



CREATING OPPORTUNITY, REWARDING AMBITION

The value of entry level employment

A policy report by the Employment Working Group

July 2011



THE CENTRE FOR
SOCIAL
JUSTICE

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About the Centre for Social Justice

The Centre for Social Justice (CSJ) aims to put social justice at the heart of British politics.

Our policy development is rooted in the wisdom of those working to tackle Britain's deepest social problems and the experience of those whose lives have been affected by poverty. Our Working Groups are non-partisan, comprising prominent academics, practitioners and policy makers who have expertise in the relevant fields. We consult nationally and internationally, especially with charities and social enterprises, who are the champions of the welfare society.

In addition to policy development, the CSJ has built an alliance of poverty fighting organisations that reverse social breakdown and transform communities.

We believe that the surest way the Government can reverse social breakdown and poverty is to enable such individuals, communities and voluntary groups to help themselves.

The CSJ was founded by Iain Duncan Smith in 2004, as the fulfilment of a promise made to Janice Dobbie, whose son had recently died from a drug overdose just after he was released from prison.

Executive Director: Gavin Poole

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Preface

The Centre for Social Justice (CSJ) exists to find solutions to the social breakdown and poverty prevalent in too many of Britain's communities. This poverty and breakdown is fuelled by five common characteristics, or 'pathways to poverty'. They are: family breakdown, educational failure, intergenerational worklessness, severe personal debt and addiction.

The CSJ has written extensively about the scale of the challenge posed by worklessness and the need for radical action in order to tackle its root causes. We commend the Government for accepting our proposals on welfare reform, put forward in *Dynamic Benefits and Breakthrough Britain*.¹

This report considers the demand side of employment. Our research commenced in October 2010 in response to challenges arising from the recent economic recession, the effects of which the country continues to recover from.

This publication, *Creating Opportunity, Rewarding Ambition*, coincides with the launch of the Work Programme and the passage of the Welfare Reform Bill. The Work Programme aims to give organisations both the freedom and the incentive to support the long term unemployed back into work. The Welfare Reform Bill introduces a new Universal Credit, intended to ease the transition into work to ensure that people are financially rewarded by choosing work over benefits and, crucially, Universal Credit should increase opportunities for job seekers by making part-time or flexible employment worth their while.

The CSJ believes that these reforms will reduce unemployment and transform lives. However, when we are asked to comment on these changes to the welfare system, the most frequent concern raised is the lack of jobs. To be successful, the economy has to create employment opportunities for motivated job seekers. For job seekers without strong academic qualifications, with significant responsibilities, needs and commitments outside of work, as well as people who have lost the routine of work, these job opportunities will often be entry level roles.

The UK is beginning to emerge from the recession and show signs of a tentative, private sector-led recovery. Even now, our economy is one of the most dynamic and competitive

¹ Centre for Social Justice, *Breakthrough Britain*, London: Centre for Social Justice, 2007; Centre for Social Justice, *Dynamic Benefits*, London: Centre for Social Justice, 2007

economies in the world, and creates jobs in a range of sectors across the country. Growth must continue, but this report finds that for many long term job seekers, the challenge remains a lack of access to existing employment opportunities.

The Government has shown early promise in this regard; it has demonstrated recognition about the prevalence of worklessness and its damage to individuals and society. Policies aimed at encouraging growth, such as reviews of tax, regulation, and planning as well as reforms to welfare and education policy are all welcome.

Nevertheless, institutions and policy can only go so far. Employment is a voluntary exchange, which requires both demand from the employer, and a willingness and ability to fill the opportunity from the job seeker. They collectively are more influential in creating employment than the Government.

Employers create employment opportunities, but can also close them off. Simple changes to recruitment, keeping an open mind about candidates and contributing to a culture of skills development can open opportunity. As well as this, job seekers face a changing, dynamic economy and must be willing to adapt to the needs of employers if they are to be successful. Taking responsibility for basic skills, building their awareness of employer requirements and being flexible about employment will help their ambition to be rewarded. Welfare reform and the Work Programme remind us of the important role that intermediaries play; a successful job-matching service will understand both the needs of employers and the strengths and aspirations of job seekers.

Our hope is that this report will add to the already active policy debate on worklessness. We encourage policy-makers and wider society to recognise the value of entry level employment, both in terms of what it brings to the UK economy and its effect on individual lives. It is important that we all maintain a sense of urgency about the scale and scope of the challenge, as complacency will only limit the success of our efforts. This challenge is incredibly broad, and the Government has its role to play.

We are grateful to all those from academia, business, government and voluntary organisations who contributed to the research findings, and the employers, employees and job seekers who took the time to participate in research interviews and complete surveys.

Our particular thanks go to Manpower for supporting this review, to Working Group members Chris Arthur, Jeremy Hay-Campbell and Damian Riley, Andy McDonald whose expertise helped to guide this review, and to Deven Ghelani for leading the research and writing the report.

We hope that this review will spark the reform their efforts, and more crucially our society, deserves.

Gavin Poole
CSJ Executive Director

Members of the CSJ Employment Working Group



Chris Arthur, Operations Director, Manpower Business Solutions

Chris has worked with Manpower for over 20 years, working up from Branch Consultant to being a part of the Senior Management Team. He has seen temporary workforces become mainstream alternatives for employers, and recruitment companies become trusted business partners for their clients. Chris is passionate about working in a constantly changing environment and enjoys the challenge of developing workplace solutions to make business easier for clients.



Damian Riley, Director, Pricewaterhouse Coopers (PwC) Consulting

Damian Riley is a Director in PwC Consulting, with over 12 years' experience working in and consulting to the public sector. Damian has worked predominantly with the Department for Work and Pensions for the last five years on a variety of programmes and projects focused on major reforms to pensions and welfare services. He is also author of a number of recent PwC thought leadership publications, including the application of Total Place to welfare reform, and the future of retirement and savings policy and practice. Prior to joining PwC in 2002, Damian worked at the Audit Commission where he was Private Secretary to Sir Andrew Foster. Before that he worked on the Commission's national value-for-money studies team as a research analyst. Damian holds a first class honours degree in Government, and a Master's degree in Ideology and Discourse Analysis from the University of Essex.



Jeremy Hay-Campbell, Corporate Affairs, Manpower UK

Jeremy has worked in communications, marketing and policy for over 14 years in both the private and public sectors. He has spent much of his career in consultancies providing strategic

communications advice to clients across a range of sectors including employment, welfare to work and skills. Previous to working with Manpower, Jeremy worked at the Department for Business, Innovation and Skills in a policy and communications role.



Gavin Poole, Executive Director, Centre for Social Justice (CSJ)

Gavin joined the CSJ having completed 23 years of military service in the Royal Air Force where his final appointment was as a Ministerial Private Secretary within the Ministry of Defence. Gavin has commanded at squadron and wing level in times of peace and during operations and has experience of global operations both on land and at sea. He brings experience in strategic planning, organisational reform, change management and implementation of policy. Academically he holds a BEng(Hons) and an MBA from Cranfield and gained an MA in War Studies from KCL during his year at the Joint Command and Staff College which prepares senior leaders from across 50 countries.



Deven Ghelani (researcher and author)

Deven Ghelani is senior researcher on welfare policy, government spending and employment. His previous reports for the CSJ include *Outcome-based Government* and implementation work on the Universal Credit reforms to the benefit system. Deven worked for KPMG, a venture capital backed start-up and a law firm before conducting independent research on welfare policy that led to his role at the CSJ. He was also an English Teacher in Japan and worked on voluntary initiatives in East Africa.

The CSJ would also like to thank Andy McDonald for his contributions to the report, as well as Christian Guy and Harriet Crawford for their editorial work.

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Manpower and the Centre for Social Justice (CSJ)

Manpower is pleased to support the CSJ's report on entry-level employment, *Creating Opportunity, Rewarding Ambition* especially at a time when unemployment is high, yet skills shortages exist. This talent mismatch is yet more evidence that equipping people with the skills they need to find and stay in work, and supporting employers in recruiting, training and retaining the best workers is key for business, employees and jobseekers alike – and for society as a whole.

Every day Manpower has more than 25,000 people out working. We understand the opportunities that work can provide people at every stage of their lives. With more than a decade of experience in the welfare to work arena ourselves, and through our sister company Working Links, Manpower has in-depth expertise in helping some of the hardest to reach find sustainable employment. In particular, we know that work can provide a valuable path out of poverty, while having the right skills, and the opportunities to develop them, is what really drives sustainable employment.

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About Manpower

Manpower is the global leader in contingent and permanent recruitment workforce solutions. It is part of ManpowerGroup, the world leader in innovative workforce solutions, which creates and delivers high-impact solutions that enable clients to achieve their business goals and enhance their competitiveness.

With a network of 300 locations across the UK, Manpower has provided staffing solutions for over 50 years, working with both SMEs and a range of major businesses and organisations in the public and private sectors such as BT, Hertfordshire County Council, IBM, Royal Mail and Xerox.

In the Human Age, where talent has replaced access to capital as the key competitive differentiator, Manpower UK leverages its trusted brand to develop a strong talent pool, providing clients with access to the people they need, fast.

Manpower UK creates powerful connections between organisations and the talent they need to enhance their competitiveness and unleash their workforce potential. By creating these powerful connections, we help everybody achieve more than they imagined, and power the world of work.

Executive summary

This is the Executive Summary of *Creating Opportunity, Rewarding Ambition: The value of entry level employment*. To download the full report, please visit www.centreforsocialjustice.org.uk.

Introduction

Entry level employees can be among the most loyal and trusted people within any organisation and are often at the front line of customer interaction. For some job seekers, entry level employment is the only realistic employment option available to them.

The Centre for Social Justice's (CSJ) previous reports have focused on the supply side of long term unemployment. In *Breakthrough Britain* the CSJ argued for the reform of 'inactive' benefits and for claimants to have access to effective support when looking for work.² In *Dynamic Benefits* we identified the failings of the current benefit system and argued for the introduction of a single payment, the Universal Credit, to simplify the transition to work and ensure that work pays.³ This report turns to the demand side and the role of entry level employment.

Contextual summary

- The financial crisis in 2008 ended over 15 years of economic growth and dramatically changed the job seeking environment, particularly for the low skilled.⁴
- Public sector employment is expected to fall in the coming years, with most departmental budgets being cut by around 25 per cent. The private sector is expected to drive job creation.
- The demand for labour continues to move away from the entry level towards higher skill requirements, even within entry level sectors.
- There is increased competition for entry level jobs from higher skilled job seekers looking for work or choosing part time or flexible employment, which is more readily available in entry level positions.
- Government initiatives to support employment have been limited in their effectiveness; youth unemployment, for example, was increasing even before the recession.

² Centre for Social Justice, *Breakthrough Britain*, London: Centre for Social Justice, July 2007

³ Centre for Social Justice, *Dynamic Benefits*, London: Centre for Social Justice, September 2009

⁴ Organisation for Economic Cooperation and Development, *Employment Outlook 2010*, Organisation for Economic Cooperation and Development, 'As in past recessions, employment fell most sharply for the least skilled workers', p21

The challenge

The challenge for the UK economy is to generate sufficient sustainable long term employment opportunities for those with limited experience, education or skills. For many long term job seekers, the challenge is securing employment as vacancies become available, rather than a lack of opportunity in their local area.

This report identifies the major trends in entry level employment, and reviews policies that aim to encourage private sector growth and improve access to work for the long term unemployed. It also makes recommendations for improvements to policy and changes to employers' recruitment practices.

The research we have conducted for this review has included direct interviews with employers in sectors with a high proportion of entry level jobs, as well as an online employer survey. We have also heard from job seekers, employees and a number of leading policy specialists, and we have carried out a literature review.

An agenda for government

The role of government should be to empower employers to create job opportunities by creating the right conditions for growth, and to enable UK workers to take these jobs by developing policies in areas including education, welfare, transport and housing. Our key findings for government are that:

- The main priority is to tackle the growing skills premium by raising the skill levels and employability of the UK workforce;
- A greater focus on responsibility would encourage young people to take control of their future life outcomes and employment prospects. This cannot be achieved through reforms to education alone; policy-makers should also turn their attention to the influence of family, friends and wider society;
- Encouraging a culture of enterprise by making it easier to start and grow a business would help to stimulate employment across the economy. Importantly, it would create more opportunities for the workless to find employment. Smaller businesses in sectors generating high numbers of entry level jobs would particularly benefit from access to advice from other experienced business people and from ongoing efforts to simplify regulation so that it is clear, relevant, stable and well understood.

An agenda for employers

Employers create the opportunities that job seekers are looking for; but their primary focus is the health of their business and making the wrong employment decision can have a negative impact on profitability. Whilst employers clearly need to be free to run their own businesses, there are some simple steps that can improve access to employment for the long term unemployed. These can be low cost and even increase business productivity. Positive steps that employers can take are to:

- Identify only relevant screening criteria for the recruitment process, shift recruitment resources (where cost effective) to interview more suitable candidates, acknowledge applications and give feedback.
- Establish a stronger culture of mentoring and personal development which can be good for business and the broader economy:
 - An experienced and trusted business advisor can encourage this culture and help start-ups and existing businesses to grow successfully;
 - Entry level employers that invest in their line management capability can improve employee retention, productivity, customer service and ultimately profitability;
 - Employers who see the wider social benefits of mentoring will be encouraged to train job seekers without recent experience to be work ready and recruit them as loyal and productive employees for the long term.

An agenda for job seekers

Ultimately, individuals are responsible for their own employment progression. This report emphasises the importance of encouraging responsibility through institutions and wider society, but also that individuals must be better prepared to build their skills and adapt to the changing requirements of the labour market. Job seekers can improve their employment prospects by:

- Building relationships with people in work to learn about opportunities informally;
- Better understanding and adapting to employers' needs (primarily in terms of attitude, awareness, aptitude and 'fit' in most entry level sectors);
- Being more flexible in their expectations of distance, working hours and role; some job seekers may need support to overcome practical barriers such as caring responsibilities;
- Developing their personal and professional support networks. Intermediaries may be well placed to advise candidates on the steps they can take to improve their chances of employment and, if required, provide additional support.⁵

An agenda for intermediaries

Public, private and voluntary sector intermediaries play an important role in matching job seekers to appropriate employment opportunities and developing candidates' employability. Intermediaries rely to a great extent upon their relationships and reputation with employers.

Intermediaries need to support employers as well as employees by reducing the costs and risks of recruitment. Experienced intermediaries can also help employers to improve their recruitment practices, identify the best candidates and encourage employers to take on those who have previously struggled to access job opportunities.

- Intermediaries should do more to pre-filter applications and introduce motivated, work ready candidates that meet the needs of the employer. In-work support provided

⁵ Employability is discussed further in the main report

by intermediaries would further encourage employers to recruit less experienced candidates.

- Intermediaries, including Jobcentre Plus, would benefit from a greater focus on employers' needs, particularly those of smaller local employers.
- Intermediaries can work with candidates to improve their employability, and suggest options that allow them to be flexible and consider more employment opportunities.

Conclusion

Employment barriers can include the attitudes and circumstances of the individual, employers' institutional prejudices about recruiting from certain groups, or an inability to provide the support necessary to make employment a success. Governmental actions have a considerable impact on job creation and access to jobs. For policy-makers, structural reforms to institutions and infrastructure can facilitate the creation of employment opportunities and improve access to jobs. However, to be truly effective this must operate in tandem with efforts to influence the behaviour of employers, employees, family and social relationships.

We all have a role to play in creating our economic future, in building a society that rewards ambition and where everybody has the opportunity to realise their personal potential through work.

chapter one

Entry level employment in the UK

Securing a job can be a transformative step in life, particularly for someone who has been unemployed for a lengthy period. Employment offers an opportunity for an individual to contribute to society while earning a living, and for many, securing entry level work can be a major achievement.

