivations for self-employment. Those with no formal qualifications are more likely to enter self-employment due to factors arising from economic necessity (such as 'no jobs available locally'; 'more money'). Those renting social housing are also less likely to report any particular given motivation for entering self-employment; the authors imply that this is likely to be linked with 'forced' entrepreneurship.

## **1.5 Prior status of the self-employed**

Our LFS analysis (based on analysis of change of status between two successive years: see section 2.3 of the Annex) suggests that more of those people entering self-employment over the course of a year were employees a year earlier (59 per cent) than were unemployed (14 per cent) or were economically inactive (27 per cent). This is unsurprising given that many more people of working age are employed than are unemployed or inactive. It is also interesting to note, however, that the chances of someone who is unemployed being self-employed a year later are (at 4.2 per cent) three times higher than the chances of either an employee or an inactive person being self-employed a year later (1.4 per cent respectively).

Standard economic theory suggests that people will move into self-employment if the expected benefits (whether pecuniary, or in terms of flexibility, or job satisfaction) outweigh the anticipated losses and additional risks of leaving employment<sup>18</sup>. Many people may not feel that this loss of job security is worthwhile: one survey suggests that 60 per cent of English employees agreed that fear of losing their job security would put them off starting a business (Lomax et al., 2007a, p.66). However, of those who are self-employed, a considerable proportion (as our LFS data suggest) have moved from salaried employment and are likely to be using some of the skills learnt there for their own venture. For example, SFEDI (2006, p.14) finds that 80 per cent of self-employed owner managers and sole traders operating limited companies were working full or part-time as an employee before moving into self-employment/ business ownership.

Some literature provides more detail on the relative size of self-employment inflows from unemployment. Thus Cowling (2003, p.63) finds that between five and 15 per cent of the unemployed, in the three English towns he examines, entered self-employment programmes. For those who make the transition, Kellard et al. (2002) provide some data which suggests

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<sup>18</sup> The question arises of information market failure here: how adequately can people with little or no experience of running a business assess the risks and returns of self-employment entry? (Allinson et al., 2005)

that those who move into self-employment from unemployment can achieve sustained economic independence. Their analysis of the BHPS confirms that relatively few (eight per cent) transitions from unemployment are to self-employment. However, of those who do make the transition, around two-thirds of formerly unemployed people who became self-employed remained self-employed a year later. Meanwhile, 16 per cent of those who moved from unemployment to self-employment moved to employment over the three year transition period (p.4).

### **1.5.1 Relationship between status prior to self-employment entry and motivation**

Related to our discussion of ‘necessity’ and ‘opportunity’ entrepreneurs, and when considering people leaving employee status work to set up in self-employment, the question “did they jump, or were they pushed?” arises. There is little direct evidence on this, but it is interesting to note that some research (Corral et al., 2006; DTZ, 2007: see also the discussion in section 4.2.1) finds that that, in programmes designed to assist those affected by redundancy or restructuring, take-up of enterprise or self-employment options is low. While it is possible that the self-employment element is often ‘lost’ within a redundancy-response initiative with broader objectives, such evidence is consistent with the likelihood that many people moving from employee status to self-employment are ‘opportunity’ entrepreneurs, whereas the incidence of necessity entrepreneurship among those moving from unemployment is much higher. With this background the common association in the literature between the source of the move to self-employment (employee or unemployed) and the motivation for the move (opportunity or necessity) seems reasonable.

## 2 Self-employment skills and occupational skills

In this chapter, we look at the questions: what are the skills needed to be successfully self-employed? How do they compare with the skills required to be occupationally competent?

It is clear from the literature, and worth emphasising, that when asking about the skills required for (successful) self-employment, given the heterogeneity of self-employment, the answers arrived at are likely to be highly context-specific.

- The mix of occupation-specific and business/enterprise skills depends not only on the nature of the self-employed activity, but also on the career path(s) followed by the self-employed person. Some past research on career choice has focused on generic areas (such as music, or IT). However, there are many possible career paths within occupations: a computer programmer may join an existing company as an employee, work as a freelance contractor, start up a firm or buy out an existing business. Each is likely to involve differing skills and approaches to work (Feldman and Bolino, 2000). It is also worth bearing in mind that many who enter self-employment will not remain there for the rest of their career<sup>19</sup>; indeed, some will only have a brief foray into self-employment. Although Burke et al. (2008) look at factors associated with being a 'die-hard' entrepreneur, this is an area which appears to be under-researched. Despite the large literature on survival in self-employment, we cannot currently draw strong conclusions about the differences in skills development between those who move in and out of self-employment, and those who remain in stable self-employment, or indeed why this occurs.
- Further, the skills needed by self-employed people will vary according to the individual's motivations and business aspirations (see Section 1.4 above). Does the individual simply want to sustain themselves (as applies to many 'lifestyle' self-employed), or do they aspire to grow the turnover of their business or expand into new areas? Is it desirable and feasible for them to employ other people?

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<sup>19</sup> Some research suggests (Meager and Bates, 2004), that self-employment growth and the extension of self-employment to more sectors and occupations, mean that a growing share of the workforce will experience spells of self-employment during their working career, and a key question, therefore, is what impacts such spells have on career development and earnings, and what human capital is required to facilitate such transitions over the lifecycle.

- The answers about relevant or necessary skills for successful self-employment also depend to some extent on what the measure of ‘success’ in self-employment is; is it to be seen as business survival, profitability/earnings, growth/expansion, whether the business employs others? All these success criteria and others are cited in the self-employment literature.

In the sections below, we look at the ‘supply side’, that is the human capital characteristics which, according to the research literature, are associated with entry and success in self-employment, including both cultural and social attributes, and more specific educational and (work-related) experiential characteristics.

## **2.1 Born or made?**

A recurrent discussion in the literature is whether entrepreneurs are born or can be made: whether the decision to become an entrepreneur, and success in entrepreneurship are dictated by innate traits, or whether the characteristics needed can be acquired (through education or training). Martinez et al. (2010) suggest that research has not identified a consistent set of personality characteristics associated with entrepreneurship: only an internal locus of control and a need for achievement are identified as crucial traits which might be considered somewhat immutable. There is certainly some evidence that characteristics relevant to both entry to and success in self-employment may be established in childhood: in particular a number of studies show that one of the strongest predictors of entry to and survival in self-employment, is a family background of self-employment. For example, Meager and Bates (2004) using the BHPS, show that parental self-employment (in this case of the father) is a strong and statistically significant positive influence on self-employment entry, and a similarly strong negative influence on self-employment exit (controlling for a range of other personal and business-related factors). The sons and daughters<sup>20</sup> of the self-employed are, other things being equal, more likely to become self-employed themselves; and if they do, are more likely to make a success of self-employment. What this does not tell us, of course, is what aspects of family background make a difference; in particular, it does not distinguish human capital aspects (e.g. through the children of the self-employed being encouraged to study enterprise-related subjects, or

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<sup>20</sup> Burke et al. (2008) find some difference between impacts of parents’ self-employment on sons and daughters. A father’s self-employment increases the likelihood of his son entering and persisting in self-employment, but the probability of a woman entering self-employment is increased by having a self-employed father, but her duration in self-employment is not.

through them picking up tacit business-relevant skills from their parents), from other aspects. The latter might include, for example, aspects of social capital: someone brought up in a small business culture is more likely to acquire the behaviours relevant to that environment, and more likely to make contacts and relationships pertinent to success in that environment. More prosaically, of course, having a self-employed parent may be important simply because it results in inheritance of financial capital (or even of the business itself) from the parent, although an empirical study from Denmark found more evidence for the importance of parents as role models, than for the importance of financial or social capital (Sørensen, 2007).

### **2.1.1 Transmission of entrepreneurial culture**

The notion of a distinct entrepreneurial culture, with inter-generational transmission through families and personal contacts, generating some form of ‘state-dependence’, is often cited in the literature on regional differences in self-employment and entrepreneurship. Thus regions with a high density of entrepreneurship are likely to spawn larger numbers of young people conversant with an entrepreneurial culture, which in turn leads to the persistence of high rates of self-employment and business start-up; conversely, regions traditionally dominated by an ‘employee culture’ (e.g. those with a historical prevalence of manufacturing, large scale industry or the public sector) may exhibit weaker propensities for self-employment. This kind of account has been proposed by some authors (see Henley, 2007, for example) as a partial explanation for the persistence of low rates of business start-up in some UK regions (such as Scotland and North East England). It is notable that the regional ranking of self-employment rates shown by our LFS analysis (see section 2.4 in the Annex) is one that has persisted over long periods of time<sup>21</sup>. As Bosma et al. (2008) note, in their examination of regional patterns of start-up rates and attitudes towards entrepreneurship in the Netherlands:

“Our results underline the importance of role models. Having a member of the direct family involved in entrepreneurship dramatically increases the odds of getting involved with entrepreneurship, in any phase”. (Bosma et al., 2008, p 30)

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<sup>21</sup> An interesting study of East German regional data (Wyrwich, 2010), shows how durable such rankings can be, finding that regional self-employment patterns following the re-emergence of a market economy post-1990 reflect regional differences evident prior to the introduction of a socialist regime. In particular, it suggests that *“regions with a long entrepreneurial tradition have higher self-employment rates than regions where these traditions played only a minor role before the introduction of a socialist centrally planned economy. These regions have also higher start-up rates after transition.”*

Taking this argument further, drawing on data from the Global Entrepreneurship Monitor (GEM) covering 127 regions across 17 European countries, Bosma and Shutjens (2010) reach the following conclusions (cited in full, because of their policy relevance):

“Despite the conceptual and empirical limitations of our study, our conclusions provide several recommendations for entrepreneurship policy. First, an entrepreneurial climate in which people tend to know other start-up entrepreneurs, and where people see good business opportunities and are aware of their own start-up skills and knowledge, triggers new entrepreneurship. Subjective feelings about entrepreneurship, or entrepreneurial perceptions, tend to be more important for starting businesses than objective regional characteristics. We realize that actively stimulating or creating such an entrepreneurial culture is far from easy, and takes time; but our empirical findings of a positive impact of favourable entrepreneurial perceptions are quite consistent for all entrepreneurship phases analysed. Perhaps policy efforts should be more directed towards positive entrepreneurial perceptions, successful business role models and positive attitudes towards entrepreneurship. Second, policy makers should not have high hopes of a direct influence of favourable regional economic features on regional entrepreneurship rates, as an indirect effect via regional entrepreneurial attitudes is much more plausible. Again, a long-term strategy is called for, as policy interventions such as labour market or GRP [Gross Regional Product] investments will only fuel actual entrepreneurship in the long term. And finally, in stimulating entrepreneurship rates national start-up procedures should be evaluated thoroughly as start-up burdens tend to lower the rate of established businesses. Hope remains for national and regional policy makers, though. In particular our entrepreneurial network results (knowing many start-up entrepreneurs) imply that over time, entrepreneurial regions tend to reinforce entrepreneurship rates on their own. This suggests that despite the long-term effect of policy investments in a favourable regional entrepreneurial climate, beyond a certain entrepreneurship threshold regions may take over and generate new entrepreneurial spirits and entrepreneurial activity themselves.” (Bosma and Shutjens, 2010, p.29)

Evidence from these and similar studies suggests that entrepreneurial cultures, embedded in long-standing social and family structures, cannot be easily shifted in the short-term by policy makers. However, they also suggest that there is value in policy makers working hard to disentangle which elements of culture and social capital transmitted through family and other social mechanisms can be isolated and replicated in education and training initiatives for (potential) entrepreneurs. In particular they highlight the importance of establishing and reinforcing participation in entrepreneurial networks, and the key function that can be played by enterprise ‘role models’ in such processes. In the next section, therefore, we examine evidence on the educational and qualifications background required for self-employment.

## 2.2 Education and employment background, and self-employment success

Previous knowledge and education can be expected to have a positive effect on acquisition and integration of new knowledge, and on an individual's adaptation to new situations (such discussions of human capital theory can be found in van der Sluis et al., 2008; Unger et al., 2011; Dickson et al., 2008 also explores complementary theories).

Looking first at the self-reported requirements of qualifications and training in self-employment, Felstead et al. (2007) compare small employers and own account workers (grouped as one) with managers, using the 2006 UK Skills Survey. Importantly, they find that small employers and own account workers reported needing lower levels of skill compared to employed managers. An index describing the self-assessed qualification levels required to be a small employer or own account worker gives a score of 1.78, compared with a score of 3.26 for 'higher managerial and large employers', or 2.97 for 'lower managerial and professional'. However, on an index reflecting the amount of time required to learn how to do the job well, small employers and own account workers' reports result in a fairly high score, at 4.38. This compares with 4.33 for 'lower managerial and professionals' and 4.42 for 'higher managerial and large employers' (Felstead et al., 2007, p.22; p41).

### 2.2.1 Qualifications and entry to self-employment

At a broad level, the literature confirms that educational achievement affects self-employment entry and success but not in a simple manner. As Parker (2004 pp. 73-74), notes, there is evidence for both positive and negative relationships between education and entrepreneurship propensities, and these relationships interact with occupation and sectoral norms<sup>22</sup>. On the positive side, highly educated people, or people with specific qualifications may choose occupations in which self-employment is more common (some professional or 'knowledge-based' occupations, for example); equally higher-levels of education may lead to people being better informed about potential business opportunities. On the negative side, some studies suggest that, because the specific skills needed for self-employment are rarely

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<sup>22</sup> Note that our LFS analysis in the Annex to the report shows (with simple bivariate analysis) that self-employment rates vary with qualification level. However, multivariate analysis (controlling for factors including occupation and sector) shows that while having **some** qualifications reduces the likelihood of being self-employed (this could reflect effects on entry or survival or both), **which level** of qualifications someone has makes little difference to that likelihood.

embodied in formal educational qualifications<sup>23</sup>, individuals with a propensity for self-employment may be less likely to choose to acquire (or to 'see the point' in acquiring) qualifications which are ostensibly of more use in salaried employment. Further there is some evidence that, in Europe, rates of return to education are slightly lower for the self-employed than they are for employees, although the opposite has been found for the US (a meta-analysis of relevant literature can be found in van der Sluis et al., 2008).

### **2.2.2 Qualifications and success in self-employment**

Evidence on the relationship between educational background and performance in self-employment is similarly mixed. The meta-analysis by van der Sluis et al. (2008), covering multiple industrialised countries, finds that entrepreneurial performance (on a variety of measures, including profits, earnings, survival<sup>24</sup> and growth) is positively associated with formal schooling. Another review drawing more heavily on evidence from the USA similarly finds the balance of evidence in favour of positive association between education and entrepreneurial performance (Dickson et al., 2008). However, Taylor (1999) finds, from the BHPS, that qualifications have little effect on rates of exit from self-employment (either in terms of exit due to bankruptcy, or in terms of exit to employment). Taylor notes that his findings are consistent with previous research by Cowling et al. (1997) but not with the findings of Cressy (1996). Georgellis et al. (2005) – again using the BHPS – find some gender differences, with degree-level education being associated with an increased likelihood of female survival in self-employment.

### **2.2.3 Prior workplace experience**

As noted in our cross-section analysis of the LFS (see section 2.1.2 of the Annex) self-employment rates among the UK working age (and older) population increase strongly with age (controlling for other factors through multivariate analysis). Clearly this cross-sectional effect could be the result of a variety of underlying dynamics: in particular it could reflect a tendency for the likelihood of self-employment entry to increase with age, and/or for the

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<sup>23</sup> See also our discussion of enterprise training in the formal education system in chapter 5

<sup>24</sup> Here, we treat survival as a measure of success in self-employment, but exit from self-employment is not necessarily due to failure of a business model. An individual exiting self-employment may have received a better job offer in employment, have sold a successful business, or have changed career paths for personal reasons (Robinson et al., 2006, Kellard et al., 2002). Small businesses may also 'disappear' from VAT records if their takings fall below the threshold for VAT registration (Robinson et al., 2006).

likelihood of survival in self-employment to increase with age. The evidence from longitudinal data sets (see, for example, the BHPS analysis in Meager and Bates 2004) suggests strongly that **both** effects are important: i.e. both self-employment entry and the rate of survival in self-employment increase with age. The age effect is likely to be, in part, an outcome of financial capital accumulation (e.g. older people are more likely to have acquired financial assets through savings or inheritance which can contribute to start-up capital). In part, however, it is also likely to be the result of human capital accumulation, in particular the skills and experience acquired in salaried employment.

Such arguments, however, rely on inference (that relevant experience is likely to be acquired with age). There is also, however, more direct evidence that the workplace is an important arena of skill formation, and that a person's **employment background** can influence their subsequent success in self-employment. A variety of research shows that good employment history and/or previous exposure to self-employment is associated with greater success in self-employment (Kellard et al., 2002; Cowling, 2003<sup>25</sup>; Stafford and Duffy, 2009). Similarly, Georgellis et al. (2005) find in their BHPS analysis that life and managerial experience are particularly important for men (although women with more work experience are also more likely to survive than those with less experience).

It is clear, moreover, that the benefits of prior work experience for self-employment success may arise because of the **sector** that the individual has worked in, and/or because of the **occupation** in which she or he works. In particular, there is evidence that having specific experience of an industry, which can be applied in a new venture, may enhance entrepreneurial success. One German study (Dencker et al., 2009) looks at the survival of 436 firms in a variety of industries, set up by unemployed people in the Munich region, finding that founders' pre-entry knowledge of the business activity of the firms increased the benefits from business planning and product line change. Thus initial knowledge is important not only in isolation, but also in improving individuals' ability to benefit from subsequent learning activities. Robinson et al. (2006) also point out that entrepreneurs may use the knowledge gained from previous employment in their new ventures.

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<sup>25</sup> Cowling (2003) also finds that those who have been unemployed for more than 12 months prior to self-employment entry have a relatively high likelihood of staying self-employed, perhaps due to a lack of an option to exit to employment.

#### **2.2.4 Relative contributions of qualifications and work experience to self-employment success**

It has been suggested, from BHPS data which indicates lower rates of exit from self-employment by those in professional and skilled manual occupations, that occupational background is more important than educational background in determining success and survival in self-employment (Taylor, 1999; Meager and Bates, 2004).

More recently, however, Unger et al. (2011) present a multi-country meta-analysis of studies of human capital (including both educational and employment background) and its relationship with entrepreneurial success, as measured by profitability, growth and size (number of employees). They make two key distinctions.

- Between human capital investments (such as education and work experience, which do not necessarily improve someone's skills) and the *outcomes* of these (measures of acquired knowledge and skills).
- Between task-related human capital (such as experience in running a business) and non-task-related human capital.

The authors find that a significant (if small) relationship between human capital and business success. Measurements of outcomes of human capital investment had a stronger relationship with success than human capital investments alone. Highly task-related human capital similarly had a stronger relationship with success than non-task-related human capital. The authors conclude that human capital may contribute to success by improving business owners' capability of discovering and exploiting opportunity, improving their planning and venture strategy, helping them to acquire resources such as financial and physical capital, and assisting in accumulation of new knowledge and skills.

### **2.3 Generic competences needed for self-employment**

So far we have looked broadly at some of the 'supply side' human capital characteristics of the self-employed, highlighting: the importance of culture and attitudes as part of the human capital relevant for self-employment; and the role of both educational background (qualifications) and prior work experience in self-employment entry and success.

With this context, we turn to the 'demand side' and consider the literature on the generic (i.e. not occupation- or sector-specific) skills and competences judged to be needed for (success in) self-employment. As for an employee, a self-employed individual will need to have a certain level of proficiency in their occupational area. How much a self-employed person will require in terms of generic skills over and above occupational skills will partly depend on the nature of the 'self-employment' in question. Thus some have argued that the kinds and combinations of skills necessary for 'real' entrepreneurship will not necessarily be required by a self-employed handyman, for example (Lazear, 2005). Gibb (2000) argues a similar point, suggesting moreover that different skills mixes are required in different situations. "A self-employed designer may require very high level competencies in some respects and lower level competencies in others." (p.21)

The generic human capital characteristics required are commonly split into categories: knowledge; skills; attributes/attitudes (e.g. European Commission, 2010, p.10); Davies (2002) adds a fourth category: qualities. 'Skills' may be further divided into functional or technical skills (such as business planning and marketing skills) and more generic soft skills. The 'arts' and 'sciences' approach to entrepreneurial competencies reviewed in Heinonen and Akola (2007a) broadly maps onto this. The 'arts' of entrepreneurship include attributes, qualities and attitudes such as creativity and innovative thinking, while the 'sciences' include business and management tasks (requiring skills and knowledge in, for instance, financial management and marketing).

Different skills, and therefore different approaches to education and training, are required at different stages of the self-employment life cycle, and some categorisations of self-employment skills implicitly or explicitly acknowledge this. For example, a distinction has been drawn between the teaching and acquisition of skills 'about', 'for' and 'in' enterprise.

- **Education 'about' enterprise** is usually aimed at those (e.g. students) for whom self-employment is a fairly distant option. It consists largely of raising awareness of self-employment as a career option and the theoretical aspects of setting up and running a business.
- **Education 'for' enterprise** tends to have the specific objective of teaching the practical (management and finance) skills needed for setting up a business.

- **Education ‘in’ enterprise** is mainly for the maintenance and development of a small business (see references in Henry et al., 2005).

The categorisation of the objectives of enterprise education offered by Hytti and O’Gorman (2004) – learning to understand entrepreneurship; learning to become entrepreneurial (including in life and work in general); and learning to be an entrepreneur – similarly emphasises the progression over time from lack of awareness, to the building of general skills, and finally to specific skills for start up and business development.

Table 2.1 draws on the literature above, highlighting the different competences and characteristics identified as necessary for successful self-employment, and their overlap (or not) with the competences and characteristics required in salaried employment.

**Table 2.1: Competences and characteristics required for successful self-employment**

	<b>Examples</b>	<b>Also valued in employees?</b>
Values and beliefs <sup>26</sup>	Action orientation, internal locus of control, desire to work for oneself	To some extent, although employees will need to conform within an organisation
Qualities/ attributes/ behaviours <sup>27</sup>	Independence, initiative-taking, creativity	Yes
Skills (soft skills)	Interpersonal skills including networking and persuasion/ selling, awareness of own skills gaps and strengths	Yes
Knowledge ‘about’ (understanding of self-employment)	Awareness of the risks and benefits of self-employment	Mainly valuable for individuals weighing up their own career options
Skills (functional/ technical)	Financial management, human resource management, market research	Only in specialised roles
Knowledge ‘for’ and ‘in’ (functional/ technical)	Employment legislation, compliance with tax requirements, knowledge of potential financing sources and arrangements	Only in specialised roles

*Source: IES, 2011, building on the literature reviewed in the preceding paragraphs. The examples draw on Gibb (2005).*

Having looked at how we can broadly categorise the competences needed, below we examine the specific requirements for successful self-employment, taking an overview of the

<sup>26</sup> This draws on Gibb (2005)

<sup>27</sup> See Davies (2002); European Commission (2010)

characteristics identified in the literature as required at each stage of the process of entering and succeeding in self-employment: considering self-employment; immediately before becoming self-employed; at start-up; during self-employment to ensure survival; and for growth. While the competences required at the different stages overlap, the emphasis and balance between them will change as the individual moves through the stages.

### 2.3.1 Considering self-employment

An **understanding of what self-employment will really be like** is crucial for an individual considering whether it is the right option (see Gibb, 2005, on key outcomes of entrepreneurship education). Assessment of risk by the self-employed has therefore been a significant theme in the literature (Caliendo et al., 2009; Arabsheibani et al., 2000).

**Attitudes, values and behaviours** are widely reported as important for those considering self-employment (although doubt has been cast on this by Henley, 2007). Thus Gibb (2000) argues that running a small business requires individuals to take a different approach from those seen in large organisations. For example, equating entrepreneurship with being 'business-like' can encourage approaches which foster a large organisation culture. He suggests that large organisations' (bureaucratic) requirements for formality and systems may conflict with ways of working needed in small businesses, likely to be informal, trust-based, and ambiguous<sup>28</sup>. However, this is not to say that the focus of required skills should be solely on very generic soft skills: Gibb also criticises understandings of entrepreneurial or enterprising skills which suggest that these are interchangeable with 'inter-personal skills'.

"The ability to communicate effectively, for example, is important: but it is not solely related to the notion of an 'enterprising' young person. In general, transferable and 'key' skills (such as communication, numeracy, literacy, IT knowledge and problem-solving) are arguably not 'sufficient' for the pursuit of entrepreneurship or indeed entrepreneurial behaviour." (Gibb, 2000, p.16)

Instead, he argues that entrepreneurial behaviour is underpinned by a variety of behaviours, enabling an individual to cope with and take advantage of uncertainty and complexity, and that this interacts with how things are understood and learned.

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<sup>28</sup> see Figure 2, p.17, Gibb (2000) for more detail on these contrasting styles

### 2.3.2 Pre-entry

Atherton (2006, cited in Robinson et al., 2006) identifies two dimensions to the success of a start-up (**quality of business proposition** and **management competences**), suggesting that these criteria can be used to identify which start-ups are most likely to succeed and should therefore receive support.

**Business planning** may also be important. Formal business plans have not consistently been found to be associated with increased business success (Dencker et al. 2009). Heinonen and Akola (2007a) find that formal business plans tend to be a tool for the exploitation of existing ideas, rather than for creative discovery of new ones. Nevertheless they can offer a way to analyse and systematise an entrepreneur's intentions. Business plans may also be useful when applying for finance (WETF, 2009b, for example).

Part of the business planning process is likely to include **market research**. The European Federation of Accountants (2004) identifies poor execution of this as a factor in business failure.

### 2.3.3 At entry and for survival

For adults considering or currently starting a business, the National Occupational Standards developed by SFEDI<sup>29</sup> offer a thorough overview of competences needed for business enterprise. Although some of SFEDI's pre-enterprise standards are designed to be useable in schools, these are mostly aimed at adult education. They include skills related to:

- winning and keeping business;
- human resource management (including the entrepreneur's own skills);
- business direction and development;
- specific skills for running the business, including finance, legislation, structuring the business, choosing the business location, and dealing with business supplies.

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<sup>29</sup> <http://www.sfedi.co.uk/standards/enterpriseoverview.pdf>

SFEDI (2006a) holds, as a key principle, that a variety of knowledge, skills and behaviours contribute to capability in these areas. This principle may be an acknowledgement that **soft skills** which are less easy to assess and measure underpin these competencies. **Social skills** – for example networking, managing relationships and trust-building – have been identified as vital. Baron and Markman (2000) break such social skills down into<sup>30</sup>:

- social perception: reading others' emotions, trust and intentions (useful for negotiating; investor and customer interactions; selecting partners or employees);
- impression management: making a favourable first impression (useful for obtaining finance, dealing with customers and suppliers);
- persuasion and social influence: convincing others (useful for obtaining finance, negotiating, dealing with customers and suppliers);
- social adaptability: feeling comfortable in a range of social situations (useful for cold calling, networking, working with a wide range of people).

The importance of networking and relationship management is emphasised by a number of authors (e.g. Gibb, 2000). Lee and Jones (2008) also describe, based on a review of the literature and their case studies of new entrepreneurs, how “bridging out of networks based on strong ties into networks based on weaker ties provides entrepreneurs with wider access to knowledge and information as well as new market opportunities” (p.585).

