

Skills for self-employment

Executive Summary 31
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Introduction

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.

A bibliography with full details of all the references in this Executive Summary is available in the corresponding Main Report, Skills for self-employment, available at: www.ukces.org.uk.

Executive Summaries present the key findings of the research produced by the UK Commission for Employment and Skills. More detailed analytical results are presented in Evidence Reports and all outputs are accessible on the UK Commission's website www.ukces.org.uk

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