



The business people – an extension to your team

Referendum 195 report

April 2011

The Forum of Private Business is a proactive, not-for-profit organisation, providing comprehensive support, protection and reassurance to small businesses. We add value to businesses through the collective voice for members in local, central and European government, and the provision of tailored solutions that promote business success

We conduct research throughout the year and our quarterly *Referendum* newsletter forms part of our regular consultation with a proportion of our members; in it we ask some key questions that help define our campaigning priorities. We use the results to facilitate dialogue between our members and their constituent MPs, MEPs, and Scottish and Welsh representatives.

For the latest quarter's *Referendum*, we surveyed 5,000 of our members during March 2010 to find out what members expected from 2011.

Summary of the results

Most of our members are relatively self sufficient in terms of management support and, where there is a need, many prefer to teach themselves or take informal advice. Where there is a greater need, business owners are prepared to use a number of different options depending on the issue. Around 10-15% will use external consultants to solve specialist issues.

Most managers would prefer the support to be provided face-to-face (61%) or through workshops (43%) rather than telephone (26%) or online (13%), although these have a place.

63% of businesses are looking to retain their staff, although 9% are also looking to upskill their current staff. 21% in total are looking to upskill their staff in total and 22% to increase recruitment. 4% are looking to reduce the number of staff.

51% of businesses mentioned that they have in place plans to improve staff morale. The biggest problems are due to the lack of profits and concerns over regulations. The crackdown on "disguised remuneration" as part of the tax avoidance element of the budget could potentially inhibit business' attempts to retain staff.

Word of mouth is the cheapest and the most frequent of the methods used by members although a wide variation of methods were used. 84% felt that the channels that they used were effective although there were concerns over cost (in terms of advertising costs and the cost of using recruitment firms) and time (in the form of vetting candidates and interviewing candidates). There were also concerns about skill levels.

As important as skill levels were concerns about applicants being able to fit into the team and concerns about the process complying with employment law.

Business owners felt that the Employer's Charter clarified what they could do and that the focus on employer's rights was a good first step in restoring balance. 42% felt that the Charter had a positive impact on their willingness to employ staff in the future.

8% felt that the steps in the Employer's Charter should be prioritised and the process made simpler for the owners to comply and that elected representatives should give these rights more weight. Members also wanted their elected representatives to make administrative requirements on smaller firms fairer on the employer (20%) and to work towards simplifying employment law.

Policy recommendations

With increasing numbers of government and quasi-government services going online it is vital that the UK pushes ahead with plans for high speed broadband across the country. A failure to do so will leave rural areas lagging behind urban ones because of geographical accident. All businesses, regardless of location, should have parity of access to online support and provision

The government has just introduced a scheme to a leadership and management programme. This scheme will provide up to 13,000 small and medium sized businesses with a free specialist consultation with an advisor and a leadership and management development grant will give businesses up to £1,000, which can be spent on leadership training and coaching for a senior member of staff that helps grow the business,

improving productivity and competitiveness. Our research indicates that this should be a welcome addition to the learning programmes already on offer for smaller employers providing that application and administering the support is not overly complicated.

The British Banking Association (BBA) is also developing a new mentoring portal we believe the government need to ensure business is fully aware of the benefits of mentoring, but need to research which sectors are most in need in order to ensure the provision is properly targeted. Our polling suggests a low level of demand for online support for senior management looking for intense training programmes.

Government seems to be making recruitment and staff retention harder for businesses through some of their interventions rather than easier. Smaller firms want the option of incentivizing staff to retain them and form a stable base for expansion but some of these schemes will be considered to be disguised remuneration by HMRC. Members also felt that complying with employment law was a major concern for businesses when hiring staff and added pressure on them if the candidate did not work out, as the redundancy process is considered to be excessively arduous.

The Government’s work programme is a great opportunity to ensure smaller employers can access the staff they need through Job Centre+. There is a need for the Government to ensure that business organisations are involved with all provisions within the work programme, to ensure it is tailored for small business recruitment and retention.

If businesses are going to ‘do their bit’ and take on more work experience, internship and apprenticeship personnel, the government should relax further employment legislation to allow those processes to be simple to administer and cheap to finance. Government should recognise that not all these placements will lead to full time employment and not place undue pressure on businesses to retain services after a trial period is finished.

The Government has a job to provide clear and detailed information to businesses as to the benefits of work experience, internships and apprenticeships, both in financial and social support.

Support for management skills

“Most issues can be managed by effective management of own business. More mentoring could bring benefits by helping us to all help ourselves more.” Member response

Academic studies show that high quality management is strongly related to higher productivity, however our training and skills panel highlighted the lack of higher level management and finance courses available to smaller employers. For this reason we asked members how their senior management team could be supported in growing their business.