Information on why small businesses fail is one way to identify really crucial skills for survival (although this approach is more likely to identify functional skills deficits than lack of soft skills, since the latter are harder to measure and less likely to be an acute cause of failure). The European Federation of Accountants (2004) contrast internal causes of business failure (i.e. specific to the business) with external causes (such as market conditions).

Of the internal causes, **poor management** (defined as “failure of the management of an SME to be able to ensure that problems are identified promptly and the correct solutions applied” (European Federation of Accountants, 2004, p.7)) is cited as the most common reason for failure. This may include poor business planning and strategic decision-making. Similarly Portuguese research finds that managerial experience (of founders and employees)

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<sup>30</sup> see Baron and Markman, 2000, Table 1, p.110

is associated with increased firm survival and sales among recent start-ups in the knowledge industries (Baptista et al., 2009). Other internal reasons for SME failure cited by the European Federation of Accountants (2004), such as dependency on a small number of customers, and overtrading, are likely to be linked to poor management and strategy.

This links in to opportunity recognition, identified by one of our **expert interviewees** as a key feature of successful entrepreneurship, and absence of which may cause business failure (see also Rae, 2007; Heinonen and Akola, 2007a). This will involve the abilities to perceive and exploit business opportunities, requiring alertness, imagination and knowledge of the market (Burke et al., 2002).

The self-employed themselves have been found commonly to acknowledge the importance of these kinds of skills. Felstead et al. (2007) report, using the 2006 UK Skills Survey that 82 per cent of self-employed managers<sup>31</sup> view strategic thinking as 'very important' or 'essential', compared with 38 per cent of employed managers and supervisors (Table 3.12, p.51).

**Financial capabilities** are also reported in many papers (see McHugh and O'Gorman's (2006) literature review) as common reasons for business failure: including low-quality accounting records, poor cash flow management and using inappropriate sources of finance. Resource control is also reported to be 'very important' or 'essential' by a larger proportion of self-employed managers (87 per cent) than employed managers and supervisors (73 per cent) (Felstead et al., 2007, Table 3.12, p.51).

#### **2.3.4 Growth/expansion**

Clearly **management skills** will be of continuing and even increasing importance as the businesses set up by the self-employed move beyond the start-up phase. For instance, Cosh et al. (2005, cited in Robinson et al., 2006) find that the impact of high-tech small firms' informal management systems is high, and suggest that innovative efficiency may be improved by more formality in management, research partnership and training. Management styles appropriate or acceptable for a single entrepreneur, or one with very few employees, may become less suitable as a business grows. For example, Fuller-Love's (2006) literature review identifies that, at the inception of a business, an individualistic or even autocratic management style may be in place, and even effective. However, as the business grows,

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<sup>31</sup> The numbers reported for the self-employed include only those who had others working for them. The small sample size for the self-employed group (n = 158) should be noted.

delegation and administration become more necessary. It is a common theme that owner-managers may be reluctant to relinquish control of their business to colleagues with professional and managerial skills, but this does need to be overcome.

Business expansion is likely to involve **employing others**, although in practice, only around one-third of the self-employed employ others (Cowling et al., 2004; Henley, 2005). Our own LFS analysis suggests that this share has fallen recently (as self-employment itself has grown) and that currently only around one in five of the self-employed have staff (section 2.2.5 of the Annex). For those who do make the transition from sole trader to employer, human resource management skills and knowledge will be required. A new employer needs to manage tax and social insurance payments, and be aware of employment legislation (Henley, 2005)<sup>32</sup>. Soft skills such as communication, conflict resolution and the ability to delegate are also important (Baines and Robson, 2001, for example, discuss the impact of employing others on self-employed people and small businesses in media industries).

The business owner's educational background may play a positive role in such job creation. Burke et al. (2002) show, from the British National Child Development Study, that post-compulsory and professional qualifications are associated with increased job creation by men (though not by women). Their analysis also suggests that, as might be expected, those who have been in self-employment for longer are more likely to hire others. These findings are corroborated by Cowling et al. (2004), using the British Household Panel Study to conclude that high levels of human capital (reflected by formal education, business experience and life experience/ age) are important for a self-employed person making the transition to becoming an employer.

## **2.4 One person, many skills and competences**

The self-employed are anecdotally known to need to be 'jacks-of-all-trades', and the characteristics outlined above embody a huge range of competencies. A major issue for self-employed individuals may be that they need to combine all of these, or at least have sufficient skills and knowledge to identify when they need to delegate tasks to others. This has been described as the 'one person' problem: one person may not have the range of

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<sup>32</sup> It is a common theme in the campaigning of small business groups (including those among our expert interviewees) that such fiscal, regulatory and administrative 'burdens' are a disincentive to expansion for many self-employed businesses.

skills, or may not have time to apply these skills (Fitzpatrick Associates, 2001; McHugh and O’Gorman, 2006).

Empirical evidence from the USA bears out this association between entrepreneurship<sup>33</sup> and multiple skills. Lazear (2005) finds that those with a varied work and educational background are more likely to start their own business. An analysis of Portuguese longitudinal data on recent start-ups in the knowledge sector also suggests that firms which have founders and employees with more specialised skills tend to record lower sales, although firms founded and staffed by specialists are more likely to *survive* (Baptista et al., 2009). All this may imply, as Lazear (2005) argues, that specialists can work for others, while an entrepreneur must have the ability to combine multiple roles. What is more, Lazear finds evidence that multiple roles are actually productive in preparing a person to be an entrepreneur.

Silva (2007) explores this latter question (whether having a large number of skills causally increases the likelihood of becoming an entrepreneur) using the Longitudinal Dataset of Italian Families. A cross-sectional analysis of this dataset confirms Lazear’s conclusion that there is an association between variety in past job roles and entrepreneurship. However, analysis using panel techniques suggests that acquiring a more balanced skills mix does not in itself cause entrepreneurial behaviour or activity. Silva concludes that unobserved characteristics seem to affect both skill accumulation and the choice of whether or not to become an entrepreneur.

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<sup>33</sup> An entrepreneur is defined in the study (Lazear, 2005, pp.650-651) as ‘someone who responds affirmatively to the question “I am among those who initially established the business”’ as distinct from someone who is simply technically self-employed.

### **3 Current supply of enterprise skills**

Having looked at human capital factors associated with entry and success in self-employment, we now turn to consider whether the ‘supply’ of these skills or competences in the self-employed themselves, and the wider population from which they are drawn, is adequate. Conceptually, when talking about the self-employed, the whole concept of skill supply and demand, and match or mismatch between them, is very different than when talking about employees. While there are many difficulties which arise in describing demand and supply of skills among the employee workforce, and there is a large literature on this subject (see Holt et al., 2010), the two sides of the ‘market’ are at least conceptually distinct, and the expressed skill demands of employers can be, in principle, compared (quantitatively and qualitatively) with the assessed skill supply of the workforce. With the self-employed, this conceptual distinction disappears; there is no-one to survey about the skills required by a self-employed person other than him or herself, and nothing with which to compare the skills he possesses. This does not mean that skills mismatch or skills deficits cannot arise among the self-employed; clearly they can. Rather it means that the mismatch or deficit may often need to be inferred, indirectly, by looking (as we have done in the chapter above) at the factors which seem to be associated with ‘success’ and how widely they are distributed in the self-employed and wider populations, and by comparing evidence on the characteristics of the self-employed with the experiential recommendations of small business experts and practitioners on the competences necessary for business success.

#### **3.1 Skills among the prospective self-employed**

In this section, we ask: do the prospective self-employed have the skills required? Is lacking these skills a barrier to entering self-employment?

Research into prospective entrepreneurs’ skills suggests that there is a variety of skills and knowledge gaps. These may affect their decisions to start up; their strategic approach; and potentially the survival of their business. Evidence on the prevalence of skills gaps in the prospective self-employed population appears to be relatively scarce for the reasons noted above. Such empirical research as exists is mostly based on surveys and qualitative methods exploring individuals’ training and self-reported skills gaps. This means that only limited conclusions can be drawn. Training does not necessarily indicate the acquisition of skills (as noted by Unger et al., 2011). Reliance on self-reporting of skills gaps (in particular

in survey research) often involves the assumption that individuals have full awareness both of the skills required for self-employment and of their own strengths and shortcomings. This may, however, not be valid, given that even current business owner-managers have been reported to lack awareness of their own skills and knowledge needs (SFEDI, 2008).

## Enterprise culture

Naturally, skills are only one of several factors being weighed up by individuals considering self-employment. 'Enterprise culture' has been stressed as an important issue by many campaigning organisations. This is occasionally highlighted as a particular concern for areas which have traditionally been home to now-declining industries such as shipping and coal mining<sup>34</sup> (Henley, 2007, contains some discussion of this issue, and we have also considered above – section 2.1.1 – the question of whether cultural factors may be transmitted through family and social networks, more well-developed in some localities than others). A desire to nurture enterprise culture may need to be applied with some caution. Beynon et al. (1999) point out that this can ignore the local economic environment; there may be low levels of economic demand in such areas, so enterprise may be highly risky and prone to failure.

**Expert interviewees** interviewed for this study also highlighted this potential pitfall to encouraging entrepreneurial attitudes. One of our academic interviewees noted that high levels of start-up and survival tend to be in areas where there are high levels of aggregate demand (this broad picture is supported by our descriptive LFS analysis – section 2.4 of the Annex – which shows the lowest proportion of self-employment in the North East, with the highest in London and the South East).

This view contrasts with some of the practitioners we spoke to, however, some of whom purposely target areas with low levels of self-employment.

The data may suggest a somewhat more complex picture with regard to regional variation. Jones-Evans et al. (2006) find that entrepreneurial aspirations in Wales are raised by enterprise education with a level of success similar to that seen in the rest of the UK. However, they find less impact further down the 'chain' in encouraging individuals to start up businesses. Although individuals become more interested in enterprise, this is not translated into action. A similar conclusion is reached by Henley (2007), again with reference to Wales (this time using the BHPS) highlighting the need for further exploration of this issue through

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<sup>34</sup> Over-generalisation on this topic is dangerous, however, as anecdotal counter-examples exist of traditionally low-enterprise areas achieving high start-up rates. See for example the case of Lowestoft reported here. <http://www.entrepreneurcountry.net/news-features/technology/item/138-supporting-a-stronger-enterprise-culture-for-all>

(probably qualitative) research exploring the relationships between intention formation and action, in a cultural/ regional context.

However, most research in this area focuses on national patterns. This reveals that there may be a significant proportion of the population which has no interest in self-employment. For example, a national survey of entrepreneurship in England (Lomax et al, 2007a) has suggested that, of those who are neither current entrepreneurs nor considering self-employment/ business start-up, over one-third feel that nothing would encourage them into thinking about starting up a business (p.62).

### **Self-reports of enterprise skills**

Nonetheless, a majority (58 per cent) of those who are not in or considering entrepreneurship do feel that they have the skills and knowledge to be able to start a business (Lomax et al, 2007a, p.71). This figure is in the same ballpark as, though rather higher than, the proportion reported in HM Treasury (2008, Table 2.1, p.23). Here, it is claimed that an increasing proportion of people feel that they have the skills required to start a business – at 40.2 per cent in 2001, rising to 49.6 per cent in 2006 (p.21) – similar to the level in the US and higher than the level in France and Germany.

What is more, those thinking about starting a business or about entering self-employment were much more likely to feel that they did have the requisite skills, with 83 per cent agreeing that this was the case (Lomax et al., 2007a, p.71).

According to HM Treasury (2008), ‘fear of failure’ is lower in the UK than in European competitor countries, but higher than in the US or Canada. A substantial minority of people are also reported to believe that there is a good market for start-up<sup>35</sup>: 36.9 per cent of UK people believe that ‘there are good start-up opportunities where I live’ compared to 20.0 per cent of Germans and 25.2 per cent of Americans (Table 2.1, p.23).

### **Prevalence of relevant training in the population**

The 2007 Household Survey of Entrepreneurship found that 32 per cent of English adults had ever received business training at school, in college or university, or via public sector

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<sup>35</sup> The survey from which these figures originate was conducted before the financial crisis and subsequent economic downturn.

provision. An additional 12 per cent had work experience in an SME. Among 16-24 year olds, the reported figures are higher, with 43 per cent having received business training of some sort and a further 30 per cent having worked for an SME (Lomax et al., 2007a, p.21).

### **Knowledge and assessment of risk**

The decision to start up revolves at least partly around an individual's assessment of the risks and difficulties of setting up a business. Caliendo et al. (2009) find from German panel data that having lower risk aversion is associated with self-employment. However, further analysis indicates that lower risk aversion matters only for those who are transitioning from employment to self-employment, not for those moving to self-employment from unemployment or inactivity. It should also be noted that while lack of risk aversion may be relevant to the decision to **set up** in self-employment, such a characteristic may not always be a positive factor for business survival: as Meager et al. (2003a), note in their analysis of self-employment start-ups supported by the Prince's Trust, businesses were more likely to survive if their owners/founders had (inter alia):

“...a neutral or averse attitude to risk-taking. In particular, despite the common perception that entrepreneurial behaviour is associated with a propensity or willingness to take risks, it was notable that the most ‘risk averse’ individuals had the highest survival rates, and that this pattern was statistically significant.” (Meager, Bates and Cowling, 2003a, p3)

Allinson et al. (2005) find that many ‘misconceived risks’ may act as obstacles to individuals starting or buying a business, although myths exist which may encourage inappropriate entry to business ownership. Thus, while access to finance was found to be a common perceived barrier to starting a business, many of those citing this had not tried to access finance, and had not sought out information on it. The ‘myths’ and anxieties around finance include concerns about losing control to a third party; debt aversion (especially among those without mortgages); negative perceptions of bankers and loan conditions. Similarly some beliefs about pricing and the market for products have been found to be potentially damaging. Prospective entrepreneurs often focus their market research on competitors’ rates, and business plans revolve around undercutting competitors. Focus group participants argued that the existence of a large number of businesses in a given specialism indicates high levels of demand for that product or service (Allinson et al., 2005).

Also worth noting are the findings of Arabsheibani et al. (2000), using the BHPS, who argue that entrepreneurs are disproportionately prone to misplaced optimism:

Psychologists have reported that most people are excessively optimistic in their expectations about a wide variety of events, particularly those perceived as under the individual's control. Applied to the choice of employment status, the implication is that the self-employed will be drawn from the most optimistic part of the population. We therefore investigated (i) whether people in general are over-optimistic (ii) whether the self-employed are the most over-optimistic of all. Our evidence is consistent with both these propositions. Entrepreneurs do seem to be driven by wishful thinking. (Arabsheibani et al. (2000), p.40)

### 3.1.1 Enterprise skills among the currently unemployed

When looking at whether and to what extent relevant skills are present among the prospective self-employed, it is of particular interest to focus on the unemployed, given the current resurgent policy interest in promotion of self-employment as an option for the unemployed (see the discussion in section 1.1 above). The fact that studies find that those with a history of unemployment have a decreased probability of business survival (Stafford and Duffy, 2009<sup>36</sup>) suggests that the unemployed may lack business skills. Stafford and Duffy suggest that the lower survival rate among the ex-unemployed may reflect skill depreciation during unemployment, but they also note (citing Taylor, 1999) the possibility that past long-term unemployment can be a marker of more general lower business acumen or ability. However, exit from self-employment may be for multiple reasons, and it is notable that longitudinal analysis shows that many unemployed exit self-employment for employment (Taylor, 1999), suggesting that self-employment exit is not always associated with lack of skills<sup>37</sup>. An individual may simply receive a job offer which they may see as preferable.

Some evidence suggests that (lack of) financial skills may be a particular issue for the unemployed. In particular, studies show that those moving from benefits into self-employment often have poor financial management skills, as well as limited experience in dealing with bad debtors/creditors. Such skill deficits, it is argued, may result in poor financial management of the start-up, with specific problems related to a tendency to mix business and personal finances, poor financial planning and monitoring and a failure to recognise business problems until they have become critical. This in turn puts them at risk of facing

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<sup>36</sup> However, Cowling (2003) finds that those who have been long-term unemployed may have a long duration in self-employment (perhaps because they struggle to find work as an employee).

<sup>37</sup> This also raises the possibility that even an unsuccessful period of self-employment can raise an unemployed person's 'employability' if the experience adds to their human capital in a way that enhances any subsequent employee career. It is worth noting, however (see also section 4.1.1 below) that the evaluation of the Prince's Trust start-up programme found that participation did **not** add to participants' employability in this way (compared with a matched control group of unemployed non-participants).

larger debts and personal liability (Kellard et al., 2002; Peer Consulting, 2005, also indicates that those moving from unemployment wanted more training on finance and taxation issues). Allinson et al. (2005) includes focus group research with long-term unemployed people. Several of these (especially those on the New Deal Self Employment Option) were more willing to use credit card debt than cheaper institutional loans to finance the purchase of start-up goods. Evaluation of the New Entrepreneur Scholarships also found that entrepreneurs in deprived communities encountered particular difficulties in raising finance, although it is not clear whether this reflected a skill deficit, or other factors such as poor credit records (CFE, 2007).

## **3.2 Skills among the existing self-employed**

Here, we look at the evidence on the extent to which the currently self-employed have the entrepreneurial skills outlined in the previous chapter, and ask how does this compare with employees in similar occupations?

Evidence on the skill characteristics of the self-employed as a distinct group is not plentiful. More research has been done on owner-managers of micro businesses, or on 'entrepreneurs', both of which overlap with the self-employed but will also include SME owner-managers (some of whom will have developed their business from scratch, but others may simply have bought into a business). Some of these, while sharing characteristics with the self-employed will include people who are not self-employed, but employees of their own business. There is, however, in addition to these research sources, some international evidence on skills of, and skill development by, the self-employed specifically.

### **3.2.1 Generic skills**

The individual's **pathway** into self-employment seems to matter. Dawson et al. (2009) identify from Labour Force Survey data for 1999-2001 that those who entered self-employment with family business being a motivating factor are "*less likely to have acquired skills and more likely to have left education at an early stage in order to start working for that family business*" (p.25). However, in light of the evidence (see above: 2.1.1) linking family self-employment backgrounds with higher entry rates to, and higher success in self-employment (and the presumption that they benefit from a range of informal cultural capital) there is a question about how much this formal skills deficit matters.

Drawing together evidence from a range of sources on the skills base of the existing self-employed, the following factors emerge most strongly.

- **Awareness of skills needs.** Research suggests that a major issue for many self-employed and micro-business owners is lack of awareness of a need for skills development. This comes out clearly in work on existing owner-managers of businesses with fewer than 20 employees by SFEDI (2008). Similarly (IFF Research 2010) the self-employed may exhibit a low understanding or awareness of factors which are likely to lead to changing needs for skills and knowledge. This, it is argued, may result in a tendency for some sole traders and micro-businesses to neglect their business and management skills.

Estimating the amount of time involved in running a business can also be difficult for many self-employed individuals. One of our **expert interviewees** involved in business support programmes, commented that many who move into self-employment are not aware of the extra practical tasks (such as chasing invoices) which are involved in managing a business. This ties in with our LFS findings (section 2.2.5 of the Annex), and previous literature, showing that a significant proportion of the self-employed work long hours.

- A related point stems from **how self-employed people see themselves**. For example, Beresford and Saunders (2005) draw on Scase (2005) to note that owner managers may not see themselves as business people, but describe themselves by reference to their technical discipline. They do not necessarily grasp the importance of business and management skills. For instance, book-keeping may be neglected and services may be under-charged for. Baines and Robson (2001) similarly find that self-employed people and micro-business owner managers in the media industries strongly dislike certain business tasks: especially negotiating, liaising with clients and pricing. Their research participants tended to find these activities 'distasteful' and reported that such tasks got in the way of their 'real' work.
- **Lack of business experience and training.** Several studies suggest that a significant proportion of new self-employed have little or no relevant business experience or training. Thus SFEDI (2008) found that 49 per cent of their small business respondents had no prior experience of running or managing a business, or of formal business or management training (p.13). However, it is not clear whether this translates into lack of skills, since skills may be acquired in less formal ways, through employment experience or training in other subjects, and the evidence (see section 2.2.3) that those with prior workplace experience tend to fare better as self-employed, suggests that the right kind of

experience as an employee may be a partial substitute for prior enterprise training. It may, therefore, be important for policy makers to target those who both have no relevant (or recent) work experience and no formal business or management training (including longer-term unemployed people, and young people). It is, however, worth noting that there is a clear distinction in terms of business skills and capacity between growth-oriented self-employed businesses and others. Evidence suggests (e.g. SFEDI, 2008) that self-employed people wanting to grow their businesses are more likely to have higher-level qualifications, to have had some formal business or management training, or to have held a previous managerial position (in a small or a large business).

- **Interpersonal and soft skills.** Social skills are widely seen as important for self-employed people (see Section 2.3). Such skills may be encouraged in a variety of different ways, but the most effective methods may depend somewhat on, or need tailoring to, the target group. Thus, Lee and Jones (2008) found<sup>38</sup> that entrepreneurs who took part in an enterprise course for science postgraduates (the Science Enterprise Challenge) used different, generally more effective, approaches to communication (particularly electronic communication) than did disadvantaged entrepreneurs who had taken part in the New Entrepreneur Scholarship programme (detailed in Section 4.3.1). Addressing both electronic and non-electronic communication skills may be crucial, since reaching out beyond the 'strong ties' of an individual's immediate network can provide new learning, as well as business, opportunities (Lee and Jones, 2008).
- **Human resource management.** While employing others is a minority activity among the self-employed, those who do have staff seem to be (slightly) less likely than their employee counterparts to place priority on managing their employees in an active or formal way. The 2006 UK Skills Survey found that 68.5 per cent of self-employed people with employees saw coaching their staff as 'important' or essential, compared to 75.9 per cent of employed managers and supervisors. However, this difference should not be over-stated given the small sample size of self-employed individuals in the survey, and the survey showed that the difference between self-employed and employed managers' reported priority of 'developing staff careers' and 'motivating staff' is very small (Felstead et al., 2007, p.51). Other research however, adds weight to the possibility that the self-employed often lack human resource management skills. Baines and Robson (2001) comment (citing Scase, 1995) that becoming an employer for the first time involves

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<sup>38</sup> The sample size for this exploratory, qualitative research was very small – the conclusions are based on case studies of just six entrepreneurs, complemented with a literature review.

unfamiliar ways of working with others, which can lead to conflict. Their qualitative interviews with individuals in the media industries revealed a number of barriers to employing others, including some which are skills-related. For example, taking on staff may be difficult for someone with tight deadlines who cannot risk others' lack of experience, commitment or competence. This may be a common scenario for many self-employed people who work on a freelance or contract basis. Others may work from home, which is likely to be a barrier to taking on others.

While not specifically identified as skill deficits, the literature also highlights a range of aspects of being self-employed and running a business, which self-employed people report as finding problematic or causing them difficulties in some way, and which might therefore be presumed to have potential skill implications.

- **Managing cash flow/finances**, which is identified by almost 35 per cent of small business owners surveyed by SFEDI (2008, p.36) as an aspect of their business which they find difficult to run.
- **Winning new customers** is also identified as a key challenge faced by small business owners; in one study, 29 per cent of business owners with less than 20 employees identified this as a difficulty, with 39 per cent of businesses less than five years old finding this hard (SFEDI, 2008, pp.36-7). This finding is consistent with observations made by CFE (2007) that those taking part in the New Entrepreneur Scholarship programme found it hard to connect with markets (especially those beyond the immediate area), to deal with customers and suppliers with confidence, and to sell the business idea.
- Research also highlights that new businesses face difficulties in **creating and managing business systems**. Thus one study noted that businesses less than five years old were also more likely than older firms to find this area difficult, with 15.4 per cent reporting this to be a problem (SFEDI, 2008, p.37).

### 3.2.2 Occupational skills and skills updating

In this section we look at the (limited) evidence on:

- whether the self-employed are more or less occupationally-skilled than those in similar employed occupations;
- how the self-employed utilise their skills (again in comparison with employees);

- how changes in the structure of demand for skills may be impacting on the self-employed; and
- whether and how the self-employed invest in and update their skills on an ongoing basis.

### **Skills comparisons between self-employed and employees**

There is relatively little direct evidence which compares the levels of occupational and professional competence between the self-employed and their counterparts who are employees in similar occupations. The following points are notable, however, from the LFS analysis at the level of broad occupational groups in section 3.1 in the Annex<sup>39</sup>.

- First, there is very little difference within individual occupational groups between the proportion of self-employed in that occupation qualified to a high level (NQF level 3 or higher) and the proportion of employees. This tells us nothing about the levels of actual professional competence or how up-to-date the qualifications are, but it does suggest, at least at the level of very broad occupations, that there is no prima facie evidence of a major deficit among the self-employed. Indeed in some sectors and occupations our data show that the proportion of highly-qualified self-employed exceeds the proportion of highly-qualified employees. This may reflect a variety of occupation- and sector-specific factors, including the manner in which self-employed contractors and freelancers are used: for example, in certain sectors, self-employed labour may be used to fill specialised highly-skilled roles. This has been the case in the past with freelancers in the book publishing industry, for example (Stanworth and Stanworth, 1997). Freelancers in some parts of the digital sector, too, have been found to be more likely to be highly-qualified than employees, although such qualifications will not necessarily be related to an individual's profession (e-skills UK et al., 2009).
- Second, within all the broad occupational groups it seems that the self-employed contain a higher proportion of workers (in some cases a significantly higher proportion) with no qualifications at all than do their counterparts who are employees. Unfortunately, it is not possible to tell, given the broad nature of the occupations, whether some kind of selection process underlies this (such that the self-employed are actually doing rather different jobs from the employees), or whether it does really suggest that there is a group of self-

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<sup>39</sup> See, in particular, Figure 3.3 and Figure 3.4 in the Annex

employed doing similar jobs to the employees in similar occupations, but with no or much lower qualifications.

It is clear that to answer these questions fully, more research is required, ideally at the level of specific occupations within particular sectors (e.g. some of the self-employment 'hotspots' identified in our LFS analysis: see section 2.2.4 in the Annex). In general, however, our review suggests that this is an under-researched area, and information is piecemeal.

- The sector skills councils display varying levels of interest in self-employment, and in exactly how self-employed individuals develop their skills (although ConstructionSkills and Skillset have looked at this issue in a little more depth, and some findings of their research are considered below). Among sectors with relatively high levels of self-employment, this low emphasis may be because an employer-led approach is taken (for example, FSSC, 2010; e-skills UK, 2010). Alternatively, there may be high awareness of self-employment in general, but (perhaps legitimately) little perceived need to separate out the self-employed from other micro business owners and employees when it comes to analysis of skills needs. Lantra (2009), for example, takes this approach, since the whole agricultural and land-based sector is composed largely of micro businesses.
- Major information sources like the National Employer Skills Survey tend to focus on employer needs.
- Surveys which include self-employed people in the sample typically do not cover enough self-employed respondents to provide detailed breakdowns. For example, the analysis of the UK Skills Survey by Felstead et al. (2007) was limited by the small sample of self-employed individuals. Even surveys which consciously sample from the self-employed population can end up with small numbers of self-employed respondents, again, limiting analysis (for example, IFF Research, 2010).

One of our **expert interviewee** emphasised that there are some fairly typical career paths which emerge in the construction sector. In general, individuals:

- go through an apprenticeship;
- then work as an employee for a while;
- then either specialise within their firm, or become self-employed.

The interviewee drew out differences between subsectors. Those in the domestic repair and maintenance subsector, for example, are predominantly self-employed, whereas in other sectors the proportion is lower.