It is an even greater achievement when the number of unemployed people increases and jobs are not readily available. This report focuses on entry level employment, and asks how the UK can increase employment opportunities for job seekers, who are without recent experience of work.

Entry level employment

'Entry level' refers to work that does not require specific qualifications or attendance beyond compulsory schooling. It is suitable for all willing and able candidates, even though they may have limited recent experience of work.¹

Certain people are typically more likely to experience long periods of unemployment; these include older job seekers, young people, lone parents, former incapacity benefit claimants asked to prepare for work, job seekers from ethnic minority groups and people with a criminal record. These groups all qualify for additional back to work support in the Work Programme.

An entry level job can be taken for many reasons including flexibility, proximity to the home, as a first step into employment or as a platform from which to progress. For many job seekers however, low-skilled employment is the only realistic employment available.

¹ The International Standard Classification of Education would define entry level as job seekers holding qualifications up to ISCED 0-3a

The sectors most associated with entry level employment include administration, manual trades, personal care, retail, catering, hospitality, manufacturing and agriculture.²

Entry level employment often has the following characteristics:

- **Low wages:** Typically a little over the National Minimum Wage;
- **Flexible hours:** Either temporary, part-time, variable, long or unsociable hours;
- **Labour intensive:** Not easily replaced by technology and carried out locally;
- **Low skilled:** Without requiring qualifications beyond compulsory schooling;
- **High turnover:** The highest levels are typically found in retailing, hotels, catering and leisure, call centres and among other lower paid private sector services groups.^{3,4}

However; entry level employees play an important role in many organisations: they often represent their company on the front line by engaging daily with clients. Despite often being negatively characterised as 'low status', with people less likely to choose to work in some of these sectors, entry level roles can employ some of the most loyal and trusted people within a business.

The importance of the core workforce, especially for labour intensive businesses, should not be underestimated. Some employers reflect this through the provision of good working conditions and opportunities for personal development or career progression in work.



Care workers at Oxlip House in Suffolk

However; many of the companies in this sector operate in a highly competitive environment. The nature of entry level work has changed in recent decades, and the expectations of employers have grown as they face challenges from low cost, increasingly higher quality, international competitors. For job seekers and employees, technological advances and competition from overseas has reduced the demand for lower skilled labour:

2 These are broadly indicated by the standard occupation codes 4000 – 9000, though not all of these roles could be classed as entry level
3 The National Minimum Wage is currently £5.93, rising to £6.08 per hour from October 2011; source: The Low Pay Commission 2011, April 2011
4 Chartered Institute for Personnel and Development, *Employee Turnover and Retention Factsheet*, July 2010 [accessed via: <http://www.cipd.co.uk>]

The recent economic recession has had a negative impact on low skilled employment in particular – with many positions disappearing and others becoming part-time. Competition for vacancies has risen and many entry level positions are taken by higher skilled job seekers, migrants, older workers and second earners who are either choosing or having to take flexible employment, more readily available in lower skilled sectors.

Employers and job seekers have a strong incentive to find the right match between person and job. Those with the right characteristics and attitude, but without qualifications, should not be disadvantaged against candidates with higher level qualifications when looking for entry level work, provided they are able to demonstrate the required qualities during the recruitment process.

Everyone deserves the opportunity to work. During our research, a number of companies reported the business benefits of recruiting from ‘disadvantaged groups’. These include reduced recruitment costs, improved retention rates, higher morale of existing employees and higher productivity, with recruits more likely to go the extra mile, be better representatives and take less time off work.^{5,6}

The central question this report seeks to answer is how to increase employment opportunities for those people furthest from work. There are two elements to consider in response to this question:

1. Increasing the number of sustainable job opportunities, primarily through economic growth;
2. Increasing access to the available job opportunities for job seekers without recent experience of work.

Chapter Two takes a ‘whole economy’ approach to employment, recognising that no single part of the economy can be completely isolated from any other and presents some of the main features of the UK economy.

Chapter Three presents a state of the nation summary of the changing number and nature of entry level roles in recent times, and the drivers behind these trends. The Government has prioritised deficit reduction and aims to encourage a market-led, private sector economic recovery.

Chapter Four reviews the Government’s plan for growth and the planned structural reforms in business regulation, regional growth, education and immigration, and considers the macro level policies proposed by the Government to support sustainable employment.

The Government must focus on wealth creation and set the conditions for long term, sustainable market-led economic growth. However, while macroeconomic policy is an important driver of overall demand and the availability of labour, employment cannot be

5 Business in the Community, *Work Inclusion: A guide to best practice*, London: Business in the Community, October 2010 [accessed via: http://www.bitc.org.uk/community/employability/work_inclusion_guide.html]

6 CSJ primary research: interviews with entry level employers, 12 January 2011

managed through macroeconomic policy tools alone. The interaction between employers and job seekers is critical to the creation of sustainable employment.

Chapter Five considers the factors that affect recruitment and whether entry level opportunities are open to all candidates who have the right attitude and a willingness to learn. It looks at the job match process at a micro-economic level and considers how a better understanding of employers could advance the debate. The chapter is structured according to the process of creating and filling an employment position: the decision to hire, candidate selection through the recruitment process, the use of intermediaries, and employee retention and progression.

Through this analysis we develop a number of recommendations to support job creation and improve access to employment for those seeking work while building a sustainable, private sector led recovery. Chapter Six presents an overview and conclusion to our findings.

chapter two

The UK economy and employment creation

Contextual summary

- The UK economy has many strengths and is beginning to show signs of a tentative recovery in some areas.
- The economy has generated jobs over the long term and moved away from manufacturing toward the service sector:
- New job roles are constantly created in a dynamic economy and the UK has seen net job creation over a number of decades.
- However, many vacancies go unfilled and are not recorded in the statistics, not taken by long term job seekers, not advertised or remain unrealised because of inflexibility in the economy.
- Employment within a business is constrained by profitability and the availability of willing and able job seekers.
- Employment in entry level sectors is influenced by wealth creation, growth, demand and employment in other sectors.
- Alternatives to employment such as outsourcing and technology have an important impact on employment.

2.1 The UK economy has many strengths

Despite extraordinary challenges, the UK economy has shown resilience in the current economic climate. It has many strengths that are important to recognise and celebrate; it is a dynamic economy built on entrepreneurship, innovation and effective regulation.

- The UK is ranked fourth by the World Bank in its 'Ease of Doing Business' index and has strong and effective legal, financial and governance institutions in the private and public sector.¹
- The UK hosts the world's largest global financial centre, and is home to the headquarters of many of Europe's largest companies.

¹ Behind Singapore, Hong Kong and New Zealand; Source: The World Bank, *Doing Business Economy Rankings*, March 2010 [accessed via: <http://www.doingbusiness.org/ranking>]

- The UK leads the world in cutting-edge research, including pharmaceuticals, energy and engineering, and our Universities are ranked first or second globally on all measures.
- The UK has strong trade links across the globe and English is the primary business language for the majority of global commerce. Our location on the Greenwich prime meridian facilitates trade with both the East and West.

2.2 Job creation and destruction is a constant process in a dynamic economy

The net change in employment ignores employment churn; over the same 30 year period many millions more jobs were created and many too were lost.^{2,3} Employment flows data indicates that the UK experiences some of the highest levels of employment churn amongst members of the Organisation for Economic Cooperation and Development (OECD). In the UK, around 25 per cent of jobs are created or lost, and 45 per cent of workers are hired by or leave companies each year. These rates of job and worker re-allocation are significantly higher than continental Europe (15 per cent and 25 per cent respectively).⁴ This flexibility increases the responsiveness of UK businesses to changing economic conditions, helping to ensure that economic opportunities are not lost.

The data on employment churn shows that the economy has the potential to create millions of jobs each year. This includes employment generated by new businesses (one-third of job re-allocation), the expansion of existing businesses (two-thirds of job re-allocation) and the enterprise of job seeking individuals (worker re-allocation). Employment churn has a greater impact on entry level sectors, as the data shows that worker re-allocation is higher among low qualified workers.⁵ This supports the view that the employment challenge for long term job seekers is less a lack of jobs than a lack of access to jobs.

2.3 Unfulfilled employment potential in the UK economy

Many vacancies are unfilled, not always visible or not taken by unemployed job seekers. The challenge is to understand how these opportunities are created, why they are filled by some groups and not others, and how we can encourage the recruitment of those without recent experience of work.

■ Unfilled vacancies indicate the potential to hire:

Employers of all sizes across a range of sectors told us that they struggle to fill vacancies. Jobcentre Plus (JCP) is notified on average of over 250,000 vacancies each quarter;

2 '...the last 16 years, ... around 4 million jobs were created in the UK'; Speech by the Secretary of State for Work and Pensions, Rt Hon Iain Duncan Smith MP, Launch of the Universal Credit, 11 November 2010 [accessed via: <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/universal-credit/>]

3 Employment fell by 2.7 per cent during the 2008 recession; Gregg P and Wadsworth J, *The Labour Market in Winter*, Oxford: Oxford University Press, 2011, p12

4 Organisation for Economic Co-operation and Development (OECD), *OECD Employment Outlook 2009, tackling the jobs crisis*, OECD 2009, p119

5 *Ibid*, p146

representing only an estimated one-third of all new vacancies in the economy.^{6,7}

- **Vacancies are not always filled because of local skills shortages:**

Skills shortages in many entry level sectors show unfulfilled demand for labour. For example, the social care sector has a 3.4 per cent vacancy rate, advertising almost 100,000 jobs in a six month period. Furthermore the Manpower Talent Shortage Survey shows that chefs, cooks, restaurant and hotel staff were in the top ten most difficult roles to fill in 2009 and 2010.^{8,9}

- **Vacancies are not always visible:**

Not all vacancies are advertised, many businesses recruit through word of mouth or staff referral, some can arise through serendipitous meetings or conversations.

- **Vacancies are filled by experienced workers:**

Those with second jobs worked on average 9.7 hours per week in addition to their main job. The share of foreign born workers has in the UK has been rising as a percentage of the workforce and higher skilled job seekers often choose to take entry level work because of flexibility, proximity or a lack of higher skilled opportunities.

- **Inflexibility can restrict the ability of employers to create employment:**

For example, we were told how the planning system can limit the ability of business owners to expand their operations or work additional hours, while the benefit system can make it uneconomical for some people to work a few extra hours.¹⁰

2.4 Employment within a normal business is constrained by profitability

Unprofitable companies are unsustainable, and many civic minded employers would say that their primary concern was the financial health of their organisation. This view of employment and business sustainability is the only responsible, long term approach.

Employers' need for labour changes over time, often in response to triggers such as changes in demand, a gap in skills or an employee leaving. Employment can also be affected by technology, automation of a part of the business, or the outsourcing of work to an overseas supplier. These factors can reduce the demand for labour in the UK.

Employers can also change the hours worked by existing employees or use part time, temporary or agency workers to manage variable or uncertain demand. Alternatively, they can change wage levels, depending on employees' willingness to accept a pay cut or a pay freeze. Employment decisions are not as simple as hiring employees or making employees redundant, and are affected by a number of factors; the availability of labour, the outlook for the business, the decisions of competitors and regulation. Crucially, these decisions depend upon how the available options are expected to affect profitability.

6 Office for National Statistics Nomis, *Vacancies - notified by occupation*, 4 April 2011 [accessed via: www.nomisweb.co.uk]

7 HM Treasury, *Full Employment in every region*, London: The Stationery Office, December 2003, para 2.11

8 Ruhs M and Anderson B, *Who Needs Migrant Workers*, Oxford: Oxford University Press, 2010, p139

9 Manpower, *Manpower's Talent Shortage Survey 2011*, May 2011 [accessed via www.Manpower.com]

10 Note that the Government has proposed reforms to the planning system (*Plan for Growth*, Treasury) and the benefit system (Welfare Reform Bill 2011) since coming to power

2.5 Entry level jobs are linked to wealth creation and the rest of the economy

As long as the UK creates wealth, it will continue to generate employment opportunities in both highly skilled and entry level sectors. Wealth generated by the private sector can be used for investment or consumption which in turn creates jobs. Profitable companies attract competitors and investment into an industry, again creating jobs.

Employment in any one sector is affected by economic growth, wealth creation, demand and employment across the rest of the economy. For example:

- Increasing affluence raises the demand for leisure and personal care services;
- Technology can be a direct replacement for labour; factory automation or the rise of internet retailers, for example. It can also spur employment by creating new markets for goods and services;
- There is evidence to suggest that a greater number and higher quality of support jobs are created in areas where there is demand for highly skilled labour;¹¹
- Similarly, the loss of wealth creating industries can have sharp negative effects on employment both inside and outside of the local economy.¹²

Regarding each part of the economy in isolation is restrictive. It is vital that an employment strategy considers how each part of the economy affects all others when deciding which initiatives, sectors and regions to support.



Simon Topman, Chief Executive of Acme Whistles in Birmingham visited by the CSJ

11 Kaplanis I, *Wages Effects from changes in Local Human Capital in Britain* SERC discussion paper 39, London: London School of Economics cited in The Work Foundation, *Welfare to What*, London: The Work Foundation, p45

12 Multiple reports by the International Labour Organisation have estimated the impact of industry entry and departure from a region. Examples include the ICT industry in East Asia [http://www.ilo.org/public/libdoc/ilo/P/09465/09465\(2001\).pdf](http://www.ilo.org/public/libdoc/ilo/P/09465/09465(2001).pdf); Nokia in Finland (unreferenced); Estimation of the impacts of the departure of the motor vehicle industry, Kansas City (unreferenced); and could be extended to analysis of the shrinking manufacturing base in parts of the UK

chapter three

State of the nation: entry level employment

Contextual summary

- The demand for labour has shifted away from entry level skills toward higher skills.
- Demand in entry level sectors has moved from manufacturing towards services.
- This shift in demand has changed the regional demand for labour and led to different, often increased, skills requirements from employers in entry level sectors.
- Employees face increased competition from higher skilled job seekers looking for part-time or flexible employment, more easily available in entry level sectors.
- Entry level sectors have been among the hardest hit in the economic recession.
- The immediate outlook for employment remains uncertain, but the long term trends are that the skills premium will continue to rise. The policy emphasis has to be on raising the skill levels of the UK workforce.

3.1 Long term trends in entry level employment

In a dynamic economy, employment across sectors changes over time. The total number of jobs in the UK economy has grown by 2.2 million over the past 30 years, and the nature of employment has changed. The net rise in overall employment has been driven by growing demand in more highly skilled sectors, while overall demand for low skilled employment has been static. The share of employment by industry has shifted significantly away from manufacturing towards the service sectors. Manual employment in agriculture, manufacturing and construction has fallen, but employment in some service sectors and in highly skilled professions has grown in compensation.

The growth of the highly skilled sectors has generated an increase in demand that often requires local intermediate and entry level services. In manufacturing, demand for low skilled employees has fallen because of technological change and globalisation, low technology manufacturing has moved overseas to low-cost emerging economies. The new jobs created in the UK have tended to be in the service sector, which require a different set of skills from the jobs that have been automated or moved offshore.

Figure 1: Share of employment by industry¹

UK Employee Jobs: by industry	1978 (per cent)	2009 (per cent)	Change in employment 1978 – 2009
Agriculture and fishing	1.7	1.0	-0.7
Energy and water	2.8	0.7	-2.1
Manufacturing	28.5	10.0	-18.5
Construction	5.7	4.8	-0.9
Distribution, hotels and restaurants	19.5	23.5	4.0
Transport and communications	6.5	5.8	-0.7
Finance and business services	10.5	20.8	10.3
Public administration, education and health	21.1	28.1	7.0
Other services	3.8	5.4	1.6
All industries (=100 per cent) (millions)	24.3	26.5	2.2

Since the 1970s, individuals without post-16 qualifications have seen a decline in wages and employment.² While over half of this group is currently in employment, this fell to only 54 per cent in 2009 compared to 63 per cent in 2001.³ They are now at greater risk of redundancy, temporary work and lower wages.