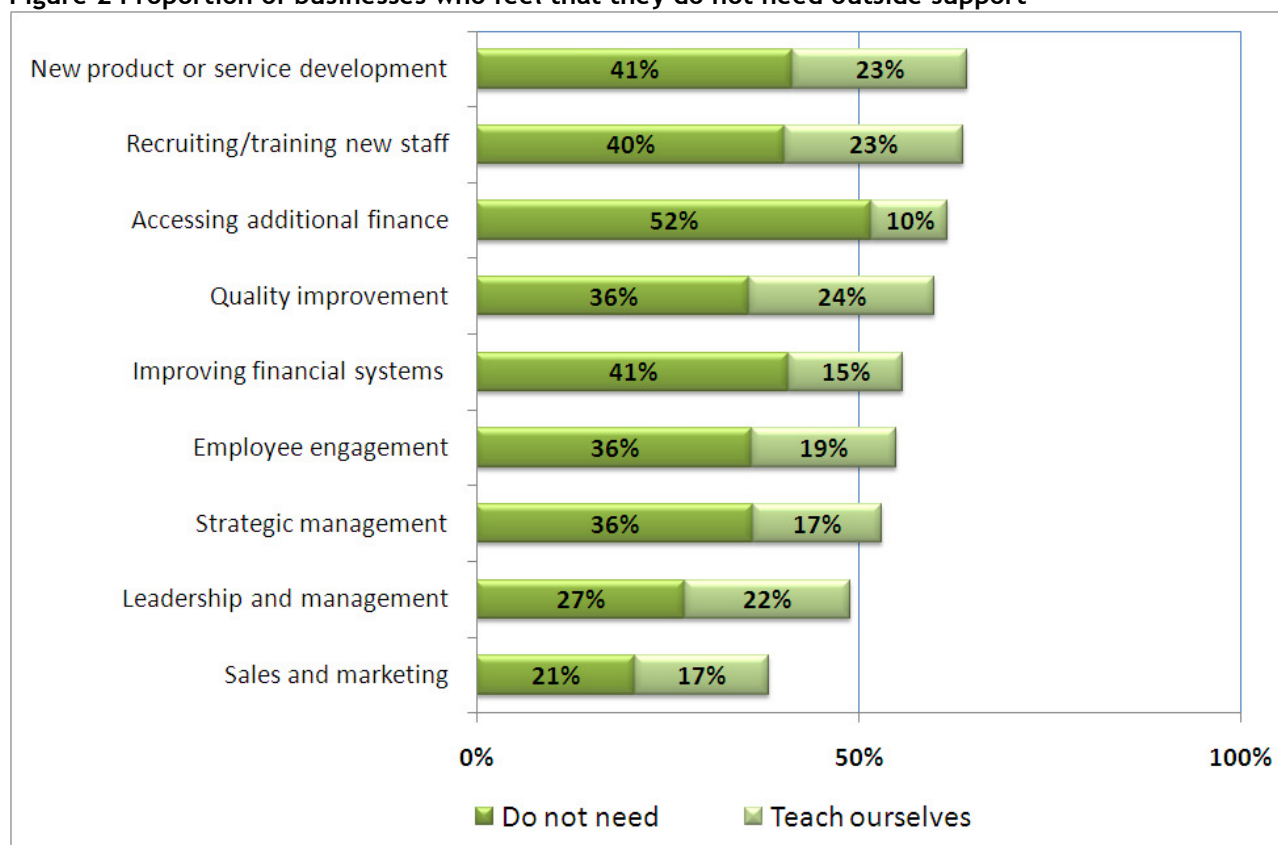
Figure 1 How senior management could be supported in developing their business

	Do not need	Teach ourselves	Informal advice	Mentoring	Coaching	Training courses	Formal advice/ consultancy
Leadership and management	27%	22%	24%	14%	21%	21%	11%
Improving financial systems	41%	15%	20%	9%	8%	13%	14%
Accessing additional finance	52%	10%	21%	4%	3%	4%	18%
Sales and marketing	21%	17%	31%	12%	17%	22%	15%
Strategic management	36%	17%	17%	14%	11%	14%	11%
Quality improvement	36%	24%	14%	5%	10%	13%	13%
New product or service development	41%	23%	16%	5%	7%	4%	14%
Employee engagement	36%	19%	24%	4%	9%	14%	16%
Recruiting/training new staff	40%	23%	20%	2%	10%	14%	12%

In most management issues a majority of businesses did not feel that they needed outside support as many used the internet to find out about how to do things or have experienced such issues in the past and

therefore do not need to use them. Figure 2 shows that the main needs for management support are for sales and marketing or general leadership and management.

Figure 2 Proportion of businesses who feel that they do not need outside support



Unsurprisingly, businesses tended to use a variety of sources for external support. Informal advice is the most frequently cited method of support with 31% using it for sales and marketing support and 24% using it for employee engagement or leadership and management. Mentoring was less likely to be required as Forum members tend to be more experienced business owners and they would be looking for informal support on an equal basis rather than in the relationship of a mentee to a more experienced mentor. In most cases business owners favour the more formal option of coaching from a specialist rather than mentoring, the main exception being strategic management. A more structured mentoring approach is relatively new concept to some business owners so it may be that the proportion using a service may increase with increased marketing and access to relevant mentors.