The interviewee emphasised, referring to research done (OPERA Building Research, 2005), the fact that some occupations within the construction sector require competence to be proven through qualifications. For example, to be an electrician, gas fitter or plumber, a certain standard of qualification is necessary. It is simply not possible to work in these subsectors (either as an employee or as a self-employed individual) without having met certain standards.

Client requirements may be important in other building occupations which do not have such standard requirements. Requirements for proof of skills may depend more on customer preferences. In particular, large construction sites (on which self-employed people are less likely to work) more frequently insist on proofs of competence such as CSCS cards and health and safety statements. By contrast, self-employed people and micro businesses may rely on domestic customers who do not demand proof of competence or of regulatory compliance. There is therefore less immediate incentive for self-employed people to undertake training or to demonstrate that they have these skills.

### Utilisation of skills among the self-employed

In comparing the skill levels of the self-employed with those of employees, the question arises not only of whether their skill levels are different, but also of whether the self-employed utilise their skills to a greater or lesser extent or in different ways from employees. Once again, however, the evidence on this question is limited. Van Praag et al. (2009) analyse USA panel data, linking greater returns to education through entrepreneurship (as opposed to waged employment) to a more internalised locus of control. They find that entrepreneurs are able to put their education and experience to optimum use outside the constraints of an organisation and that “entrepreneurs have more personal control over the profitable employment of their human capital than wage employees” (p.2). This is supported by one of the arguments made in Benz (2009) that an important motivation for entry to self-employment may be the opportunity for an individual to put their skills to better use than can be the case in employment (i.e. to improve their skill utilisation). However, it would be interesting to explore further whether the same conclusion could be reached using data from the UK or indeed Europe in general; as explored in 2.2.1, the meta-analysis by van der Sluis et al. (2008) found that European studies indicate lower returns to education for entrepreneurs than for employees<sup>40</sup>, the opposite of the pattern seen in the USA.

This relates to a point made by some of our academic and practitioner **expert interviewees**, that individuals can be encouraged to use their previous employment experience and hobbies/ interests to find work through self-employment.

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<sup>40</sup> van der Sluis et al (2008) highlight difficulties in comparing skills backgrounds of employees with those of the self-employed. When looking at returns to education among the two groups, they note that qualifications have a signalling value for employees which does not apply to the same extent for the self-employed. Also, different skills may be required by the two groups.

## **Impact of changes in the structure of demand for skills**

Felstead et al. (2000) find, from UK Skills Surveys in the 1990s, that the self-employed gained less than employees from broad increases in skills levels. Between 1992 and 1997, the gap between the skills demanded of self-employed and employed individuals widened, in terms of **computing skills** required by their job, and the extent to which their **job demanded new skills** compared to those used five years previously. In other words, the employed saw an increase in the level of skills required of them which was larger than the increase for the self-employed. However, further examination of the same data sources (Felstead et al., 2001) showed that those who moved from self-employment into employment did not significantly increase the rate of upskilling; and moving from employment into self-employment conversely did not significantly decrease the rate of skill increase. This may suggest that it is not the employment relationship per se which drives the change in skill requirements. Further multivariate analysis would help to understand the extent to which sectoral and other factors were influencing this. For example, the results from the 2006 UK Skills Survey suggest that the self-employed use the internet in more complex ways (using it for a wider variety of functions) than average. In 2006, 39.6 per cent of self-employed respondents reported using the internet to buy or sell products or services, compared with 18.5 per cent of employees (Felstead et al., 2007). However, this may relate to differing ways of working by the self-employed, compared to employees whose jobs may be more specialised and less likely to include a buying or selling function. This may also be related to sectoral patterns, since self-employment is high in some digital sectors (see e-skills UK et al., 2009, which notes the significant proportions of freelancers in certain digital subsectors).

## **Ongoing skill development among the self-employed**

Even if the self-employed are broadly as well-qualified as employees in similar occupations (and as we have seen, this is not certain), there is an important question of whether and how the self-employed develop their skills while they are self-employed. It is clear that, if the self-employed are to create sustainable enterprises, and if those enterprises are to grow and employ others, they will need, in the same way as their counterparts in salaried employment (perhaps more so) to acquire new skills, and to update existing skills in line with changing markets and technologies. Equally, even those who do not make the grade in self-employment but return to the regular job market (our analysis from the LFS in section 2.3 of

the Annex suggests that this applies to more than four per cent<sup>41</sup> of the self-employed each year) may find their job-finding chances eroded, if while they were running their own businesses, they have missed out on training and development opportunities.

One of our **expert interviewees** drew out the thought process behind a self-employed person making the decision to train. He stressed that most self-employed people will not realise that they might need training or up-skilling until they face a specific task, which they realise they cannot compete successfully. They are then faced with a choice: either to turn the job down, or to spend money and time upskilling. It is generally most efficient for them (in the short term, at least) to turn the job down.

But is there any reason to think that the self-employed miss out in this way? They do not, for the most part, share in the in-company training and development experiences of those working for larger organisations. Do they compensate for this by paying for and providing their own skill development? Our literature review shows that the evidence on this question is scarce, with little existing research. However, it is striking that our LFS analysis (section 3.3. of the Annex) finds that the self-employed are much less likely than those in salaried employment to have participated recently in work-related education or training, or to be studying towards a qualification. Even if this undercounts the extent to which the self-employed add to their human capital through informal methods (again there is little evidence on this), it is clear that over time these differences will have a cumulative effect. We should also recall that as noted in our discussion of the LFS analysis (Annex, section 3.3), the self-employed are a very polarised group in income terms, with many having very low earnings. It would not be surprising, therefore, if many self-employed do not provide or purchase training for themselves; they are unlikely to be able to afford to, or to take time out from their businesses for skill development. A further factor possibly militating against this is the fact that many of the self-employed work extremely long hours (as our LFS analysis in section 2.2.5 of the Annex shows, the proportion working more than 50 hours per week is twice as high as the proportion of employees doing this). In such circumstances, finding time for training and personal development may not be a priority.

While the research is limited, there is some small scale, sector- and occupation-specific evidence of problems related to failure to develop or update the skills of the self-employed.

This is a well-recognised issue in the construction sector in particular where the sector skills council has noted a “lack of investment in skills and qualifications by those who are self-

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<sup>41</sup> Likely to be an underestimate, as the LFS analysis is based on year-to-year changes and does not capture intermediate moves.

employed and migrate from job-to-job with little security of income and few of the advantages of direct employment” (ConstructionSkills, 2010, p.7). This reflects an apparent difference, in the sector, between the proportions of employees and the self-employed with reported or self-reported skills gaps. Seventeen per cent of the self-employed regard themselves as having a skills gap, while employers’ estimates imply that around four per cent of their employee workforce have a skills deficiency (IFF Research, 2010, p.5). It has been suggested that this deficit in the sector is exacerbated or even caused by a shift into (false) self-employment. False self-employment is not a key concern for this study. However, this does have some relevance. Use of self-employed labour by larger construction firms arguably reflects a lack of commitment to training both of existing and future employees, especially because self-employed workers are not generally expected to have a role in training others, such as apprentices (Harvey and Behling, 2008). This latter point is also reflected in IFF Research (2010), which found that none of the sole trader/ self-employed survey respondents had an apprentice at the time of the survey, although five per cent did offer them. Comparing these to micro-firms with two to nine employees, six per cent had apprentices at the time of the survey, and 10 per cent offered them (IFF Research, 2010, p.59).

Access to training in the creative media industries is similarly lower for freelancers<sup>42</sup> than for employed workers, and the sector skills council highlights the importance of this, both for current and future workers (Skillset, 2011). The 2008 Creative Media Workforce Survey (Skillset, 2011), however, paints a mixed picture. Freelancers were more likely than employees to report needing learning and development, but a smaller proportion of freelancers had undertaken this (43 per cent of freelancers versus 65 per cent of employees). However, freelancers who had trained had been able to take longer, averaging 13 days of training compared to nine days for employees. Freelancers were more likely than employees to report barriers to training, such as cost (reported by 62 per cent of freelancers) and fear of losing work due to time lost (37 per cent of freelancers reported this) (Skillset, 2011, p.71). The same survey also required employers to report whether they had experienced skills gaps among their employees or freelancers. Of employers reporting a skills gap, 11 per cent reported a gap amongst the freelancers they use and 47 per cent reported one among employees. Forty one per cent of those reporting a gap said there were deficits amongst both employees and freelancers, with generic and technical skills being commonly mentioned by employers (Skillset, 2011, p.63). This may give some

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<sup>42</sup> Not all ‘freelancers’ are self-employed; some may be employees on fixed-term contracts.

impression of employers' views of freelancers' skills, although comparisons may be difficult, due to likely variations in the number and types of employers who use freelancers and/ or employees.

### **3.2.3 Disadvantaged and atypical entrepreneurs**

Some groups are particularly likely to face skills challenges, and other barriers which are affected by skills deficits.

The **existing human capital, networks and interests** of those moving into self-employment are likely to influence the occupation chosen. These may, in part, be behind the fact that disadvantaged and atypical entrepreneurial groups are more prone to setting up in business in lower-skilled occupations. Benefit-leavers who take up self-employment tend to be sole traders and in low capital, labour intensive start-ups (Kellard et al., 2002). Women are also more likely to set up in sectors with lower potential for growth (WETF, 2009a). This may also be true of some ethnic minority groups, although there will clearly be variation both between and within ethnicities. For example, Bates (1999) finds that, in the USA, immigrants from ethnic groups with lower aggregate levels of fluency in English were likely to move into and remain in self-employment in lower-skilled personal service and retail sectors.

**Understanding of the business start-up process:** Allinson et al. (2005) find that those in lower socio-economic groups were more likely to believe that businesses take longer to start than is actually the case. People from ethnic minorities were more likely to believe that it takes a long time to start a business, and that red tape is more onerous than it really is (Allinson et al., 2005).

**Barriers to finance** have been found to be particularly prevalent for women (Dhaliwal, 2010). Analysis by the Women's Enterprise Task Force (WETF, 2009a), however, suggests that this has little to do with women's credit scores or ability to apply for finance; women in fact tend to have good credit ratings and do not have particularly high rates of rejection when they apply for loans. Instead, this appears to be related to women's awareness of finance options and attitudes to risk.

This may reflect **lack of confidence**, which has been suggested as a possible barrier to growth for women (Dhaliwal, 2010). Women also appear to be more risk-averse (Allinson et al., 2005), which again may affect their strategic and financing decisions.

## 4 Design and performance of self-employment programmes

This chapter considers evidence from the previous research on the design and performance of self-employment schemes for unemployed people and other target groups, including disadvantaged groups under-represented among the self-employed. For the most part we focus on schemes targeted at start-up, i.e. at encouraging and supporting people from these groups to **enter self-employment**, as this is the key focus of much policy in this area, and a major emphasis in the literature. In light of the discussion (section 3.2.2 above) on whether and how **existing self-employed** people update and develop their skills, however, we also consider briefly at the end of the chapter (section 4.5), programmes targeted at this group.

### 4.1 Generic evidence on self-employment programmes

Programmes to encourage and support unemployed people to become self-employed were widespread in the 1980s and 90s, both in the UK which (through the Enterprise Allowance Scheme) was an early adopter, and in many other western economies. There is a large evaluation literature on these programmes (see Meager, 1996), and it is worth noting, when considering the design of a new generation of initiatives, the rather poor outcomes recorded for the earlier programmes<sup>43</sup>. Parker (2004) notes, having reviewed much of the earlier literature: “.....one is led to conclude that, despite favourable publicity, schemes designed to promote enterprise among the unemployed have had only a limited impact in practice” (Parker 2004, p.255).

From a policy perspective, early evaluations suggested that a key weakness of these programmes was their cost-effectiveness (whether expressed as cost per participant or job created). As one international review concluded:

“A second limitation is that support initiatives related to enterprise creation tend to be more expensive than other active support measures. Again, evidence collected in eastern European countries shows that these initiatives are characterised by high unit

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<sup>43</sup> Even among these earlier negative evaluations there were some exceptions: thus Carling and Gustafson (1999) compare the impact of a Swedish start-up programme with an alternative programme subsidising employers to recruit from the unemployed, finding more positive results from the former, with self-employed participants being only half as likely to return to unemployment as their counterparts in the subsidised employment scheme.

costs, particularly in comparison with other labour support programmes (Fretwell, 1999). This evidence is also supported by Eurostat, which shows that start-up incentives are the most expensive labour market policy measure per participant, and clearly more expensive than other measures such as integration of the disabled or direct job creation (Eurostat, 2002).” (Corral et al., 2006, p.21)

The possibility needs to be recognised, however, that the unpromising early findings on such programmes may reflect weaknesses in the evaluation strategies, or indeed the difficulty of evaluating such programmes, as much as failings in the programmes themselves. As OECD (2000), reviewing this area, notes:

“Despite all the experience gained with these schemes over the years, few evaluations are yet available. While one explanation for this is a lack of a “scientific” evaluation culture in many European countries, another relates to the difficulty of assessing the size of the deadweight, substitution and displacement effects arising from such schemes.” (OECD 2000, p 182).

It is certainly the case that more recent research with more sophisticated evaluation methodologies (particularly relating to German programmes), yields more positive findings from start-up schemes for the unemployed. Thus Baumgartner and Caliendo (2008) note the massive increase in the use of such schemes in Germany (from 37,000 participants in 1994, to 350,000 in 2004), and evaluate the impact of the two main national schemes finding significant positive impacts on participants’ subsequent unemployment chances (reduced) and earnings levels (increased) as a result of participation (for further information on these schemes, also showing relatively high survival rates of 70 per cent or more after 2.5 years, see Caliendo and Künn 2011, Caliendo and Kritikos, 2010, Caliendo et al. 2007). Comparing self-employment schemes with other active labour market programmes (ALMP)<sup>44</sup>, the authors note:

“The considerable positive effects present a stark contrast to findings from evaluations of other German ALMP programmes in recent years. Hence, ALMP programmes aimed at moving the unemployed into self-employment may prove to be among the most effective, both in Germany and elsewhere.” (Baumgartner and Caliendo, 2008, p 347)

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<sup>44</sup> Similar positive effects of self-employment schemes were previously found in Eastern European countries under conditions of economic transformation (see the studies of Hungary and Poland in O’Leary, 1999). In contrast, but also in a transformation economy (Romania), Rodriguez-Planas (2010) found that start-up support, although better than nothing as an active labour market intervention for the unemployed, was less effective than traditional jobsearch support through the public employment services (particularly for unemployed with lower level skills).

Caliendo (2010)<sup>45</sup> undertakes a similar evaluation of these schemes, focusing specifically on East Germany (which has suffered from particular structural problems of unemployment and in which traditional labour market measures have had particularly poor results), with even more positive conclusions for employment chances and earnings:

“In contrast to the other programs that have been evaluated recently (including job-creation schemes and vocational training programs), we find considerable positive effects for start-up subsidies. Hence, programs aimed at turning the unemployed into entrepreneurs may be among the most promising active labour market policies, not only in East Germany but also in other countries with similar structural labour market problems.” (Caliendo, 2010, p.643)

The literature on these programmes identifies a number of complex issues affecting both the design and evaluation of these kinds of programmes, which include the following.

#### 4.1.1 Lack of clarity about policy objectives

It is often unclear from the policy documents and governmental announcements surrounding such schemes, what the ultimate policy objectives are, and hence what their evaluation criteria should be. Self-employment schemes may have some or all of the following objectives.

- **To reduce unemployment, or the numbers in receipt of workless benefits.** In this case, the self-employment schemes can be seen as an instrument of active labour market policy (or, in the UK context, ‘welfare-to-work’ policy). This was, for example, the explicit purpose of the original German equivalent of the Enterprise Allowance Scheme (Wießner, 1998). In such cases, success is measured in terms of jobs created. However, there is a further need to understand whether the desired job creation process is primarily a **direct** one (through the employment of the self-employed themselves, net of deadweight and of any displacement of competitor businesses), and/or an **indirect** one (e.g. through new employees hired by successful start-ups supported by the scheme).
- **To increase ‘enterprise’ in the economy.** In this case, the schemes are an instrument of enterprise policy and success is measured by the numbers of new small businesses created, and their survival and growth rates. There is a long-standing debate in the policy

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<sup>45</sup> Similarly Eichhorst and Zimmermann (2007), argue that the evaluation evidence on the complex range of active labour market measures in Germany suggests that only four such measures have unambiguously positive results, one of which is start-up subsidies for the unemployed.

and academic literature (see the discussion in Storey, 1994) about whether supporting start-ups (in general, or among the unemployed in particular) is an appropriate role for public policy, or whether a more focused emphasis on high growth companies or 'gazelles' (see Henrekson and Johansson 2010<sup>46</sup>) would be more desirable. A strong version of the latter view is found in Shane (2009) who argues:

"Policy makers often think that creating more start-up companies will transform depressed economic regions, generate innovation, and create jobs. This belief is flawed because the typical start-up is not innovative, creates few jobs, and generates little wealth [.....] Policy makers should stop subsidizing the formation of the typical start-up and focus on the subset of businesses with growth potential. While government officials will not be able to "pick winners," they can identify start-ups with a low probability of generating jobs and enhancing economic growth. By eliminating incentives to create these low probability companies, policy makers can improve the average performance of new businesses." (Shane, 2009 p. 141)

- **To add to the 'employability'** of participants in the scheme. Thus one potential justification of self-employment schemes targeted at the unemployed or benefit recipients is that even if the businesses are not generally successful or do not survive for long, the experience of self-employment will enhance their subsequent labour market chances (measured by employment probability or earnings, for example)<sup>47</sup>. Such enhancement might be direct (i.e. self-employment adds to their human capital through increased understanding of business and finance, for example, or at least stops it being eroded as it would be in unemployment) or indirect (e.g. self-employment experience has a signalling effect to potential future employers). Clearly any employability impact is rather hard to identify as it requires longitudinal data, and ideally some kind of control group, and these requirements are rarely met in the evaluation literature. One exception was the evaluation of the start-up programme for disadvantaged young people delivered by the Prince's

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<sup>46</sup> Henrekson and Johansson (2010) conduct an exhaustive meta-analysis of recent studies noting that "*Gazelles are found to be outstanding job creators. They create all or a large share of new net jobs. On average, Gazelles are younger and smaller than other firms, but it is young age more than small size that is associated with rapid growth.*" (Henrekson and Johansson, 2010, p 227)

<sup>47</sup> There is a broader literature on the outcomes following periods of self-employment, which provides some indication of the impact of self-employment on individuals' human capital. For example, Hyytinen and Rouvinen (2008) find from European Community Household Panel data that those who go through brief spells of self-employment are more likely to have negative outcomes than those who have been in continuous waged employment. However, controlling for previous wages greatly reduces this effect, and it compares favourably to the scarring effects of unemployment. A similar conclusion was reached by Bruce and Schuetz (2004) with US data. Kaiser and Malchow-Møller (in press) provide further insight by using propensity score matching to reduce the impact of selection effects, finding (using Danish data), that those who have gone through a spell of self-employment have lower wages than those who remain in sustained waged employment. However, this is largely due to sector switching - those who have been self-employed and remain in the same sector tend to earn similar or better wages compared to those who have remained in employment.

Trust, which found no evidence that scheme participation has a significant impact (compared with a control group) on subsequent employment or earnings among young people leaving a short spell of supported self-employment: see Meager et al. (2003) and Greene (2009). Note that this is not a comment on the effectiveness of the scheme in providing beneficial activity for disadvantaged participants, or assisting many of these to create sustainable livelihoods in self-employment; rather the point is that those who had been through a spell of supported self-employment did not find that their subsequent employment chances were enhanced compared with similar people who had not. This is not, however, to deny that a spell in self-employment, whether or not it adds to employability in a measurable sense, may simply be an option which is preferred over unemployment, and clearly less damaging personally than being out of work. However, another study (relating to the Enterprise Allowance programme in New Zealand), which was also able to take a longer-term perspective and compare with non-participants while controlling for selection effects (Perry, 2006), came up with more positive results showing significant short-term and long-term employability impacts from scheme participation.

Sometimes it seems that all three of these objectives are implicit in the rationale for a policy intervention; thus UK government statements on the recently-announced New Enterprise Allowance scheme sometimes emphasise the labour market policy rationale and sometimes the enterprise policy rationale (see Harari 2011, and BIS 2011). Similarly, in the evaluation of the *New Entrepreneur Scholarships* programme (CFE, 2007), the evaluators refer to the lack of clarity about the priority objectives of the programme<sup>48</sup>, and suggest that this may translate into lack of clarity among those delivering the programme on the ground, with implications for the types of participants targeted.

These distinctions matter, because (see section 4.1.2 below) there may be important trade-offs in this area, and a successful policy designed to maximise new business start-up, enterprise creation and growth might look very different from a successful policy targeting unemployed and disadvantaged groups to enter and remain in self-employment.

The **practitioner experts** interviewed for this study suggested that a variety of outcomes of programmes could be judged to be positive. This reflects initiatives which were often designed to be flexible. For example, the Prince's Trust has recently redesigned its enterprise programme to cater better for those who do not move into self-employment. Those who decide against running their own business, following the information and training provided by the Trust, are assigned a 'progression mentor' who can be expected

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<sup>48</sup> Which appear to be some combination of: reducing worklessness and benefit dependency; raising household incomes; and establishing enterprise cultures in deprived areas.

to support the young person for six months. This is a response to the pattern of outcomes. While 69 per cent of those who complete the Trust's training programme are self-employed 12 months later, a considerable proportion (32 per cent<sup>49</sup>, some of whom may also be self-employed) move into employment following completion. Others may move into education and training (eight per cent) or voluntary work (one per cent)

There is also a need to be realistic about the extent to which individuals will be able to fully support themselves from their business. Our Prince's Trust interviewee mentioned that a significant minority (28 per cent) of the young people who have started a business using Prince's Trust funding also have a part-time job as an employee. This reflects findings in the literature, that many businesses (especially those set up by the long-term unemployed or disadvantaged) can have low levels of turnover.

#### 4.1.2 Survival rates, deadweight and policy trade-offs

Many of the early self-employment programmes (see OECD 2000) in different countries exhibited **low survival rates**, in the sense that the businesses set up by the unemployed participants had higher failure rates (particularly once they got beyond the initial stage of being subsidised through the programme) than comparable businesses set up by others.

A further weakness of many such programmes (when seen from a cost-effectiveness perspective) was that they experienced **high levels of deadweight**, and evaluations showed that many of those unemployed people supported by the programmes would have entered self-employment anyway, even in the absence of the programme. This reflected, in many cases, a selection process operating such that the programmes failed to reach the most disadvantaged members of their target groups. Such selection could be due to either (or both) of: self-selection by programme participants themselves; and selection by programme administrators (on the basis of applicants' business plans etc.). Tokila (2009), evaluating a Finnish start-up programme for the unemployed with data from 1988 to 2001, reports:

"The results indicate that the duration of start-up supported firms is clearly longer than that of non-supported start-ups. Human capital from prior experience and assets strongly influenced the survival of supported start-ups, whereas social capital was less significant than for non-supported start-ups. The better survival of supported firms can be explained by the assessment process and the training prerequisite for grants rather than the relatively small and short financial support. However, the supported entrepreneurs ended up more likely to become unemployed after failure, whereas the others moved on to activities outside the labour force." (Tokila, 2009)

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<sup>49</sup> This figure is derived from a different survey, undertaken 3 months after course completion.

Further, (OECD 2000) making comparisons between programmes across countries and over time, suggested that there might be a **trade-off** between survival rates and deadweight<sup>50</sup>, and that measures to improve survival rates (e.g. by targeting the programme on better 'business prospects') was likely to increase policy deadweight. OECD (2000) reports, that survival rates are dramatically higher in those programmes which have stricter eligibility requirements, for example through requiring a rigorous assessment of the potential entrepreneur's business plan, than those with broader or less demanding criteria<sup>51</sup>. Equally taking steps to reduce deadweight (e.g. by weeding out well-financed and well-prepared applicants, and targeting programme participation on the most disadvantaged groups with little prior tradition of self-employment) was likely to damage survival rates<sup>52</sup>. An important implication for policy of this trade-off, is that it raises the question of the kind of support that might be required by 'low deadweight' and disadvantaged groups, particularly in the early period of their self-employment and particularly with regard to the development of the skills, knowledge and personal capabilities essential to self-employment success<sup>53</sup>.

Finally, we should recall that the classic means to reduce deadweight in active labour market measures (not just self-employment programmes) for the unemployed is to impose a duration requirement for programme eligibility; that is the unemployed can join the programme only after a certain qualifying period of unemployment. Again this typically involves a trade-off: set the qualifying period too short and deadweight will go up (and the programme will capture people who would easily have got jobs anyway); set it too long, and deadweight falls, but the debilitating effects (demotivation, skill erosion, etc.) of a period of

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<sup>50</sup> Note that not all programme evaluations suggest such a trade off. For example, Cueto and Mato (2006) analyse data from a Spanish regional programme concluding that unemployment duration prior to start-up does not influence survival, suggesting that focus on the longer-term unemployed (reducing deadweight) would not necessarily impair survival rates and programme effectiveness.

<sup>51</sup> OECD (2000) reports that schemes in Germany, Netherlands, Sweden and France had high survival rates, when contrast with schemes in Ireland, Norway and the United Kingdom, with lower survival rates. It is worth noting, however, that different studies on the same schemes have yielded conflicting results.

<sup>52</sup> A strand of the literature goes further than this to argue more against programmes to encourage, subsidise or support any kind of unemployed entrepreneurs because they are inherently less suited to self-employment than other groups, and less likely to benefit from the experience (see, for example, Andersson and Wadensjö (2007)).

<sup>53</sup> Wolff and Nivorozhkin (2008) report a German start-up subsidy scheme (*Einstiegsgeld*) targeted at particularly disadvantaged ("*needy*") social assistance recipients, with positive results in terms of reduced benefit dependency and greater labour market integration. However, the programme was small in scale and the study concluded that the scope for expansion was limited, due to the relatively small proportion of this disadvantaged group who were "*potential entrepreneurs*" with "*the hard and soft skills for starting their own business*".

unemployment on the individual and their employability start to kick in, and they are harder to place in work. This is also an approach which has been adopted in self-employment schemes for the unemployed, and various countries at different times have chosen different duration criteria.

It is interesting to note that a six month unemployment threshold is to be applied in the recently-launched New Enterprise Allowance scheme in the UK, a decision which has generated some debate: Two of our **expert interviewees** engaged in enterprise support provision expressed their concern over the timing of these interventions, arguing that the threshold was too long, and that waiting for six months before providing state-funded support erodes motivation and work attitudes.

### 4.1.3 Modes of support provided to the new self-employed person

The evidence shows that programmes for the self-employed (particularly those for people entering self-employment from unemployment) vary considerably in the nature and extent of support offered to the people entering self-employment. Most (but not all) programmes offer some financial support or subsidy, while many also offer some form of mentoring, advice or guidance; rather few<sup>54</sup> it would seem offer formal training<sup>55</sup> to provide the skills necessary for self-employment.