The long term structural trends towards off-shoring, automation of manufacturing and services growth are supported by more recent data over the last decade shown in Figure 2.

Approximately one-third of the UK workforce is classified as low skilled – twice as many as in Sweden and Germany (15 per cent), and more than France, the Netherlands and Denmark (25 to 30 per cent).⁴

15 per cent of 16 to 24 year olds (925,000) are not in employment, education or training.⁵

1 Office for National Statistics, *Social Trends Survey: No 40*, London: Palgrave Macmillan, 2010, p49

2 Steedman H and McIntosh H, *Low skills: A problem for Europe* Centre for Economic Performance, London: London School of Economics, 1999 [accessed via: <http://cep.lse.ac.uk/research/skills/tser/finalreport.pdf> (March 2010)]

3 Eurostat, *Employment rate by highest level of education attained*, March 2010 [accessed via: http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/dataset?p_product_code=TSDEC430]

4 OECD, *Education at a Glance 2010*, OECD [accessed via: www.oecd.org/edu/eag2010]; Table A1.1.a. Educational attainment: 25-64 year-old population by highest level of education attained; low skilled as measured by ISCED 0-3a: qualifications up to compulsory schooling

5 Department for Children, Schools and Families, *NEET Statistics Quarterly Brief Q4 2011*, May 2011 [accessed via: www.education.gov.uk]

Figure 2: Employment by occupation, 2001 – 2010⁶

Occupational Sector (thousands)	2001 Q2	2008 Q2	Per cent change 2002 – 2008	2010 Q2	Per cent change 2002 – 2010
Skilled Trades Occupations	3,247	3,221	-0.8	3,094	-4.7
Personal Service Occupations	2,009	2,432	21.0	2,540	26.4
Sales and Customer Service Occupations	2,162	2,228	3.0	1,940	-10.3
Process Plant and Machine Operatives	2,335	2,083	-10.8	1,896	-18.8
Elementary Occupations	3,391	3,411	0.6	3,201	-5.6
Total Entry Level Occupations	13,144	13,375	1.8	12,671	-3.5
<i>Full Time (per cent)</i>	57.3	56.0	-1.2	53.4	-3.9
<i>Part Time (per cent)</i>	29.5	28.9	-0.7	30.5	1.0
<i>Self Employed (per cent)</i>	12.3	14.5	2.2	15.4	3.1

- Employment in skilled trades has fallen overall, though this fall appears largely cyclical. The drivers have been a fall in metals, vehicles and printing, while the agriculture, construction and food sectors have grown.⁶
- Demand for personal services has grown significantly, driven by the healthcare, childcare, education and homecare sectors. Employment in these sectors is driven largely by increasing overall affluence as well as by demographic changes.
- A fall in sales staff has been partly mitigated by higher demand for customer service employees, probably indicative of a technological shift towards online purchases.
- Demand for process, plant and machine operatives, and assembly line workers has continued to fall. The scale of the challenge in growing the UK's industrial base should not be underestimated.
- Demand for elementary occupations such as cleaners and administrators has fallen, but risen for sales and hospitality staff. This supports the view that skill requirements are rising even in elementary occupations.
- The figures also suggest a shift away from full time employment for the low skilled.

The skills premium has grown as demand has shifted toward those with higher skills. The skills base has not been able to keep up as policies designed to raise the skills of entry level workers have faltered, resulting in higher relative wages for skilled workers.

It is hoped that education reforms and apprenticeships will be more effective at raising skill levels, and encourage employers to recruit and train entry level employees to meet their medium and higher skills needs.

⁶ Centre for Social Justice analysis on the Office for National Statistics Labour Force Survey [accessed via <http://www.statistics.gov.uk/STATBASE/Product.asp?vnk=14248,01/05/11>]

The pool of labour looking for entry level work has grown while demand for entry level work has fallen.⁷ For many, the status of new entry level jobs and the changes in skill requirements (towards high levels of customer service) have acted as barriers to employment, reducing their motivation for and capacity to perform in the new jobs created. These factors have contributed to a rising skills premium and lower entry level employment.

3.2 The impact of the recession

The financial crisis which began in 2008 ended over 15 years of continuous economic growth and significantly changed the job seeking environment. National output fell by 5.9 per cent and employment by 2.7 per cent; much of this decline in employment has hit the low skilled.^{8,9} The outlook for employment, particularly employment for job seekers furthest from the labour market, remains uncertain.

Although the UK has begun to emerge from recession towards a tentative recovery, the employment statistics from 2007 to 2011 clearly show the negative impact that the recent economic recession has had on overall employment.

Figure 3: Employment Statistics, December to February 2007 and 2011¹⁰

Employment statistics (Dec – Feb)	2007	2011
Employment	74.3%	70.7%
Unemployment	5.5%	7.8%
Claimant Count	2.9%	4.5%
Inactivity	21.2%	23.2%
Vacancies	636,000	482,000
Total number in employment	28,982,000	29,233,000

Importantly, however, the total number of people in employment increased over the same period (2007 –2011) by 250,000 to 29.2 million, and it is important to recognise that the recession, whilst very difficult for many people, did not have the devastating impact on employment that might have been expected given the fall in output. Gregg and Wadsworth found that the impact on employment was mitigated by:

7 For example, 1.4 million people have been on out of work benefits for nine of the last ten years (Department for Work and Pensions, Speech at the launch of the Universal Credit), higher skilled job seekers and migrants are applying for entry level roles, reforms to welfare notably the change from Incapacity benefit to ESA is likely to increase the number of job seekers without recent experience of work looking for jobs.

8 Gregg P and Wadsworth J, *The Labour Market in Winter*, Oxford: Oxford University Press, 2011, p12

9 OECD, *Employment Outlook 2010*, OECD, 'As in past recessions, employment fell most sharply for the least skilled workers', p21 [accessed via <http://browse.oecdbookshop.org/oecd/pdfs/browseit/8110081E.PDF> (March 2010)]

10 Office for National Statistics, *Labour Market Statistics*, April 2007 and April 2011 [accessed via www.statistics.gov.uk/pdffdir/lmsuk0407.pdf and <http://www.statistics.gov.uk/pdffdir/lmsuk0411.pdf>]

- Employers investing retained profits and taking a longer term view of profitability;
- A fiscal stimulus provided by the Government;
- Greater worker flexibility, whereby many of those who lost their jobs found a new job quickly were flexible about hours, wages, the type of work they were willing to do and the distance they were prepared to travel to work.^{11,12}

The employment rate for the least educated individuals and those living in deprived areas has been among the hardest hit in the recession, with the majority of job losses in manufacturing, construction, low value service industries and amongst manual and unskilled workers.^{13,14}

These higher levels of unemployment have increased the competition for jobs. Before the recession in 2008, there were 2.4 job seekers per vacancy; that ratio is now 5.9 and even higher in some parts of the country.

The ratio of people claiming job seekers allowance per vacancy notified to JCP across the UK has increased.

Figure 4: Job seekers per vacancy (Great Britain)¹⁵

	May 2008	May 2011
Vacancies (notified to JCP)	341,317	247,038
Claimant Count (JSA)	807,191	1,446,269
Ratio	2.4	5.9

These ratios need to be interpreted carefully, as JCP is notified of only an estimated one-third of all vacancies in the economy.¹⁶ The ratio is highest in London (South and East London JCP districts each had an estimated 13 job seekers per vacancy in May 2011) indicating that the problem is not simply low levels of job creation. Other UK regions also face significant claimant to vacancy ratios, for example the West Midlands, North West England, Merseyside and parts of Scotland all currently have ratios of around nine claimants per vacancy within JCP!¹⁷

An already competitive job market in entry level work could see additional job seekers as a result of public sector redundancies and fewer opportunities for intermediate level employment.

11 Ibid

12 Ibid, p20

13 Ibid, p19 figure 1.8

14 The Work Foundation, *Welfare to What? Prospects and challenges for employment recovery*, London: The Work Foundation, January 2011, p22

15 Office for National Statistics, Claimant count and Job Centreplus notified vacancies, Labour market statistics May 2008 and May 2011 [accessed via: www.nomisweb.co.uk]; regional ratios are calculated by JCP district

16 HM Treasury, *Full Employment in every region*, London: The Stationery Office, December 2003, para2.11

17 Office for National Statistics, Claimant count and Job Centreplus notified vacancies, Labour market statistics May 2008 and May 2011 [accessed via: www.nomisweb.co.uk]; regional ratios are calculated by JCP district

Many higher skilled job seekers take entry level work for reasons of convenience, a preference for flexible or part-time employment for example, while others take entry level work out of necessity. Employment in higher and intermediate skilled sectors has an important impact on entry level employment, and the Government should continue to aim to stimulate employment growth across the economy.

3.3 The future outlook for entry level jobs

The immediate outlook for entry level employment remains uncertain. The resilience of employment despite the steep fall in output during the recession has been important.



A workman on a site in South Wales

Rising commodity prices and the risk of higher interest rates and wage inflation could result in further cost pressure on firms and households. This may constrain growth and employment, and as in previous slowdowns is likely to have the greatest impact on entry level employment.

The Office for Budget Responsibility (OBR) expects private sector employment to rise by 1.3 million between 2011 and 2015, partly offset by a fall of around 400,000 in the public sector.¹⁸ Their growth forecasts to 2015 do not exceed three per cent, which is lower than in past recessions.

Figure 5: The outlook for growth and employment¹⁹

OBR Forecasts	2009	2010	2011	2012	2013	2014	2015
Gross domestic product (GDP)	-4.9	1.3	1.7	2.5	2.9	2.9	2.8
Unemployment (per cent)*	7.6	7.9	8.2	8.1	7.6	7.0	6.4
Claimant count (millions)	1.53	1.50	1.54	1.53	1.43	1.31	1.18
Government employment		5.7	5.6	5.6	5.5	5.3	5.3

*International Labour Organisation Definition, all people actively seeking work

The most recent Manpower Employment Outlook Survey found a benign outlook for UK employment overall, with a three percentage point increase quarter on quarter and a two point rise year on year. 79 per cent of employers surveyed expect to make no change in employment.²⁰

18 The Office for Budget Responsibility, *Economic and Fiscal Outlook*, London: The Stationery Office, 23 March 2011, p6

19 Ibid, p33, table 3.1

20 Manpower, *Manpower Employment Outlook Survey*, Q3 2011 [accessed via: <http://www.manpowergroup.com/press/meos.cfm>]

Over the longer term, the economic recovery is expected to be driven by high growth firms generating wealth and employment in high-tech, innovative sectors and driving demand in support sectors.²¹ This suggests that the skills premium (the pay gap between high skill and low skill sectors) will continue to grow. Thus, the policy emphasis has to be placed on raising the overall skill levels of the UK workforce.

21 NESTA, *Rebalancing Act*, June 2010 [accessed via: <http://www.nesta.org.uk/>]; The Work Foundation, *Britain's Quiet success Story: business services in the knowledge economy*, London: The Work Foundation, May 2011

chapter four

Government policy and entry level employment

Contextual summary

- Economic growth depends on many external factors and while the Government has limited influence over private sector employment, it can provide the right conditions for growth.
- Long term growth depends on structural issues, largely on the supply side of the economy in areas including education, mobility and enterprise.
- The Government should continue to make positive reforms in the context of a tight fiscal environment. Welfare reform, reduced business regulation, and encouraging mentors and apprenticeships all support entry level job seekers.
- A culture of mentoring and support would have benefits across the economy. The main barriers to growth are a lack of access to advice, the costs (financial and emotional) of starting a business and the perceived risks of becoming an employer.
- However, efforts to rebalance the economy geographically are failing to convince local business owners and the proposed immigration cap will harm competitiveness over the long term unless underlying structural issues are addressed.
- The Government should tackle underlying issues in the economy; these include skills, wage levels and labour mobility to improve access to employment.
- Employers' main concern is the employability of candidates. This is a challenge for both education and wider society because too many young people are leaving school without basic employability skills. An increased focus on responsibility could have a positive impact.

Employment has shown remarkable resilience given the six per cent fall in national output in 2008 and 2009. The UK is beginning to emerge from the recession, but there remains considerable uncertainty over the long term outlook for the economy, in particular the potential for jobs to be created in the period to come.

Reducing the deficit and encouraging private enterprise are the key elements of the UK's economic strategy. The Government aims to re-balance the economy through a private sector led recovery, with an economy less dependent on public funds, less dependent on particular business sectors (notably financial services) and better balanced geographically so that all parts of the UK benefit from growth.

*'Across a whole range of areas you're going to see the most pro-business, pro-growth, pro-jobs agenda ever unleashed by a government. It's time we looked forward to a positive, strong, confident Britain. By developing the right skills and jobs I am determined that the many not the few will share in the country's prosperity.'*¹

The Prime Minister, David Cameron

However, this will not be an easy task given the immediate outlook for growth and the limits of the Government's influence over external factors such as the competitiveness of other countries and other potential economic shocks such as rising commodity prices.

The plan for growth²

The Government's principal priority is deficit reduction, a necessary step for long term economic prosperity. The Chancellor's first budget focused primarily on reducing public expenditure. The second budget placed the emphasis on growth.

The key elements of the plan for growth include:

- Tax reform: lower corporate taxes and a more simple and certain tax system;
- Facilitating start-ups and business growth: a more competitive economy with a lower regulatory burden and a faster, business-friendly planning system;
- A more balanced economy: an increase in exports, investment and higher private sector employment, especially outside of London and the South East;
- A more educated workforce: increased support for apprenticeships and more young people in employment or learning.

This CSJ review does not cover the tax system but the other three aspects of the Government's Plan for Growth – barriers to enterprise, rebalancing the economy and education and skills are discussed in this chapter, primarily with regard to entry level employment.³ The impact of immigration within entry level employment is also covered in the context of the Government's immigration policy.

Entry level jobs has a limited impact on growth because of its low value, and the focus of government policy is on highly skilled sectors. However, it is essential that the Government monitors entry level jobs alongside highly skilled sectors and GDP growth because of the huge positive social impacts of employment, and the harm caused by unemployment.

1 Speech by the Prime Minister; David Cameron, Rebalancing the economy: Private sector jobs and Growth, January 10 2011 [accessed via: <http://www.number10.gov.uk/>]

2 HM Treasury and the Department for Business, Skills and Innovation, *The Plan for Growth*, London: HMTreasury, March 2011

3 Business tax rates are under annual review by the Treasury; The Office for Tax Simplification (<http://www.hm-treasury.gov.uk/ots>) have been asked by the Treasury to review the tax administration of small businesses, which may have an impact on reducing barriers to enterprise

4.1 Barriers to enterprise

The ease with which a person can start or grow a business is critical to economic growth and development. Common complaints from business owners include burdensome regulation, the planning system, poor infrastructure or a lack of access to skills and finance. Many policy-makers and business advisors believe that the barriers to starting a business and small business growth are largely perceived; therefore both the barriers and people's perception of them need to be reduced.

Perceived barriers to starting a business can be personal; the fear of failure, or not seeing oneself as a business owner. The perceived challenges of growth are also high, and becoming an employer can feel like a big step that many businesses are reluctant to take. However, small business owners in entry level sectors, no matter what their academic background, can prove to be exceptionally talented business people. Self-employment can be an option for people unable to access traditional employment, as exemplified by the many successful small businesses across the country and the size of the informal economy.

Established businesses do, however, provide the vast majority of entry level employment in the UK and are an important source of employment growth. They also employ highly skilled managers who make investments to help their business to grow, thrive and continue to employ people.