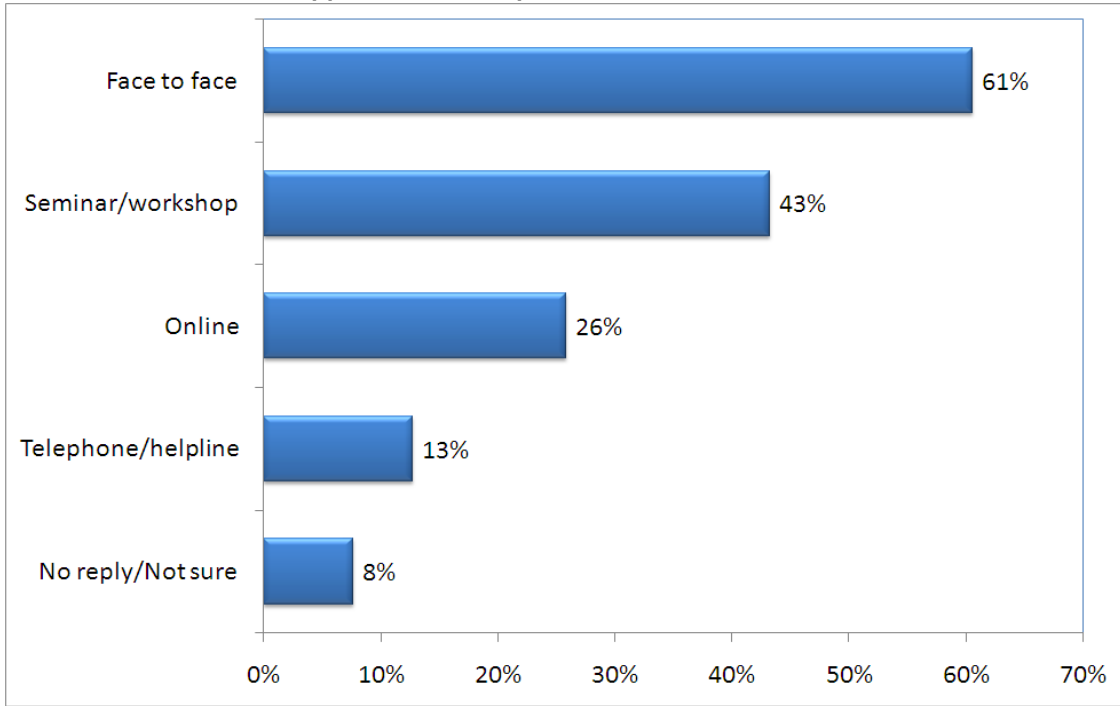
Business owners would tend to seek management training courses in leadership and management, sales and marketing which can be considered to be fairly generic but not in new product development or accessing additional finance where the business needs more specialist support depending on their individual circumstances.

We also asked what method of learning is the most appropriate for management education, a number indicated a selection of delivery styles would be appropriate for their business.

Where business owners do want support, they tend to prefer it to be offered face to face or through a seminar/workshop. Around 26% of respondents ticked both face to face and seminar, indicating that this was dependent on the level of understanding required by the business on a given subject.

26% were amenable to online support and 13% felt that telephone support would be useful for management support. This perhaps underestimates the importance of these media in terms of answering basic questions or individual enquiries.

Figure 3 Preference for how support should be provided

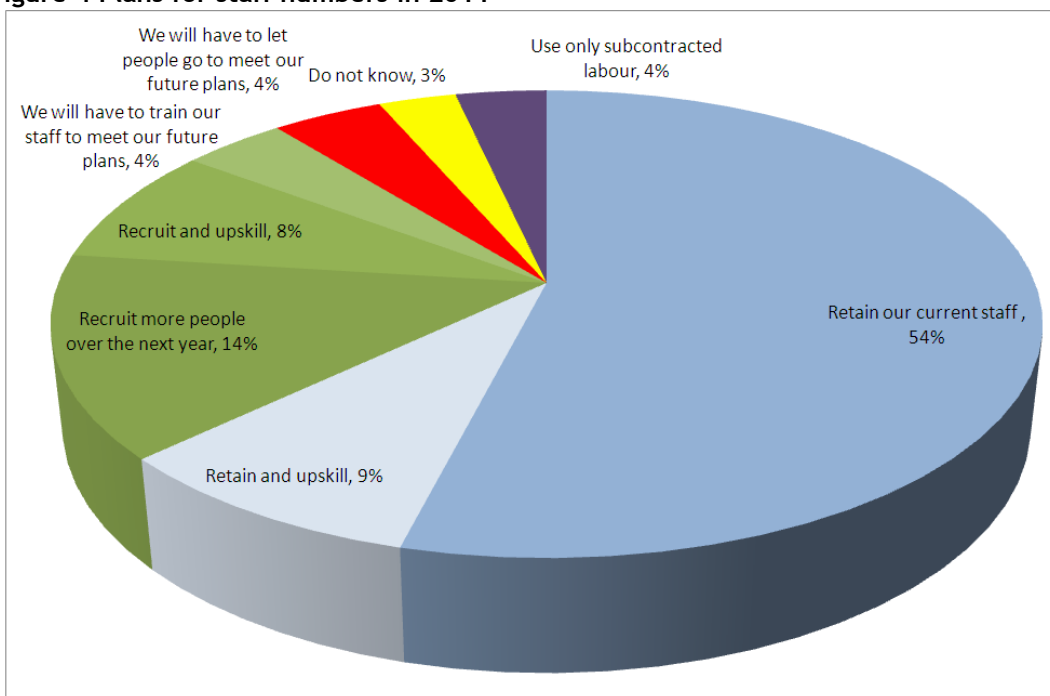


Labour force needs

“The investment in staff is the future and it is not a trading commodity which can be cropped and changed to meet economic demands. We all need help to ensure we use local training to develop their skills.” Member response