It is clear from this earlier evidence that the kind of support offered can make a big difference. Looking first at financial support, there are two main models which have been adopted in subsidising unemployed people to start their own business<sup>56</sup>. Some programmes such as the original UK Enterprise Allowance Scheme, and the similar programme found in Germany in the 1980s and 1990s (*Überbrückungsgeld* ['Bridging Allowance'] see Wießner, 1998) offered a regular (weekly or monthly) allowance to the unemployed person setting up in self-employment as a support during the early months of the new business (in some countries, this effectively meant that the participant could keep some or all of their unemployment benefits during the business start-up period). In other programmes, including

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<sup>54</sup> Although in a review of the schemes in place during the late 1990s (OECD, 2000), it was noted that "Overall, the importance attached to training and counselling in these programmes appears to be increasing." (OECD 2000, p. 182).

<sup>55</sup> Exceptions include some State-level Self-Employment Assistance programmes for unemployment insurance recipients in the US (Kosanovich et al. 2001 and Isaacs 2011)

<sup>56</sup> Note that the recently introduced New Enterprise Allowance scheme in the UK (see section 1.1 above) combines elements of both models (a regular allowance and access to loan capital)

some national government programmes (e.g. the Spanish scheme until 1992<sup>57</sup>, and the more recent German start-up subsidy: see above) and some types of start-up support offered by the Prince's Trust in the UK, the support involved an up-front grant or subsidised loan to the new entrepreneur. A key factor contributing to the low survival rates of businesses started under such programmes is the tendency for the businesses to be created in easy-to-enter service sector activities, with low returns, high levels of competition (and a high risk of displacement of existing businesses). In this light, some of the evaluation literature suggests (see Meager, 1996) that an advantage of the loan/grant model over the allowance model is that provision of an up-front lump sum can help overcome capital barriers to entry, enabling participants to enter a wider range of business activities, often with better business prospect and survival rates. As an early econometric evaluation of the German bridging allowance programme reported:

“...the absence of any significant impacts on employment growth and a significant negative impact on firm survival in the group of programme participants raises policy questions. The results do not seem to support the effectiveness and efficiency of bridging allowances as an instrument of creating employment through the promotion of self-employment from unemployment in Germany. One reason for this result is presumably the design of the programme, which seems to support opportunistic or myopic behaviour in the group of unemployed persons who received bridging allowances.” (Pfeiffer and Reize, 2000)

On the other hand, loan/grant models can be (significantly) more expensive to the public purse than the allowance model in the event of early business failure (under the allowance model the allowance simply stops at the point of failure, whereas under the loan/grant model there is risk of default on the loan or loss of the entire up-front grant payment).

Some recent work with US data reinforces the case for promotion of self-employment through reduction of capital constraints, but finds that this approach works better if it takes place through relaxation of borrowing restrictions, rather than through direct capital grants (interestingly it also suggests that training interventions performs somewhat worse than does targeting borrowing constraints). In this work Adachi (2009) uses cohort data from a longitudinal survey<sup>58</sup> to estimate a “life-cycle model of entrepreneurial choice and wealth accumulation” and then subjects this model to a number of policy simulation exercises, finding that while all three policy interventions increase entries to self-employment, relaxation

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<sup>57</sup> In the Spanish scheme, the participant could capitalise their unemployment benefits over a period, and receive them as an up-front sum to assist with business start-up. See Cueto and Mato (2006).

<sup>58</sup> The *National Longitudinal Survey of Youth*

of borrowing constraints has the effect of contributing to more stable (long-duration) self-employment, while the other two interventions (direct capital subsidies, and “training for entrepreneurial skill”) tend to reduce the duration of self-employment.

Finally, it is worth noting that the form and extent of *non-financial* support provided alongside (or instead of) any subsidy or capital grant to the newly self-employed participant, is likely to be a significant factor in the performance of the programme. Few evaluations assess the impact of such additional support (which might include advice, guidance, mentoring or training support<sup>59</sup>: see section 4.3 below, for further consideration of schemes involving such support).

While the literature on self-employment programmes appears to have little to say on this<sup>60</sup>, it seems likely that the **skills of business support staff and trainers** involved in client assessment and selection and in subsequent advice, guidance and support, are important for the quality of programme delivery. This question was raised by several of our **expert interviewees** involved in such programmes, and points they raised included:

- accreditation of advisers from organisations such as PROWESS and Customer First can enhance their credibility for participants;
- personal experience similarly enhances the perceived standing of advisers and trainers;
- a need to ensure that the right advisers are recruited, who are interested in staying ahead with their skills.

It can be a challenge for business support advisers and organisations to invest in adviser development. Organisations such as the National Federation of Enterprise Agencies (NFEA) facilitate training and development of business support organisations. One strand of this is the NFEA Enterprise Academy, which aims to develop the strategic and management skills development of senior staff in business support organisations. The NFEA also co-ordinates ACT, a membership network aimed at improving the skills of, and linkages between, individual business advisers. The network offers informal events, which are often run in the evening. This goes some way to mitigating the time constraints which often prevent business advisers from developing their skills. At these events, advisers are updated on recent developments such as marketing via social networks and enterprise in education, with experts coming to speak at seminars.

The skills and knowledge of **generalist employment advisers** is also relevant when signposting people, if a self-employment stream or option is available. One of our **expert interviewees** engaged in enterprise support provision, felt that Jobcentre Plus advisers do not give enough prominence to self-employment options, and that (even after efforts to ensure that this information is included in adviser training materials) there is not enough

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<sup>59</sup> An example of the latter is the mentoring provided within the Prince's Trust start-up programmes (Meager et al. 2003), as well as some of the German programmes (see Mosley, 2008).

<sup>60</sup> SFEDI (2008) provides information on skills of business support personnel, emphasises their diversity: e.g. coaching requires specialised skills in communication, driving people, securing attitudinal change.

information for advisers on this. Our interviewee felt that one reason for this deprioritisation of the self-employment option is that establishing someone in self-employment can take time (and resources); it is not a “quick fix”.

#### **4.1.4 Importance of occupational and skills matching**

Interesting recent research by Block and Sandner (2009) using German household panel data, highlights the distinction between ‘necessity’ and ‘opportunity’ start-ups (see the discussion in section 1.4.1 above) and reports that the common finding that opportunity start-ups perform better than necessity start-ups on the usual measures (such as duration of survival in self-employment) disappears “... after controlling for the entrepreneurs’ education in the professional area where they start their venture..”. That is, when the start-up business is well-matched to the occupational or professional training or experience of the newly self-employed person, the businesses of the ‘necessity’ entrepreneurs are at least as successful as those of the ‘opportunity’ entrepreneurs. This is clearly relevant to business start-up programmes for the unemployed (who are, by definition, more likely to fall into the category of ‘necessity’ entrepreneurship, and to have been pushed into self-employment by their unemployment status). It does, however, mean that the effectiveness of these programmes is highly dependent on the initial selection and support process, and how far this process ensures a good matching between individual skills and experience to the nature of the business being started. As the authors argue:

“This result opens an interesting debate regarding the relative economic impacts of opportunity and necessity entrepreneurs. Necessity entrepreneurs are not necessarily less successful and therefore less desirable from an economic perspective, as has been suggested in some literature [.....]. Rather, the observation of differences between necessity and opportunity entrepreneurs is highly sensitive to the definition of success that is used. To some degree, our finding justifies governmental programs of start-up support that are designed for necessity entrepreneurs. The efficiency of these programs, however, can be further improved by including education and other variables in the decision of whether to support a given individual entrepreneur.” (Block and Sandner 2009)

They also note that recent developments in the start-up support offered in German active labour market programmes represent moves in this direction, which they see as promising.

## **4.2 Other start-up initiatives for unemployed or disadvantaged groups**

In addition to the strand of (usually national) active labour market measures targeted at encouraging self-employment among the unemployed or other disadvantaged groups, it is worth noting two other relevant strands of intervention.

- The first is where self-employment is one option, usually a minor one, within a broader mainstream active labour market measure.
- The second is where local or regional policy initiatives have been introduced with a similar aim of generating self-employment among target groups.

We do not give these strands extensive attention in this study. Rather we consider them only briefly below, for three reasons. First because to attempt to cover the multiplicity of such initiatives would greatly extend the scope of the study; second, because few of these initiatives have been evaluated, and their inclusion in the study would amount to little more than a catalogue of measures; and third, because, although many of them do include human capital or training interventions (our main interest), even in the few cases where the measures have been evaluated, it is rare for the evaluations to distinguish the impacts of the training interventions from those of the programme as a whole.

### **4.2.1 Self-employment streams of wider active labour market or training programmes**

Self-employment streams of wider programmes offer some insight into the participants' choices between employment and self-employment. They also potentially provide some understanding of the extent to which providers involved in delivering generalist employment or training programmes incorporate self-employment and business start-up issues. However, we are limited by the extent to which self-employment streams in broader programmes are evaluated. For example, in the case of *Work-Based Learning for Adults*, which includes self-employment provision, even though that provision accounted for around 26 per cent of starts under the programme (Anderson et al., 2004), there is insufficient data on participants in the self-employment stream for analysis to be carried out (Speckesser and Bewley, 2006).

More generally, however, it seems that the rate of entry into self-employment streams within broader programmes is often low, which constrains the scope for evaluation. Kellard et al. (2002) highlight that there were low rates of entry to self-employment routes in New Deal

programmes, although rates of participation increased with age. Thus they found that 9.4 per cent of those on the New Deal for 50+ entered self-employment, compared to 4.6 per cent of those on the New Deal for 25+ who entered test trading, and an equivalent figure of 1.6 per cent for those on the New Deal for Young People (p.3). Similarly, Corral et al. (2006), in a review of business formation support for employees affected by restructuring, report that, in Western Europe, support for creating new enterprises is taken up by a small proportion of such employees. *'The percentages for those interested in setting up their own business range from 1.2 per cent to 10 per cent of the restructured workforce'* (p.21). This is consistent with the findings in DTZ (2007), evaluating the Redundancy Support Service, a joint initiative by the South East England Development Agency (SEEDA) and Jobcentre Plus, designed to support those in the South East of England affected by redundancy, with a particular focus on those working for SMEs. The initiative included a range of provision (skills assessments, advice and guidance, information workshops and jobs fairs). According to the evaluation report, 21,342 individuals were tracked. Of these, 168 (ie, less than one per cent) became self-employed, with 64 being self-employed with employees 12 months after using the service (DTZ, 2007, Table 3.2, p.16).

While it is not clear how far low levels of entrepreneurial aspiration underlies low take-up in such programmes, one of our **expert interviewees**, argued that it is at least partly due to (generalist) employment advisers not placing sufficient emphasis on advocating the self-employment option to participants.

Finally, it is worth noting that, with very few exceptions, there has been no attempt within mainstream New Deal and similar programmes to evaluate the training component of the self-employment strand<sup>61</sup>. One such exception is the evaluation of the New Deal Self-Employment option in Northern Ireland (Peer Consulting, 2005). This evaluation provides limited evidence, since it relies on survey responses from 201 respondents. However, it is valuable, as one of the few sources of evidence on the effectiveness of the New Deal self-employment option. This evaluation highlights the potential importance of advice and guidance from an employment adviser when choosing the self-employment route: while the majority (58 per cent) of evaluation survey respondents said that they had 'always thought about starting [their] own business', 12 per cent only considered this on receiving their invitation for a New Deal interview and 30 per cent decided this during their discussions with their adviser at the Jobcentre (p.26). However, the evaluation views those who had not

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<sup>61</sup> Kellard et al. (2002) examine the evaluation database for New Deal participants choosing the self-employment option, analysing their demographic characteristics. However, there is no analysis of training effects, and even modes of delivery in general cannot be disentangled from area effects.

previously wanted to enter self-employment as under-motivated, and suggests that the volume of such entrants should be minimised. Advice received during a 'Basic Awareness Session' also seems to have had no effect on almost one-third of respondents, but such advice made 64 per cent of survey respondents 'more sure it was the right thing for me' (p.30), suggesting that basic information can promote confidence.

As described in Peer Consulting (2005), the 'Start A Business Programme' forms a significant component of the Self-Employment Route, and provides participants with training on a range of issues relating to self-employment including finance, marketing and business planning. Eighty six per cent of the evaluation survey respondents reported that they "could not have managed without the training offered in the SABP, or found it very or quite helpful in developing their business ideas" (p.33). Finance, especially tax and VAT, appear to have been the topics which needed the most attention for survey respondents.

Additional training needs were also identified by New Deal customers and their advisers, during test trading.

"18.3% of respondents reported that the self-employment provider had identified any specific training required to operate their business plan during the test trading period. However of this group (n=32), it is encouraging to note, that 78.1% found that training to be extremely useful in putting their business plan into operation during the test trading period. Areas of additional training provided to this group included job specific training (welding courses, machine licence etc) as well as more generic training, such as finance, ICT and marketing techniques." (Peer Consulting, 2005, p.39).

Meanwhile, 74 per cent of those who received a generic training allowance (given to all self-employed option participants) said that they could not have started up their business without this support, while a further 10 per cent reported that the training allowance had increased their chances of business start-up a lot. Thus the total deadweight for this portion of the New Deal scheme is estimated at 16 per cent (p.47). This compares to an overall estimate of deadweight of 24 per cent (p.48) suggesting that the training element was a particularly crucial element of the programme.

#### **4.2.2 Regional and local initiatives**

Turning to regional and local start-up measures, the **Regional Development Agencies** have supported a number of initiatives which have attempted to promote enterprise for under-represented or disadvantaged groups. It seems that in so far as these initiatives incorporate

human capital development, it is common for this to revolve around awareness-raising and provision of advice, rather than provision of in-depth training.

### **Enterprise Gateways in the South East<sup>62</sup>**

One such measure was highlighted by one of our **expert interviewees**. SEEDA (the South East England Development Agency) has implemented and evaluated Enterprise Gateways, an initiative to promote enterprise and self-employment among '*under-represented*' groups. This largely focused on advice, information, networking and capacity-building; an initial emphasis on providing physical workspace was shelved in favour of this. The final version of the service, which operated up until March 2010, was delivered through established networks (Business Link), with guidance and co-ordination being provided in different zones by service directors.

The interim evaluation reports that the programme involved spend of £3.3m from the 2002/03 to the 2006/07 financial years, providing a return on investment of £18,000 per additional job created, according to Regeneris (2008, Table 2.3, p.v). The unit cost per business assisted was £4,000, although unit costs varied significantly depending on the project, from £350 to £13,500 (p.20). The programme met its targets on start-ups, assisting 1,621 people to develop a business idea. However, targets for job creation were over-optimistic; the evaluation notes, in retrospect, that the failure to meet these targets may have been predictable in light of the target group. Regeneris' interim evaluation found that, on the whole, the programme encouraged Business Link to focus on '*under-performing*' communities, which were not previously targeted by the organisation. However, as was found in relation to the Phoenix Development Fund (Ramsden, 2005), certain Gateways did not engage a high proportion of disadvantaged users.

Of businesses supported by Enterprise Gateways, 41 per cent felt that their competitive standing had since receiving the support. Growth ambitions were lower than those of recipients of a SEEDA scheme aimed at higher growth businesses: Enterprise Hubs (Regeneris, 2008, p.23).

The final evaluation (Nairne and Friday, 2010) made some useful recommendations for future such initiatives. The service was perceived as being over-stretched, and seems to have provided a lighter-touch service to a larger number of people than was originally planned. Although this may partly have been as a result of the economic downturn, the evaluation suggests that a more defined spatial focus and target groups would have enabled demand for the service to be more effectively managed. Nonetheless, 45 per cent of those who responded to the evaluation survey reported being unemployed at the time of the survey (p.iv), and stakeholders reported that service users were (as hoped for) different to those who would normally access mainstream Business Link support. Service users also reported, by and large, that the service had made a significant contribution to their business skills and knowledge, with women in particular reporting increased confidence, skills and knowledge. However, there is less evidence on actual business outcomes due to the service, and although service users had a positive experience of the service, they were less likely to be satisfied that the service had effectively prepared them for business (p.52). Twenty three per cent of the unemployed individuals who used the service started to work for themselves following use of the service (Nairne and Friday, 2010, p.40), but it is not clear to what extent the service was responsible for this.

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<sup>62</sup> This project initially targeted both individuals and existing businesses, but was refined to focus only on disadvantaged individuals. The Regeneris (2008) evaluation refers to the support to both individuals and existing businesses, with no separate analysis of start-up by individuals.

Such programmes with a focus on awareness-raising may deserve extra examination in light of the findings from Henley (2007) and Jones-Evans (2006) on regional patterns in aspiration and start-up (see Section 2.1.1). Raising aspiration may not necessarily be linked to increases in start-up activity, depending on the area (although, with regard to the example above, the South East is not one of the areas which has been found to ‘suffer’ from this lack of connection between aspiration and start-up).

The question of whether regional activities should prioritise the nurturing of strong sectors or targeting disadvantage was highlighted in some of the field research for this study.

One of our **expert interviewees**, felt that regional approaches were potentially very important, and was positive about the potential of Local Enterprise Partnerships (although they noted that the details around these are, as yet, fuzzy). They felt that an approach which allows individuals to build on existing networks and markets is more likely to be productive than a broader attempt to build new markets from a low level.

This contrasts with some of the practitioner approaches to targeting disadvantage, identified in our **expert interviews**. In one example the organisation simply targets areas where self-employment is low; while another similarly makes no attempt to assess demand, focusing instead on whether clients have the generic skills required.

However, PRIME<sup>63</sup>, for instance, does not target those who are furthest from being ‘enterprise ready’. They divide their potential clients into three broad groups:

- The enterprise-ready, who are motivated and tend to have equity already;
- Those who need a little more support, but who do consider themselves to have a number of the skills required for business start-up;
- Those who face complex barriers to self-employment and who are considered to be unlikely to be successful in starting a business.

The organisation takes the view that those in the second group are those who are most worthwhile to target, since they are most likely to be successful. However, this group does include individuals who are receiving benefits, so these are clearly not entirely ‘easy wins’. What is more, an evaluation survey has suggested that a high proportion of those who went on to start a business felt that they set it up as a direct result of the PRIME intervention.

### 4.3 Role of human capital interventions in self-employment programmes

In this section we turn to look more specifically at training and skills interventions for newly self-employed people and business start-ups, first focusing on broader start-up support schemes which include training interventions along with other types of support (e.g.

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<sup>63</sup> A charity supporting business start-up among the over-50s.

financial), and then going on to look at programmes based solely around training for self-employment and business start-up.

### 4.3.1 Training interventions within broader start-up programmes

It is clear that many of the self-employment start-up initiatives reported above from a variety of countries include some elements of training<sup>64</sup>, advice or mentoring indeed in some programmes, including the State-level Self Employment Assistance interventions in the US, it is a requirement of participation that recipients of the subsidy must, *inter alia*, be

“Participating in self-employment activities including entrepreneurial training, business counseling, and technical assistance [...] Most state unemployment agencies partner with the relevant agency responsible for employment and training programs or Small Business Development Centers (SBDCs) to provide SEA training and services” (Isaacs, 2011, p2-3)

However, it is much less clear from most of the evaluation literature on these schemes how important a component of the schemes the training inputs are.

Further, there are very few evaluations which assess separately the impact of the training component of the programme (in most cases, the implicit or explicit assumption of the evaluation appears to be that it is the financial support for the new start-up which is “doing all the work”).

Evaluation of mentoring is largely qualitative and is not always of a very high quality, as noted by Wilson and Grigg (2008) in their review of evidence on the topic. However, the key themes which have emerged from their review largely echo the points made by our expert interviewees (see shaded box, below). Wilson and Grigg’s main findings include an observation that there is no common understanding of what mentoring involves and exactly how it can be expected to impact on enterprise skills and behaviours. However, the argument is commonly made in the literature that mentoring can be a powerful way to draw out enterprise skills and development, when done well (preferably face-to-face, wherever

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<sup>64</sup> Mosley (2008), describing the German programme, notes: “Unemployed persons planning to start their own business can also receive various types of assistance from the PES in addition to the financial benefits described. For example, the PES sponsors training seminars for those planning a business start up in order to prepare their required business plan and supporting documentation. Furthermore, an EU-funded coaching programme is available during the first year after establishment of the new business in order to assist the unemployed in overcoming problems in the initial phase of their business activity.”

possible). They also point out that there has recently been a proliferation of mentoring qualifications and awards to support quality in mentoring.

Several of our **expert interviewees** had been involved with running mentoring programmes. Some fairly consistent themes emerged on this, from our practitioner interviewees.

- Mentors and mentees are more likely to have a productive relationship if they are closely matched to each other. This may be in terms of demographic characteristics, or in terms of business interests/ market area. With regard to the latter, a mentor may be able to provide valuable understanding of a particular market area which a new entrant would not necessarily have access to. Although many mentors may have generic business skills and knowledge which are valuable, more detailed advice will clearly only be available if the mentor has existing knowledge and skills which are relevant.
- Related to this, one of our interviewees pointed out that mentors need to be able to signpost their mentees onwards, to other business and occupational support services. Individual mentors may be able to assist with some skill development, but cannot be expected to carry out the full function of business support organisations.
- Mentoring is not necessarily a benign relationship: it can be harmful to both mentee and mentor. Mentors may exploit or give poor advice to mentees. Although the advantages of mentors operating in the same business area are given above, excessive crossover of sector can introduce conflicts of interest.
- High-quality mentoring is skilled, requiring excellent communication and guidance skills. There is the potential for mentees to become over-dependent on their mentors: this can be avoided if mentors successfully equip mentees with their own skills. Several interviewees (mostly practitioners who run programmes of which mentoring is a part) felt that training and accreditation for mentors are important to keep quality standards high. Mentors also need continuing support; for example, a volunteer manager who can offer advice when the mentor is unsure of how to proceed.
- There are different understandings of 'mentoring'. Some understand it as a less intensive service which may be provided over the internet, for example. However, one expert interviewee pointed out that support provided over the internet is likely to be less intensive, with less opportunity for dialogue. This is an approach which is more suitable to those who already know what questions they need to ask, rather than those who are at a much more exploratory stage.
- Providing a good service involves many or all of the points above, and brokering the relationship represents a significant responsibility. Mentoring is therefore not a 'free' option. There are also costs to being a volunteer mentor, as it can be a time-consuming relationship. One option which can limit costs is a group approach. This combines peer learning with advice from others, and is clearly less costly than a one-to-one mentoring relationship.

## **Prince's Trust Business Programme**

One quantitative evaluation which does attempt to isolate the impact of mentoring is the Prince's Trust Business Programme evaluation<sup>65</sup> referred to above (Meager et al. 2003). Multivariate analysis showed that receiving mentoring support was a strong and significant influence on survival rates (particularly in the early months of self-employment). Paradoxically, however, receipt of mentoring support appeared to have a negative impact on participants' longer-term earnings in self-employment, although this might partly reflect the possibility that the self-employed who were in greatest need of ongoing support (and with lower than average earnings from their businesses) may also have been more likely to have sought continuing mentoring guidance from The Prince's Trust. Overall, however, the evaluation raised the need to understand better the processes through which mentoring might operate most effectively to support and transmit necessary skills to the newly self employed (including the 'softer' cultural and attitudinal skills which, the literature suggests, are often transmitted through family networks in entrepreneurial small business environments: see the discussion in section 2.1.1 above).

## **New Entrepreneur Scholarships programme**

The New Entrepreneur Scholarships programme (NES) was a national programme which ran from 2001 to 2008 with funding from the Learning and Skills Council (LSC), and developed in partnership between the National Federation of Enterprise Agencies (NFES), the Association of Business Schools (ABS) and the Prince's Trust. It was delivered at regional level by local enterprise agencies, business schools and the Prince's Trust, in various combinations in different parts of the country, with a particular focus on disadvantaged local areas (the detailed design of the programme and, it would seem, the eligibility criteria operated for participants, were locally devolved, although the original objective was to recruit participants according to residence in geographic areas of high deprivation). It is of particular relevance to the current study because it combined three key components of business support, namely:

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<sup>65</sup> Note that this programme has subsequently been revised to become the Prince's Trust Enterprise Programme, launched nationally following a pilot in 2009/10. While the previous Business Programme essentially promoted one route/pathway (expecting that participants would start a business, with the support from the Trust consisting of financing and mentoring only), the new programme is more flexible. In particular, it includes participants who are simply considering self-employment, and aims to be more aligned with their personal development programmes (salaried employment or further training are now also seen as positive routes out of the programme).

- free part-time management education and training for up to 90 hours, over a 14-week period;
- (for those completing the training) a start-up grant (initially up to a maximum of £3,000, but subsequently reduced to £1,500 in the later years of the programme);
- ongoing post-startup business mentoring support for an extended (flexible) period.

Around 6,500 participants went through the programme during its seven years of operation. Various research projects (see Rouse and Boles, 2004; Slack, 2005; CFE, 2007) have examined the NES programme; some involving qualitative case-studies, others analysing quantitative data (from management information and surveys of participants). Unfortunately, while providing useful information on the characteristics of participants, their experience on the programme, the survival of their businesses, and their subsequent economic and labour market circumstances, none of these studies (including the final 'evaluation' presented in CFE, 2007), enable us to draw conclusions about the impact or cost-effectiveness of the programme as a whole, or the relative impact of the three different components of the programme. The evaluation contains no multivariate analysis of the impact of demographic, business and programme variables on participants' outcomes and there is no control group or similar method for testing programme intervention against counterfactuals. This is a shame, as the inclusion of the three key elements, combined with variety of local delivery offers rich potential for the evaluation of training and skills interventions in a start-up programme. With these caveats, it is nevertheless of interest to note some of the key conclusions in CFE (2007).

- Course participation was highly rated by participants, but around two thirds of participants would have started their business in the absence of the course. The remaining third (i.e. those for whom the training was critical to the start-up process) were much more likely to have no or only basic initial qualifications.
- Course completion rates were high (nearly 90 per cent).
- Business survival rates were high (relative to national benchmarks and other start-up programmes): 94 per cent after one year; 86 per cent after three years and 76 per cent after five years.

- Post-course economic activity rates were significantly higher than pre-course rates, and around half of those who did not start a business or whose business failed entered salaried employment.
- The businesses were modest in size (median turnover was £10-15,000), growth (f.t.e additional employment was around 0.4 persons per business), and self-sufficiency (over two thirds were home-based, and two thirds supplemented their income from other sources, including benefits).
- The mean personal incomes of NES business owners were low (on average, less, on a pro-rata basis than the full-time annual minimum wage).

The evaluators conclude that:

“Course completion, start-up and survival rates are high, contributing to reducing economic inactivity. Visible improvements in scholars’ business skills are observed after finishing the course.[...] For the group under investigation, self-employment reduces economic inactivity via self-classification as ‘self-employed’, but it is not a route out of deprivation; the turnover and income of business owners is static and similar, or just above, what can be earned in low paid ‘minimum wage’ employment or a combination of work and supplementary benefits” (CFE, 2007, p10).

### **Phoenix Development Fund**

The Phoenix Development Fund (PDF), administered by the UK Small Business Service (SBS), ran from 2001-2008 with a budget of £65m over its lifetime. Its objective was to “*promote innovative ways of supporting enterprise in disadvantaged communities and under-represented groups*”. It was part of the broader Phoenix Fund (a £189m programme) which also incorporates a range of other programmes, including a loan guarantee fund, and a national network of volunteer mentors (see Ramsden, 2005, page 7, for a full list).

The PDF supported innovative projects providing business support to enterprise in disadvantaged geographical areas and to groups currently under-represented among business owners. The projects provided support both for those who were considering moving into self-employment and for existing businesses. Ninety six projects included in the first funding rounds over 2001-2005 were included in the evaluation of the PDF (Ramsden, 2005) which provides a source of good practice recommendations, as a wide variety of approaches were used to target disadvantage: area-based approaches as well as tactics to target groups under-represented in enterprise (particularly women, ethnic minorities, disabled people and

ex offenders). Different providers were also used in order to weigh up the advantages and disadvantages of mainstream as opposed to specialised approaches to inclusive support.