Test trading: the informal economy⁴

We were told that many job seekers moving into self-employment often (but not always) undergo a period of test trading. This is often informal, where they begin with a single or small number of clients to see if the business is viable. This can sometimes lead to longer term informal, or illegal trading. The informal economy is estimated to be worth around 13 per cent of GDP.⁵

Welfare to work providers and community organisations told us that many informal businesses would be viable in the formal economy. The lack of a clear path to formalisation restricts the ability of these businesses to grow and therefore create jobs. Barriers within the benefit system tend to block formalisation and encourage undeclared activity.

Convincing informal traders of the benefits of formalisation, by for example, highlighting the greater potential for business growth through open advertising, should work alongside strategies to reduce the costs of formal trading – potentially through reform of the benefit system. Informal traders have done the hard work of selling to clients; a simple path to legitimise trading could increase job creation and recognise their contribution to the local economy.

4 Schneider F and Enste D, *The Shadow Economy: An International Survey*, Cambridge: Cambridge University Press, 2002, p38 (most recent estimate 1997); the informal economy refers to that trade of legal goods and services whose sale is undeclared; this is supported by evidence from www.neednotgreed.org.uk, evidence from a roundtable on informal employment (GLA, May 2011) and conversations with welfare to work providers discussing self-employment, in evidence to the CSJ

5 Schneider F and Enste D, *The Shadow Economy: An International Survey*, Cambridge: Cambridge University Press, 2002, p38 (most recent estimate 1997). The informal economy is defined as the provision of legal goods and services through undeclared or illegal production, they key drivers are thought to be the tax and benefit system, the complexity and number of business regulations and the levels of enforcement

Below we consider the factors that can facilitate or hinder business start-up and growth.

Success factors and barriers in entry level sectors

Our evidence gathering with business owners and employers identified that the following factors can contribute to a business start-up's success or failure. The main success factors were the choice of business sector, experience within that sector and the personal characteristics of the individual. The main barriers to business success and growth were a lack of good business advice, complex business regulations, and poor or difficult to access banking services.

Choice of business

Knowledge of an industry gives an insight into the effort required, opportunities for innovation and the profit potential of self-employment. Successful start-ups tend to operate in established business sectors, often where the business owner has previous experience. Painters and decorators, caterers, removal companies, childcare providers, and a security and training company were all entry level start-ups that informed our research.



Jon Coppard, founder of the start-up sportsadvocate.co.uk

Personal characteristics

Business advisors who are able to influence business owners and elicit these positive characteristics can have a large impact on success. The personal characteristics and motivation of the business owner are important. The drive to work hard, the flexibility to change things that are not working, and the ability to meet people to work with and sell to are important traits.

Access to professional, face-to-face advice and support

An experienced mentor can provide support. Alternatively, clear, simple and well publicised guidance from government can reduce the need for additional advice. Successful business owners tend to have support from trusted and experienced business advisors. An advisor helps with

business decisions and overcoming business challenges. This is commonly an accountant or fellow business person; however we met many business owners supported by organisations in the voluntary sector.

The challenge is not a lack of information, but who to turn to for help and advice with decision-making. There is no lack of information on business regulations or advice to set up a business; the problem is that with too much information a need arises for trusted advice to support decision making.

Banking services

Improving financial literacy, business planning and reducing the barriers to accessing a bank account would help entry level start-ups. Poor financial literacy and limited access to advice means that banking services can be difficult to use, some people can struggle even to obtain a bank account because of difficulties with paperwork. Banks provide information and support through their branch network and online, but they are restricted in their ability to provide advice and banking provision by financial regulations and their internal risk processes.⁶ Problems accessing banking services can affect employment as well as business ownership as most employers are setup to pay directly into a bank account. Though access to finance is an issue for many businesses, it was rarely raised in our interviews with start-ups in entry level sectors, we were told that start-up capital is not always a requirement and is often less than originally expected.

Regulation

*Good practice in some areas of government demonstrates that many regulatory costs are avoidable and can be reduced without affecting conditions for business owners or employees.*⁷ Business owners on the whole accept the need for some regulation, for example, the minimum wage was accepted by most employers as a 'cost of doing business' that guarantees minimum standards for employees, though some employers pointed out that higher wage levels were necessarily traded off against higher employment.⁸ Our research found that business owners were frustrated mainly by what they perceive to be cumbersome, avoidable or unnecessary legislation that can lead to costs through wasted management time or business delays.

Business start-ups as a path to economic independence

The Government, business owners and a number of voluntary sector groups believe in the potential for self-employment as a path out of economic dependency. We talked to a number of business owners without academic qualifications, but with the right drive and attributes for self-employment and business ownership.

⁶ A number of banks cited money laundering regulations and the Financial Services Authority procedures that they have to follow before they setup a bank account

⁷ Appendix A contains further information on the challenges of regulation and examples of best practice

⁸ The minimum wage was at an acceptable level for the employers we spoke to; however they asked us to recognise that wage levels do lead to a trade off between employment and income. This was illustrated when the client of a cleaning company asked their suppliers to pay all staff a 'London Living Wage'; this ultimately led to a negotiation whereby overall hours were reduced by the budget holder for cleaning services

The people we spoke to chose to setup a business because they wanted to work for themselves, or because they needed to support themselves and their families when traditional employment was hard to access. This was often either because of a lack of employment in the region, or gaps in their work history. The majority of business owners we met were sole traders, though some employed a handful of people and one individual started a company that grew to over 200 employees in two years.

Case study: Securi-Care⁹

Securi-Care provides security staff, stewards and training for events held across the UK, and employs over 200 people on a flexible basis. The business was launched with the support of Advantage42, a business consultancy providing pro-bono support for people from disadvantaged backgrounds including ex-offenders.

It was setup in 2010 by Michael McCormack, who wanted to be a business owner, and as an ex-offender had experienced constant rejection when applying for jobs. Self-employment offered a more favourable alternative.



Michael McCormack (far left), founder of Securi-Care security and training

The main barriers facing Michael's start-up were his criminal record and lack of employment history. These made it difficult or more costly to obtain licenses, insurance and business finance. This was coupled with the challenges of a difficult business environment and the management of clients and employees.

Advantage42 provided a support framework from which Michael was able to build his idea into a business. Initial advice to reduce start-up costs, support to help overcome the early barriers of advice on licensing, finance and employment, alongside long term support and help with key business decisions has been invaluable and critical to Securi-Care's success.

The Government has introduced the New Enterprise Allowance Scheme (NEAS) to support job seekers out of work for six months or more with access to business support and start-up

⁹ CSJ Interview with Securi-care and Advantage42, 23/02/11

capital. International evidence suggests that the take-up of self-employment support schemes like NEAS is less than five per cent of the eligible population, but many of the contributors to our report believe that the potential for self-employment is far greater if start-ups are supported by well designed schemes.¹⁰

Small business owners and business advisors broadly welcomed the NEAS, however, past attempts at government-funded self-employment support were criticised for being too rigid and process oriented, without being consultative.

Successful business advisors identified the following factors as important to the provision of self-employment support:

- Initial face-to-face contact to build trust, rapport and improve judgement when assessing a client and the ability to re-direct clients that are unlikely to be successful in business;
- Strong influencing skills and advisors that are able to talk about their own experiences of success, and importantly of failure, can help to lower the emotional barriers (such as fear of failure) to starting a business;
- Advisors with the authority to make decisions and act quickly to help those with business potential to start trading, capitalising on the energy of the client and helping them to reach a conclusion on the viability of the business quickly and at a lower cost;
- A focus on assessing and improving the planning ability of the client, rather than on written business plans and other administrative processes.

There are concerns that business support initiatives such as NEAS can lead to 'deadweight' (the recipient would have been successful without business support) or 'displacement' (existing businesses in the sector shrink because of increased competition) costs. Around one third of new businesses in the UK fail in their first two years, with less than half surviving beyond five years.¹¹ A review of enterprise schemes found evidence of high failure rates (15 to 60 per cent) low levels of additional jobs created (half a job per surviving business) and high deadweight effects.¹²

However, the same report found a positive impact on future employment rates for those who tried business ownership, even if their business was unsuccessful. Targeted schemes that offer high quality, long term, simple and accessible business advice have the potential to be effective in reducing economic dependency.

Recommendation:

Encouraging a culture of mentoring and personal development will have benefits across the economy. Business support that provides relevant and useful advice to business owners and encourages business owners to support one another is likely to be cost effective. An experienced advisor can support new businesses and help existing businesses to grow.

¹⁰ The World Bank social protection unit, *Active labour market policies: Policy issues for East Asia*, December 1999

¹¹ Office for National Statistics, *Business demography 2009* [accessed via: <http://www.statistics.gov.uk/>]

¹² The World Bank social protection unit, *Active labour market policies: Policy issues for East Asia*, December 1999

Recommendation:

The Government should invest effort in developing clear guidance on regulation that is relevant, easy to understand and accessible for business owners. This is not a simple task, but can be improved through intellectual effort and ongoing reforms to simplify and remove cumbersome or unnecessary regulations.¹³

- a. Better publicising of clear guidance through telephone support and online services would lower the barriers to business and support job creation.
- b. Government funded business support services should aim to transition their clients to paid for services or support through their own business network.
- c. The Government should develop a simple and transparent path to formalisation for informal traders. This could potentially allow for a period of test trading, highlight the benefits of formalisation and ease the transition to self-employment as part of proposed welfare reforms.

Making it easier to start and grow a business will help to stimulate employment across the economy. Clear and simple guidance, alongside support from an experienced advisor can stimulate enterprise, while well designed and targeted self-employment support can be cost effective in improving employment prospects for many long term job seekers.

4.2 The resilience of regional economies

The impact of the recent economic recession is varied across parts of the UK, and the Government's deficit reduction will not be felt evenly across the country.¹⁴ Some regions will face greater challenges than others in stimulating private sector growth. At the same time, many large cities, including London, have higher unemployment than the UK average despite a vibrant private sector, which emphasises the need to take a regional approach to employment challenges.

Pre-recession growth was at least partly dependent on public funds and many of these funds are being withdrawn in response to the budget deficit. Public sector job losses will be compounded by less money for regional development and the loss of employment programmes such as the Future Jobs Fund.¹⁵

'In some areas, the challenge is perhaps a lack of jobs. But Leeds, for example, has had a lot of economic growth. The problem is that it is a divided city with prosperous and poor areas – not a lack of jobs.'

Member of the CSJ poverty fighting alliance in evidence to the CSJ

¹³ The challenges of regulation and examples of good practice are discussed in Appendix A

¹⁴ PricewaterhouseCoopers, *Sectoral and regional impact of the fiscal squeeze*, London: PWC, October 2010, p23 [accessed via: www.psrc.pwc.com]

¹⁵ The Regional Growth Fund (RGF) will be worth £1 billion for two years (2011-2013), while the RDAs had a budget of £1.4 billion per annum outside of London [accessed via: www.englandsrdas.com]; Local Enterprise Partnerships (LEPs) will be bidding for a little over one-third of the funding through the regional growth fund than was available through the regional development authorities. Central government funding for programmes including the future jobs fund has been withdrawn while local authorities are making budget savings by cutting many local grant supported employment support programmes

Though most of the employers we spoke to understood the need for, and broadly agreed with, the economic strategy of deficit reduction, organisations dependent on public sector investment, contracts and funding were concerned about the practical impact it would have on organisations in their local area.

'If the North East was left to the market, there would be a steady flow of people into other regions. There are too many gaps left by steel, coal and ship building.'

A policy-maker working on regional development in the North East, in evidence to the CSJ

Regional policy-makers were sceptical of the ability of the private sector outside of large cities and the South East to fill the gap in employment left by reduced public sector expenditure. They argued that some regions were fundamentally dependent on public sector spending, and that cuts would 'pull the rug' out from under the local economy, affecting both the public and the private sector.¹⁶



A construction worker in South Wales

The Government aims to support regional private sector growth by giving greater powers to local authorities to stimulate economic activity and introduce enterprise zones (among other initiatives). A regional approach to growth is a positive step in tackling regional economies' distinctly different barriers to growth. However, the extent to which regions will be able to influence the local economy given the reduced funding available and enterprise zones' ability to generate growth without displacing existing economic activity have both been called into question by a number of policy-makers including those contributing to our research.¹⁷

The CSJ has argued that deficit reduction is a priority, but that cuts to public expenditure must be balanced against the long term fiscal, economic and social impact that those cuts will have.¹⁸ The Government needs to recognise the social costs of unemployment and carefully identify and protect expenditure that supports long term economic prosperity and programmes that make a positive contribution to society.

Efforts to stimulate local economies have to be weighed against improving transport and the ability to relocate to areas that are creating jobs. New entry level jobs are more likely to be based on local demand rather than an export opportunity, and so more are likely to be

16 These comments were made in Wales, the North East and Scotland, these three regions are expected to lose the highest proportion of public sector jobs in comparison to their overall employment base; The Local Futures Group, *The barometer of public sector cuts*, July 2010, p6 [accessed via: www.localfutures.com]

17 The Work Foundation, *Do Enterprise Zones Work?*, London: The Work Foundation, February 2011

18 Centre for Social Justice, *Bankrupt Britain*, London: Centre for Social Justice, February 2009; Centre for Social Justice, *Outcome-Based Government*, London: Centre for Social Justice, January 2011

available in fast growing areas. Rural areas and towns without local industry or a strong private sector need access to affordable transport to facilitate access to employment opportunities in other towns and cities nearby.

Job seekers are often willing to travel a reasonable distance to work, but the incentive and ability to move to find work is less for people on low wages or with flexible hours. Policy-makers are concerned that a growth strategy centred on faster growing cities that fails to combine growth with improvements to labour mobility will leave many long term job seekers and the skills their residents have to offer behind. This can mean improving local and regional transport options and sometimes addressing the challenges of geography – transport options in some areas, particularly rural areas such as the valleys of South Wales, can be very limited.¹⁹ It can also mean reforms to housing; both planning policies and social housing policies have an impact on the ability of long term job seekers to relocate to find work.²⁰

Recommendation:

The Government should take a regional approach to growth and balance efforts to generate economic growth with improved labour mobility. The Government should make reforms to both transport and housing to increase options for commuting and relocation, particularly for people in areas with weak employment prospects.

There is genuine concern in regions heavily dependent on public spending over the extent to which the private sector will be able to fill the gap left by reduced public expenditure. While the Government should do all it can to create the conditions for growth, it should also try to expand opportunities for job seekers through improved mobility at a local, regional and national level.

Recommendation:

The Government should take into account the social costs of unemployment in deprived regions and respond quickly to changing economic circumstances. The CSJ has recommended an outcome-based approach to deficit reduction, public spending should take into account the social as well as the fiscal and economic impacts of expenditure.²¹

4.3 Education and skills

Employers and the Government recognise the importance of education and skills to the competitiveness of the UK economy. The Government has taken a number of measures to improve education and skills: it commissioned *The Wolf Report* on vocational education, proposed reforms to education in the education White Paper and introduced an apprenticeship scheme with training subsidies for employers.^{22,23}

19 Mobility for social housing tenants can be restricted by social housing legislation, the CSJ report *Housing Poverty* made a number of recommendations that could improve mobility; The Centre for Social Justice, *Housing Poverty*, London: The Centre for Social Justice, November 2008, p19

20 Centre for Social Justice, *Housing Poverty*, London: Centre for Social Justice, December 2008

21 Centre for Social Justice, *Outcome-based Government*, London: Centre for Social Justice, January 2011

22 Department for Education, *Review of Vocational Education, The Wolf Report*, London: The Stationery Office, March 2011

23 Department for Education, *The Importance of Teaching, The Schools White Paper 2010*, London: The Stationery Office, November 2010

‘One of my staff has a son who turns eighteen and starts looking for work, so they come to me to ask if I have anything.’