We asked our members whether the organisation had the labour force they need to meet their business plans in 2011. The majority of respondents (62%) felt that they did have the skills within the business providing that they retain their own staff, although 10% of these businesses felt that they would still need to upskill their current staff as they introduce new products or services over the next year. In total 23% expected to recruit this year, with only 4% looking to reduce their staff. This compares to just under 30% who expected to grow over 2011 at the turn of the year.

Figure 4 Plans for staff numbers in 2011



51% of businesses have plans to improve morale and retain staff, indicating how important their employees are to them, and hints that they are concerned about the potential of larger competitors to poach key staff as the economy begins to improve. Research has indicated that as many as one in four employees are looking to leave their current position when the economy improves and so it is unsurprising that a significant proportion of Forum members have been proactive in dealing with this potential issue.

Unsurprisingly, businesses that are looking to grow or need to upskill their staff are more concerned with introducing measures to increase staff morale.

Figure 5 Proportion of businesses that are introducing measures to increase staff morale

Yes providing we retain our current staff	50%
We will need to recruit more people for our plans over the next year	58%
We will have to train our staff to meet our future plans	72%
We will have to let people go to meet our future plans	43%

Financial concerns are a big issue for organisations looking to retain their staff; 26% would like to have seen a reduction in tax (predominantly business rates or national insurance) in order to make their business more profitable. A number of members, particularly those who provide services for the public sector, felt that they were unable to pay their staff fairly due to the lack of money available.

Figure 6 What support would be needed to support staff retention



Better regulation would also help businesses retain staff, as the current regulatory framework is considered too divisive, often ineffective and puts some members off long-term investment on employees. Fears over discrimination, lack of fairness over holiday pay and the realisation of some employees that they would earn more on benefits were also issues.

15% felt and improvement in business confidence and trading was help them to retain staff more effectively as the uncertainty was encouraging employees to look elsewhere. One business felt the reverse was true citing “lack of alternative employment” as an ingredient in how the organisation retained staff.

More flexibility on pay and tax perks to incentivise employees was another popular option as many business owners did not have the time or knowledge of the tax system to investigate how their staff could benefit. 4% wanted taxation simplified to ensure that reduce the administrative burden of taxation on

their business with combining PAYE and income tax a key theme, even before this was mentioned as a possibility in the Budget.

“I do not know - and that is the point. How do I find out?” Member response

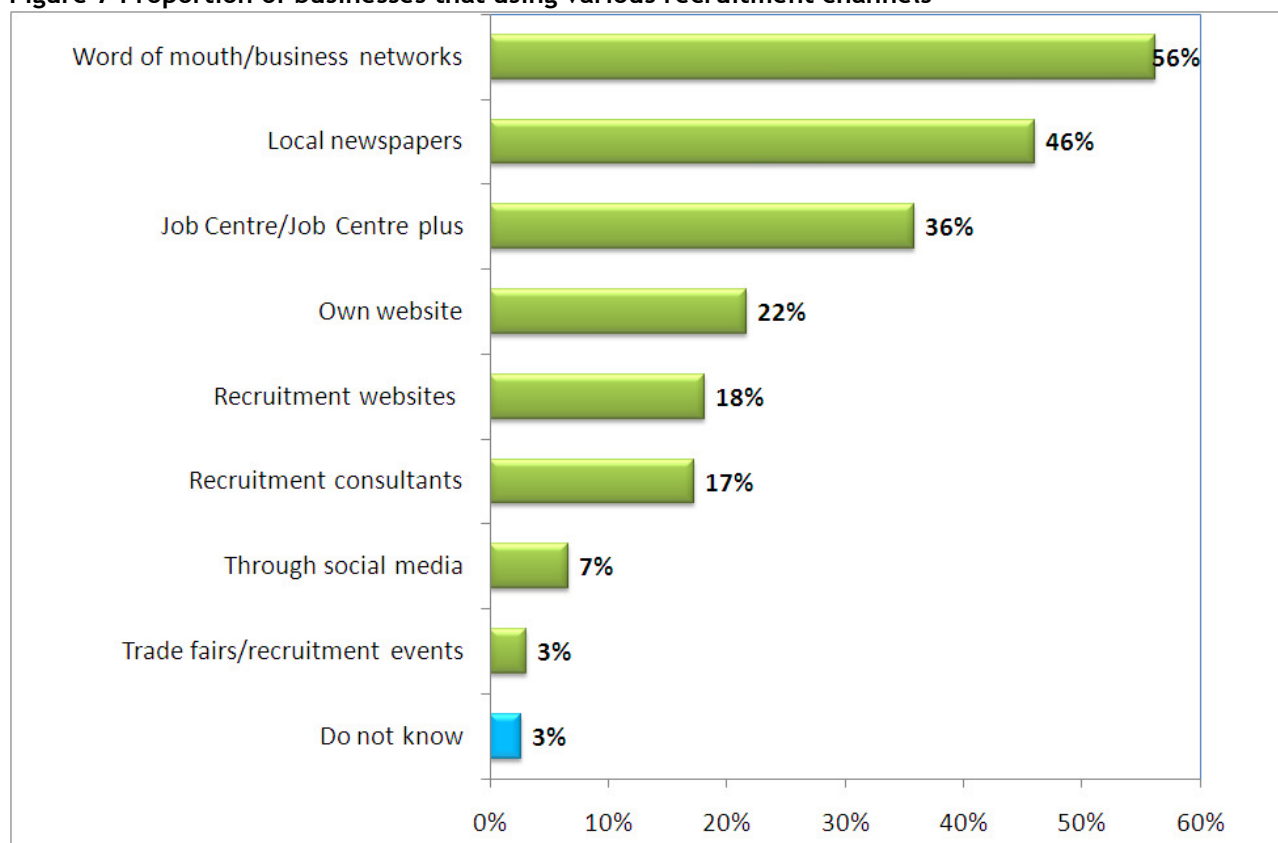
7% of businesses wanted more information on where they could find information on support for businesses looking to retain staff, providing advice and ideas such as social events, relevant training courses and other cost-effective ways of improving staff morale.