The evaluation concluded (on the basis of management information, a client survey and a series of case-studies) that the fund had been successful, providing a valuable contribution to knowledge about inclusive business support. However, there was a great variety of efficiency and effectiveness in the different approaches used. The disadvantage of the programme's variety of small-scale methods is, of course, that it was difficult to draw generalisable conclusions from the evaluation, about the relative impact of different approaches. Nevertheless, there are several useful reflections on approaches to entrepreneurship training in the evaluation, although it was difficult to distinguish the specific contribution of human capital interventions, and a key feature of the PDF projects was that most providers working with disadvantaged groups tended to take a 'holistic' approach. The evaluation suggested that 'soft' aspects such as confidence-building and establishing sources of community support were felt by providers to be particularly important.

The PDF evaluation highlighted that certain approaches to the building of human capital can be very expensive to deliver.

- Incubation<sup>66</sup>, business centres and intensive consultancy support, as implemented under the PDF, were in general found to be very costly, although there were large variations in costs per job for these types of support, suggesting that appropriate implementation of these models may be effective. The evaluation cites gross figures calculated by looking at total costs and outputs for a number of projects. One incubation project in Liverpool, focusing on support for musicians, cost £125,060 per job created. By contrast, a Tottenham incubator cost £1,369 per job created.
- Adviser efficiency was maximised by limiting the number of meetings that advisers could attend and by (for example) providing software which allowed clients to draw up contracts with minimal adviser contact.

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<sup>66</sup> An incubator (Ramsden, 2005) is "a property with small workspace units that provides an instructive and supportive environment to entrepreneurs at start-up and during the early stages of business". Benefits include an entrepreneurial learning environment, ready access to mentors and investors, and visibility in the marketplace.

- The evaluation suggested that economies of scale were important, with larger projects tending to deliver efficiency savings: the ten largest PDF projects produced a higher share of successful outcomes than would have been expected on a pro rata basis.
- The high unit cost of some PDF projects reflected, in part, the strong preference of clients for one-to-one meetings with advisors and mentors, over less expensive methods of communication such as phone, internet/ email and post.

Separately to the main evaluation of PDF a summary of 'lessons learned' from the early PDF projects was also published by the SBS (Maurey 2006). In addition to highlighting some general lessons relating to enterprise projects for disadvantaged groups, some specific examples relating to innovations in training and human capital development found in the projects were also described.

- **Target group accredited core training:** The option of acquiring a nationally-recognised business qualification was attractive for some target group participants, especially where it is the first they will have achieved and contributes to raising confidence and self-esteem (the type of qualification varied according to the specific programme: one initiative offered an accounting qualification as part of its business training; another offered Skills for Life accreditation).
- **Intensive 'holistic' support,** to address 'life' issues was often important, before moving onto specific enterprise support interventions.
- **Area-based coaching support.** One project centred on an area-based programme in which a trained coach provides business support to new and existing entrepreneurs, while a panel of residents provides further support and referral is also possible to specialists who find solutions to barriers entrepreneurs are facing<sup>67</sup>.
- **Peer support, forums and networking models.** An example was cited of a national network to support offenders who wished to continue their development of enterprise/self-employment post release. The network consisted of named supportive individuals and organisations that would provide information, advice, guidance and training on-line

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<sup>67</sup> For further information about this project which is ongoing (at March 2011), see: <http://www.bizfizz.org.uk/current-projects>

through a website, via email, telephone and post, or through dedicated network staff, no matter where an individual was returning to from prison.

- **Multi-agency support model:** in recognition that disadvantaged clients might require a variety of support over and above direct enterprise training and finance, under this model, clients can access a range of additional advice. An example of such a project originally funded through the PDF, was the Northern Pinetree Trust project<sup>68</sup> bringing together the work of a number of key agencies across the North East to design and deliver enterprise awareness training and counselling support; advice on access to finance issues; supporting existing businesses where illness puts the business at risk; helping test business ideas; providing on-going support and a business forum to secure peer group support.
- **Sector specific support:** this incorporates either of two approaches. The first is one-to-one support from “specialist advisers who have considerable business expertise and credibility in specific sectors (especially those frequented by young people, people in deprived urban or rural locations, and/or people from the Black and minority ethnic communities), e.g. retailing; the arts, manufacturing, design and cultural industries.” (Maurey 2006, p.26). The second is through specialist core training, again sector-based: “e.g. Enterprise in Food, whose core programme was augmented with complementary services such as taster sessions, initial assessment/skills stock take, access to networks and forums. EiF was also adept at developing an ‘holistic skills’ delivery system that surrounded their sector specific core training. This enabled participants to ‘step out’ into other options or routes, such as employment or further learning.” (Maurey 2006, p.26).

#### **4.3.2 Start-up programmes with a specific emphasis on training and skills development**

In this section, while noting the relative lack of evaluation in this area, we first summarise some conclusions from an international overview of start-up and entrepreneurship training initiatives, before highlighting evidence from selected individual programme evaluations.

##### **Summary of European initiatives: paucity of evaluation evidence**

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<sup>68</sup> For further information about this project which is ongoing (at March 2011), see: <http://www.northernpinetrestrust.co.uk/>

A European project reported in Heinonen and Akola (2007a, 2007b) included an extensive review of the international literature on entrepreneurship training (covering initiatives within and outside the formal education system, and programmes targeted at different stages of the enterprise development process from start-up to business growth), as well as a survey of entrepreneurship training programmes in seven countries<sup>69</sup>. The research drew attention to the general lack of evaluation efforts in this area (fewer than a quarter of the training programmes examined in the review contained evaluation evidence). This paucity of evaluation evidence suggests caution in drawing strong conclusions from this work. Nevertheless, given the wide-ranging coverage of the study, some of its key findings and recommendations are worth highlighting, and are likely to have general relevance.

- **One size does not fit all:** a different approach to entrepreneurship training is required for start-ups, to that appropriate for self-employed people or entrepreneurs in existing businesses. Indeed, in their good practice guide (Heinonen and Akola, 2007), the authors develop examples of training programmes for four categories of entrepreneurs:
  - start-ups by ‘necessity’ entrepreneurs (likely to include those pushed into self-employment by unemployment);
  - start-ups by ‘opportunity’ entrepreneurs;
  - owner-managers who have got past the early-phase obstacles and are now focusing on company development; and
  - owner-managers of established companies aiming at growth and innovation.

In particular, the important differences between the proposed approaches for necessity and opportunity entrepreneurs are that the former puts greater emphasis on “the importance of personal development of the potential entrepreneur (e.g. building one’s self confidence and basis business skills)”, while the latter is “more focused on further development of the business idea of the entrepreneur into a real business plan”, and is more “likely to be part-time due to other obligations of the participants (e.g. employment or ongoing start-up activities)” (pp. 13-14).

- **Use of multiple methods and practical examples:** successful interventions tend to have an emphasis on both theoretical and practical approaches, with actual real life examples and contact with existing companies and entrepreneurs.

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<sup>69</sup> Finland, Germany, Italy, Latvia, Norway, Spain and the UK

- **Teachers with business experience:** it is important that those delivering the training not only have expertise in business issues and entrepreneurship as well as ‘pedagogical’ approaches, but are also themselves “well-integrated into business life, as they need to be able to build peer groups and networks to support the learning of entrepreneurs” (p.10).
- **Group work:** the research highlights the benefits of group learning among a set of entrepreneurs working together in a confidential environment, noting that “participants with heterogeneous backgrounds and competences provide an experience pool giving value added to each other” (p.11).
- **Timing and schedule:** given the lack of spare time enjoyed by many self-employed entrepreneurs, the research emphasised the need for flexible, modular approaches to training, customised as far as possible to the individual student, and with options for evening classes or short residential modules. Ongoing follow-up sessions for alumni of the training are also seen as “an integral element of successful training programmes” (p11).

### **Project GATE: evidence on particular benefits for unemployed start-ups**

One of the few start-up initiatives covered in the literature which specifically focuses on training interventions for new entrepreneurs, and which has been comprehensively evaluated is the Project GATE<sup>70</sup> evaluation in the US (Benus et al. 2008, Benus and Michaelides 2010). Project GATE was a federally-funded demonstration project implemented in seven sites in three states (Minnesota, Pennsylvania, and Maine) between 2003 and 2005. Designed to help individuals start or expand their own businesses, Project GATE provided self-employment training and other services, and was targeted at a wide audience (i.e., anyone interested in starting or growing a small business), not just recipients of unemployment benefits (although these were also eligible), which means that it is possible to compare the relative value of such interventions to unemployed participants and those coming via different routes. The evaluation is also of particular interest, because of its robust experimental methodology, based on random assignment of applicants to ‘control’ and ‘treatment’ groups, which allows us to have particular confidence in the findings. Specifically, those in the treatment group were offered an initial assessment of their individual business needs and

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<sup>70</sup> Growing America Through Entrepreneurship

were then referred to a wide array of self-employment services. These included classes, workshops, and seminars that aimed to assist them in understanding all the different aspects of starting and operating a business. Additional individual business counselling was offered in which participants could discuss their business idea, receive help in producing or improving their business plan, and identify ways to address their individual business needs. In addition, treatment group participants were offered assistance in securing financing for their business, either through a micro-loan programme of the Small Business Administration (SBA) (a US government agency) or through other sources. The programmes were delivered both by the SBA's Small Business Development Centers and by non-profit community-based organisations. Members of the control group were offered none of the available services under Project GATE. The evaluation highlighted that the training intervention yielded positive impacts for unemployed participants, but not for other groups:

“Our analyses show that Project GATE had a significant impact on the post-training outcomes of individuals who were unemployed at the time of application, but had no impact on others. In particular, GATE led to significantly higher likelihood of starting a new business for unemployed participants – this impact persisted even five years after random assignment. Perhaps more importantly, GATE led to an increase in the likelihood of starting a new business soon after random assignment which was still in operation five years after random assignment by more than half. As a result, GATE led to significantly higher self-employment and employment likelihood for unemployed participants within 6 months of random assignment. Finally, although GATE did not lead to significant gains in self-employment earnings, there is evidence that GATE led to a 10% increase in total earnings and household income for unemployed participants five years after random assignment. [...] Our results suggest that self-employment training programs, like Project GATE, are effective policy tools to assist unemployed workers who are interested in self-employment achieve their goals. On the other hand, such programs are not effective for individuals who are employed or out of the labor force. Based on our findings, we conclude that self-employment training programs that target unemployed workers interested in self-employment should be more widely adopted by states as part of their workforce development agenda. Assisting unemployed workers interested in self-employment may help them return to productive employment quickly, start successful new businesses, and contribute to the U.S. economy in the long run through the creation of new jobs.”  
(Benus and Michaelides 2010, pp 15-16)

### **Evaluation of business start-up programmes delivered by a private provider (DHP Ltd)**

This study by Cowling (2003) is valuable in providing a longitudinal view of 24,000 participants in start-up training programmes offered by a private provider in Sheffield, Barnsley and Doncaster. The information covers the period 1996 to 2000 in Sheffield and 1991 to 2000 in Doncaster and Barnsley. The core of the programme intended to take clients through seven stages of business planning and start-up (see Cowling, 2003, p.9).

- Generate the business proposal
- Legal and financial requirements
- Business planning and implementation
- Marketing strategy
- Quality and operational control systems
- Human resources
- Evaluation and appraisal

Participants in the programme were generally a mixture of the unemployed and currently employed, with a broad profile to reflect this mixture, although the Sheffield participants were all unemployed.

The evaluation uses administrative data from the programme to identify labour market outcomes and their relationship with participation in various elements of the programme: completion of the core course; taking an (optional) Level 3 NVQ in Owner Managed Business; and being supported by the Prince's Youth Business Trust. The report also provides information about participants in the programme, and the relationship between programme take-up and local labour market conditions.

Overall, the evaluation finds that between half and three-quarters of all programme entrants started up their own business, and a third at most were unemployed immediately after the programme ended. The analysis suggests that between half and 60 per cent<sup>71</sup> of entrants will sustain their business, and between five and 20 per cent of entrants will find waged employment. The median start-up was found to have sales worth £12,000 to £18,000 per annum in its first year. Mean figures are higher at £27,000 to £32,000. Some of the businesses created jobs for others, with an average of 0.12 additional jobs per start-up.

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<sup>71</sup> These ranges reflect local variation in programme outcomes.

The evidence on the impact of the different training elements is examined through multivariate analysis<sup>72</sup>, with somewhat mixed results.

- **Programme completion**, as compared to dropping out for any reason, had a fairly strong relationship with business survival in just one of the three sites (Sheffield), appearing to increase survival by more than 20 per cent (p.53). However, in Doncaster and Barnsley there did not seem to be a relationship between programme completion and survival. Programme completion was also associated with an increase in job creation of 1.3 per cent in Sheffield, with no effect elsewhere (p.56).
- Doing the **NVQ in Owner Managed Business** was associated with a lower probability of survival in Doncaster and Sheffield, with a very small (0.4 per cent) positive effect in Barnsley. The qualification seemed to have no relationship with job creation in Sheffield or Doncaster, and a negative (-7.6 per cent) relationship in Barnsley, although the author cautions that it is possible that the effects of the qualification may take longer to emerge than is covered by the administrative data (p.56). These findings are rather more damning than those in a similar study of DHP services in Chesterfield, where those doing the NVQ “*had a far higher probability of serving national markets and higher job creation rates in business*” (Cowling, 2003, p.28, with reference to Cowling and Hayward, 2000).
- Support from the **Prince’s Trust** was associated with 8.5 per cent lower survival rates in Sheffield (p.52), but did seem to have a positive relationship with job creation in Doncaster, being associated with an increase in the probability of creating employment of 4.1 per cent (p.56).

Reflecting on the diversity of programme entrants and of the outcomes from the training components, the author concludes that **locality is very important** to consider.

“[A] key finding which has strong implications for policy-makers is the uniqueness of localities. Even in such close geographical areas this study has found it difficult to identify common results and outcomes. This suggests that schemes of this nature, and the design and operational level, need significant local input.” (Cowling, 2003, p.65)

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<sup>72</sup> Holding constant a range of demographic characteristics, including labour market status on entry and length of unemployment, as well as local labour market conditions and year of programme.

As noted in Section 4.2.1 of this report, Cowling also remarks on the **limited (though still important) role which self-employment programmes can play**, with “*between 5 per cent and 15 per cent of the unemployed stock entering programmes*” (p.63).

While this is a valuable study for its size and for the fact that it takes into account various training elements in different localities, it should be noted that the evaluation does not attempt to take into account issues of selection (eg, individuals who were more motivated to be self-employed and who were therefore more likely to succeed even in the absence of the intervention were also more likely to complete the programme; or those who chose to do an NVQ knew that they needed to compensate for lack of knowledge). Nor does it attempt to measure deadweight, substitution or displacement effects.

#### **4.4 Skills interventions for (disadvantaged) target groups to increase business start-up and success**

We have noted above (section 4.1.2) the tension faced by self-employment programmes for unemployed and disadvantaged groups in the labour market, namely the trade-off which tends to arise when deadweight is reduced by targeting on under-represented groups (who would not typically enter self-employment), a key effect of which is to reduce survival rates in self-employment. Clearly a key possible resolution of this tension lies in enhanced and effective support, including training and skills-related support, to members of such target groups who participate in self-employment schemes. There is a large literature, both on the specific disadvantages faced by people from different groups (e.g. women, minority ethnic groups, disabled people), and on specific support programmes for such groups. We do not attempt to present this literature comprehensively, rather we first look at some of the generic messages arising from this literature relating to the types of support that such groups might require; and second we look at whether needs or barriers relating to individual groups suggest that specific support measures are required for those groups.

##### **4.4.1 Do disadvantaged groups generally need different skills approaches?**

Key generic findings emerging from the literature on supporting disadvantaged and unemployed groups into self-employment, include the following.

## Attention to participants' skill levels

The need for provision which is tailored to participants' skills levels has been emphasised repeatedly (eg, see Heinonen and Akola 2007a, b). If disadvantaged groups have lower existing skills levels (whether due to long unemployment histories, lower social capital, lack of qualifications or other factors) then this suggests that a targeted approach should be taken. Maurey (2006) also suggests that individuals' backgrounds can be taken into account: specifically, she recommends that the informal economy can be seen as an 'incubator' for start-up in the formal economy. However, little detail has been reported on the processes or impacts of this method.

Practitioners among our **expert interviewees** pointed out that tailoring for disadvantaged groups may be required on a number of different levels.

- An individual's circumstances can be very important, and need to be taken account of when designing training and support sessions. For instance, programmes aimed at lone parents must be linked to a creche or finance for childcare. A location which is accessible to a large number of people (for many people, this will be in a town centre) is also crucial.
- Personal development – such as building confidence and basic soft skills like time-keeping – can be very important, and was cited by interviewees who work with groups currently under-represented in self-employment. However, one of our expert interviewees highlighted that it can be helpful to offer this as a 'hidden' component, since some participants (including those who do need this development) can find this patronising and off-putting.
- Having delivery staff who represent the client group can also be important, ensuring that the trainers represent the experiences of the learners. Active recruitment of individuals with a variety of backgrounds and characteristics can help to ensure this.
- Taking into account learners' level of existing knowledge and skills is crucial. This starts at the engagement stage; those who are entirely new to running their own business may be alienated by words like 'self-employment' and 'entrepreneurship'. Other factors like the length of individual training sessions can also be important; very long sessions can result in disengagement. Trainers may also be able to draw out individuals' existing interests, and encourage learners to explore how these can be developed into business ideas.
- Realistic expectations<sup>73</sup> are also important. For instance, one expert interviewee with experience in this area, argued that it is important that guidance for people thinking of starting a business covers not only skills for enterprise, but also information about enterprise. He pointed out that people need to understand the realities of running a

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<sup>73</sup> See also the findings on new entrepreneurs' unrealistic expectations in Allinson et al. (2005)

business: their likelihood of success, and which strategies are likely to succeed. This knowledge would help unsuitable individuals to self-select out of enterprise.

## **Personal support**

This review is chiefly concerned with skills development. However, a theme which emerges repeatedly in the academic and grey literature is the need for extra personal support in a wider holistic sense among disadvantaged groups; an implication of this is that specific skills interventions are unlikely to have an impact unless embedded in a programme including the extra personal support. Rouse and Kitching (2006) use qualitative longitudinal data to explore the experiences of participants in a London youth enterprise programme which chiefly provided capital to disadvantaged entrepreneurs. Participants were vulnerable to a vicious circle of childcare problems, with unreliable business revenues meaning that they had little choice about care provision, and unreliable childcare arrangements contributing to a lack of time to devote to the business. Other evidence suggests that confidence can be an barrier for certain groups: for instance Kirkwood (2009) argues on the basis of qualitative interviews with male and female entrepreneurs that lack of confidence can hinder women's movements into enterprise and even into enterprise support. This complements observations made as part of the Phoenix Development Fund evaluation, with reference to multiple disadvantaged groups, that 'soft' support such as confidence-building and community support can be particularly valuable (Ramsden, 2005)

There has been little evaluation of the extent to which such softer support is linked to increased rates of start-up and business performance. Increased confidence was identified as an important positive outcome of evaluation of Enterprise Gateways in the South East, for example. However, it is not clear how much this was linked to feelings that the support had improved the business' competitive position (as were reported by 41 per cent of those taking part in the evaluation) (Regeneris, 2008).

## **Filtering/ selection**

A number of reviews have highlighted the relevance to programme success, of participants' desire to participate in the programme. For example, Vickers et al. (2006) found, from interviews with participants in less successful programmes supported by the Enterprise Promotion Fund, that it can be challenging to influence the attitudes and behaviour of those who do not in themselves aspire to self-employment, and who have had negative experiences of self-employment either personally or through acquaintances. The danger of

'over-selling' enterprise as a solution is also highlighted by Benz (2009) who discusses whether individuals' optimism may be ill-founded<sup>74</sup>. The evidence suggests that there is a difficult balance to be struck here. It is important that such programmes do not simply end up supporting that minority of the target group who would enter self-employment in any case. However, it is also important that schemes have processes to screen out people whose attitudes and starting points are such that their chances of success through the programme (even with considerable support) are small.

### **Multi-agency approaches**

Case studies drawing on the evaluation of the Phoenix Development Fund suggest that a mixture of specialist and mainstream business support approaches can be effective in supporting disadvantaged groups. The evaluation's qualitative evidence suggested that specialist providers were strong at awareness-raising, providing crucial engagement with individuals to whom mainstream advisors (Business Link in this example) were not visible or trusted (in addition to the evaluation – Maurey, 2006 – see Baldock and Smallbone, 2003). Meanwhile Business Link advisers provided the expertise in supporting individuals (Maurey, 2006). However, this recommendation may be fairly theoretical, following the Business Support Simplification Programme, which aimed to reduce the number of support schemes from over 3,000 to less than 100 (see BERR, 2008) in addition to recent announcements regarding the restructuring of the Business Link service (see BIS, 2011, which anticipates that the regional Business Link service will close by November 2011, although other services, including [www.businesslink.gov.uk](http://www.businesslink.gov.uk); an online start-up hub; Business Coaching for Growth; a Mentoring Gateway; and the National Call Centre will replace this).

An **expert interviewee** drew out some of the challenges which may be faced by disadvantaged entrepreneurs.

New technology and ever-increasing ease of use of internet marketing and other services have opened up opportunities for those with access to such resources (for example, the recently redundant). However, individuals from disadvantaged communities can lack the human and social capital which complement and enhance use of such technologies.

There are, however, ways to widen individuals' networks. Taking online networks as an example, Enterprise UK has been involved in 'Virgin Media Pioneers'<sup>75</sup>, providing broadband access to disadvantaged groups. Thus, interventions may involve not only

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<sup>74</sup> However, Benz (2009) concludes that self-employed individuals' non-pecuniary motivations are more likely to be responsible for their career decision than over-optimism.

<sup>75</sup> See: <http://www.virginmediapioneers.com/>

traditional training approaches, but also providing access to relevant networks and technologies, which will enable them to broaden their activities and learn through these.

#### 4.4.2 Do specific groups face different challenges in self-employment?

There is a considerable quantity of literature focusing on various different groups' access to enterprise. Recently, considerable attention has been given to women's enterprise (see, for example HM Treasury, 2008; WETF, 2009a; WETF, 2009b) and there has been some emphasis on provision targeted at women, such as the Women's Business Mentoring Network and the Women's Enterprise Ambassador Network (HM Treasury, 2008). The needs of different groups remain an issue of concern to the current government, too: BIS' (2011) *Bigger, Better Business* white paper contains an aspiration to raise entrepreneurial activity among under-represented groups, including women, ex-service personnel and ethnic minorities<sup>76</sup>. However, attention to outcomes for different groups does not necessarily imply that a targeted approach is needed. So, we consider here whether or not differentiated interventions are required for various types of disadvantage. If there are common concerns across these groups, for example, then one could expect that less value will be gained from targeting them separately: indeed, such an approach may risk undesirable outcomes such as stereotyping or inefficient provision.

Certain issues are likely to be unique to, or more intense among, particular groups, supporting the case for specifically-tailored provision.

We have not identified any research which compares the needs of different disadvantaged or atypical groups to identify whether there are in fact differences between them. In general, such research either looks at the single disadvantaged group in isolation (e.g. practitioner research into women's entrepreneurship by Tynan et al., 2009) or compares the disadvantaged/ atypical group to a majority or traditional group (e.g. women versus men, such as Kirkwood, 2009; WETF 2009a, or ethnic minority versus white entrepreneurs, such as Thompson et al., 2010). Nonetheless, we draw on the literature here to try to identify some common themes, and distinctions.

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<sup>76</sup> Note that not all ethnic minority groups are under-represented in self-employment (although some are). Similarly, we later consider self-employment by disabled people, who are not under-represented, but who may face disadvantage/ barriers to entrepreneurship. See our analysis from the LFS of the personal characteristics of the self-employed in section 2.1 of the Annex.

Some groups may face **challenges and skills needs which are truly distinctive and which simply do not arise for others**: the needs of these individuals will be qualitatively different (not only in terms of quantity or intensity). For example, it has been pointed out that ex-offenders will need particular attention to the skills and knowledge required to access credit and banking facilities, since their records will make it more difficult for them to obtain finances (Kellard et al., 2002). There have also been initiatives to move those with learning disabilities into self-employment, such as the *In Business* project described in Bates (2009). This project report demonstrates that there were very distinctive support needs among the client group. For example, advice and training was supplied not only for entrepreneurs themselves but also for their support staff and families. It seems fairly clear that there is at least some requirement for a differential approach for such clients with very specific needs.

**Practitioner example:** The Prince's Trust's work with offenders and ex-offenders

The Prince's Trust runs a programme in Parc Prison, Bridgend. The approach – not only to skills but also to the logistics and personal circumstances of course participants – needs to be adapted to the group's and individual's needs. When referring to skills in this context, it is very important to talk about enterprise skills in a way that is relevant to the young people and their experience: for example, a young person who is serving a sentence for supplying drugs is likely to understand the concept of targeted marketing, and of supply and demand.

The practicalities and operational logistics of delivering the training in a prison are difficult. Prison life is frenetic and chaotic. One four-day course may need to change rooms and contain different participants, so trainers need to be flexible. Equally, young people may need to come and go as a result of other duties that they need to carry out (being moved to a different ward in the prison etc.).

Materials are also tailored to the prison environment. Thus, for example, the prison environment does not allow for young people to practice market research, as it is not possible to conduct desk research via the internet. During the training, therefore, the group discuss the concept of a target market and plan market research which can then be carried out post-release.

The Trust, when delivering courses in prisons, recruits, via the resettlement unit, offenders who are three to six months prior to release in order to build a relationship with the young people beforehand and put in plans in place for their release. Following the course, mentors will access the prison to provide mentoring and/or business planning support and will pick up with the young person post-release. In addition to the resettlement unit the Trust also works with probation services to coordinate support post-release.

When ex-offenders are released, keeping track of individuals can be very challenging. Working closely with the resettlement unit is vital.

However, it appears to be fairly rare that a group will uniformly need such a specific intervention. By and large, differences between groups may be about **difference of degree**

**and/ or increased prevalence of a barrier**, and there is often significant heterogeneity within such groups (e.g. Ram and Smallbone, 2001, on diversity within ethnic groups).

There has been some discussion, for example, of a lack of confidence and of risk aversion among women which, it is argued, may contribute to lower start-up and growth rates, compared to men (see, for instance, Kirkwood, 2009). Women's businesses have also been found to be under-capitalised at start-up stage compared to men's, despite women's average, or even better-than-average, ability to win finance when they apply for it (WETF, 2009a). It has also been argued that workers who are not at the very beginning of their careers<sup>77</sup> may find it particularly difficult to acquire the 'mindset' of self-employment; for instance, needing to unlearn habits and behaviours acquired in employment which are not compatible with entrepreneurship (Rae, 2005).