Managing Director of a manufacturing company in Birmingham, in evidence to the CSJ

‘We helped a 19 year old get a job, he bought a bike and can take his lass out on a Friday – they all want a job after that.’

Flexible New Deal provider in South Wales, in evidence to the CSJ

Though the Government can influence the incentives and behaviour of schools, colleges and some employers, many of the drivers of educational achievement and employment success come from the family, peer groups and wider society. As much of the CSJ’s policy work has revealed, these personal influences have important effects on access to job opportunities, employability and future life outcomes.²⁴

The Wolf Report places the emphasis firmly on basic skills, particularly literacy and numeracy. The education White Paper focuses on social mobility (i.e. additional resources for deprived pupils, measuring the achievement of pupils from deprived backgrounds) over employability and preparing young people for work. Proposals in both papers are supported by the Government. A greater focus on basic literacy and numeracy, supported by an extra two years of compulsory education may help to tackle the skills premium, however, our research found that for entry level employers a lack of basic employability is the biggest barrier to employment.²⁵

Employability

‘Employability’ includes a range of skills but was helpfully summarised by one employer through the acronym ‘PRIDE’:

P – Professionalism: Work to a consistently high standard and present the business well;

R – Reliability: Turn up regularly, call if unavailable and to be on time;

I – Interest: Want to come to work, learn about the work and improve;

D – Determination: Carry out challenging tasks, and overcome difficulties and hurdles;

E – Enthusiasm: Enjoy work and contribute to the team.

Employability also refers to qualities such as attitude, awareness, aptitude and likeability discussed in Chapter Five and Appendix C.

²⁴ The Centre for Social Justice, *Breakthrough Britain*, London: The Centre for Social Justice, July 2007

²⁵ BBC News, *School leavers lacking basic skills, bosses group says*, 9 May 2011 [accessed via: <http://www.bbc.co.uk/news/education-13310246>]; The Telegraph, *Britain’s young people have the wrong skills for the workplace, warn business leaders*, 28 March 2011; CBI, *Education and skills survey Ready to grow: business priorities for education and skills*, ‘Improving the employability skills of young people entering the labour market is businesses’ top priority’ May 2010 [accessed via www.cbi.org.uk]

Many employers told us that they believe students should leave education 'work ready' and that currently, too many students fall short. Timekeeping, self-awareness, confidence, presentation, communication, teamwork and an ability to understand workplace relationships are too often below the standard required, particularly in younger job seekers. This skills deficit is also in evidence among older job seekers and it falls to employment intermediaries who support adult job seekers to improve their employability skills. The Work Programme was established in part because of this need to develop or re-establish these skills in older job seekers.

Responsibility

The UK's education system is focused on the '3 R's': Reading, Writing and Arithmetic – this is rightly the main area of focus, and necessary to tackle the growing skills premium discussed earlier in the report. However, employers expect schools to equip candidates with a wide range of basic skills which are too often found lacking. This contributes to weak employability within the UK entry level workforce.



A student at CSJ Alliance member IntoUniversity

The education system needs to also focus on a fourth 'R', responsibility: enabling young people to take greater ownership over their future, to seek out the information that they need to make the right choices now, and to understand how their decisions today are likely to affect their future. Promoting responsibility would aim to improve employability and students' attitudes to work.

82 per cent of entry level employers rated attitude and work ethic as important to progression versus 38 per cent for literacy and numeracy.²⁶

CSJ Employer Survey

26 CSJ Employer survey, conducted in October, November and December 2010

Figure 6: The main reasons for turning applicants away at interview²⁷

Reasons for turning applicants away at interview	Response (per cent)
Poor work attitude / ethic	61.9
Poor presentation	57.1
Lack of work history and practical skills	38.1
Lack of soft skills	38.1
Poor reading, writing or numeracy	28.6
Poor work aptitude	23.8
Too much competition for the role	23.8

Responsibility is an issue for all pupils – intermediate job seekers and strong students as well as those who are falling behind academically. Job seekers at all skill levels without basic employability skills struggle to both find and progress in employment. Encouraging responsibility will help people to take advantage of the rising skills premium and people with higher level skills to make use of them in the job market (consequently reducing the competition for entry level jobs). Individuals who are able to build their skills, improve their ability to adapt and meet the demands of a changing labour market are likely to have greater success.

The growing skills premium suggests that improving skills will continue to increase in importance for both job seekers and employers. Employers argue that the impact of the education system on the competitiveness of the UK economy cannot be underestimated. Indeed many employers believe that schools should play a greater role in preparing young people for work. There is evidence from the UK and abroad to suggest that employers are already reaching back into educational institutions to secure future talent.²⁸ At the moment, some employers participate on school boards and support work experience schemes. There is, however, room for more communication, flexibility and interaction between schools and employers. Employers who were interviewed suggested that vocational or workplace based learning alongside classroom study would benefit some students, and teachers who are encouraged to develop through secondments in business may help to raise awareness of employer needs in schools.

The Wolf Report fails to emphasise basic employability skills and the teaching of responsibility in its recommendations. For those students unlikely to achieve five GCSEs, employability skills can enable young people to secure employment, or continue their education through vocational teaching rather than a classroom environment. The education White Paper discusses behaviour in terms of school discipline and does not include reference to responsibility as

²⁷ Ibid

²⁸ Business engagement and involvement in free schools and academies in the UK has been widely discussed. Similar examples of employer involvement in other countries include schools in the United States, www.cristoreynetwork.org; and Trust Schools in Malaysia; Source: PricewaterhouseCoopers, *Rethinking Government: doing things differently*, May 2011, p19 [accessed via: www.psrc.pwc.com].

an educational outcome. It does, however, focus on educational failure, using deprivation as a proxy to help target resources. Positive steps in education policy include the introduction of 'destination data' at age 17 and 19. Outcome measures should encourage schools to focus more on employability and responsibility, which are so relevant to future life outcomes. For example, highlighting the proportion of pupils not in employment or education at age 17 may encourage schools to focus on those students falling furthest behind.²⁹ Foundation learning is another initiative that may help some students by taking a personalised and practical approach to education for low achieving pupils.³⁰

The systematic failure of society to equip many young people with the basic skills and attributes to make them attractive to employers is a serious issue. Entry level employers are concerned about deeply embedded challenges in our education system, failing particularly those pupils most in need of additional support. A greater institutional focus on the fourth 'R', responsibility, in schools could help to improve education and employment outcomes for school leavers.

A greater sense of responsibility across society more broadly is just as important. Tackling the root of the problem, reversing social breakdown, improving family life, community relationships and aspirations, will be the best and most effective policy response in the long term.

Employers and employees should take greater control of training requirements

The perception is that employers under-invest in training, however, our research found that the demand for training from employees in entry level sectors is low.³¹ Employers invest to ensure that their employees meet the requirements of their job. Over 50 per cent of employees in entry level sectors received training in the last 12 months, a similar proportion to that in higher skilled sectors.³²

'Not everyone wants to progress, and not everyone can.'

Employer at a CSJ roundtable

However, employees in entry level sectors are often less able to recognise or realise the benefits of ongoing skills development. The demand for training at the entry level may be lower because:

29 UK Commission for Employment and Skills, *Towards Ambition 2020: skills, jobs, growth*, October 2009, p24 [accessed via: www.ukces.org.uk]; also proposed by the Department for Education, as cited in *The Guardian, Schools to be held accountable for pupils career success*, 17 February 2011

30 Department for Education, *Foundation learning*, September 2010 [accessed via: <http://www.education.gov.uk/16to19/>]

31 Steedman H and McIntosh H, *Low skills: A problem for Europe* Centre for Economic Performance, London: London School of Economics, 1999, p62; Ruhs M and Anderson B, *Who Needs Migrant Workers*, Oxford: Oxford University Press, p175; 'only six per cent of employees in hospitality have attended government funded training courses'

32 UK Commission for Employment and Skills, *National Employer Skills Survey for England 2009*, March 2010, p44; 'entry level sectors' refers to standard occupational codes (SOC) 5,000-9,000; a breakdown of training by employee skill level was unavailable; employers indicated that they provide on the job training to pay for relevant skills and qualifications for all of their employees, including the lowest skilled

- Many entry level employees have had bad experiences of learning in school, or of other training provision that has too often failed to deliver;
- Entry level employees have fewer resources to invest in their own training;
- Entry level employees have limited incentive to develop, with limited pay rises for additional skills and experience.

The Government has proposed reforms to further education: changing funding so that it follows the student rather than the qualification; requiring colleges to publish information on employment outcomes; and announcing increased funding for apprenticeships to encourage employers to recruit and train young people.³³ It has also abolished the Train to Gain scheme and reformed back-to-work support to focus on employment outcomes in response to concerns over the amount of public money wasted on ineffectual skills training in the UK.

'To be honest, if we didn't have money from the Skills Funding Agency we would have paid for it ourselves.'

Owner of a manufacturing company in the midlands, in evidence to the CSJ

Independent research criticised government subsidised employer-led training such as Train to Gain for generating deadweight costs, having limited reach and no assessment of the quality of training provided. Employers that used government programmes tended to use them as a retention tool, or to boost the confidence of employees and improve productivity.³⁴



A student receiving training at CSJ Alliance member City Gateway

Employers told us that candidates can demonstrate employability through volunteering, work experience and employer-led training, and that this was more effective than many

³³ Apprenticeships are discussed further in Chapter Five of this report

³⁴ Department for Education, *The Impact of the Employer Training Pilots on the take-up of training (RR 694)*, London: The Stationery Office, 2005

training qualifications. Employment support should help candidates to become 'work-ready' and able to compete with other candidates for jobs. Employers believe that they train employees in entry level roles relatively quickly from hiring to be productive 'on the job'.

Recommendation:

Schools and wider society should aim to raise individual responsibility, encourage people to develop and skills relevant to employment in order to help them become work ready.

- a. Education should equip all young people with the necessary skills to be employable, for example, by meeting employer standards of behaviour, presentation, teamwork, attitude to work and motivation.
- b. Responsibility applies to everybody. People at all skill levels should be encouraged and equipped to take ownership over their future employment prospects in order to reach their full potential and tackle the growing skills premium.
- c. Policy-makers should recognise the importance of the family and peer groups in the teaching of responsibility to young people. The Government is able to influence institutions involved in teaching and training, however it should recognise that individual decisions are more likely to be influenced by family and friends.
- d. Greater employer involvement in schools could help to improve responsibility and awareness of employers needs. Details as to how this may be achieved will be set out in the CSJ's forthcoming work on education.

Recommendation:

Employers and individuals should drive the market for skills training, not government or training providers. Employers and individuals are better informed than the Government regarding the skills required by the labour market and the courses that best meet their needs.³⁵ Better information on course effectiveness should help to develop courses that lead to both higher productivity and higher earnings. The Government should continue to investigate how to raise the demand for skills training from entry level employees as well as encourage employers to train their workforce.³⁶

4.4 Migration and entry level employment

The share of migrant workers in the economy has risen from 8.2 per cent of the total workforce in 2002 to 13.3 per cent in 2008.³⁷ The rise in many entry level employment sectors, notably food processing and new sectors such as recycling, was even more marked, suggesting a preference by employers for migrant labour.

Highly skilled migrant workers support economic growth and enable UK business to remain at the cutting edge in a number of important industries such as business services and high technology research, design and manufacturing.

35 Proposals to further education aim to provide better information on the effectiveness of training courses and reform funding so that it follows employee demand rather than funding specific courses; UK Commission for Employment and Skills, *Towards Ambition 2020: skills, jobs, growth*, October 2009, p24 [accessed via: www.ukces.org]

36 Apprenticeships subsidise training while allowing employers and employees to choose appropriate training courses that meet their needs

37 Office for National Statistics, *Labour Market Statistics May 2011*, Table 7 – Actual Weekly Hours Worked [accessed via: <http://www.statistics.gov.uk/pdfdir/lmsuk0511.pdf>]

Figure 7: Share of migrants* in total workforce in selected UK industries, 2002 and 2008 (per cent)³⁸

Industry	2002	2008	Per cent change
All industries	8.2	13.3	5.1
Agriculture, Hunting	3.9	6.5	2.6
Food, beverage manufacturing	8.1	21.4	13.3
Construction	4.5	7.9	3.4
Hotels, Restaurants	15.7	23	7.3
Health, social work	10.1	14.1	4

* Migrants defined as foreign born workers

In entry level industries, the case for employing migrant workers is less clear and the drivers complex, particularly when unemployment is high. Employers argue that migrant workers are necessary to address a skills shortage even for entry level work. The benefits of immigration are recognised by Prime Minister David Cameron, but he argues that it has been too high. He wants to reduce net migration – the difference between the number of people entering the UK and those emigrating – from nearly 200,000 a year to ‘tens of thousands’.³⁹

The Rt. Hon Iain Duncan Smith MP speaking at the launch of the Universal Credit pointed out the preference for migrant workers by employers:

*[Inactivity] is one of the reasons why around 70 per cent of the net rise in employment under the previous Government was accounted for by workers from abroad.*⁴⁰

This view that the benefit system was partly to blame was re-iterated by the Prime Minister in a recent speech on immigration.⁴¹ The current benefit system is a major driver of high levels of inactivity, as the CSJ identified in *Dynamic Benefits*.⁴² The Government, to its credit, has proposed radical reforms to the welfare system to tackle persistently high levels of inactivity. The Work Programme will provide support for long term claimants to move into work while the Universal Credit will simplify the transition into work and make work pay for claimants.⁴³ These reforms will help to tackle inactivity, however, there are other factors driving the use of migrant labour by entry level employers.

38 Labour Force Survey 2002 and 2008, cited in Ruhs M Anderson B, *Who needs migrant workers?*, Oxford: Oxford University Press, 2010, p8; Migrants defined as foreign born workers, SIC codes in parentheses

39 Speech by the Prime Minister, David Cameron, Immigration Speech, April 2011 [accessed via: <http://www.bbc.co.uk/news/uk-politics-13083781>]

40 Speech by the Secretary of State for Work and Pensions, Rt Hon Iain Duncan Smith MP, Launch of the Universal Credit, 11 November 2010 [accessed via: <http://www.dwp.gov.uk/policy/welfare-reform/legislation-and-key-documents/universal-credit/>]

41 Speech by the Prime Minister, David Cameron, Immigration Speech, April 2011 [accessed via: <http://www.bbc.co.uk/news/uk-politics-13083781>]

42 Centre for Social Justice, *Dynamic Benefits*, London: Centre for Social Justice, 2009

43 Welfare Reform Bill 2011

The opponents of mass immigration argue that it leads to reduced pay, poorer working conditions and less incentive for employers to recruit and train the domestic workforce.



Yasuko Kimura, from Japan, serving coffee for the Flat Cap Coffee Company in London

Those who support the free movement of labour and migrant employment counter that it opens up the opportunity for employment overseas for UK citizens, and that the flexibility and motivation of migrant workers help to keep UK businesses competitive.

Limitations

This analysis focuses on the economic impacts of migration, particularly the impact on the employment prospects for long term claimants. It excludes the impact of migration on social cohesion, as this is the topic of a forthcoming report by the CSJ.⁴⁴

Even if desired, policy options to restrict immigration are limited. Immigration restrictions would exclude workers from the European Union, people entering the UK for non-economic (family) reasons and the large number of UK residents that were born overseas.

A more effective policy response would be to improve the competitiveness of the UK entry level workforce to encourage employers to recruit domestic labour. To identify which policies would be effective, we need to understand why employers prefer migrant workers.

Data

The findings in this section come from employer interviews and are supported by analysis from Ruhs and Anderson's recent research.⁴⁵

It is worth bearing in mind that migration statistics report on the basis of an individual's country of birth rather than nationality and so often include UK nationals who were born

44 The Centre for Social Justice, forthcoming report on Community Cohesion, expected in Autumn 2011

45 Ruhs M and Anderson B, *Who Needs Migrant Workers*, Oxford: Oxford University Press, 2010

overseas. In 2008, for example, there were 5.3 million working age foreign born individuals in the UK, but only 3.3 million working age foreign nationals.