Recruitment channels and effectiveness

“We would prefer more direct applications from employees themselves, agencies too expensive and tend to overstate employees ability.” Member response

The Forum looked at a number of key recruitment channels that were open to smaller firms, there were a number of exceptions, most notably in the usage of trade journals, education establishments, national papers and radio.

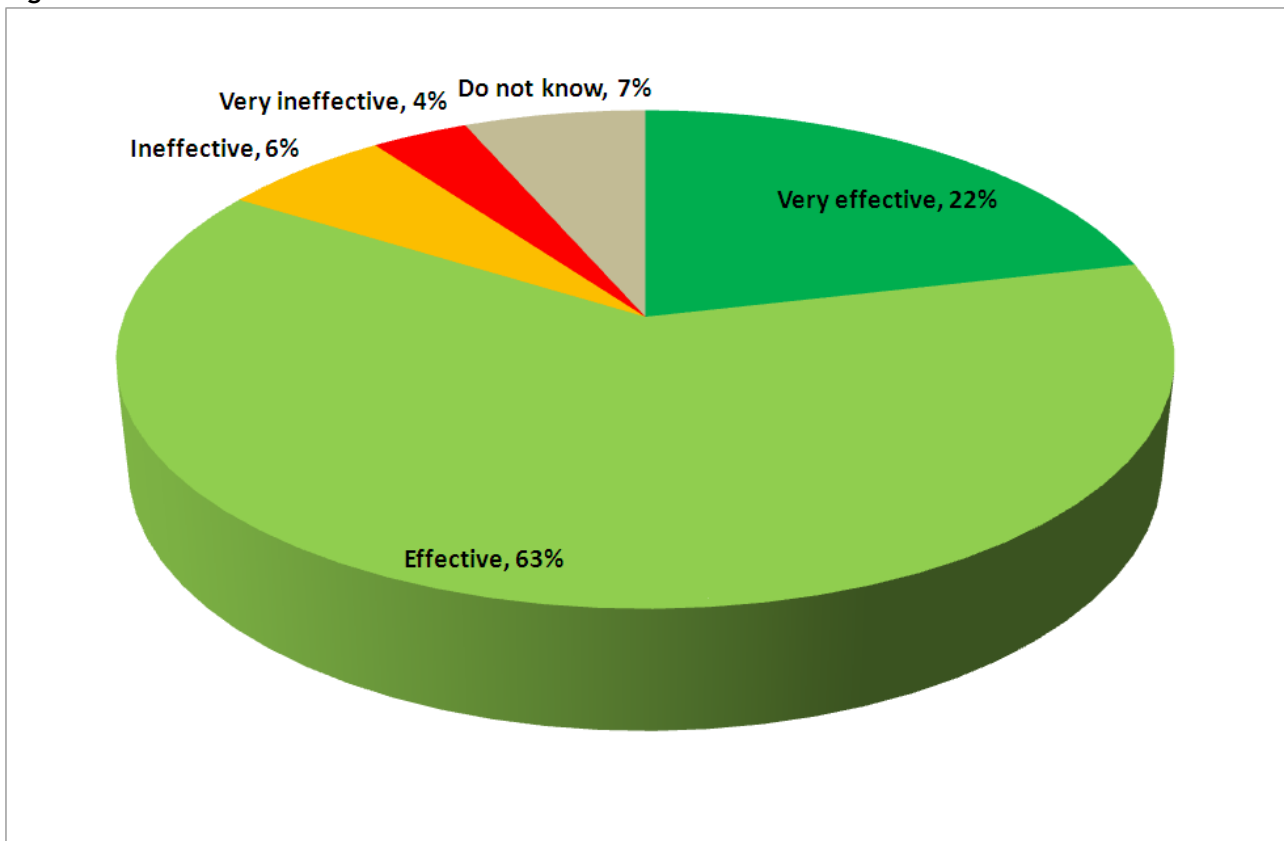
Figure 7 Proportion of businesses that using various recruitment channels



Word of mouth was the most frequently employed method for smaller firms to find staff. Local newspapers were also used by just under half of members and the Job Centre was used as part of the recruitment mix by over one in three. Surprisingly just 1 in 5 used their own websites to promote any positions, with almost as many using other recruitment websites. Social media is still in its infancy but 7% are using this in their recruitment mix.