One question which it is important to consider, however, is whether distinctive support needs such as those described above arise from differences which can really be ascribed to group membership, or whether these are due to business characteristics. For instance, data from the UK Survey of SME Finances has suggested that women's businesses tend to be smaller than men's – but this appears to be largely because of the businesses' characteristics – in terms of sector and age, for example (WETF, 2009a). It seems that it is not necessarily gender per se that is the immediate driver of differences between male and female-owned businesses. Nonetheless, there may be gender-related reasons why women choose to enter particular sectors, which may require attention. In a similar vein, research (such as that reviewed in Ram and Smallbone, 2001) has also suggested that size and sector of firms are important in explaining differences between ethnic minority-owned and white-owned firms. Meanwhile Oc and Tiesdell (1999) highlight the regional dimension to ethnicity, with many ethnic minority businesses being set up in disadvantaged locations.

One of our **expert interviewees** warned against an emphasis on small firm policies which attempt to address gender disparities. Research by the interviewee and by their colleagues has suggested that, once sector (in particular) and other factors are taken into account, the differences between men's and women's businesses diminish. Although women do face disadvantages, it is long-term factors – such as expectations on women as carers and norms of enterprise as a male activity – which are important. These issues are clearly important to tackle. However, they felt that small firm policy alone is unlikely to address these issues successfully, and she was concerned that an excessive focus on women's enterprise may simply perpetuate gender stereotypes, rather than provide genuine solutions.

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<sup>77</sup> Rae focuses on 'mid-career' entrepreneurs, between the ages of 35 and 55, in this article

Besides the equity considerations which are a crucial argument underpinning tailored support, another rationale for tailored provision might be that **particular groups offer unique perspectives or economic advantages** which need to be developed separately. For instance, some attention has been given to whether new migrants and those from UK-born ethnic minorities who have links to other countries might be able to offer a route into new markets, potentially representing an opportunity for high-growth entrepreneurship (Mascarenhas-Keyes, 2008, discussion in Smallbone et al., 2010). There is some evidence that this is the case: Mascarenhas-Keyes (2008) carried out a fairly extensive, mostly qualitative, research study on international entrepreneurship by British Indian and British Chinese graduates, students and academics. She finds that “British Indian and British Chinese graduates leverage their rich cultural and social capital endowment to better penetrate, than White British, the markets of the high growth economies of India and China” (p.10), although she also notes that further research would be required to establish whether her interviewees were representative of broader patterns, or whether she encountered exceptional individuals.

However, the reverse pattern may also occur: ethnic minority self-employed individuals and business owners may become ‘trapped’ in a small market composed of those close to them, often of their own ethnicity. Thus, Bagwell (2008) finds that strong family bonds could be important for the British-Vietnamese immigrants whose nail-shop businesses she studies, with such relationships allowing for transfer of knowledge and business ideas from family members living overseas, and also for the delegation of tasks and the opening of new UK branches by trusted managers. However, some Vietnamese business owners (especially those in the older generations, with less wide and less diverse networks) struggled to ‘break out’ of their community markets in the UK. Bagwell therefore suggests that local ‘bridging’ by trusted individuals is required to enable entrepreneurs to form a wider variety of weak ties and increase the viability of their businesses. This also ties in with research by Oc and Tiesdell (1999).

A recent review by Smallbone et al. (2010) confirms this mixed and not entirely conclusive picture: the authors conclude that (judging both from theoretical literature and case study research) there is potential for ethnic minority entrepreneurship to enhance competitiveness through creativity and innovation; diaspora-based networks and linguistic diversity. However, they also stress that more systematic research is needed to identify how widespread such benefits are.

## **Evidence from programmes on targeting**

Having considered some of the general arguments in the literature relating to targeting of particular client groups, we now look briefly at some of the evidence from programmes on the effectiveness of targeting.

One potential driver for entering self-employment is discrimination in the labour market (see, the literature review in Thompson et al., 2010). An advantage of targeted programmes is that they may allow individuals to be confident that they are in a trusting environment. For example, an evaluation of a women-only enterprise programme (Enterprising Women, 2007) reports that women-specific support is valued by the project's clients because (among other reasons) women feel more comfortable and supported with other women, and do not fear being patronised or excluded. Thompson et al. (2010) also report (citing Baldock and Smallbone, 2003) that ethnic minority entrepreneurs often believe that enterprise support agencies do not understand their needs. Although this is not necessarily about discrimination, this illustrates the importance of being able to access a trusted and tailored service. However, it is notable that Thompson and colleagues do not advocate separate provision, but recommend that mainstream services adopt approaches which take into account the needs and interests of ethnic minority entrepreneurs. Such an approach may include co-ethnic business support advisers and the involvement of community organisations (Thompson et al., 2010). The conclusion that specialist organisations should be involved is supported by findings from Oc and Tiesdell's (1999) study on the City Challenge initiative, which found that using targeted approaches may encourage the creation of trusted, sensitive and credible services, and increase the profile of the service among ethnic minority service users.

As Thompson and colleagues suggest, an entirely segregated approach is unlikely to be beneficial for any group, and this is reflected in the fact that even closely targeted programmes tend to include significant links with mainstream providers. For instance, links with mainstream support were found to be 'crucial' for the *In Business* programme. Participants with learning disabilities were able to maintain access to specialist employment advice and welfare benefit 'better off' calculations due to ongoing links with Jobcentre Plus, allowing the clients and their families/ support workers to go through various different income scenarios and their impacts on benefits (Bates, 2009). Ramsden (2005) also found, in his initial evaluation of the Phoenix Development Fund, that, while specialist providers were more successful in reaching disadvantaged groups, mainstream Business Link services did

successfully increase the proportion of disadvantaged users over the course of the evaluation. Ties with or provision through mainstream support are also supported by the findings of Oc and Tiesdell (1999), who observed from their qualitative study of the City Challenge initiative in the 1990s that targeted approaches led, in some Challenge areas, to accusations of racism and favouritism (although the authors do not, ultimately, reject targeted approaches). Ram and Smallbone (2001), in their review of ethnic minority business support, also conclude that mainstream services must reconfigure themselves to be inclusive, rather than rely on specialist providers.

Where support is integrated, there may be a need for targets to be tailored to reflect this. Maurey (2006) notes in her report on lessons learned from the Phoenix Development Fund that Business Link has not traditionally targeted disadvantaged groups partly due to incentives which did not emphasise this group, and that this has affected their level of engagement with this client segment. Similarly, Bates (2009) highlights that, despite generally positive findings, self-employment is not a panacea for those with learning disabilities and that expectations of this route for those with learning disabilities need to be realistic, suggesting that programmes (and their targets) would need to be sufficiently flexible to cope with slow progression, or failure to transition to start-up.

#### **4.5 Programmes for existing self-employed people**

In this section we look at provision for existing self-employment people to extend and enhance their skills base. As will become clear, the evidence on this question is patchy, and in much of it the boundary between skills-focused support and more general advice, guidance and counselling is a blurred one. Our account, therefore, covers both to some extent.

The lack of existing research into sole trader businesses was highlighted by the literature review in SFEDI (2006b). This work did go on to provide some basic analysis of Labour Force Survey and Small Business Service survey data, looking at “*sole proprietorships and partnerships comprising only the self-employed owner manager(s) and companies comprising only an employee director*” (SFEDI, 2006b, p.4). However, we have not identified much further research which provides a good insight into the relationship between self-employment, ongoing training and skills and at what is driving these patterns. In this section, we briefly review the evidence we have found on existing programmes: how these may

contribute to occupational and business skills; the extent to which the self-employed access training; and other means of skills development<sup>78</sup>.

One of the structural issues identified by an **expert interviewee**, was that funding for training is not, generally, geared up for self-employed people. They felt that there is a dearth of provision for the existing self-employed who are not claiming benefits, largely because of this funding gap. This issue also affects the Enterprise Apprenticeship which is currently being considered.

#### 4.5.1 Programmes for self-employed to update and enhance their skills

##### Occupational skills

Occupational skills programmes may not be explicitly aimed at the self-employed. This does not necessarily mean that professional training is not available for self-employed individuals. We have attempted to identify some sources of occupational development available to self-employed individuals. This is not by any means exhaustive: a mapping exercise is beyond the scope of this paper. However, we offer a typology and examples of various types of support which are available. Indeed a key finding from this element of the study is the lack of existing research drawing together, in any systematic way, the training available to self-employed individuals. Further it should be stressed that we have discovered no robust evaluations of this kind of provision, and it is not possible to begin to assess, therefore, the relative effectiveness and impact of the different offerings listed here.

A range of potentially relevant provision is available, from sources which include:

- **Industry and trade associations**

Examples cited by our **expert interviewees** included:

1. the Federation of Master Builders<sup>79</sup>;
2. the National Specialist Contractors Council<sup>80</sup>;

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<sup>78</sup> It should be noted that, while we try to limit ourselves to the self-employed where possible, due to the limited evidence in this area, we also draw on research into micro and small businesses. We have noted where we cite research into a broader group (such as small enterprises), since application of these wider patterns to the self-employed should be done with caution. The SFEDI (2006b) research suggested that there do appear to be differences between zero-employee businesses and micro-businesses in this respect.

<sup>79</sup> [www.fmb.org.uk/information-and-help/](http://www.fmb.org.uk/information-and-help/)

<sup>80</sup> [www.nsccl.org.uk/guidance/training.html](http://www.nsccl.org.uk/guidance/training.html)

3. the National Federation of Builders<sup>81</sup>;
4. the Worshipful Company of Farriers/ the Farriers' Registration Council (which have collaborated with *Forge* magazine to support farriers' continuing professional development)<sup>82</sup>.

- **Private providers**

Examples of these would include trainers in particular software packages, as could be found (alongside publicly-funded provision) through organisations such as the Institute of IT Training<sup>83</sup>.

- **Publicly funded provision**

Publicly-funded provision to bolster occupational skills seems, from an unsystematic examination, often to be regional in nature (perhaps reflecting the regional nature of the European funding streams which support some of these).

A number of projects promoted by the sector skills councils are available on a regional basis. For example, 'Farming Connect' is a programme offering Welsh farmers and foresters 80 per cent funding towards skills development in a number of agricultural topics.<sup>84</sup>

The sector skills councils and other trade bodies also provide information online. For instance, the Creative Choices website<sup>85</sup> draws together a variety of sector-specific information (through 'short guides' and 'how to's'), as well as business advice and information, such as free business development courses from the Open University<sup>86</sup>.

## **Business skills**

Business skills programmes are more likely to be targeted at the self-employed. Again, we provide brief examples of types of business skills activities and qualifications, rather than attempting any kind of exhaustive overview of provision.

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<sup>81</sup> [www.builders.org.uk/nfb09/training.eb](http://www.builders.org.uk/nfb09/training.eb)

<sup>82</sup> [www.farrierycpd.org/](http://www.farrierycpd.org/)

<sup>83</sup> [www.thetrainingprofessional.com](http://www.thetrainingprofessional.com)

<sup>84</sup> [www.lantra.co.uk/Projects.aspx](http://www.lantra.co.uk/Projects.aspx)

<sup>85</sup> [www.creative-choices.co.uk](http://www.creative-choices.co.uk)

<sup>86</sup> [www.creative-choices.co.uk/100-free-open-university-courses/](http://www.creative-choices.co.uk/100-free-open-university-courses/)

- **Major government-funded business support initiatives** include Business Link (in England), Business Gateways (in Scotland), Invest Northern Ireland and Welsh Assembly Government Support for Welsh businesses. In England, the *Solutions for Business* package, currently under Business Link, aims to provide support for a variety of business needs.
- There has been some attempt to bring together information about the business training available to very small businesses, including the self-employed. The **Enterprise Essentials** website<sup>87</sup>, for example, offers diagnostics and course availability for those at a variety of business stages (considering start-up; at start-up; and existing entrepreneurs).
- **Specialised national agencies and interest groups:** specialised membership organisations such as the Federation of Small Businesses and the Forum for Private Business provide some direct information and signposting for small businesses, including the self-employed.
- **Formal qualifications:** A search of the *Learning Aim Database* (which contains information about all recognised learning aims offered by providers who return Individualised Learner Record (ILR) data to the Data Service<sup>88</sup>) suggests that there are a small number of qualifications available to adults who wish to develop their business. However, formal qualifications for the existing self-employed individual appear not to be numerous; this is confirmed by SFEDI (2008, Table 38, pp.69-70) which provides a list of qualifications which were current at the time. These include three aimed at established businesses, 17 aimed at the start-up stage and 18 aimed at those either preparing to start up or going through start up currently. Examples of relevant qualifications include:
  - a level 4 NVQ in ‘Developing an Established Business Enterprise’, awarded by OCR and based around SFEDI’s standards (assessment is competence-based); and
  - an ‘Award in Self Employment and Enterprise’, aimed to be at NVQ Level 3, developed by the National Open College Network (which may also be taken by those who have not yet started up).
- **Other publicly supported regional/ local provision:** There are also regional initiatives linked to the development of high-growth organisations in general, rather than the typical

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<sup>87</sup> [www.enterpriseessentials.co.uk](http://www.enterpriseessentials.co.uk)

<sup>88</sup> [www.thedataservice.org.uk/](http://www.thedataservice.org.uk/)

self-employed individual in particular, although some may have relevance to self-employed owner-proprietors aiming for growth. For instance, Scottish Enterprise<sup>89</sup> offers a range of provision and assistance for those in the high-growth sector, in marketing, operations and leadership. Similarly, the Greater Cambridge Partnership (the sub-regional economic partnership for the area) runs an 'Inspiration for Growth' programme<sup>90</sup> with the St John's Innovation Centre incubator, focused on high tech and high growth businesses.

- **Private sector provision:** Private providers may offer some services to the existing self-employed. For example, Enterprise Nation<sup>91</sup> is a high-profile business support organisation, offering networking and paid-for resources (such as books and CDs). Other services may be provided by the more classic 'professions'. Business support from the banking sector has recently risen in prominence, with the announcement of mentoring support from the Business Finance Taskforce<sup>92</sup> (Business Finance Taskforce, 2010). The Taskforce expects to provide a free network of business mentors, as part of a stated wish to contribute to sustainable growth and to rebuild public trust in financial institutions. This is expected to go live in the second quarter of 2011, and will involve input from SFEDI and the FSB. The phases involved in this are expected to be (p.54):
  - recruitment of advisors;
  - obtaining agreement and collaboration with all existing mentor networks;
  - creation of an industry standard (expected to take place with the involvement of SFEDI);
  - creation of a portal to allow on-line access to the mentoring network.

Our **expert interviewees** also mentioned programmes operating with support from, or in partnership with, banks of various types. The National Federation of Enterprise Agencies, for example, runs information and advice sessions with Barclays Bank<sup>93</sup>, with one introductory session aimed at those who are considering starting a business, and a second which is aimed at those who are more seriously thinking of start-up. Barclays also runs other seminars, in online marketing, employing staff and financial management (avoiding bad debt by customers).

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<sup>89</sup> [www.scottish-enterprise.com/grow-your-business.aspx](http://www.scottish-enterprise.com/grow-your-business.aspx)

<sup>90</sup> <http://www.gcp.uk.net/train-adv.php>

<sup>91</sup> <http://enterprisenation.com/>

<sup>92</sup> The Taskforce report drew on input from government authorities, a variety of business trade associations, financial trade associations and a variety of banks. The Taskforce itself is composed of Barclays, HSBC, Lloyds, RBS, Santander and Standard Chartered, and is headed by Barclays Group Chief Executive John Varley.

<sup>93</sup> <http://www.barclays.co.uk/Businessservices/Freeseminarsandworkshops/P1242558555554>

One of our interviewees highlighted a new Goldman Sachs-sponsored programme, targeted at businesses which are aiming for growth. This involves structured learning about opportunity recognition, understanding financial information, leadership, management, sales and marketing and other operational aspects. More active peer-learning is also viewed as an important element of the programme. Another interviewee reported that Goldman Sachs has some background of sponsoring such courses, with initiatives such as the 10,000 Women programme<sup>94</sup> (which operates in 20 developed and developing countries, including the UK), and the 10,000 Small Businesses programme<sup>95</sup> (which operates in the United States).

#### 4.5.2 Use of skills support provision by the existing self-employed

As highlighted in our analysis from the LFS (section 3.3), it is clear that the self-employed are much less likely than employees to receive work-related training and/or to be studying for a qualification. The literature provides little insight into whether there are any distinctive reasons why the self-employed receive less work-related training, although there have been investigations into barriers for training for small firms in general. Nor does the literature we have found provide any resolution to the question of whether this lack of training is in some way compensated by informal learning on the job. What is more, much of the literature highlights whether and where the self-employed seek information and advice<sup>96</sup>, rather than skills training and development (although there is no clear boundary between the latter on the one hand, and advice which constitutes informal learning on the other).

- SFEDI (2006b) found that zero employee businesses are more likely to seek informal advice, such as from friends or family, during the start-up process, compared with micro businesses, who tend to use formal sources such as accountants, banks or lawyers. A substantial minority (27 per cent) of zero-employee businesses do not seek advice from anywhere when starting up their business. A similar proportion of micro-businesses seek no advice (SFEDI, 2006, pp.11-12).

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<sup>94</sup> <http://www2.goldmansachs.com/citizenship/10000women/index.html>

<sup>95</sup> <http://www2.goldmansachs.com/citizenship/10000-small-businesses/index.html>

<sup>96</sup> Gibb (2000) criticises the description of services from bankers, accountants, chambers of commerce and consultants as 'assistance'. This may lead to *"the wider notion that the existing direct transactional service and other networks of the firm are the major vehicle for SME learning and therefore a key mechanism for support – moving away from a public supply dominated offer"*. He comments further that bankers' and accountants' advice is not known to be useful in a holistic sense. For example, bankers should be able to talk about loans (and will be acting in their own interests in attempting to ensure that the loan gets repaid, and repaid on time). However, can a banker really provide useful broader support?

- Lomax et al. (2007a) found that 51 per cent of entrepreneurs (composed of business owners or part-owners and the self-employed) had not used any business support or advice over the previous year. Thirty five per cent had sought advice from HMRC/ Inland Revenue; 12 per cent had consulted Business Link; and slightly smaller numbers had consulted the DTI, a Chamber of Commerce, BERR, a Regional Development Agency or a Local Enterprise Agency (p.58). It is worth noting that accessing these types of service will not necessarily involve an improvement in transferable competencies; for example, advice sought from HMRC/ Inland Revenue may be quite specific.
- Owners' ambitions for their businesses may well affect whether or not they seek to update their skills. SFEDI's (2008) telephone survey of 'business enterprise' (enterprises with less than 20 employees) showed that an important component driving demand for learning and development is the intention of the business owner. Businesses aiming for growth are more likely to have owner-managers willing to invest time and money in skills development. The report also raises the question of 'necessity' and 'opportunity' entrepreneurship and suggests that this may be important for skills needs, although this is not explored in depth (see SFEDI, 2008, p.34, which cites Harding, 2006, who found that over four fifths of UK entrepreneurs come under the opportunity category).
- Some idea of how the UK stands in relation to other countries is given by Harding (2011). This survey is fairly small-scale for a multi-country study, with 2,100 respondents spread over five nations. The study also examines growth entrepreneurs (founders of businesses with turnovers above £250,000 or equivalent after two years, which are two to 10 years old) rather than the self-employed at large. However, it finds that growth entrepreneurs in the UK are more likely than in France, Germany, Spain or South Africa to seek advice from government advisers. However, such individuals are also more likely not to ask anyone for advice (Harding, 2011, p.9).
- Barriers to learning for small firms have been reported to include cost, lack of awareness of provision, a lack of perceived need (due to a wish to keep the company small), a perception that courses are not appropriate, unwillingness to spend time away from the workplace, and a perception of incompetence of trainers (see review in Fuller-Love, 2006).

One of our **expert interviewees** emphasised this point that skills development in self-employment frequently occurs through informal methods. Courses and books are available, but in reality people tend to pick up what they can from friends or advice from bank managers and government representatives. What is more, many individuals are

serial entrepreneurs, and may learn through experience [this is consistent also with some of the evidence from the research literature, e.g. Stokes and Blackburn (2002)].

Another interviewee stressed the fact that self-employed individuals may rely on professionals such as accountants. Partners and family members also provide an important support structure.

SFEDI's (2008) survey of business enterprise also explored which methods owner-managers were happy to use to identify skills gaps. Owner-managers expressed a preference for informal methods, going through familiar and trusted channels. It is interesting to note that the large majority of owner-managers were not attracted by diagnostic tools, since this appears (and some of our expert interviewees highlighted this model) to be a favoured approach among providers.

“Just over half [of owner managers of business with less than 20 employees] (54.8 per cent) were definitely happy to discuss matters with financial or legal service professionals. Almost half (46.9 per cent) would talk informally to other business people. Many public funded business support interventions require the completion of a detailed diagnostic tool. This may itself be a problem since only one in six people were happy to use such an approach to identify areas for development.” (SFEDI, 2008, p.50)

This confirms the suggestion in SFEDI (2006b) that zero employee businesses tend not to be interested in accreditation and qualifications, since their focus will be on their business performance. Qualifications may be seen as for those whose businesses are not expected to work, and who will need ‘a piece of paper’ to look for work afterwards. This is the same theoretical argument, mentioned earlier in this review and referred to by van der Sluis et al., (2008), among other economists, that self-employed individuals are much less likely to need specific qualifications because they do not usually need to signal their abilities in this way.

For these reasons, informal access to skill development is a crucial area to look at in more detail. Gibb (2000) also discusses the possibility that the start-up process itself might be ‘one of the best ways’ of discovering the skills required for enterprise. He also emphasises the value of learning informally on the job, suggesting that the supply side may need to develop better systems to support informal methods of learning.

Stokes and Blackburn (2002) surveyed small businesses<sup>97</sup> undergoing closure to find out about the destinations of the owners, finding that 70 per cent of respondents had been

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<sup>97</sup> 47 per cent of the sample employed 0 to 4 people. There is no other information in the article about the size profile of the firms which responded.

encouraged by their experience to continue as a business owner. Just 15 per cent were discouraged (p.22). Seventy per cent felt they had improved their skills in personal development; 65 per cent in operations; 62 per cent in marketing; 57 per cent in managing people; and 55 per cent in finance (p.23). Experiences that owner managers said that they would like to avoid another time were headed by finance and tax issues. Trust and relationship issues were also picked as bad experiences during the life of the business. The authors conclude that the results offer support for the idea of 'serial entrepreneurs' who learn from their experiences and try again. Not all owner-managers had had negative reasons to close their businesses. Advice on start-ups may, also, be targeted at an inappropriate level, as there is an assumption that owner-managers know very little. "More support is required for the entrepreneur who is no longer a novice but who nevertheless is starting or developing a relatively new venture." (p.26)

Researchers commissioned by SFEDI (2006b) consulted a range of advice-giving organisations to extract the main recommendations for providing advice to zero-employee firms. They conclude that provision for zero-employee firms should be:

- just in time, not just in case (it should meet current rather than anticipated needs);
- delivered in bite-size chunks;
- low cost or cost-free;
- tailored;
- modular;
- distance learning (though mixed views on e-learning);
- appreciative of life experience, and should exploit this through networking and peer learning; and
- provide good website support.

The report further specifies that delivery should be from a body or individual: with credibility; with knowledge of and sympathy for a single person organisation; and with practical (not only theoretical/ academic) experience.

With this background, the research (SFEDI 2006b) identified some concerns about existing provision.

- Business development standards tend to equate growth with expansion in employment. There is a gap for people who only want to grow their turnover/ profit, by repositioning themselves in the market, for example.
- Policy may simply not view those with no employees as a priority, since the emphasis may be on 'growth' firms (which tend to have employees already).

### **4.5.3 Assessment of impact**

Assessment of impact of provision of skills support to existing self-employed individuals will involve many of the same challenges as impact assessments of programmes for start-up explored in 4.1 above.

In practice, the literature review uncovered few examples of evaluations of this kind. Those which were uncovered tended first to focus mainly on advice and guidance services rather than training provision per se (although, as noted above, given the importance of informal learning, there is no clear boundary), and second to cover small business provision in general rather than with a specific focus on the needs of the self-employed (although as noted earlier, there is a strong overlap).

A good example is Mole et al. (2009) who examine the impact of Business Link, using data originally collected for an earlier impact evaluation of Business Link local services (BERR 2007). The evaluation refers to the effects of services provided in 2003 (i.e. before the RDAs took over responsibility for Business Link provision). The study looks at the effects on SMEs, not just the self-employed. The evaluation, which is controlled and attempts to allow for sample selection, finds that intensive assistance has a positive and significant effect on employment growth of SME users. Intensive assistance does not, though, appear to have a significant effect on sales. The effect on employment growth may be due to "a restructuring effect in which assistance enables the firm to explore new opportunities, which require new employees but take time to generate sales" (p. 571). If correct, this means that the study is likely to underestimate the longer-term benefits. However, other forms of assistance (signposting) do not appear to have significant effects on growth (Mole et al., 2009).

Looking more widely, however, there has been quite a bit of examination, in the literature, of whether or not management training has an impact on the success of small firms. Fuller-Love (2006) provides a review of these studies, and finds a very mixed picture. While a widely-cited study (Storey, 1994) found no evidence of a positive effect from training, and other authors have reported mixed findings, Fuller-Love concludes that the balance of evidence suggests that training can have a positive effect on survival and growth.

## **5 Enterprise training within the formal education system**

The question of how understanding of 'enterprise' is promoted and relevant skills imparted within the different tiers of the formal education system has spawned a large and wide-ranging literature. The present study has a narrower focus, and does not aim to cover this broad area in any comprehensive way. Nevertheless, what goes on in formal education in this field is relevant to our interests, both because it can influence and overlap with the content of skills provision in programmes for the self-employed, and because it is arguable that the more effective educational provision is in this area, the less need there would be for specific skills provision for new and existing self-employed.

This chapter, therefore, explores in a very broad way, the different approaches taken to enterprise education: giving a brief overview of how enterprise education is defined and of current approaches in school, further education and higher education. The rest of the chapter then takes a thematic approach, reviewing evaluations of impact; teaching methods/pedagogy; and strategic considerations such as curricular approaches, qualifications and certification, and institutional attitudes.

### **5.1 Objectives of enterprise education**

This report has already examined the skills required for self-employment, including some of the softer skills, attitudes and behaviours which have been referenced in the literature (see Chapter 2). This section does not intend to duplicate that discussion. However, enterprise education in the formal education system can be understood to encompass a somewhat broader range of issues, so it is useful to reconsider what the objectives of enterprise education are. These are not necessarily easy to pin down: it has been noted that the objectives of 'enterprise education' as a whole can be incoherent. Hytti and O'Gorman (2004) observe that the boundaries between enterprise education, work-related learning, action learning, experiential learning and entrepreneurial learning have become blurred. McLarty et al. (2010) similarly found that understanding of 'enterprise' varied across the schools they investigated as part of their evaluation of enterprise education funded through the School Development Fund. This is a fairly long-standing problem, as Ofsted (2005) points out (and reports through its own observations); Davies (2002) noted the same issue. A review of

entrepreneurship education in higher education by Pittaway and Cope (2007) suggests that the lack of coherent objectives leads to significant diversity in approaches or 'inputs'.