Similarly, migrants are not directly comparable to the domestic labour force; they are a self selecting group. By choosing to come to the UK to find work they demonstrate desirable characteristics such as mobility, flexibility and ambition, which make them more attractive to employers.

The employer perspective

The employers we spoke to did not express any preference for migrant labour, simply that they recruit the best candidate for the job.⁴⁶

Employers were aware of the benefits of recruiting from their local community and the importance of recruiting a diverse workforce. This is not necessarily a migration issue however, as many foreign born workers are UK nationals (40 per cent of the UK care sector for example).⁴⁷ Recognising the importance of diversity leads to recruitment from within employers' local communities, which can include workers born in the UK and those born overseas.

'They [migrants] arrive at 8.15 for a 9am start and don't start packing up until after 5.30. The 2,000 local JSA claimants won't work there, or won't turn up to work after the first few days.'

A farmer in Bromsgrove, in evidence to the CSJ

Employers told us that what differentiates migrant workers from UK job seekers was their stronger work ethic, the unwillingness of the UK workforce to work at low wages, and the different attitudes and skills of UK and migrant candidates applying to work in entry level roles.

The availability of migrant workers did not lower wages, as most of the employers we spoke to were employing at or a little above the minimum wage. Employers have to pay their entire staff, migrants or otherwise, a premium to reduce staff turnover; promotion and development for staff was done on the basis of ability.

Fundamentally, employers believe that it is the availability and relative productivity of migrants relative to the UK born population that leads to their recruitment.

Analysis

The general consensus is that migrants boost both GDP and average wages, with only limited research supporting the argument that migrants lower working conditions and reduce

46 Our evidence base included employers in the care, hospitality, construction, manufacturing, food production and retail sectors

47 Ruhs M and Anderson B, *Who Needs Migrant Workers*, Oxford: Oxford University Press, 2010, p59

employment opportunities for domestic workers. A recent analysis of the available data found that while many immigrants appear to be in occupations that are 'less skilled than their level of education attainment would suggest', they do not work for lower wages than the domestic population.⁴⁸

The rationale for employers' use of migrant labour points to a growing structural dependence, based on the skills, characteristics and geographical availability of migrants that genuinely does not exist within the domestic population.⁴⁹

Recommendation:

The Government should address the skills, mobility and incentives of UK born workers to reduce the need for migrant workers. The Government should acknowledge the benefits that the entry level migrant workforce brings to the UK, and the trade-offs involved in restricting migration and reducing the supply of qualified entry level workers. The consequences would include higher cost, lower quality domestic services and a less competitive economy, unless long term underlying issues in the economy are tackled.

48 Ibid, pp69-74

49 The reasons for employing migrant labour can be sector specific, a brief analysis based on the research from Ruhs and Anderson can be found in Appendix B

chapter five

Improving access to employment opportunities

Contextual summary

- The main barriers to recruitment are the costs and risks of employing people.
- Employer's perceptions of employment risk can limit access to employment for certain groups, however these can be overcome at interview or work trials, and through improved filtering of suitable candidates.
- Poor selection criteria, the need to filter applicants and a lack of feedback after interviews limits employment opportunities for many good candidates.
- Entry level employers look for employability above additional qualifications; attitude, awareness, aptitude and 'fit' are all important.
- The most common method of recruitment is through word of mouth. Improving the social networks of job seekers to include more people in work could help.
- Intermediaries play an important role in reducing recruitment costs for firms and improving access to employment for particular groups. Building relationships and reputation with employers can help access to jobs for their clients.
- Progression in work can mean different things to different people. For candidates furthest from work, sustainability of employment is the immediate challenge.
- Employers can improve retention through simple actions in the first few weeks of work. A greater investment in management skills can have a significant long term effect, raising retention and overall productivity.

Entry level job seekers are facing very challenging conditions: reduced overall demand, changing requirements for entry level jobs, increased competition for jobs and a growing premium for those with higher skills all serve to weaken their position in the labour market.

Although jobs are constantly being created in a dynamic economy, we cannot be certain what those jobs will be, whether the workforce will be able to travel to them or if they will have the skills to be able to access those employment opportunities. The challenge for the UK is to generate sufficient sustainable employment opportunities to provide entry level positions that are open to those with limited experience, education or skills.

This chapter presents an employer-led perspective; the experiences of business owners and managers in entry level sectors reveal the microeconomic, social and psychological barriers to accessing employment and therefore how employment opportunities might be increased for those furthest from work.

Employment decisions are often constrained by profitability, and the intense level of competition in entry level sectors in the UK means that only the best value firms are able to survive. Though this raises productivity and competitiveness, it means that we have to be realistic in our expectations of employers and who they choose to recruit.

The Challenge

The key stages of the process of creating employment are:

- The decision to hire;
- The recruitment process;
- Job matching, often supported by intermediaries;
- Retention and sustaining employment.

These stages are examined from the perspective of employers and employees, bringing together the supply and demand for work. We also look at the role of employment intermediaries in matching workers to jobs, and supporting employment for job seekers furthest from work into employment.

5.1 The decision to hire

The decision to hire can be dependent upon macroeconomic policy, economic growth and the availability of suitable candidates as discussed in Chapter Four. Furthermore, the interaction between employees and job seekers can affect employment.

From an employer's perspective, the decision to hire is not taken lightly. We were told of how employment adds costs to the business and the trust that is required when recruiting a new employee.

If the costs and perceived risks of recruitment are reduced, the employer will be more likely to recruit. Policy-makers can aim to reduce the costs and perceived risks of recruiting job seekers without recent experience of work to improve access to employment for this group.

Cost

The costs of employment consist primarily of wages but also includes a number of associated costs which can make the 'fully loaded' costs of employment significantly higher than the hourly wage.¹ These include the costs of recruitment, employee benefits, (i.e.

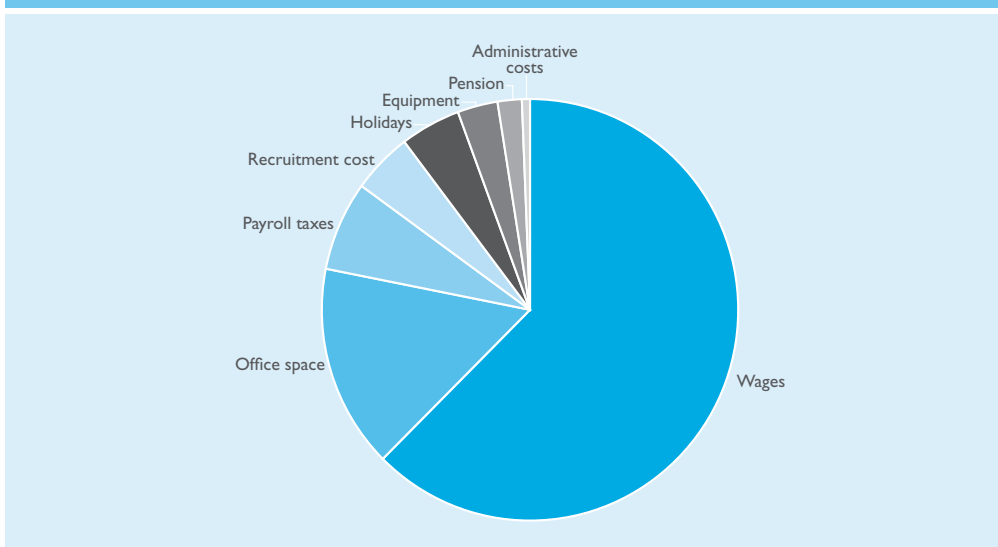
¹ The chart shows the author's indicative estimate of fully loaded cost; at the minimum wage, the fully loaded cost in this estimate would rise from £6.11 to £9.78

pension contributions and holidays), facilities (i.e. office space and equipment), payroll taxes and administrative costs.

Employment costs in entry level jobs are largely determined by employment regulations, particularly the minimum wage, which will rise to £6.08 per hour in October 2011.² Changes to the minimum wage and other regulations can impact on employment, profits and working conditions.

In Chapter Four and Appendix A we argue that it is possible to reduce the cost of complying with regulation and raising competitiveness without additional costs to employers or loss of benefits to employees.

Figure 8: Example of total employment costs for a full time employee³



Risks

Employment costs carry a degree of certainty, however a recruitment decision is inherently uncertain and employers take a risk each time they recruit. Good recruitment decisions benefit employers greatly, they improve profitability and free resources for other business activities. However, a poor recruitment decision can lead to wasted management time searching for a suitable candidate, wasted time and resources training the employee, and in extreme cases it can cause disruption or incur legal costs. Taking on an employee who turns out to be unproductive or who requires intensive support can be a drain on the business, and an employer's experience of recruitment can inform who they recruit in the future.

'I know when I made a bad recruitment decision because my staff tell me I did'

McDonalds franchise owner, in evidence to the CSJ

² Low Pay Commission, *National Minimum Wage Report 2011*, London: The Stationery Office, April 2011

³ The chart shows the CSJ's indicative estimate of total employment cost; at the minimum wage, the total employment cost in this estimate would rise from £6.11 to £9.78

A poor recruitment decision can have a ripple effect, increasing the perceived risk of recruitment, reducing the likelihood of future employment creation and harming the employment prospects of other motivated and willing job seekers.

Prejudice

Employers, job seekers and intermediaries all expressed concern that employers too often filter out capable and motivated candidates because of prejudice and false perceptions of risk. Employers may also be concerned about how they or their brand will be perceived if they are found by their customers and their staff to employ 'high risk' candidates. For example, some recruiters screen out candidates with prior criminal convictions regardless of the offence or when it was committed.

The majority of employers do not discriminate, and many companies report business benefits including reduced recruitment costs, higher retention and improved productivity by recruiting from 'disadvantaged groups'.⁴ However, there is room for more employers to critically appraise their recruitment practices to identify core criteria that eliminates unnecessary bias and unintentional discrimination in the recruitment process.⁵

5.2 The recruitment process

The recruitment process is about matching the right people to the right jobs and it determines who has access to employment opportunities. This chapter looks at the recruitment process of entry level firms and considers how employers can open up opportunity to more qualified candidates and how job seekers can improve their chances of securing employment.

Availability and access to employment are largely determined by the skills, motivation and mobility issues raised in Chapter Four. However, individual factors can determine availability for work and access to the recruitment process.

Though candidates want to work, their availability for work is affected by what they want to do, how far they are willing to travel and how work fits into their other responsibilities. Job seekers accept the need to show a (varying) degree of flexibility over the type of work they are willing to accept. Candidates that select which vacancies they apply for can reduce recruitment costs for employers and improve the effectiveness of job matching. Employers often look for evidence of self selection as part of the recruitment process.

Who to recruit?

Entry level employers do not generally require employees to have any previous experience of work, instead they look for a base level of 'employability' and screen for particular qualities when recruiting.

4 Business in the Community, *Work Inclusion: A guide to best practice*, London: Business in the Community, October 2010 and CSJ primary research interviews with entry level employers

5 Lessons for employer engagement by intermediaries working with more disadvantage groups can be found in Appendix D of the main report



A visit to a CSJ Alliance member

The most important characteristics that employers look for are:

- a) An attitude that demonstrates a positive work ethic;
- b) An awareness of what the role entails;
- c) An aptitude for the basic requirements of the role;
- d) 'Likeability' and an individual's 'fit' within the organisation.⁶

Improving candidates' consciousness of the importance of attitude, awareness, aptitude and 'likeability' can help job seekers to find, secure and sustain appropriate work opportunities.⁷ In particular, learning to appreciate these from an employer's perspective can increase the chances of finding and securing work.

Employment intermediaries are well placed to communicate these desirable characteristics to job seekers and provide feedback to improve a candidate's future chances.

How to recruit

The ability to identify and recruit the right people can reduce both the costs and risks of employment. All employers look for attitude, awareness, aptitude and 'fit', but their screening of candidates varies by the size of the firm.⁸

Small companies tend to rely on informal networks and word of mouth referrals ahead of formal applications and advertisements. Unadvertised vacancies like these can exclude many job seekers, though it can increase trust and keep recruitment costs low.

⁶ Higgins C A and Judge T A, *The Effect of Applicant Influence Tactics on Recruiter Perceptions of Fit and Hiring Recommendations: A Field Study*, Journal of Applied Psychology 89, 2004, p358-365 cited in Wiseman R, *59 Seconds: Think a little, Change a lot*, Macmillan: Oxford, 2009, p43-49

⁷ These characteristics are described further in Appendix C

⁸ The characteristics 'attitude, aptitude, awareness and fit' are discussed further in Appendix C of the main report; an overview of the findings of how recruitment can vary by the size of the firm can be found in Appendix F

Employment law and tribunals

Employment law is often viewed as a support function, rather than as a part of the core business. The understanding of employment law and employer responsibilities is mixed, with concerns particularly among smaller companies and business owners trading alone. Many employers regard the tribunal system as inconsistent, high risk and costly to business. They see some candidates as a greater tribunal risk than others.

'Some people are unsuited to work. They play the system, blame others for their problems and resort to tribunals. Understandably, this acts as a barrier to them being taken on.'

Manufacturing company in evidence to the CSJ

The Government has proposed a review of employment law and the tribunal system that is widely expected to rebalance the system in favour of businesses.⁹

Entry level employers want the Government to focus on the consistency of judgements and the speed of resolution. They also want to discourage employees from 'chancing their arm' particularly in relation to discrimination claims.

Employers are often advised not to provide feedback to candidates to reduce recruitment costs and to reduce the risk of litigation. The application of employment law at the interview stage should be reviewed to encourage employers to give honest feedback. Even basic feedback can be helpful, and best practice examples show that it can be provided at low cost.¹⁰ Candidates told us that a lack of feedback was demoralising and that they were not able to learn where to improve.

Medium sized companies take referrals from existing employees but also use recruitment companies and post job advertisements online. Knowing people in work can support the job search process; even large companies told us that ten to 20 per cent of their recruitment was through word of mouth.

92 per cent of companies surveyed recruit a portion of their staff through word of mouth recruitment and informal networks.

CSJ Employer Survey, January 2011

Large employers accept direct applications through a standardised application form, increasingly completed and submitted online. A growing number screen candidates using psychometric tests to find evidence of characteristics required for the role. This helps to reduce recruitment costs and concentrate resources on seeing more candidates during the interview process. They can alter the screening criteria, for example by raising the bar when the number of applicants is high. Recruitment costs are monitored through key performance indicators such as employee turnover, employee tenure and the ratio of applications to positions successfully filled.

⁹ Business, Innovation and Skills, *Workplace Dispute Reforms Proposed by the Government*, January 2011 [accessed via: <http://nds.coi.gov.uk/content/detail.aspx?NewsAreaId=2&ReleaseID=417630&SubjectId=2>]

¹⁰ Both small and large companies are able to use standard email templates to give feedback to unsuccessful candidates, for example, McDonalds have five standard responses to applications with feedback that reflects the main reason for rejecting the application and advice on next steps

Computer literacy is also important to recruitment. Access to a computer to support job search is usually available, accessed through family, friends, community services or employment support agencies. The demand from employers for computer and technology literacy is expected to increase.

Interviews

The curriculum vitae (CV) or standard application can be a blunt tool when screening applicants for entry level positions, too often mistakenly screening out good potential candidates. For example, construction and utility companies require a manual skillset, stamina, aptitude and an ability to follow instructions; a standard application will not be as likely to identify these key skills as an interview or an assessment.

Interviews are usually conducted by the line manager, sometimes with support from the human resources department in larger companies. They are seen as fairer and more informative than application forms and CVs, but they come at a higher cost to the business. Business owners are more likely to take a 'hands on' role in small companies where awareness, likeability and ability to fit into the team were closely linked to success.