Businesses tended to use combinations of recruitment channels with just 14% reliant solely on word of mouth/business contacts and 4% only using the Job Centre. 35% used some sort of online medium to promote recruitment in contrast to around 51% who used the internet for training (*Referendum 193*).

Figure 8 Effectiveness of chosen recruitment methods



84% of members felt that their methods of recruiting were effective or very effective and just 1 in 10 felt their recruitment channels were ineffective. Those who reported that their recruitment channels were ineffective tended to include recruitment consultants and/or recruitment websites indicating that they did not feel there was value for money involved. Use of their own website and the Job Centre were least likely to be part of an ineffective recruitment channel mix.

Figure 9 Effectiveness of chosen recruitment methods in terms of individual elements

	Very effective	Effective	Ineffective	Very ineffective	Do not know	Effectiveness score*
Job Centre/ Job Centre plus	19%	73%	5%	2%	1%	1.00
Local newspapers	15%	72%	4%	5%	4%	0.89
Recruitment consultants	5%	82%	8%	5%	3%	0.74
Recruitment websites	20%	66%	5%	7%	2%	0.85
Trade fairs/recruitment events	14%	86%	<1%	<1%	<1%	1.14
Own website	14%	80%	4%	2%	<1%	1.00
Through social media	13%	67%	13%	13%	<1%	0.53
Word of mouth/business networks	31%	54%	8%	2%	6%	1.03

*Score is the average (mean) between +2 and -2 with values of +2 given to responses of very effect, +1 for effective, -1 for ineffective and -2 for ineffective. Overall base score is 0.93.

A few particular combinations were analysed to see if there was any further information about the effectiveness of the various combinations. The difficulty is that any usage under 5% is a relatively small sample. From this the most effective combination appears to be word of mouth, local newspapers, with or without advertising on the business's own website. A combination of the Job Centre and recruitment consultants was perceived as one of the least effective options since they duplicated the same job of CV collection and filtering. Due to the structure of businesses, the best results seemed to be amongst businesses that only used a small number of channels.

Figure 10 Effectiveness of chosen recruitment methods for some combinations

	Usage	Score	Change from overall score (0.93)
Combination including word of mouth, Job Centre plus and newspapers	8%	0.83	-0.10
Combination including word of mouth and newspapers	17%	1.00	0.07
Combination including Job Centre and newspapers	19%	0.82	-0.11
Word of mouth only	14%	1.09	0.15
Job Centre only*	4%	0.89	-0.04
Use of own website, recruitment websites or social media	35%	0.91	-0.02
Combination including job centre and recruitment consultants*	4%	0.78	-0.16
Word of mouth and local newspapers only	7%	1.18	0.24
Combination of word of mouth, newspapers and own website*	3%	1.13	0.19

*Small sample: fewer than 30 replies, use with caution.