The Department for Education (or DCSF, as it was at the time) divided enterprise education into three areas:

“Enterprise capability – enterprise skills and a can-do attitude; financial capability – understanding and managing basic finances; economic and business understanding – understanding the business context.” (cited in McLarty et al., 2010, p.12)

Broadly speaking, advocates for enterprise education in the formal education system in the UK seem to have settled on an aspiration to an approach which goes beyond the technical skills (such as business planning) required for self-employment. Instead (or additionally, depending on the programme) there is some consensus that enterprise and entrepreneurship education should emphasise the encouragement of innovative mindsets and independence: skills which, it is argued, will be useful in salaried employment (as an 'intrapreneur': see for example NIRAS Consultants, 2008) as well as in self-employment/business ownership (see Hytti and O'Gorman, 2004; McLarty et al., 2010; Gibb, 2005). This means, according to McLarty et al. (2010), that the UK approach falls between two extremes. At one end of the spectrum, enterprise education can be seen as something which is very much about entrepreneurship and self-employment (indeed, this may be termed 'entrepreneurship education'). This approach is taken in the Norwegian and Austrian school systems, for example. At the other end of this spectrum are countries like Finland, which has a more general employability and life skills approach.

## **5.2 Enterprise education: an overview of the current system**

Enterprise education may take place at a number of points of the formal education system: in primary school, secondary school and in further or higher education. This section offers a brief overview of what is currently known about UK provision at these various levels: the prevalence of enterprise education provision, and major current initiatives. This aims to give an impression of the extent to which there is development, through the whole education system, of the skills needed for self-employment.

### **5.2.1 Primary and secondary school**

£55m per year has been made available for enterprise education; this funding now comes through the School Development Grant. A further £30m was intended to extend provision

from secondary to primary and tertiary education, to improve the cohesion of enterprise education (McLarty et al., 2010). This has been reflected in an expansion in practice. HM Treasury (2008) describes a proliferation in the proportion of schools offering enterprise education over the five years prior to the report's publication, from 10 per cent to 90 per cent of schools (p.33).

As education is devolved, England, Scotland, Wales and Northern Ireland have rather differing approaches (see McLarty et al, 2010).

- Scotland's programme, Determined to Succeed<sup>98</sup>, is one of the few examples of policy driving enterprise education in the primary sector. There is a strong emphasis on employability, with less on entrepreneurship.
- Wales, by contrast, has an entrepreneurship-focused model. The Youth Entrepreneurship Strategy<sup>99</sup> (see WAG, 2010) is a joint education-economic development initiative, targeting five to 25-year-olds.
- Northern Ireland has a subject area in the national curriculum entitled 'Learning for Life and Work', in which 'business education' is embedded. As in Scotland, the focus is on employability rather than entrepreneurship.

Our **expert interviewees** highlighted that there are a variety of regional activities in the formal education system. For example, the Unleashing Enterprise partnership aims to build enterprise culture in the East Midlands area. One of its many activities involves co-ordinating the 'Enterprise Academy'. This operates in twelve schools in the region, and aims to assist with the engagement of schools and businesses, and to improve enterprise education in the area. Yorkshire Forward has also been pursuing the enterprise agenda, with the regional Young People's Enterprise Forum (YPEF) having been active in this area. YPEF has arranged a variety of activities, such as a programme for primary school age children, to which local businesses donate money, from which fund children set up their own enterprises. One interviewee also emphasised the importance of teacher training. For this reason, the organisation has made links with a local Initial Teacher Training provider, providing input about how to teach enterprise, and is encouraging schools which participate in their programmes to incorporate enterprise into teachers' continuing professional development.

Both organisations have also arranged activities for Global Entrepreneurship Week.

These are small-scale examples. However, they illustrate the variety of activities which have been operating in the regions.

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<sup>98</sup> <http://www.scotland.gov.uk/Publications/2002/12/15978/15395>

## 5.2.2 Further education

Provision in further education was until recently seen as an area in which less rapid advances had been made in practice (despite the fact that, as shown in our LFS analysis in section 2.2.4 of the Annex, several of the occupation/sector 'hotspots' for self-employment are occupations with an emphasis on intermediate, technical or craft skills, of which further education is a major provider). Thus, HM Treasury (2008) for example, shows concern that only around 10 per cent of FE students have access to enterprise education (p.33). However, recent initiatives such as the National Enterprise Academy, the pilot 'Qualify with a Business' scheme (BIS, 2010) and the proposals for new Enterprise Apprenticeships demonstrate that there is considerable will to address this perceived gap in the FE system, and some of the key developments are outlined below.

### **National Enterprise Academy**

The National Enterprise Academy, owned by the charitable Peter Jones Foundation, aims to encourage enterprise and entrepreneurship in anyone of any age who wants to move towards self-employment or business start-up, or who wants to become more entrepreneurial, whether in their own business, a family business, or in employment. There is some emphasis on practical and experiential learning. The Academy has some target learners who are likely to be disadvantaged, but it does not have this as an exclusive focus, partly because it does not wish to create excessive overlap with existing organisations such as the Prince's Trust. Of seven potential 'customer groups' identified, two in particular might be considered to be at risk of social exclusion.

1. Lower achievers at Key Stage 4 (in the 16 to 19 age group) who aim to start a business, or who have an interest in entrepreneurship; this group would undertake the newly-developed Edexcel Level 2 or Level 3 BTEC.
2. Those aged 14 to 16 showing an interest in enterprise, potentially disengaged from formal learning; this group would participate in holiday schools and taster classes, which would be developed by the Academy in partnership with Young Enterprise, schools and Education Business Partnerships.

In addition to these groups, the Academy has also identified other potential customer groups. Currently the Academy is focusing on provision for 16 to 19 year olds, as this is the area with the greatest perceived gap in current initiatives. 19+ and adult learners would be likely to learn through short courses and evening classes.

3. Higher achievers aged 16 to 19
4. 19+ learners who run or aspire to run a business (either their own, or as an 'intrapreneur')

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<sup>99</sup> <http://wales.gov.uk/docs/det/publications/101115yesen.pdf>

5. teachers, lecturers and senior managers in schools, FE and HE
6. families, guardians and carers
7. (adult) employees

(NEA, 2010a, p.7)

New qualifications have been developed, and more are under development. In particular, an Enterprise Apprenticeship. BTEC Diplomas in Enterprise and Entrepreneurship are already available at Levels 2 and 3.

One interesting question is whether or not the Enterprise Apprenticeships should be generic, or whether enterprise should be embedded into other apprenticeships. Research carried out by the Academy has so far found that generic apprenticeships attract slightly more interest from young people than from employers. The latter fear, for example, that they will be 'training the competition' if they take on enterprise apprentices who are specialising in their sector. Young people, meanwhile, prefer a generic apprenticeship if they have not yet decided on their career path (NEA, 2010b).

### **Qualify with a Business**

The Qualify with a Business initiative was announced in 2009, and is being piloted in the current 2010/11 academic year. The initiative aims to allow adult learners in FE colleges to develop business skills alongside their vocational training, so that individuals who are likely to move into self-employment are prepared for start-up, an area which was previously under-served. The project has been working with some of the sector skills councils and delivery partners (awarding organisations, colleges, BIS and SFEDI) to develop the scheme (Stott and Lillis, 2010). Our **expert interviewees** were by and large interested by the scheme and commented that it has potential; however, since there has not yet been any evaluation it was difficult for them to comment on its expected impacts.

### **Regional initiatives**

The Enterprising Colleges initiative has aimed to develop enterprise in the curriculum and among the staff of further education colleges in South East England. The initiative is funded by NESTA and SEEDA, and is free for colleges which take part. A series of workshops have been held, bringing together best practice and providing tools for colleges to develop an enterprising approach which is suitable for them. An interim evaluation (Qa Research and Kate Beresford Associates, 2010) has suggested that the initiative has been well-received, and that it has been important to engage senior managers to ensure that action is taken by colleges. However, it is likely to be too early to assess quantitative impacts.

### **Links with businesses and business support in FE**

One question raised by several **expert interviewees** was about who can provide support to individuals in colleges who are interested in enterprise. Despite the existence of new initiatives to promote college-based enterprise education, it was questioned how easily colleges will be able to provide support for starting up and to provide links with existing businesses, especially given the imminent restructuring of Business Link provision at local level.

### 5.2.3 Higher education

A large majority of higher education institutions offer some opportunities to engage in enterprise and/ or entrepreneurship: 80 per cent offer credit-bearing awards and modules in enterprise or entrepreneurship, while 91 per cent offer extra-curricular support for student and graduate entrepreneurship. Recent survey results suggest that there is 16 per cent student engagement in enterprise activities, an increase on the proportions found in similar surveys in 2006 and 2007 (Rae et al., 2010, p.4).

The systematic review in Pittaway and Cope (2007) draws out a number of issues pertinent to entrepreneurship education in higher education (HE). They comment that UK policy has had some emphasis on specialist entrepreneurship which aims to boost technical innovation and knowledge transfer; for example, the Science Enterprise Challenge programme<sup>100</sup>, which aimed to encourage the teaching and practice of commercialisation and entrepreneurialism in science and technology. This programme was subsequently incorporated into the Higher Education Innovation Fund.

However not all initiatives have been focused on technical innovation, and some of the less technically-focused initiatives have a closer relevance to self-employment (as opposed to general innovation or entrepreneurship which could be equally applicable to salaried employment). Some of the examples offered by our expert interviewees with links to higher education are summarised below. It is interesting to note that the older programmes mentioned below (Flying Start and SPEED) have been over-subscribed (according to Mascarenhas-Keyes, 2008), demonstrating significant demand for such programmes.

#### **University-level initiatives encouraging self-employment and entrepreneurship**

**Flying Start** is a national programme established by NCGE and funded through a variety of sources, including NCGE, BIS, the RDAs and universities. This initiative aims to encourage students and graduates to consider setting up a business, and provides support for them to do so and to grow their venture. Support is provided through short skills and networking workshops; student enterprise societies; and three-day FlyingStart programmes. An online resource<sup>101</sup> also provides an information resource, as well as opportunities for networking and mentoring. The evaluation of the programme (EKOS, 2010a) reports that it has cost £888,000 between 2005 and 2010, or £1,100 per gross job

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<sup>100</sup> [www.bis.gov.uk/policies/science/knowledge-transfer/earlier-schemes/science\\_enterprise\\_challenge](http://www.bis.gov.uk/policies/science/knowledge-transfer/earlier-schemes/science_enterprise_challenge)

<sup>101</sup> [www.flyingstartonline.com](http://www.flyingstartonline.com)

created (or £8,700 per additional job<sup>102</sup>). The evaluation also found that students and graduates have, overall, been satisfied with the programme, and showed positive shifts in awareness of enterprise, attitudes towards starting a business and capacity for enterprise as a result of the programme.

The **Make It Happen** initiative is managed by NCGE, and funded by BIS, with Business Link and HSBC being the key delivery partners. The initiative aims to encourage and support entrepreneurship among unemployed or under-employed graduates across the UK, through workshops, online resources and mentoring. The programme is relatively new, having started in October 2009, and the interim evaluation which is currently available (EKOS, 2010b) was published only a few months after its inception. As such, there are only early indications of the programme's impact, which so far suggest increased awareness of and positive attitudes towards enterprise following participation in the programme.

**SPEED** (Student Placements for Entrepreneurs in Education) provides students who have a business idea with the opportunity to go into a full-time or part-time 'self-employed placement' which would enable them to identify possible business or self-employed career options, and develop their skills in this regard, offering mentoring, training and support through start-up. The programme is currently operating in eight universities in the West Midlands<sup>103</sup>, and is funded by the European Regional Development Fund and the Higher Education Innovation Fund. Initial evaluation has suggested that the initiative has been successful in increasing students' perceptions of their own capability to start a business, and their desire to do so.

**Awards** such as the Times Higher Education Entrepreneurial University of the Year<sup>104</sup> – sponsored by NCGE – also aim to encourage entrepreneurial behaviours and teaching in universities.

### 5.3 Evaluations of impact

The 'logic models' set out by the European Commission (2010, p.12) and McLarty et al. (2010, pp.41-42) emphasise the potential links between provision of enterprise education and global impacts such as increased rates of business start-up and survival and greater employment opportunities in SMEs. Both logic models contain similar principles, although the European Commission report focuses more intensively on business skills, whereas McLarty and colleagues are more concerned with generic 'enterprise skills'. The key steps described in McLarty et al. (2010, pp.41-42) are as follows.

- Rationale: Investment in young people to equip young people with skills to lead productive lives as employees, entrepreneurs, members of society

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<sup>102</sup> We rely on the evaluation summary, as the full report is not available online. The summary does not provide methodological details, but claims to take into account (in calculating additionality measures) deadweight, displacement, leakage, substitution and multiplier effects (EKOS, 2010a)

<sup>103</sup> [www.speedwm-wlv.org/](http://www.speedwm-wlv.org/)

<sup>104</sup> [www.ncge.org.uk/publication/entrepreneurial\\_university\\_of\\_the\\_year.pdf](http://www.ncge.org.uk/publication/entrepreneurial_university_of_the_year.pdf)

- Inputs: Time, funding, expertise, facilities, teaching materials
- Activities: Programmes, challenges and events, teacher CPD, curriculum activity
- Outputs: Enterprise activities, connections with local employers and the community
- Outcomes: Student enterprise capabilities and behaviours, improved awareness, improved retention, attendance and engagement
- Impact: Work-ready young adults, more productive businesses, new businesses created, effective schools and cohesive communities

However, assessing the extent to which such logic models apply in practice is very challenging, and few evaluations of longer-term impacts on employment or self-employment outcomes exist. Instead, as noted by Pittaway and Cope (2007) with reference to HE, assessments of programmes frequently focus on the impacts on institutional strategies, infrastructure and relationships. The diversity of programmes with varying aims and objectives represents one of the challenges to assessing impact, while the time lag between education and outcomes is another barrier to successful evaluation (Hytte and O’Gorman, 2004). There are also difficulties in separating the impact of individual programmes from the multitude of interventions at work in the education system (McLarty et al., 2010, citing Her Majesty’s Inspectorate of Education, 2008). Indeed, OECD (2009) draws out the fact that a major element of entrepreneurial education is about changing ‘mindsets’. Not only will any impacts from youth initiatives therefore emerge long after the intervention, but outcomes are also likely to be various (as also implied by McLarty and colleagues’ logic chain, above). In other words, it should not be expected that outcomes will be exclusively linked to traditional entrepreneurship. Other positive outcomes may include (p.15) greater confidence to work independently, or to work in an organisational environment; enhanced employability; alongside increased levels of business start-up.

This broad remit of entrepreneurship education begs the question of in which areas (if any) enterprise education tends to have effects. We consider below the limited evaluation evidence, against what seem to be the key impact areas identified.

### 5.3.1 Increases in knowledge and skills

The evidence on acquisition of knowledge and skills is somewhat mixed, and does not appear to be very comprehensive.

McLarty et al. (2010) look at the literature on enterprise and employability skills (with a particular focus on schools) and note that studies suggest that 'harder' skills such as financial management and negotiation are less well-addressed than 'softer' skills like team working, communication, presentation, decision-making (p.29<sup>105</sup>). The same authors also consider the evidence on attainment and functional skills, and find no UK evidence on the impact of enterprise education on educational attainment. However, they cite an evaluation of the US Network for Teaching Entrepreneurship, which suggested that the programme has a positive impact on intention and expectation of attending college and involvement in non-school reading, although no changes in Maths and English grades (McLarty et al., 2010, p.30).

Westhead and Matlay (2006) evaluate the Shell Technology Enterprise Programme (STEP). This was an eight-week summer placement for second-year undergraduates, who were placed in SMEs following classroom-based learning. Students' placements were subsidised by the programme, and they were encouraged to learn in a practical way, applying classroom-based learning to real-world problems. The intention was that students would acquire enterprise skills (including soft skills) which could later be used to: obtain employment in SMEs; and/ or to foster positive attitudes towards self-employment and business ownership and consider this as a career option.

The evaluation took a longitudinal approach, relying on postal questionnaires sent to participating students and a control group (which latter was selected to have a similar profile to the participants; however, it was not a formally matched control group). The authors acknowledge that their approach does not take into account selection bias (i.e. whether those who entered the programme inherently differed from the control group even before the programme). However, the authors report that STEP students were more likely than those in the control group to report that computer literacy, project management skills, business sense or practical business skills had enabled them to win full-time positions.

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<sup>105</sup> McLarty et al. (2010) do not provide bibliographic references in their text at this point.

However, less positive evidence comes from a Netherlands study examining a mini-company programme for vocational college students. The controlled difference-in-difference evaluation found that the overall effect of the programme on entrepreneurial skills was insignificant (Oosterbeek et al. 2008, cited in OECD, 2009).

### **5.3.2 Attitudes to enterprise and desire to start up in business**

Jones-Evans et al (2006) find, from Global Entrepreneurship Monitor data for the United Kingdom, that school enterprise is an effective 'gateway activity', in that it is associated with entrepreneurial aspirations among individuals.<sup>106</sup> This is also reinforced by the studies on entrepreneurial intent reviewed in McLarty et al (2010): an Australian evaluation suggested that the programme Young Achievement Australia can have a positive impact on the desirability and perceived feasibility of starting a business; similarly, in the UK 2008 Make Your Mark challenge, more participants saw themselves as likely to set up a business after the challenge. It should be noted that other employed professions also seemed more attractive, so there seems to have been a general increase in interest in career options, rather than necessarily a shift towards self-employment (see McLarty et al, 2010, p.31).

The studies reviewed by Pittaway and Cope (2007) similarly suggest that entrepreneurship education increased entrepreneurial intention<sup>107</sup>. Evaluations of the HE projects mentioned in Section 5.2.3, above (EKOS 2010a; EKOS 2010b; the unpublished evaluation of the SPEED initiative) also suggest positive impacts on entrepreneurial intentions and attitudes.

However, it is interesting to note that longitudinal research has suggested that such enthusiasm may not last. Initial enthusiasm on the part of STEP participants for self-employment or start-up "*ebbed away*" (p.113); perhaps, the authors suggest, as employment prospects with larger organisations became more realistic (Westhead and Matlay, 2006).

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<sup>106</sup> It should also be noted that the GEM survey asks respondents to report on all past activity, so it is possible that how respondents recall information affects the results. For example, those who remember their enterprise education may be those who were already interested in it, and therefore already more likely to be interested in entrepreneurship. Respondents are also less likely to recall education or training undertaken longer ago.

<sup>107</sup> The authors note, however, that the studies reviewed have certain inadequacies, in that they do not compare student intentionality with society more widely. This may also apply to the evaluations by EKOS (2010a, 2010b).

### **5.3.3 Entry to self-employment, or employability**

The review by Pittaway and Cope (2007), found that there is a lack of evidence about the extent to which HE-level entrepreneurship education increases levels of start-up or success – and, we have not uncovered any definitive studies on this<sup>108</sup>. However, we review some of the little evidence that is available, below.

Jones-Evans et al (2006) find from their analysis of UK Global Entrepreneurship Monitor data, that participation in university-level and government programmes (although not school-level enterprise education) are related to the probability of becoming a new business owner. US research evaluating the impact of the Berger Entrepreneurship Program at the University of Arizona found similarly positive results. The study compared a group studying on this course with a sample of business graduates from the same university, matched by socioeconomic characteristics. Participation in the course seemed to have a positive impact in terms of risk-taking and formation of new ventures, and increased probability of self-employment (Charney and Libecap, 2000, cited in OECD, 2009). An older longitudinal Irish study also suggested that participation in an entrepreneurship programme may have an impact many years after a programme has been completed. Fleming, (1996, cited in OECD, 2009) found that awareness-raising and business formation education during higher education can stimulate graduate entrepreneurship many years afterwards.

However, the evidence is not uniform, suggesting that the nature of programmes matters. Despite the potentially positive indications on skills acquired through the STEP programme mentioned above<sup>109</sup>, Westhead and Matlay (2006) found no significant difference between the proportion of STEP and non-STEP students entering employment in an SME: one of the objectives of the programme.

### **5.3.4 Success in self-employment or in business**

Evidence in this area is generally positive. The Charney and Libecap (2000) study cited above also found that participants in the Berger Entrepreneurship Program had higher levels of income and of firm growth, compared to their business graduate peers (cited in OECD,

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<sup>108</sup> Greene and Saridakis (2008) use a larger-scale dataset to provide an overview of the contribution of higher education, career guidance and skills developed to self-employment success. However, they do not specifically consider entrepreneurship education programmes in HE

<sup>109</sup> If inconclusive, due to doubts over selection bias and sample attrition

2009). An Irish study took a retrospective approach, comparing entrepreneurs who had undertaken some form of education for entrepreneurship programme and those who had not, comparing those who had been on a 12-month full-time programme; those who had been on a short part-time programme; and those who had not attended a course at all. This study found 'pronounced differences' between these three groups; the type of programme seemed to matter. The number of problems arising, and the way in which they were handled, were different for the three groups, with those who had participated in the full-time programme having experienced the fewest business difficulties and those who had participated in no enterprise education having experienced the most (McHugh and O'Gorman 2006). However, it should be noted that this was a small-scale study with only 44 respondents.

## **5.4 Common themes in enterprise education at all levels**

### **5.4.1 Pedagogy**

The pedagogy of enterprise education has received considerable attention, perhaps in part because of the challenges inherent to incorporating real-world elements into the formal education environment, often the classroom. The review above, on evaluations of impact, suggested that formal evaluation of enterprise education as a whole appears to be very rare. However, some consensus appears to have formed around 'good practice' in enterprise education, mostly (as pointed out by McLarty et al., 2010) based on students' reactions and learning, rather than on longer-term impacts such as changes in behaviours or final outcomes (such as employment status or even overall qualification levels). Pittaway and Cope (2007) similarly note that there has been little research linking methods to outcomes, comparing particular pedagogies with alternatives; much research in this area promotes one particular approach and uses case study research to back up these claims.

This is a significant gap, bearing in mind the variety of teaching methods which are possible. For example, Hytti and O'Gorman's (2004) review of entrepreneurship education in four countries identifies the following methods:

- traditional (classroom-based) methods;
- business simulation through computer-assisted programmes;
- workshops (group work);

- counselling and mentoring;
- study visits (to organisations or entrepreneurs);
- setting up a real business;
- games and competitions;
- practical training (work experience placements).

Bearing this caveat in mind, we review some of the key themes emerging from the research into approaches to enterprise education.

A key theme running through the literatures on school, further and higher education is that enterprise teaching styles must be about **involving students**, not about 'chalk and talk'. This may be done through 'student-led' and 'student-owned' learning in which, for example, the learning objectives themselves may be influenced by the students. Practical or experiential, rather than theoretical, learning is also emphasised (European Commission, 2010).

On this action-learning note, Ofsted inspections have suggested that the **business environment** is the best place to develop enterprise capability, although a broad definition of 'business' is used, encompassing the not-for-profit sector (Ofsted, 2005). However, there have been some warnings that action learning has been 'over-interpreted', to use Hytti and O'Gorman's (2004) description. These authors suggest that action learning is an intensive process which requires student preparation and after-care. If a pure 'action' approach is taken, without feedback and reflection, then there is a risk that students will not learn from their experiences.

**Traditional methods** may also have a place; for instance, Hytti and O'Gorman (2004) write that students have reported an increased understanding of the benefits of entrepreneurial activity through such an approach.

OECD (2009) points out that the approaches to enterprise learning (such as those pedagogies reviewed above) have an implication for **training for teaching staff**, since educators will need to have the skills to take a guiding and mentoring role, rather than the traditional didactic approach. Professional development will therefore be important for existing educators, while new entrants will need initial training, or will need to be recruited

selectively (for example, in Finland there has been some focus on recruiting more teachers who have some practical understanding and experience of entrepreneurship). Skills deficits among teaching staff have been found in relation to teaching of economics and business in schools (Ofsted (2008) notes the patchiness of availability and quality of professional development in this area). The risk of shortage of skilled teaching faculty has also been highlighted in the context of the recent expansion in enterprise education (mentioned in Pittaway and Cope, 2007).

One of our **expert interviewees** commented that the pedagogy of enterprise education is often not thought through very thoroughly. They had been involved with a project which has looked at the skills outcomes which are desirable from enterprise education. Teachers who have used the project's skills mapping have recorded that they do provide lessons which develop communication skills. However, teachers' responses suggest that there are fewer approaches which encourage the assessment and tolerance of uncertainty and risk. This reflects a view also put forward by another interviewee engaged in the enterprise education field.

#### 5.4.2 Institutional strategies: senior management approaches

**Commitment from senior management staff** in education institutions has been identified as a crucial success factor (Ofsted, 2005 on *schools*; Qa Research and Kate Beresford Associates, 2010 on *further education*; Pittaway and Hannon, 2008 on *higher education*). Ofsted (2005) describes how this can be demonstrated through prioritisation in strategic plans, CPD support and allocation of time in the curriculum, and of resources.

##### **Securing senior management buy-in**

One example explored by two of our **expert interviewees** is the Enterprising Colleges initiative, which is currently being delivered in the South East of England, involving a series of workshops with senior curriculum co-ordinators and managers in FE colleges, which intend to develop understanding and embedding of enterprise in FE.

The interim evaluation of this initiative (Qa Research and Kate Beresford Associates, 2010) notes that the programme's core approach, of engaging with senior managers, has been crucial to improve the chances of securing enterprise as a strategic priority for colleges. Where teaching staff or middle-level managers attended the workshops, they reported that resistant colleagues and college culture was a barrier to raising enterprise provision.

Pittaway and Hannon (2008) explore how institutional strategies can be developed in HE, and conclude that the viability of entrepreneurship programmes, from universities' perspective, is informed by:

- their perceived educational impact;

- financial sustainability;
- academic credibility;
- human capital (university staff);
- structural embeddedness (the extent to which provision is formalised, e.g. creation of institute/ department);
- the context and infrastructure (teaching styles: didactic/ web-based, etc.);
- and alignment with institutional strategy and policy (such as the priority given to careers).

The implication of this is that there will be very different uptake of enterprise education across different institutions.

### 5.4.3 Curricular approaches

#### Embedding versus specialisation

Another key strategic question is whether enterprise education is offered as a distinct course or module, or as an embedded part of the curriculum for wider subjects. In general, there seems to be some consensus that enterprise education is most successful when it is embedded in other subjects. OECD (2009), for example, draws out the idea that enterprise and entrepreneurship are best treated as elements of other subjects, rather than as distinctive areas of study. The rationale for this is that enterprise education is a way of teaching and learning, rather than about knowledge. The lack of clarity of definition of enterprise education may, however, be relevant here. If the objective is in fact to increase students' knowledge of business and finance because the ultimate aim is to increase students' ability to start up businesses, for example, then this argument seems to have limited power.

The embedding of enterprise education in other subjects was a concept which was broadly supported by our **expert interviewees** who had an interest in the formal education system.

At the higher education level, an interviewee engaged in graduate enterprise initiatives suggested that all students should have access to entrepreneurship education. However, the more traditional Russell Group universities (especially arts faculties) are very resistant to entrepreneurship education. Survey results (see Rae et al, 2010) suggest that there

has been only a little progress so far in terms of embedding enterprise into different faculties' curricula. Provision is still mostly through business schools. Our interviewee suggested that this might be tackled to some extent by showing that enterprise education is more about seeing opportunities and doing something positive, rather than about specific business skills of a type which would be taught in a business school.

### **The role of extra-curricular activities (in the institutional environment)**

In contrast to embedding in curricula (either as a distinct subject or as a component of other subjects), extra-curricular activities have the advantage that they are flexible: initiatives can be easily introduced, and easily removed. Extra-curricular activities also benefit from the fact that they are not constrained by formal requirements. However, this flexibility does of course make provision of enterprise education less stable (Pittaway and Hannon, 2008).