Government assistance to encourage employment

Government schemes can improve access to employment for people furthest from work. However, the employers who take part in these schemes still want candidates who are work ready or can be supported to reach that level relatively soon without significantly increasing the management burden. This support can be provided by an employment intermediary, for example through the Work Programme. There is mixed evidence for the success of these schemes due to their potential to generate significant deadweight or displacement costs. However, there is a case for support targeted at particular job seekers and government funded assistance can help to achieve an important policy objective.

These schemes should be simple and widely publicised to small as well as large companies and easy to access to encourage participation. Schemes need to be assessed for their effectiveness, and evaluation is needed to ensure that public money is spent effectively.

Recent examples of government initiatives include:

- The Future Jobs Fund, established in response to the recession ended partly because it had received significant investment and the value for money from the scheme was unclear. However, the scheme was popular with employers largely because of the financial support provided, but also in part because it was described as a simple process, with a single application form going to many employers.
- Work trials are available through JCP, they allow employers to assess the performance of the candidate 'on the job'. Larger employers found it a great incentive to recruit from JCP, however, we found little awareness of this scheme among smaller employers and concerns were raised over the potential for the scheme to be abused by employers who would benefit from free labour for a time.

- The Government is targeting youth unemployment through the apprenticeship scheme. It is simple for employers to participate – they start by calling a telephone number and have relative freedom over who they recruit.¹¹ Apprenticeships do not reward the employer directly, but they do subsidise training from which both the employer and the apprentice can benefit. There are concerns over targeting, and critics argue that employers choose the most highly qualified job seekers, rather than those that would perhaps benefit most.

These examples show some of the strengths and weaknesses of government funded challenges in setting up cost-effective job creation schemes. Flexible New Deal will be evaluated later this year; Work Trials are still available through JCP and the apprenticeship scheme has made a promising start; its evaluation should measure take-up by employers and the number of job seekers that it helps to train and support into long term employment.

Recommendation:

Employers should critically appraise their recruitment practices to eliminate unnecessary bias and unintentional discrimination. Employers should:

- a. Improve their filtering and recruitment processes to open up opportunity to all qualified job seekers and better meet their recruitment needs.
- b. Identify only relevant screening criteria to see more candidates at interview (where cost effective); the application process can exclude many motivated candidates on the basis of irrelevant criteria and interviews are better for judging employment potential.
- c. Give feedback to unsuccessful applicants; acknowledgement from employers can provide encouragement during the job search process and feedback can improve employability, which in the long run can outweigh employer concerns over cost.

Recommendation:

Job seekers should be flexible in their expectations of work and improve awareness of employers needs in order to meet the requirements of the labour market.

- a. Greater flexibility in distance, working hours and job roles can improve access to employment opportunities. Some entry level job seekers have understandable limits to their flexibility, for example, because of caring responsibilities or the costs of travel to work. Intermediaries may be able to encourage job seekers to be more flexible and increase their employment options.
- b. Attitude, awareness, aptitude and 'fit' are the main characteristics that employers look for in candidates.¹² Job seekers should be encouraged to develop these personal skills and their employability alongside academic qualifications.
- c. Job seekers should develop their social networks to include more people who are employed. They should seek feedback to improve their self-awareness, aid job search and improve their resilience to unemployment.

¹¹ The Department for Business, Innovation and Skills, May 2011 [accessed via: www.apprenticeships.org.uk, 01/05/2011]; employer queries can be answered by calling 08000 150 600

¹² Discussed further in Appendix B of the main report

5.3 The role of employment intermediaries

Though the most popular method of recruitment is word of mouth, public, private and voluntary sector employment agencies play an important role in recruitment for entry level job seekers. Intermediaries include private sector employment agencies, public sector intermediaries such as JCP, providers on the Work Programme and voluntary sector organisations.

Intermediaries find that many entry level job seekers are work ready, and that it is relatively easy to find them a job. However, some job seekers may need additional support to be work ready, while others who face multiple barriers may need considerable time and resources invested in them to be work ready.

Successful intermediaries help employers to reduce the costs and risks of recruitment by recruiting more effectively. Some also help their client to open up jobs and attract more suitable candidates. The relationship between the intermediary and the employer is often based on the intermediary's reputation and their ability to find good candidates.

Employers told us that putting forward candidates who were clearly not suitable or work-ready was a 'waste of everybody's time', worsening their experience of recruitment and harming access to employment for certain groups. Successful access to work or pre-employment schemes places heavy emphasis on identifying suitable candidates. This is made easier by having a strong relationship with the employer, an understanding of their business and the resources to provide post employment support where required.

Employment agencies

Agencies are used to manage the risk of recruitment, fluctuations in demand and sometimes to take on the human resource responsibilities of a client's business. Employers are willing to pay to outsource employment risk and use agencies as a 'try before you buy' service. Some employ people for 12 weeks on a temporary contract to see how well they perform before recruiting them as a permanent employee. Recruitment costs for non professional roles start at £400, the equivalent of two weeks wages for a full time employee.¹³

The quality of recruitment agents has a significant bearing on the effectiveness of the intermediary. Candidates told us that poor recruitment agents act as an additional barrier to jobs, though a good agent can provide encouragement, feedback and support to the job seeker. Employers told us that the effectiveness of an intermediary depended mainly on the relationship with the employer and quality of the individual agent.

¹³ An estimate provided by Manpower UK, May 2011

Jobcentre Plus

Many job seekers, particularly those not in receipt of benefit use personal networks or private agencies to assist with job search. However, initial government assistance with job search and employment is provided by JCP.

The large entry level employers we spoke to were more likely to have a positive experience with JCP than small and medium sized employers.

The main problems identified were:

- a) The absence of effective filtering processes, leaving employers with many unsuitable applications to sift through.

'We were inundated with applications, over 500 for two positions and the vast majority of them completely unsuitable.' – **Manufacturing company, Midlands**

- b) No post employment support, leading to a revolving door in and out of employment.

'Some advisors focus on the funding [i.e. Future Jobs Fund], rather than the employer support, which for me is much more important.' – **Construction company, Midlands**

- c) A lack of client focus, with confusing forms and no clear point of contact for employers.

'Just basic, simple things like a phone number of one person who knows me, my business and where I am in the recruitment process.' – **Construction company, Wales**

These additional services can be costly and JCP is arguably neither designed nor resourced to offer a recruitment service to local employers. JCP is focused primarily on activating the claimant to look for work and providing guidance on job search, relatively few (less than three per cent) of their branch advisors have direct contact with local employers.¹⁴ Large employers provide the economies that make a personalised service more cost-effective, and though some support for smaller employers is available, the Federation of Small Businesses found that:

*'Less than 20 per cent [of small businesses] use a job centre to recruit.'*¹⁵

The perception of JCP by small businesses also reflects inconsistency in the service between JCP offices, with some providing a better service than others. However, successful intermediaries in the private sector all use employer engagement teams to support 'the client' (the employer) and encourage repeat business. Lower value work means that private sector intermediaries are likely to be underrepresented in entry level sectors, and JCP could play a greater role.

The Welfare Reform Bill and Universal Credit provide an opportunity to reconsider the role of our public employment service and ensure that it provides a more effective job matching service to entry level employers of all sizes. If JCP can improve employers' experiences of recruitment while also reducing search costs for small business, they are likely to encourage employers to post vacancies and recruit from the local pool of job seekers who also claim benefits.

¹⁴ In a JCP district employing 1,300 staff less than three percent of advisors in their branch network were employer facing; note that this excludes Employer Direct, their national employer call centre and their national client engagement team

¹⁵ Federation of Small Businesses, Small Businesses BIG Employers, September 2009, p3 [accessed via www.fsb.org.uk]

Half of all those surveyed who used JCP were as likely to be satisfied as dissatisfied.

CSJ Employer Survey, January 2011

The Work Programme and voluntary sector intermediaries

The recently launched Work Programme has been set up to support the long term unemployed back into work. Intermediaries, however, raised concerns over finance and supply chain management in the Work Programme. It is too early to evaluate the programme, but our findings indicate that providers would benefit from a greater focus on employers needs, while a longer term solution would be to reduce demand for the Work Programme by tackling other barriers to employment.

Voluntary sector intermediaries aim to improve the self-esteem and confidence of job seekers and often focus on those furthest from work. The voluntary sector shows great enthusiasm and belief in people's ability to succeed when given the opportunity and recognise the value of employment and the role it can play in transforming lives.

One of the challenges for Work Programme and voluntary sector providers is to engage employers who are reluctant to work with candidates they perceive to be an employment risk or not work ready. This perception is often false and Appendix D reviews some of the lessons learned by voluntary sector intermediaries when engaging with employers.

Recommendation:

Intermediaries should give equal focus to employers and candidates.

- a. Good intermediaries will visit employers, make candidates aware of what the role entails. Private sector intermediaries tend to be more employer focused and establish a direct personal relationship with the employer. Other intermediaries, notably JCP could benefit by increasing their awareness of employers needs, particularly at a local level.
- b. Intermediaries should aim to identify and introduce well suited candidates to reduce recruitment costs for employers. Pre-filtering and finding suitable candidates, and supporting their development to work readiness and beyond can reduce recruitment costs for employers. Employers say that this good work is undermined when clearly inappropriate candidates are put forward.
- c. Candidates should access support to overcome barriers to employment. Intermediaries can provide support, encouragement and advice to job seekers at all skill levels. For the long term unemployed they can encourage job seekers to open their mind to be more flexible about their employment options, and provide advice on how to succeed in the recruitment process.
- d. Some intermediaries including the voluntary sector and providers on the Work Programme are able to provide additional support to overcome barriers to employment. They can also support employers to take on candidates with multiple barriers to work by providing additional support to both the candidate and the employer during the early period of employment.

5.4 Employee retention and sustainability in employment

Despite the rewards of work, and strong incentives for businesses to retain employees, employee turnover tends to be high in entry level sectors such as hospitality, catering and leisure.¹⁶ Employees without recent experience of work are more likely to fall out of employment. This section looks at the reasons for the short tenure of many entry level employees and how the situation can be improved.

On average, of the long term unemployed who find work, only half will still be in work 12 months later.¹⁶

Employers aim to make each appointment a success for both business and personal reasons, they generally do not enjoy seeing their employees leave, they want new employees to succeed and stay with the company. This is demonstrated by their investment in the recruitment process and training. The costs of losing an employee can be high, depending upon the employer's recruitment and training processes, estimates range between £4,000 and £12,000.¹⁷ Employers are willing to pay a premium after the probationary period to recognise an individual's increase in productivity after a number of weeks in work and to encourage retention. Many of the business owners we spoke to were involved in recruitment and a bad decision could feel like an acceptance of failure on the part of the recruiting manager.

'I have to meet recruitment targets on staff turnover and retention. I am allowed no more than 15 per cent leaving inside of three months, 40 per cent inside of 12 months and we track the total number of employees who have been here for over 12 months.'

A hotel manager in Birmingham, in evidence to the CSJ

The barriers to sustained employment are often on the side of the employee, and are felt most strongly in the early period after starting work. Candidates without recent experience of work can find the change from non-work to work a challenge and fail to build a platform from which to progress.

Employees, including those who had recently left work, universally acknowledged that employment had brought some benefits. The impact on self-esteem, relationships with colleagues, and the respect of their family or peers were valued ahead of financial benefits.

Entry level employers reported that employees were as likely to choose to leave as they were to be asked to leave by their employer.

CSJ Survey of entry level employers

¹⁶ Ibid

¹⁷ Estimate provided by Manpower UK, May 2011

Progression in work

Progression can mean a number of different things – stable or better suited hours, higher hourly pay, greater flexibility to suit personal commitments, promotion or greater work responsibilities. Progression is often a by-product of job sustainability, particularly in the early period of employment with a company. While progression in work is important, a pre-condition of progression is sustainability in employment, and people in work are more likely to secure a new role that better meets their needs and aspirations.

Barriers to retention

The reasons for choosing to leave employment are diverse: a poor relationship between the employee and their line manager; work feeling like an alien environment for an employee; and the reality of work failing to match up to the original expectations of the job seeker.

The first day at work can cause feelings of isolation or a lack of belonging, and be a nerve-racking experience. For example, the candidate may not be used to the work routine, be concerned about their responsibilities, or feel a lack of support from family or peers. Many employers recognise this and run supported training programmes and buddy systems. Others, however, are unaware or not set up to provide the level of support required. Only a small proportion of employers see it as their responsibility to motivate new recruits when more motivated candidates are available.

Employers accept that their line of work will not suit all candidates; not all employment works out and both sides may learn something from a 'work trial'. However, employers are frustrated when employees leave due to unrealistic expectations of work or pay, or have to be asked to leave because of their impact on team morale, customer service, or health and safety. Negative attitudes to work are largely attributed to low self-esteem or unrealistic expectations. Employers are more likely to accommodate low self-esteem, but less likely to recruit employees with unrealistic expectations of work.

'We need our foot soldiers as well as our generals.'

Employer roundtable, in evidence to the CSJ

Employers who are able to empathise with their staff, recognise their employees' need for flexibility and make appropriate allowances, provide support to new employees, and create a good work environment will have lower staff turnover and higher retention. Line manager capability can be the difference between a positive or negative experience of work – 'not getting on with the boss' was one of the main reasons for leaving employment. Anecdotally, line managers are a driver in employment tribunals, and intermediaries made the case that line managers were not always tolerant or supportive of the candidates they were recruiting. Higher levels of training and support from line managers can therefore have an important positive impact on employment for job seekers.

More positively, the employee may find better or more suitable employment in another role. Companies that develop management and leadership capability within their organisation will attract better candidates and can be rewarded by higher productivity, improved retention and better quality of service to their clients and ultimately higher profits. Increased investment in this area could benefit all businesses in the economy, but is identified as a particular issue in entry level sectors. A supported and supportive line manager can help employees to overcome early challenges and flourish within the company.

‘Employers are as likely to need support as employees, we get over half of our calls from employers asking what to do when the candidate is late, or behaving unprofessionally.’

CSJ poverty fighting Alliance member, in evidence to the CSJ

Flexible Employment

Flexible labour helps companies to better manage changes in demand while still remaining competitive, as well as keeping both the number of people employed and total number of hours worked high. This is fundamental to many businesses, particularly those that need to be highly responsive to changes in demand. Employees have to be willing to work the hours on offer, but generally employers are able to fill these roles.

Part-time or temporary employment can often suit the lifestyle of the employee. Part-time work enables people to combine work with family responsibilities, education or leisure.¹⁸ It also gives some people an opportunity to work in a range of companies and sectors, building a broader range of skills and experiences.

Flexible work is often less secure employment, and frustrating for employees when employer demand is the driver. However, there is evidence of progression even for employees in highly flexible employment. The Joseph Rowntree Foundation found that ‘substantially more people with broken employment [short term work] reported an improvement in their work circumstances over the two-year period’, and that those with experience of work can find work relatively quickly post-redundancy.¹⁹ Flexible work is growing, and welfare reforms mean that employers will be able to offer a wider range of hours to job seekers who are claiming benefit. This may lead to spells of short term employment, or fluctuating part time employment. Growing flexibility in the economy means that job seekers who can be resilient to spells of job search and take advantage of job matching services will benefit.

¹⁸ HM Treasury, *Full Employment in every region*, London: The Stationery Office, December 2003, para2.16

¹⁹ Joseph Rowntree Foundation, *Better off Working? Work, poverty and benefit cycling*, Joseph Rowntree Foundation: York, February 2010 p6

Recommendation:

Policy should focus on sustainability of employment rather than progression. Progression can mean different things to different people, and responsibility for progression falls largely on the individual. Employers point out that not all employees want to progress and not all can, motivated employees that have the skills to take on additional responsibility are likely to progress through the company, both faster and with greater success.