Improvements to recruitment channels

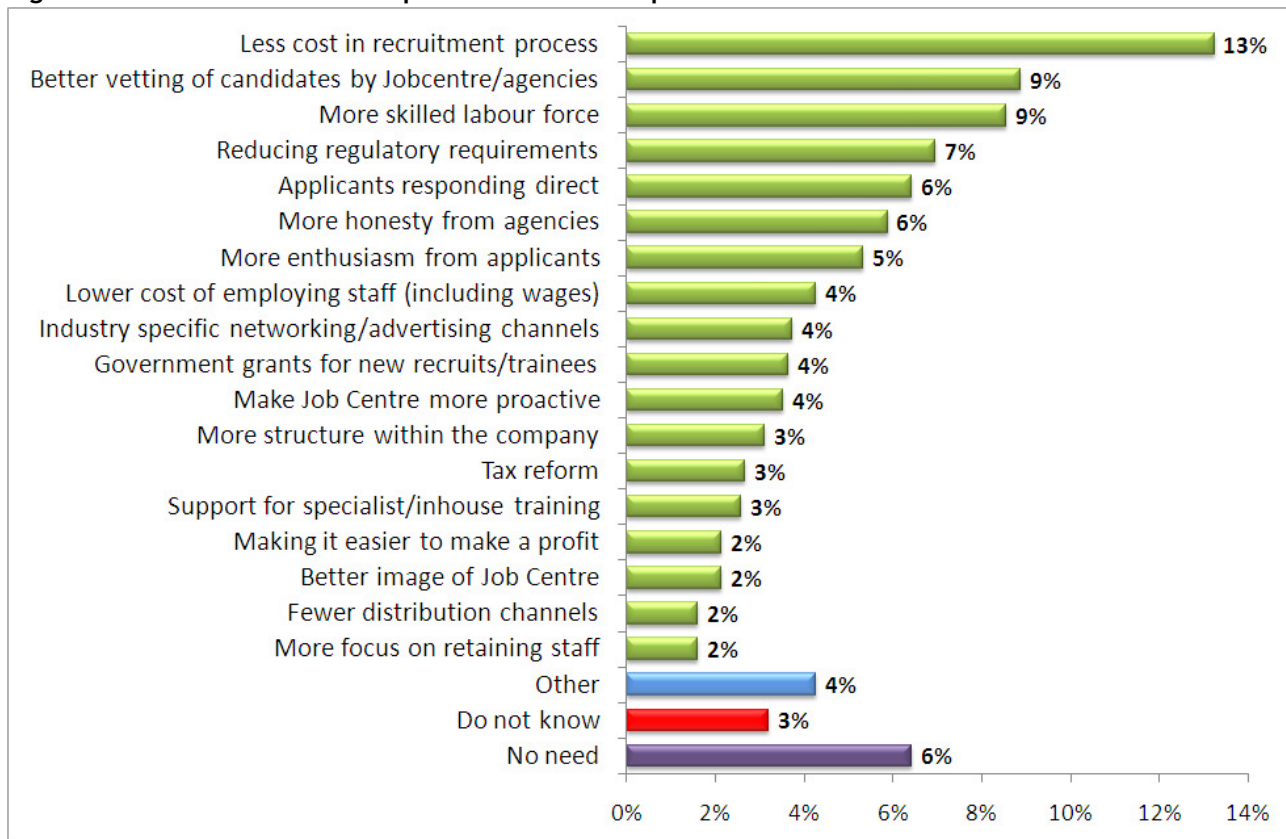
"I would like to take on a trainee but cannot afford it at the moment. Government should dump the agencies and fund employers direct." **Member response**

Businesses tended to want a wide variety of options as a way of improving the recruitment process, however the most frequently mentioned were less cost in the recruitment process with members complaining about the cost of advertising (4%) and the cost of recruitment consultants (7%). 4% of businesses were also concerned about the overall cost of employing staff.

Better vetting particularly by job centres and agencies was wanted this included some respondents who felt that agencies should also check references as time wasters or unsuitable candidates were frequently put forward, sometimes on multiple occasions. Smaller firms tended to prefer a manageable shortlist of candidates, but often ended up with too many. 3% of businesses felt that there were shortcomings in the structure of their own business to allow them to recruit more easily.

There were also some discrepancies - some members wanted agencies to be more honest and not to sell their candidates excessively but others felt that the Job Centre could be more proactive. 2% felt that the image of the Job Centre needs to be updated to reflect the services that they have brought in over the last few years.

Figure 11 How the recruitment process could be improved



Regulatory issues were also a big concern as businesses were concerned about being sued for discrimination by people who make take offence at their advertising and compliance issues throughout the process, including the difficulty dismissing someone who is not right for the business. 3% also felt that the tax system did not make it easy to understand the cost of employing an individual.

Main concerns when recruiting staff

“Bigger choice of talent to recruit from. This is hard though due to the very specialist nature of what we do as we try to find people with ability and the right personality and train them ourselves.” **Member response**

37% felt that a concern when recruiting staff was how they fitted into the team as for micro and some small businesses the shortcomings of individual members of staff can have implications in terms of productivity and even legal implications if the relationship becomes hostile.

“Less legislation protecting staff. The result being it is not in our interest to keep staff.” **Member response**

A similar number also felt that compliance issues were a concern, even when the recruitment system appears effective because the regulatory framework is so complex. The updating of equality legislation in 2010 was also an issue for 19% of businesses, even though the legislation was supposed to simplify the requirements for employers.

36% felt that lack of specialist skills were an issue and 23% felt there was a general lack of basic skills in the local labour supply.

Other tended to be based around the cost of employing individuals such as poor work ethic, lack of common sense and the time and cost of dismissing poor staff. Staff retention (particularly in skilled trades) and wage inflation was also an issue, particularly in an erratic market and when some owners were paying themselves less than minimum wage.