#### **5.4.4 Qualifications and certification**

##### **What qualifications exist?**

At school level, **GCSEs and A-levels in Business Studies and Economics** are likely to be the most relevant qualifications. SFEDI (2008, Table 38, pp. 69-70) provides an overview of some of the other **vocational qualifications** available in this area:

- ten generic vocational qualifications on preparing for start-up, with one and Level 1 and nine at Level 2;
- eight generic vocational qualifications which combine preparation for start-up with actual start-up activities (at Levels 1, 2 and 3); and
- sixteen generic vocational qualifications designed for start-up itself (Levels 2 and 3).

The overview also shows that qualifications may combine business or start-up skills with specific occupational specialisms, such as a Diploma in 'Business Essentials for Therapists' (Level 3); Level 3 Diploma/ Certificate/ Award in 'Business for the Creative Industries'; and certification in 'Music Business' (Level 2).

**University-level qualifications** also exist.

- Bachelors level courses in Entrepreneurship and/ or Enterprise. Just one example (of several) is the BSc in Management with Entrepreneurship offered at the University of Southampton<sup>110</sup>.
- Masters level courses in Entrepreneurship (including MSc and MEnt qualifications).
- University-level courses may (or may not) be combined with a specialism. For example, an MSc in Technology Entrepreneurship is offered by the UCL Department of Management Science and Innovation (aimed at those with a scientific or mathematical background)<sup>111</sup>. An MSc in Environmental Entrepreneurship is also, newly, being offered by the University of Strathclyde<sup>112</sup>. At the University of Worcester, it is possible to take a BSc in Web Innovation and Entrepreneurship<sup>113</sup>.

### **Value of certification in enterprise related activities**

Gibb (2000) points out that many occupational standards, including NVQs, take an approach whereby progression involves ever-increasing specialisation. While this is appropriate to a corporate setting in which specialisation is encouraged, Gibb suggests that for individuals with wider ranges of tasks this type of approach is less likely to be suitable; instead, individuals need to “*develop sets of more sophisticated integrated competencies covering a wide portfolio of tasks*” (p.22). For related reasons, assessment of competence in entrepreneurship is likely to be problematic: the range of flexible skills and behaviours required means that any such assessment would require a number of observations in various different situations (Gibb, 2000).

### **Experts’ experiences and opinions**

One **expert interviewee** argued that it is necessary to explore the purpose of certification and qualifications as they are applied to the formal education system (particularly higher education). What are these for? Accreditation can be useful for courses where knowledge is disseminated then tested. However, this approach cannot be applied to preparation for start-up.

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<sup>110</sup> See [www.soton.ac.uk/study/undergraduate/courses/2011/entrepreneurship/bsc\\_management\\_entrepreneurship.html](http://www.soton.ac.uk/study/undergraduate/courses/2011/entrepreneurship/bsc_management_entrepreneurship.html)

<sup>111</sup> [www.ucl.ac.uk/msi/prospective/postgraduate/technology-entrepreneurship](http://www.ucl.ac.uk/msi/prospective/postgraduate/technology-entrepreneurship)

<sup>112</sup> [www.strath.ac.uk/civeng/pg/enventrepreneurship/](http://www.strath.ac.uk/civeng/pg/enventrepreneurship/)

<sup>113</sup> [www.worcester.ac.uk/courses/15293.html](http://www.worcester.ac.uk/courses/15293.html)

Skills-oriented certification, however, may have a role. And qualifications may be desirable because the interviewee perceived that students often want something (such as a qualification) that will help them to stand out.

A concern for the interviewee, however, is how qualifications and standards are applied. There is a danger that qualifications may become the driver of provision, rather than the recognition of development they should be.

Qualifications tend to be structured, where entrepreneurial learning is chaotic and may involve 'failure'. Any assessment, therefore, would have to be carefully-designed, perhaps portfolio-based. Awards and celebrations could alternatively be used to recognise achievement without introducing restrictive requirements.

SFEDI's occupational standards, for example, are useful if they are used in the right way, i.e. to recognise learning. But they should be used as a tool, not a driver. The application is the key question. Standards can be distorted and be given too much prominence, particularly when networks of providers emerge who aim to make a profit from their application.

Another **expert interviewee** concurred that the challenge lies in how SFEDI standards are used. However, courses which lead to accreditation will be quality-controlled by the awarding bodies.

The appropriateness of accreditation may depend partly on the client group. Older course participants in particular may (as stressed by another **expert interviewee**) have little interest in gaining accreditation for the courses they attend. However, providers may be motivated to provide accreditation simply because of the funding streams which are opened up by offering an accredited course.

For other client groups, accreditation may be more important, providing proof that a course has been undertaken, or offering a marker of achievement. One expert interviewee for instance, had mixed feelings about accreditation in general but did note that accreditation can be desirable for those who want some way of distinguishing themselves. They added, however, that other ways of achieving such distinction do exist, for instance prizes and awards.

## 6 Conclusions

This report has covered a wide range of evidence, drawing on literature, secondary data analysis and the views and experience of a number of expert interviewees. In this final chapter we highlight some of the main messages emerging from the research, referring back to each of the main chapters of the report.

### 6.1 Trends and characteristics of self-employment (*Annex*)

Recent renewed growth in self-employment to its current level of 13 per cent of the employed workforce has coincided with renewed policy interest in the promotion of self-employment. While the rate of self-employment in the UK remains below OECD and EU average levels, the UK is one of the few countries experiencing growth in self-employment.

There are major variations in the self-employment rates of different demographic groups, with higher rates among men, older people, disabled people and some minority ethnic groups.

Self-employment is highly concentrated in some sectors (including agriculture, construction and parts of the service sector), and also in some occupations (particularly skilled manual trades). There are big regional variations in the rate of self-employment.

Self-employed people work longer hours than the average and are more likely to work at home.

The relationship between self-employment and qualifications is complex, but overall self-employed people are slightly less likely than employees to have high level qualifications, and slightly more likely to have no qualifications. They are however much less likely to be currently studying towards a qualification or to have recently received work-related training.

### 6.2 Introduction and context (*chapter 1*)

Following a period of neglect, self-employment as a route into the labour market for unemployed and inactive people is of renewed policy interest, as is the promotion of entrepreneurship among the working population more widely. Alongside and supporting this,

there is increased importance being given to means of developing and promoting enterprise-relevant skills.

The self-employed are an extremely diverse group, encompassing entrepreneurs and small business proprietors on the one hand, and freelancers and lone workers on the other. The boundary between the self-employed and employees is not a clear one, and neither is the boundary between the self-employed and SME owner-proprietors, and there are many areas of overlap in both cases.

Further, the reasons why people move into self-employment are also very varied.

- 'Necessity' entrepreneurs are pushed into self-employment by a lack of alternatives.
- 'Lifestyle' entrepreneurs find that self-employment is appealing because of the flexibility and autonomy it offers.
- A small number of the self-employed are true 'opportunity' entrepreneurs who become self-employed because they have spotted a market niche.
- Others become self-employed because this is the norm in the occupation that they have chosen to pursue.

This is important for policy, because these aims are likely to be related to individuals' ambitions for their businesses, and to self-employment performance.

- 'Necessity' entrepreneurs are less likely to be found in high-growth sectors, perhaps partly due to their lower levels of existing human capital. However, this effect may be mitigated by matching individuals carefully to an appropriate sector in which they have experience and/ or qualifications.
- Those who enter self-employment for non-pecuniary motivations – which will include lifestyle entrepreneurs – are likely to be interested in sustaining themselves, rather than business growth or expansion.

Some individuals may be motivated to enter self-employment because they believe the returns will be higher than in employment. Although this is of course not impossible for some individuals, many self-employed people have low incomes, with only a relatively small number of 'superstar' performers who have very high incomes. Thus, policies aimed at

increasing start-up rates need to ensure that individuals are not acting on unrealistic expectations of the returns from self-employment.

### **6.3 Self-employment skills and occupational skills (*chapter 2*)**

The evidence highlights a range of skills required for self-employment, and there are both similarities and differences between such entrepreneurial competences and those required in salaried employment.

**Personality characteristics and ‘cultures’ of entrepreneurship which may contribute to higher self-employment rates** have been considered extensively in the literature. Role models appear to be important in forming such entrepreneurial cultures. The most well-established research shows that familial role models make a difference to the likelihood of individuals moving into self-employment, but there is also evidence that networks can encourage regional cultures of entrepreneurial activities, demonstrating the importance of local and regional approaches.

**Qualification levels** have some relationship with self-employment overall, but this is not straightforward. Those with no qualifications are more likely to enter self-employment. However, there is evidence (including from other countries) that higher levels of education can result in greater success in self-employment. The returns to qualifications in Europe generally appear to be lower for the self-employed than for employees.

**Prior workplace experience** boosts the probability of success in self-employment. This may partly underlie higher failure rates among the younger self-employed. Initial knowledge is important not only in itself but also affects individuals’ ability to reap the benefits of subsequent learning activities.

Some individuals remain in self-employment for a long time (**‘die-hard’ entrepreneurs**), and these individuals have different profiles from those who are self-employed for a shorter time (although this is an under-researched area, and it is not clear why these differences occur).

In general, the research confirms that **the more relevant an individual’s initial knowledge, the greater the chances of their being successful in self-employment**. Thus, those with specific experience of a sector or occupation; and those with task-related (rather than more generic) human capital tend to be more successful than those with less specific experience.

The self-employed individual must master a variety of competences, and **different stages in the business life cycle** call for different skills and areas of knowledge:

- Those who are **considering self-employment** require an understanding of what will be involved, including the assessment of risk and of the costs (and benefits) of working for oneself. Attitudes, values and behaviours may also be important in forming entrepreneurial intentions.
- At **pre-entry stage**, business planning, including market research, is important. Although business plans do not necessarily improve the probability of success, they are important for winning finance as well as being of potential use in developing a business proposition. Such a planning process will be supported by generic management skills. The quality of the business idea itself is also of clear significance.
- For **entry and survival**, a variety of capabilities are necessary, including the capacity to deal with the practicalities of finance, legislation, business development and sales. Management skills (including many strategic functions) and financial capabilities have been identified as being particularly crucial, and deficiencies in this area may cause failure.
- **Growth and expansion** require refinements in management skills, especially with regard to human resource management.

## **6.4 Current supply of enterprise skills (*chapter 3*)**

In looking at how far the various elements of skill relevant to self-employment are present in the workforce, it is helpful to distinguish between those who are not (yet) self-employed and those already in self-employment.

### **6.4.1 Prospective self-employed**

Among potential entrepreneurs in the UK, it seems that attitudes towards self-employment and individuals' confidence in their own knowledge and skills are fairly positive when compared to similar European countries.

**Patterns by region** vary considerably. Some areas have lower levels of self-employment, and it appears, in these areas, that even when entrepreneurial aspiration is raised by training, this does not necessarily convert into higher self-employment rates.

Looking at individuals' state of preparedness for self-employment, surveys containing **self-reports of enterprise skills and knowledge** suggest that around half of those who are not currently entrepreneurs feel that they have the skills and knowledge required for enterprise. However, reliance on self-reporting may be misleading, given that individuals can find it difficult to identify gaps in their own skills.

More younger people than older people have undertaken some **business training** at school, in college or at university.

The prospective self-employed may lack the ability to **assess the risks** of self-employment accurately. While those who tend to under-estimate risks are more likely to enter self-employment, some evidence suggests that those who are more risk-averse, or those who have a neutral attitude to risk, are more likely to survive.

Among potential entrepreneurs, there is some evidence that individuals' understanding of **finance** (both in terms of sourcing capital and in terms of managing money, such as understanding of markets including pricing) may be low.

The skill base of potential entrepreneurs among the unemployed is of particular interest, given current policy interest in supporting unemployed people and those from disadvantaged groups into self-employment. The evidence highlights the following points.

- Some experience of **unemployment can damage an individual's chances of survival** in self-employment, although those who have been long-term unemployed may achieve longer durations of self-employment, perhaps because they lack other options.
- **Certain skills may be particularly poorly developed among certain groups:** those who are not already established in a particular sector will lack relevant contacts and may also lack acquaintances who can offer generic business advice. Individuals' existing interests and knowledge will also partly determine the sector in which they set up business, and some groups (such as women, some ethnic minorities) are particularly likely to start up in sectors with lower growth potential. The business start-up process,

including obtaining finance, may be rather opaque for those (especially if they have been out of the labour market altogether) who do not know other self-employed people. Lack of confidence may be a real barrier for such groups to both start-up and growth.

- The evidence suggests that **financial management** is a particular concern for those moving from unemployment. Unemployed individuals may lack experience in dealing with debtors and be less trusting of bank loans, preferring more expensive credit card borrowing, which is more familiar and perceived as easier to control.

#### 6.4.2 Existing self-employed

Looking at the skills base of those who are currently self-employed, it is helpful to distinguish between generic skills relevant to self-employment, and specific occupational skills. The evidence suggests that **generic skills** which may be in short supply include the following.

- The self-employed appear to **lack awareness of their own skill deficits**; it has also been suggested that they are less conscious of external changes requiring them to update their skills and knowledge. In addition to this, some self-employed do not identify themselves as business people, which may lead to less effective negotiation and sales techniques.
- Some self-employed (such as young people and those who have moved from long-term unemployment) **lack both work experience and formal business or management training**.
- **Soft skills and social skills** can be very important for the self-employed, affording them new business and learning opportunities. Some groups may have better-developed skills and confidence in networking than others. Disadvantaged groups may find these areas more difficult, partly due to the lower likelihood that they will have a wide network of business contacts.
- **Acquiring employees** is a big step for the minority of self-employed people who employ others. Self-employed business owners often struggle with managing others for the first time and may face other deficits in their human resource management skills.

- Other management competences such as **managing cash flow and finances, winning new customers, and creating and managing business systems** are reported to be deficient among many self-employed.

There is a lack of conclusive research about the **occupational skills** of the self-employed, as compared with those of employees. The limited evidence does, however, suggest that:

- the greater autonomy and control enjoyed by the self-employed offers potential for higher levels of **skill utilisation** among the self-employed, compared with employees;
- however, the lower incomes and longer working hours of many self-employed people contribute to a situation in which many of the self-employed are less able to **invest in training** to update their occupational and professional skills.

There is some evidence that the skills base of the self-employed varies according to the **growth-orientation** of their businesses. In particular, owner-managers of growth-oriented businesses are more likely than owner-managers of other businesses to have higher-level qualifications, to have had some formal business/ management training or to have held a previous managerial position.

## **6.5 Design and performance of self-employment programmes (*chapter 4*)**

The evidence on whether or not programmes promoting entry to self-employment are effective in reducing aggregate unemployment is mixed, and some past interventions have been expensive. However the most recent international evidence suggests that interventions can be successful, although it is hard to fully identify and account for displacement effects.

Policies aiming to boost start-up rates or success in self-employment would benefit from more **clarity about their objectives**, because there are important trade-offs to be made between targeting those who are most disadvantaged/ furthest from the labour market (minimising deadweight) and providing assistance to those who are likely to be able to make a success of self-employment (maximising the probability of survival and success).

**Programmes for the existing self-employed** may be divided into those which develop occupational skills, and those which develop generic business skills. Provision may come from a variety of sources, including industry/ trade associations, private sector trainers, and public agencies. Individuals' access to provision will thus depend on their sector, time and

financial resources available for training, and also on their geographical location, since many initiatives are regionally-based.

Skills development once in self-employment may occur with **varying degrees of formality**. At one end of the spectrum, formal training and qualifications are available (if not widely). In the middle, ad hoc advice-seeking and attendance at information and advice sessions appears to make up a significant proportion of provision. Informal learning, whether on the job or through advice from friends and family, is also an important way for individuals to acquire knowledge and skills, particularly in view of the ‘serial entrepreneur’ phenomenon, under which people start up a variety of businesses over their life course, learning from their mistakes along the way.

Turning specifically to the role and effectiveness of programmes aimed at **moving the unemployed into self-employment**, the evidence highlights a need to be realistic about the extent to which self-employment can provide an adequate income and reduce dependence on the state. Past evaluations have found that businesses established by those moving from benefits into self-employment tend to have low levels of turnover and often do not generate additional jobs. The newly self-employed may continue to be reliant on state benefits, or may supplement their income through other work. This may be due to the sectors in which such groups tend to set up their businesses.

There has been considerable debate in the past about **how programmes can most effectively engage with disadvantaged groups**, suggesting that:

- Programmes need to be **tailored to participants’ existing skills levels**.
- Training or advice-giving interventions will also need to take into account the **personal circumstances** of participants, and there is likely to be a need to address soft skills and attitudes (such as confidence) for some.
- **Motivation** is an important factor in success in self-employment, and programmes have in the past struggled to engage with those who are not really interested in self-employment, suggesting that programmes need to be carefully targeted. There is also a need for programmes to take into account the fact that many participants will mis-conceive the attractions of self-employment (either over- or under-estimating the risks).

- The balance between **specialised support and mainstream provision** needs to be carefully assessed: engagement of harder-to-reach groups may be most effective when done through specialised agencies. Training itself may need to be specifically targeted at a particular group when the needs of the group are genuinely distinctive. However, there are shared concerns (such as low levels of confidence, and uncertainty about accessing finance) among many of the under-represented or disadvantaged groups, suggesting that some stages of provision may be delivered in a more mainstream setting. There is evidence that almost all groups, including those with very specific needs, will benefit from links with mainstream services.
- However, **programme targets** can mean that mainstream agencies are not incentivised to work with disadvantaged groups, especially those who will take longer to attain a 'successful' outcome.
- For self-employment to be **sustainable**, it appears to be important that, as far as possible, individuals enter self-employment in a sector or occupation in which they have existing expertise.
- **Mentoring support** has been shown to have a positive influence on survival rates, and practitioners and other interest groups express a belief that this type of provision can be valuable, especially as a complement to other support or training. Mentoring is not easy to get right, however, and practitioners report that it requires considerable investment.

## 6.6 Enterprise training within the formal education system (*chapter 5*)

A broad definition of enterprise education in schools has been provided by the Department for Education. However, there appears to be **variation in interpretation of the concept**, at every level of education. While this may reflect local adaptations – which can be considered a positive thing – there is also a risk that this indicates a lack of coherence and that this may cause difficulties with developing students' skills as they move through an enterprise education system which lacks overall structure (although there have been some efforts to remedy this) and relies to at least some extent on regional or interest group funded initiatives which may be particularly vulnerable to changes in funding and policy trends. The degree to which there is national-level policy or guidance to shape the enterprise education system as a whole varies by the four countries within the UK.

One apparently consistent trend has been a recent **expansion in provision** of enterprise education in each of the three main areas of the formal education system (schools, further education and higher education). In schools and higher education, survey evidence suggests that an increasing number of institutions offer enterprise education, either as part of the curriculum or as an extra-curricular activity. In the further education system, several new initiatives have been put in place, or are currently being piloted/ developed.

From the evidence we have considered on the **impact of enterprise education**:

- There is fairly consistent evidence that enterprise education does encourage **positive attitudes to entrepreneurship** (and perhaps also to other career options), although this enthusiasm may be short-lived.
- There is little evidence on whether enterprise education is actually successful in **improving students' knowledge and skills**, although it has been reported as being effective when it comes to engaging challenging pupils.
- The evidence about the impact of such education on entry to self-employment is similarly thin. However, there is some evidence that participation in higher education enterprise initiatives is related to the **formation of new ventures**, although the possibility that this is due to self-selection into these programmes by those who are already interested in self-employment has not been eliminated in any of the studies reviewed here.
- The very limited evidence on the impact of enterprise education on **success in self-employment** appears to be positive, although it would be unwise to draw strong conclusions for the UK system on the basis of the small, non-UK studies reviewed here.

Thus, there is as yet little empirical evidence demonstrating that enterprise education is (or is not) an activity which successfully promotes the quantity or quality of self-employment.

If it is accepted that enterprise education is effective and desirable (which may be the case for reasons not related to self-employment) then there are a number of considerations, discussed in the literature, around **how to implement it**, both strategically and in day-to-day practice.

Looking first at strategies: in terms of approaches to an **enterprise curriculum**, the debate centres around whether enterprise education should be embedded in other subjects or

whether it should be offered as a distinct subject. The exact approach may depend on the objectives of enterprise education, particularly how business-oriented it is. **Qualifications and certification**, and their value in relation to enterprise education, are also an area of debate. These seem to be of value to some learners but are less important for others. Providers often see these as important to attract funding.

**Institutions' implementations of enterprise education** are of course likely to be a crucial factor in courses' success; this may be particularly the case for higher and further education establishments, which have more autonomy than schools. If enterprise education is to be promoted in education institutions, a number of factors need to be considered. In particular, senior management must be convinced of its credibility (in terms of its educational impact and academic quality) and must be equipped with the financial and human resources to provide it. Institutions may also have different levels of interest in enterprise education, depending on the extent to which they tend to prioritise careers as opposed to, say, theoretical research.

Turning to everyday practice in enterprise education: there is some consensus that **pedagogical approaches** should require students to be active themselves, to take the initiative and to develop the ability to assess and tolerate risk and uncertainty. This approach may be effective in combination with more reflective, classroom-based activities. A non-traditional approach to learning has implications for the **training of teachers**, many of whom may be accustomed to a more didactic 'chalk and talk' approach.

## **6.7 Knowledge gaps and further research (*drawing on the whole report*)**

The study has highlighted a number of (policy-relevant) areas in which the existing evidence is limited, patchy or not robust, and which would, therefore, benefit from further research and investigation.

- **Audit of workforce enterprise skills** There is no systematic evidence about the availability of skills and competences necessary for success in self-employment in the population as a whole (let alone among specific groups), although there is patchy evidence on:
  - the extent to which people are interested in being self-employed;
  - self-assessment of potential entrepreneurs on whether they have the necessary skills; and

- whether individuals have ever received enterprise or business training of any sort.

Without such evidence, it is not possible to assess the extent of any deficit of 'self-employment skills' in the economy and how it might be remedied. There is a strong case for developing a national survey to assess the supply of 'enterprise skills' in the working age population and how it changes over time. Ideally this would be done through the vehicle of inserting extra questions into an existing omnibus population or labour force survey or perhaps a dedicated enterprise survey (the Global Entrepreneurship Monitor<sup>114</sup> has previously surveyed the extent to which individuals have participated in enterprise training, but there is no global assessment of the stock of self-employment relevant skills in the population).

- **Occupational skills deficits (or not).** We have seen that within broad occupational groups, self-employed workers are significantly more likely to have no qualifications at all than are their employee counterparts. It remains, however, unclear whether this represents a real occupational skills deficit among the self-employed in those occupations, or whether it simply means that the type of work done by self-employed people is qualitatively different from that of employees in the same occupations. There is, therefore, a case for in-depth work in a small number of occupations/sectors with high self-employment densities (e.g. the self-employment 'hotspots' identified in section 2.2.4 of the Annex to this report) to establish whether there is an occupational skill deficit: are the self-employed doing similar jobs with lower or no skills than employees, or are they doing entirely different kinds of (lower skill) work? Such research could also approach the interesting question of whether, as some authors have suggested, the greater control over their work enables the self-employed to achieve higher levels of **skill utilisation** than employees (which might, of course, at least partly offset any observable skills deficit).
- There is a need for in-depth research with specific groups of the self-employed, ideally matched with comparable employees, to understand the reasons for, and implications of the significantly **lower levels of participation in work-related training and education** among the former. In particular there is an evidence gap about whether and to what extent the self-employed find other compensatory mechanisms to achieve necessary skill updating and development.

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<sup>114</sup> See Martinez et al. 2010

- **How does mentoring and related support work in self-employment programmes and for whom?** There are suggestions in the existing literature that mentoring-type support can help weaken the deadweight-survival trade off in self-employment schemes, but little or no robust evidence of what type, nature, duration, timing, intensity and cost of such support works best for different client groups, and how it could be best delivered and by whom. In-depth qualitative research with a varied sample of participants of the New Enterprise Allowance scheme, ideally contrasted with other kinds of provision in local and voluntary sector programmes experiencing a variety of types of support, would provide valuable insights into what works in this area, and help open the ‘black box’ of enterprise mentoring support.
- Further, in the evaluation literature on such schemes, there is a clear lack of evidence which distinguishes the **impact of human capital related interventions** (mentoring, advice and support) from the **impact of financial support** (allowances, loans, grants etc.). Where such studies exist, there are mixed findings, which may reflect variation in quality of implementation and/or selection effects (negative effects may, for example, be found, if those offered advice, training or qualification options are those with lower levels of ability or suitability for self-employment). Again, any evaluation of the New Enterprise Allowance scheme might provide some opportunity to remedy this deficit.
- Some evidence suggests that positive **aspirations and intentions towards self-employment** are often successfully raised through enterprise education programmes, but (and this is often reported in some specific regional or social contexts) there appear to be ‘cultural’ barriers to converting these aspirations/intentions into action. Similarly, survey evidence suggests that a much larger proportion of the workforce believe that they have the knowledge, skills and competences to start a business than ever take the plunge and seriously consider self-employment. There is, therefore, a case for (qualitative) research to understand what barriers impede this process for different groups and how they might be overcome.
- **Skills, training and quality of business support advisors.** Our evidence suggests that a crucial role is likely to be played by those selecting participants in start-up programmes, assessing their business plans and the match between these and the skills and experience of the candidates, as well as providing advice, guidance and support during and after the start-up period. There is some evidence (produced by SFEDI and others) on the skills needs, training and accreditation of such advisors within the business support field. There is, however, little or no research on the extent to which ‘generalist’

employment support advisors in the public employment service (Jobcentre Plus) and its main contractors, need and deploy such skills advising their clients about self-employment as a possible career option and signposting them to more specialist support.

- **Skills updating and development for existing self-employed** people appears to be a problematic area: not only do they get less of it than their employee counterparts, but provision appears to be patchy, thin on the ground, and not well-targeted to the needs of the self-employed. Research with established self-employed people (again perhaps within selected occupations/sectors with high rates of self-employment) would, therefore, be valuable to understand better their perceptions of their own skills-updating needs, how (if at all) they attempt to meet those needs, whether they find less formal ways to update their skills, and what kind and form of external provision might be attractive to them. Alongside this is a need both to map the full extent of existing provision and undertake (or compile) evaluations to assess what works, and how well it matches the aspirations and needs of the self-employed themselves (our research found little in the way of impact assessment of programmes for the existing self-employed).
- Given the growing level of investment in broader '**enterprise education**' within the formal education system, aimed at improving business skills and promotion, and the lack of robust evidence on its effectiveness and impact, there is a strong case for longitudinal research tracking recipients and matched non-recipients of enterprise education over time to establish impact on subsequent careers, participation in self-employment etc.

## 7 Expert interviewees

We are very grateful to the following, who participated in expert interviews. They are, however, not responsible for the views expressed and conclusions drawn in this report.

Peter Bennie, Director of Development, PRIME

Richard Beresford, Director of the Centre for Creativity and Enterprise Development, Oxford Brookes Business School

Tom Bewick, Chief Executive, Enterprise UK

Lee Bryer, Research and Development Manager, Construction Skills

Holly Conway, Deputy Head of Public Affairs, Federation of Small Businesses

Catherine Crowfoot, Director, National Enterprise Academy

George Derbyshire, Chief Executive, National Federation of Enterprise Agencies

James Evans, Head of Research, Creative & Cultural Skills

Francis Greene, Associate Professor of Entrepreneurship, Warwick University

Paul Hannon, Director of Research and Education, National Council for Graduate Entrepreneurship

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