Recommendation:

Employers can take simple steps to improve employee retention and invest in line management capability to improve retention, productivity, customer service and ultimately profitability over the longer term.

- a. Sustainability in employment is most at risk in the early period of employment as candidates struggle with the changes to routine that work can bring.
- b. Establishing supportive procedures for the first few weeks in employment can have a big impact on retention, simple steps include a buddy system, regular supportive reviews and having lunch with them in their first few days.
- c. Over the longer term, understanding the importance of staff development may encourage employers to recruit and train people that need additional support.

Recommendation:

Job seekers and employees need to adapt to the changing needs of the labour market. Employers are likely to ask for greater flexibility (in terms of both hours and skills) from their workforce, and an ability to develop and learn new skills. While this can increase opportunities for employment, these positions can only be filled by willing and able job seekers. Job seekers that are able to adapt to part time and short term work, develop their resilience to shorter spells of employment, and invest in training and development will have access to a greater number of employment opportunities.

chapter six

Conclusion

Entry level employment faces significant challenges. Demand has shifted towards those with higher skills and employment has become less secure for those with lower skills. The nature of entry level work has also changed, with employers needing different skills, and there is greater competition from higher skilled job seekers looking for flexible work.

The UK labour market has shown considerable resilience against extraordinary challenges and begun to show signs of a tentative recovery. It has many strengths and partly because of its labour market flexibility, it continues to create new employment opportunities. The challenge for many long term job seekers is, therefore, less the levels of job creation than access to jobs.

The Government is taking many of the right steps, such as the reforms to the welfare system, which will lower barriers to employment and improve flexibility for long term job seekers. However, there is little evidence that the economy will rebalance from existing patterns of unemployment when the real drivers behind a lack of competitiveness lie elsewhere. Resolving structural issues across the economy and within sectors will raise the ability of long term job seekers to compete for jobs that currently go to others.

This report shows that although the Government can lower barriers to enterprise and employment, the creation of jobs arises from a voluntary exchange between employers and job seekers. It falls equally to business owners and individuals to take steps and expand opportunities for employment.

Employers can look again at their recruitment practices to open up opportunities to all qualified job seekers. A culture of mentoring and employee development can improve sustainability in employment. Employers who recruit candidates without experience or who face initial challenges in employment have found that they can become loyal and highly productive employees. Intermediaries can encourage employers to take on candidates who are perceived to be higher risk by providing additional support to employers as well as employees.

Ultimately, individuals are responsible for their own progression into work. But we have found that many job seekers are not aware of basic requirements and fail to demonstrate a range of skills that would help them to secure work. Individuals can increase their employment

opportunities by being more flexible about the work they are willing to take, the distance they are willing to travel and by speaking to people in work, as many positions are filled through word of mouth recruitment.

Employment barriers can include the attitudes and circumstances of the individual, employers' institutional prejudices about recruiting from certain groups, or an inability to provide the support necessary to make employment a success. Governmental actions have a considerable impact on job creation and access to jobs. For policy-makers, structural reforms to institutions and infrastructure can facilitate the creation of employment opportunities and improve access to jobs. However to be truly effective this must operate in tandem with efforts to influence the behaviour of employers, employees, family and social relationships.

We all have a role to play in creating our economic future, in building a society that rewards ambition and where everybody has the opportunity to realise their personal potential through work.

Summary of recommendations

1. Encouraging a culture of mentoring and personal development will have benefits across the economy.
2. The Government should invest effort in developing clear guidance on regulation that is relevant, easy to understand and accessible for business owners.
3. The Government should take a regional approach to growth and balance efforts to generate economic growth with improved labour mobility.
4. The Government should take into account the social costs of unemployment in deprived regions and respond quickly to changing economic circumstances.
5. Schools and wider society should aim to raise individual responsibility, and encourage people to develop skills relevant to employment, in order to help them become work ready.
6. Employers and individuals should drive the market for skills training, not government or training providers.
7. The Government should address the skills, mobility and incentives of UK born workers to reduce the need for migrant workers.
8. Employers should critically appraise their recruitment practices to eliminate unnecessary bias and unintentional discrimination.
9. Job seekers should be flexible in their expectations of work and improve awareness of employers needs in order to meet the requirements of the labour market.
10. Intermediaries should give equal focus to employers and candidates.
11. Policy should focus on sustainability of employment rather than progression.
12. Employers can take simple steps to improve employee retention and invest in line management capability to improve retention, productivity, customer service and ultimately profitability over the longer term.
13. Job seekers and employees need to adapt to the changing needs of the labour market.

Appendices

Appendix A: Business regulation and employment

Appendix B: Sector-specific reasons for recruiting migrants

Appendix C: Attitude, aptitude, awareness and fit

Appendix D: Employer engagement and employment support

Appendix A: Business regulation and employment

The key message from employers is that they want government initiatives and regulation to be simple.

Two-thirds of private sector employers surveyed had never used a government scheme to support their recruitment.

CSJ Employer Survey, January 2011

Employers are busy people; their primary focus is on their bottom line and the health of their business. Too often, interactions with government agencies are inconsistent, complex, burdensome or unhelpful:

- Health and safety regulations are perceived as disproportionate and unhelpful to business;
- The local planning regime is seen as biased against business by its restrictions on business expansion and trading hours. Planning regulations were described as 'literally blocking employment', with business receiving only limited feedback on the rationale for decisions so objections could be addressed;
- Licensing authorities and criminal record checks are described as bureaucratic, adding unnecessary delays and in need of simplification. Voluntary sector groups argue that they block people from getting a 'second chance' because of long spent minor offences.

- The benefit system currently forms a barrier to employment and job creation by failing to accommodate or reward flexible and short term employment. This restricts the supply of labour even in areas of high unemployment.¹

'We do security for events, so the jobs are short term, flexible. It isn't worth the trouble for claimants to take the job.'

Managing Director of a security company in Leeds, in evidence to the CSJ

Inconsistency across UK public service agencies, including local authorities, JCP and business support groups such as the local enterprise partnerships was frustrating, particularly for large and medium sized businesses operating across geographies.

'I haven't got time to deal with every council independently.' (Utility company, Wigan)

Positive experiences showed that these problems are largely avoidable:

- Employment support from HM Revenue and Customs (HMRC) generally had positive reviews from employers, described as 'simple and free'. The accountant costs for administering payroll were low, with estimates of five pounds per month per employee.²

Some businesses commented on the different approach to planning and employer support by different local authorities. A positive, national approach and framework would be useful, particularly for larger employers that cross local authority boundaries.

Appendix B: Sector-specific reasons for recruiting migrants

Agriculture

The agriculture and food processing industry has a structural dependence on 'itinerant temporary workers'.³ This is partly because the UK unemployed are concentrated in urban areas where the price of housing and transport acts as a barrier to mobility and many of the older unemployed are unsuited to farm labour.

Care

The care sector is unattractive to UK (and EU) workers who can choose similar paying work that is higher status and less physically and emotionally draining.⁴ As a recent CSJ report found,

¹ Health and Safety legislation has recently been reviewed by the Government, with the findings available here: Cabinet Office, *Common Sense, Common Safety*, London: The Cabinet Office, October 2010

² Three local quotes from small business accountants

³ Ruhs M and Anderson B, *Who Needs Migrant Workers*, Oxford: Oxford University Press, 2010, pp193-219

⁴ *Ibid*, pp125-154

those who work in the care sector view it as a vocation, indicated by high staff turnover in the first three months but stability within the sector thereafter.^{5,6} The industry tends to rely on migrant workers from outside of the EU to provide affordable care to UK citizens.

Funding structures limit pay within the care sector, and benefits such as travel time and pensions have been eroded. The UK's unwillingness to pay more for care, domestic workers reticence to move into the sector and rising demand for social care means that migrant workers are the main reasons that we are able to provide affordable care in the UK.

Hospitality

The hospitality sector argues that they receive a social and skills based premium for employing migrants.⁷ We were told that hospitality has a higher status outside of the UK, and the majority of hotel clients are often international, while desired attributes include (youthful) enthusiasm, commitment, stamina, flexibility and a service mentality, which, it is argued supports the recruitment of migrants.⁸

Although classed as 'entry level', hospitality work requires a high degree of socialisation, empathy, people skills and confidence which are not always in evidence among long term unemployed candidates. Sociological arguments highlight the biases within hotel recruitment along gender (59 per cent female), age (only 14 per cent are over 50 years old; students are 17 per cent of the workforce) and ethnic lines (white migrants occupy more front of house roles than Asian or African migrants). This argument indicates that some employers may need to reassess who they are hiring, for which positions and why.

Construction

Construction has fallen into a labour market trap of dependence on migrant labour, because of an (often justified) reluctance from employers to invest in domestic training.⁹ The project based (often over 48 hours per week), low pay and subcontracting nature of the industry, combined with highly variable demand reduces incentives for employers and employees to invest in training. However, despite the arguably negative impact subcontracting has had on skills development, self-employment can have a positive impact on the perceived status of work that could benefit other sectors such as care. Self-employment is one of the reasons that informal networks play such an important role in breaking into the sector and finding work.

Construction has retained a relatively high status within the domestic population, and is perceived as traditional 'man's work' while the opportunity to subcontract makes them a 'businessman' rather than an employee. However, the UK arguably 'poaches' construction skills from other countries, skills that are acquired at considerable cost elsewhere. One remedy would be for the construction industry to invest in skills development and in the workforce

5 Centre for Social Justice, *The Forgotten Age*, London: The Centre for Social Justice, November 2010

6 The Sector Skills Council for Care, in evidence to the CSJ, February 2011.

7 Ruhs M and Anderson B, *Who Needs Migrant Workers*, Oxford: Oxford University Press, 2010, pp159-187

8 A hotel manager; in evidence to the CSJ, January 2011; these views were echoed by foreign born employees in the sector

9 Ruhs M and Anderson B, *Who Needs Migrant Workers*, Oxford: Oxford University Press, 2010, pp225-256

generally, though the level of investment required would be significant and bigger companies would therefore have to take a leading role.

Appendix C: Attitude, aptitude, awareness and fit

Attitude

'Attitude' was identified universally as a differentiating characteristic that made a candidate stand out (both positively and negatively) in an interview. Employers told us that they 'recruit for attitude and train for skill'.

'One girl was as quiet as a mouse when she first came in here. Her self-esteem on moving into work went sky high, now we can't stop her talking!'

An employment intermediary in Wales, in evidence to the CSJ

'You can tell, some are just too cocky and don't show enough respect for the work.'

An employment intermediary in Wigan, in evidence to the CSJ

'Candidates can't expect to be managing the business in two months; they need to earn it like I did.'

An employer based in the Midlands, in evidence to the CSJ

First impressions matter, and so poor presentation, texting during conversations and confrontational behaviour all understandably reduce the likelihood of securing employment. One London employer told us that on average one third of candidates who got through the application screening process 'didn't want to be there'.

Negative attitudes are largely attributed to low self-esteem or unrealistic expectations. Employers are more likely to accommodate low self-esteem and shyness, but less likely to recruit employees with unrealistic expectations of work. Employees that don't appreciate the value of employment are more likely to be disruptive, take up management time and not last in the role.

Awareness

Employers look for self-selection, evidence that the candidate has actively chosen the role and given some thought as to their suitability for it.

For older candidates, employers sought relevant experience alongside an appropriate attitude and motivation; experience helps to show both an awareness of and aptitude for the role. For younger candidates, attitude is consistently rated as more important. Showing an interest by

asking questions, demonstrating enthusiasm for the role and a positive attitude can help an interviewee overcome an initial lack of awareness of their responsibilities in the role.

'We are looking for people with the right attitude and personality for customer service, people who can act on their own initiative. It isn't about experience, or literacy and numeracy, these aren't part of the recruitment process.'

A Director of a nationwide retailer in evidence to the CSJ

Aptitude

Aptitude is a common requirement often described in terms of behaviour, soft skills or characteristics relevant to the sector:

- Retail and hospitality: employers look for an awareness of customer service as well as a friendly attitude.
- Care: a caring and tolerant attitude.
- Manufacturing and agriculture: an ability to follow process and the possession of physical capabilities.

'Likeability' and 'fit'

Likeability or the ability to fit into the organisation is often associated with attitude and described as an 'x-factor' that makes a candidate instantly more employable. Research suggests that job offers are more likely to be based on whether the candidate was likeable in their interview than on skills or experience, even in highly skilled occupations.¹⁰

There is a concern that 'fit' is used as a euphemism for discrimination, whereby recruitment 'rules of thumb' are based on pre-conceived expectations. It is totally unacceptable to restrict employment opportunity and discriminate unfairly between candidates. We found that when employers talk about 'fit' they mean the ability to work well within the existing team.

The employment process is a opaque and a sometimes serendipitous process. Many of the needs of employers go unadvertised, and employers can be influenced by the 'x-factor' or the timing of a direct approach from a candidate.

Literacy and numeracy

Basic literacy and numeracy is also desirable, but are consistently rated as less important than the employability characteristics discussed above when screening in the entry level sectors.

¹⁰ Higgins C A and Judge T A, *The effect of applicant influencing tactics on recruiter perceptions of fit and hiring Recommendations: A Field Study*, Journal of Applied Psychology 89, 2004, p622-32 cited in Wiseman R, *59 Seconds*, London: Macmillan, 2009, Ch2 p43

Appendix D: Employer engagement and employment support¹¹

Charities involved in linking employers with those candidates furthest from the labour market have learned that:

- The main barrier for groups furthest from work was a lack of access to employment opportunities rather than a general lack of employment opportunities:
 - ‘There are some great examples of success, but at the same time there seems to be a lack of large scale engagement.’
 - ‘In Teeside, we have virtually gone from 90 per cent employment to 90 per cent unemployment.’
 - ‘In Leeds, we do have economic growth, the problem isn’t a lack of jobs; but we have a divided city.’
- This lack of access is caused largely by employer prejudice and a risk sensitive culture:
 - ‘The perception of ex-offenders is the biggest barrier; once we get them in front of the employer though, the prejudice all goes away.’
 - ‘The media portrayal of people leads to this perception, we call it the “Daily Mail” risk.’
- However, there is recognition of the constraints on employers and the real risk that employers take in supporting candidates:
 - ‘Employers are taking a genuine risk, but it really helps if they can build a relationship with the candidate at the pre-employment stage.’
 - ‘Employers, more often than not, need more hand holding and support than the employee.’
- It is important not to underestimate the level of support that candidates and employers will require:
 - ‘Some of our women [long term drug addicts] are unemployable; we need to recognise that.’
 - ‘We can’t segregate candidates from other employees, they have to take responsibility and face the same boundaries, however we can help employers to better understand the client’s world view, why they are perhaps shy, inarticulate or don’t follow the same social etiquette.’
- Organisations involved in the Work Programme believe that too much is expected of it:
 - They argue that it is underfunded with financing that pushes out many effective providers;
 - There is concern that incentive structures are too employment focused, when not all candidates are work ready, this risks leaving behind those who are deemed to be ‘too far from work’
 - They recognise that success depends in part on tackling the wider structural issues of mobility, family and social influences and personal circumstances that are raised in Chapter Four of this report.

¹¹ Evidence from a Centre for Social Justice Roundtable, CSJ Alliance Conference, April 2011

Employer attitudes toward working with the hardest to reach

- Successful relationships are built on employers overcoming their fear, their prejudices and their perception of risk:
 - Getting a candidate in front of an employer was the fastest way to tackle prejudice;
 - A personal relationship with a support agency was the main referral route to employment;
 - Successful programs initially operated 'under the radar'; with a corporate attitude to risk labelled as the biggest blocker to wider engagement.



CSJ Roundtable on the voluntary sector and employment

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