Figure 12 Concerns when recruiting staff



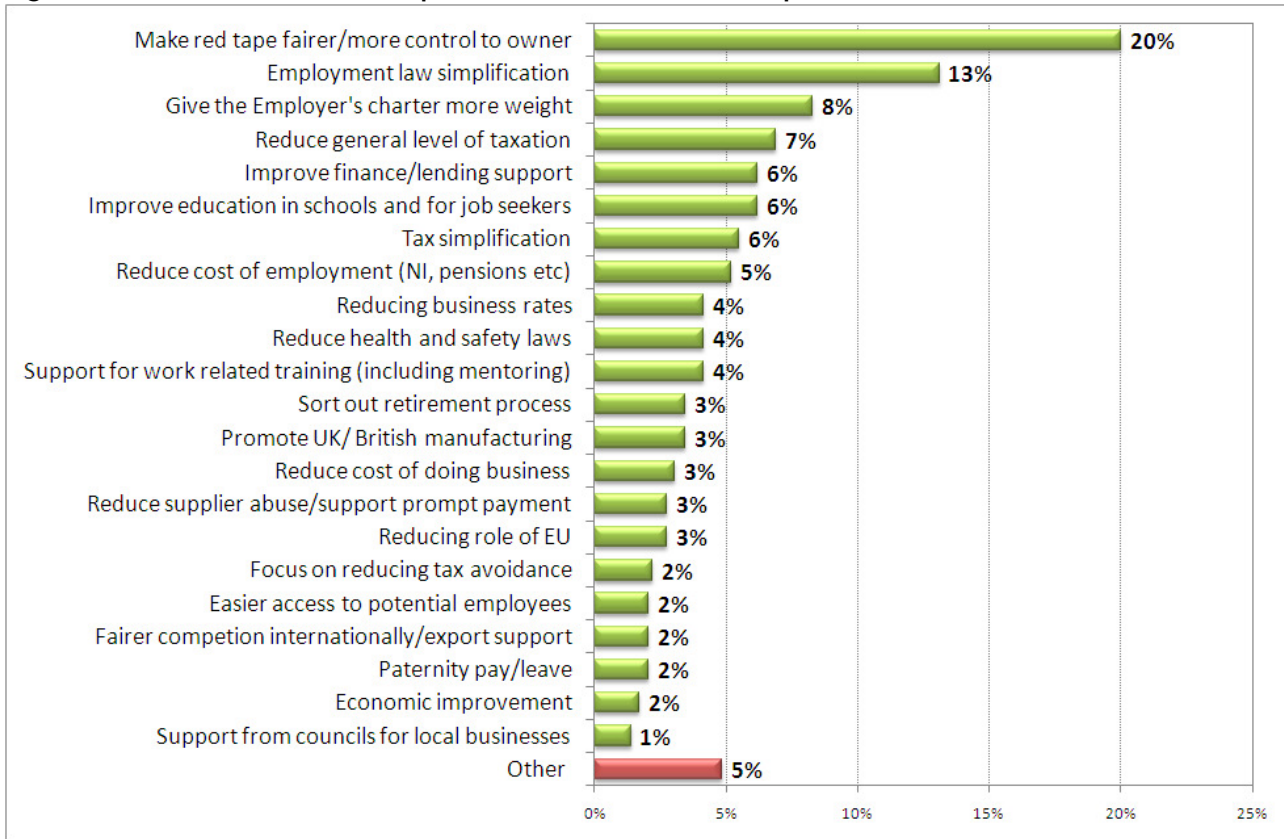
5% either stated “None” or gave no reply indicating that none of these options were a concern for them.

What should elected representatives do?

“Employer’s Charter is a nice idea but does it carry any weight? Being cynical it seems to highlight the positives in legislation but doesn’t neutralise the difficulties posed by legislation to most reasonable employers.” Member response

Most business owners were positive about the Employer’s Charter, with 40% stating it would provide the necessary reassurance to increase employment within their firm and many businesses would like a greater focus on employer’s rights rather than those of employees and some wanted more promotion of the charter so that employees get a more balanced picture of where they stand. 44% indicated that it would make no change as the laws were in place already. A number of businesses did feel that it would make them less likely to recruit as agency workers would be easier to handle.

Figure 13 What should elected representatives focus on to help constituent businesses



8% wanted the Employer’s Charter given more weight and adopted as priorities for employment law reform, particularly on issues such as redundancy. 13% wanted employment law simplified with areas such as disciplinary and staff absence a particular concern. A number of owners focused on new laws that are to be introduced in April on paternity (2%) and the retirement process (3%).

“How do we recruit and train younger staff when older staff who have the knowledge and experience but not the energy or physical capabilities no longer retire? These days jobs cannot be created to accommodate them.” **Member response**

The majority of business owners wanted more control to be given back to the employer so that business owners can focus on the business and employee needs rather than the needs of regulatory compliance. Members wanted more proportionality in compliance and greater weight given to more informal methods of managing that do not necessarily have a paper trail. This is compounded by the lack of balance in the tribunal system. They feel that their elected representatives in the UK and Europe are not necessarily complying with their own aim to “Think Small First”.

“Simpler employment law especially for smaller companies of under 30 people and especially less than 10 employees, total nightmare and is the one thing that makes me want to give it all up. Would be very reluctant to start a new business now and employ people.” **Member response.**

Some responses such as the calls for PAYE and national insurance to be combined and reducing the administrative burden of health and safety laws appear to have been dealt with in the Budget. However there was a feeling that members’ elected representatives could do more to encourage banks to lend and provide support for cash flow.

“More financial support to help smaller businesses to survive i.e. cash flow, training, direct funding rather than giving funding to training centres, some of which are not qualified or experienced enough to set up. Direct help with apprenticeship training.” **Member response**

The member comment also reflects the wish for employers and employees to have more input into training so that apprentices and other staff have the competence to do the work, often highly specialised, that the business owners require.

Specific comments from members on everything from CPC driving requirements and business crime to mentoring and improving recruitment channels will be sent to some elective representatives in April, as part of our service to members.

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