

Business Start-ups & Youth Self-Employment in the UK: A Policy Literature Review

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STYLE-WP7:

Business Start-Ups & Youth Self-Employment

National Report from the UK

Contributing to D.7.1

Actual: 28/03/2015



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To cite this report:

Hinks, R., Fohrbeck, A. & Meager, N. (2015) *Business Start-Ups and Youth Self-Employment in the UK: A Policy Literature Review*, STYLE Working Papers, WP7.1/UK. CROME, University of Brighton, Brighton. <http://www.style-research.eu/publications/working-papers>

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Acknowledgements

The research leading to these results has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no. 613256. The authors are grateful for comments on an earlier version of this report provided by Jackie O'Reilly and two anonymous peer reviewers.

Executive Summary

Unlike in most European countries, the self-employed population in the UK has undergone significant growth over the past decade, which has been associated with changes in its composition. The self-employed in the UK remain more likely to be male and older than the general working population. Those who, in the current economic environment, are actively starting their own businesses are more likely to be male and middle-aged. However, TEA rates among women and older workers have been rising, as have female self-employment rates. Among the young, as well as among certain Black and Minority Ethnic groups, high levels of interest in and early-stage entrepreneurial activity fail to translate into self-employment or business ownership.

Two types of initiatives designed to encourage youth self-employment dominate the public/private policy landscape:

- schemes designed to deliver financial and human support to potential and already-existing SMEs; and
- schemes designed to promote awareness of, and enthusiasm for, entrepreneurial activity.

Similarly, these schemes can be divided between:

- those that directly target young people and/or students;
- those that target other socio-demographic groups partially excluded from self-employment; and
- generic schemes targeted in theory at the general working-age population.

While participants in all of these initiatives tend to report being broadly satisfied with the outcomes of their participation, empirical investigations have revealed that:

- one of the UK's most prominent financial-/human-capital support packages has largely failed to positively affect the career trajectories of participants when compared to non-participants;
- a major initiative aimed at affecting the population's attitude to equity investment has failed to produce behavioural changes of benefit to start-up businesses;
- initiatives aimed at promoting self-employment in schools and HE institutions have a tendency to be appropriated for divergent purposes, limiting their effectiveness;
- a lack of signposting and joined up activities leaves initiatives aimed at developing entrepreneurial mind-sets underused by their target populations.

There is little evidence regarding the effectiveness of schemes that provide targeted mentoring or business support for women or for black and minority ethnic groups.

Several empirical investigations into the quality of work associated with self-employment reveals that self-employed individuals in the UK have more polarised wages than employees, with self-employed individuals being more likely to fall into lower income deciles, even if they go on to become an employed worker, due to the scarring effect of self-employment. In addition, an average self-employed individual works substantially longer hours than an average employee, though there has been a rapid increase in the proportion of self-employed, part-time workers in the past decade.

Looking at further job characteristics, a relatively ambiguous picture emerges concerning the quality of self-employment compared with employed work. However, evidence suggests that post 2008

recessionary increases in self-employment have disproportionately consisted of increases in poor quality dependent /‘necessity’ self-employment, as described in section 4 of this report.

The research for this review has uncovered no specific evidence in the UK regarding the long-term survival and job creation in start-ups driven by young people or created with the help of targeted business support programmes, mentoring or financing. Regarding the survival of SMEs more generally, data suggest that between 70 per cent and 80 per cent of new firms survive until the 10-year mark. While start-ups make a significant overall contribution to job creation in the UK, job creation seems to be concentrated among a small proportion of high-growth firms.

This report summarises data collected from a literature review of academic and grey sources, primarily focusing on initiatives aimed - fully or in part - at propelling young people into self-employment.¹ The report is structured according to a common format agreed with other STYLE partners to facilitate comparative analysis across the countries participating in the Work Package.

First, a working definition of ‘self-employment’ is presented, as are data showing which demographic groups are most likely to start their own businesses in the UK. Next, key initiatives – originating in the public and voluntary sectors and aimed, fully or in part, at promoting self-employment among young people – are described. Policies targeted at other demographic groups are also described, to allow for future comparative work. Here, key details of the initiatives’ rationale and practicalities are presented, and assessments of their impact made when possible.

Next, the quality of self-employment in the UK is assessed, with key differences between self-employment and wage employment, and also different types of self-employment, highlighted. This is followed by a short discussion of possible research questions which could guide further quantitative and qualitative study. A brief exploration of hypotheses about the future development of youth self-employment in the UK is also presented. The report concludes with a short discussion highlighting the various policy tensions found within and between the different initiatives – described throughout this report – that are operated in the UK with the intent of increasing self-employment among young people and other target demographic groups, and/or encouraging job growth through start-ups and SMEs.

Key words:

Self-employment; unemployment; young people; women; migrants; quality of self-employment; policies targeted to promote self-employment in the United Kingdom.

¹ In order to find studies related to the topic, the following academic databases and search engines were searched:

- Business Source Premier, which cover the areas of marketing, management, accounting, finance, econometrics and economics.
 - Business Source Premier, which cover the areas of marketing, management, accounting, finance, econometrics and economics.
 - IngentaConnect, covering a wide range of subject areas with over 28,000 academic and trade journals.
 - Google Scholar.
 - IngentaConnect, covering a wide range of subject areas with over 28,000 academic and trade journals.
- The following search terms were used for these searches:

The following search terms were used for these searches:

[(self-employ* OR entrepreneur OR start-up OR micro-employer) AND (youth OR young people OR young person OR ethnic minority OR woman OR female) AND (UK OR Wales OR Scotland OR Northern Ireland)] AND (Policy OR Intervention OR Innovation OR Economic Growth OR Creative OR Innovation OR Criticism OR Limitation)

Papers were selected for thorough analysis by way of rapid reviews of abstracts. In order to locate and describe contemporary interventions, a non-systematic review of major internet search engines was also conducted, using the same keywords. Here, rapid reviews of homepages were conducted to select appropriate material, and a snowball-approach to data collection was used.

Table of Contents

1. Introduction	8
1.1 Aims of this paper	8
1.2 Organisation of the paper	9
1.3 Definition of Self-Employment.....	9
1.3.1 Who Starts a Business and Who Does Not?	10
1.4 Summary.....	13
2. Policies to Encourage Self-Employment in General and for Youth in Particular	14
2.1 Financial Support.....	14
2.2 Coaching and Counselling	18
2.3 Programmes for Women: Creating Networks	18
2.4 Fostering Innovation	21
2.5 Programmes for Youth: Developing Entrepreneurial Mind-sets and Skills	23
2.6 Programmes for Black and Minority Ethnic Groups	25
2.7 Policies for Unemployed Persons	27
2.8 Building an Entrepreneurial Mind-set Publication and Context of EU Policies	27
2.9 Summary.....	29
3. The Quality of Work Associated with Self-Employment	30
3.1 Wage Levels	30
3.2 Working Hours	30
3.3 Further Job Characteristics.....	31
3.4 Sustainability and Job Creation of Start-ups.....	34
3.5 Summary.....	35
4. Research Questions	36
5. Conclusion.....	38
6. Bibliography	40
Recent titles in this series.....	47
Forthcoming	48

Abbreviations

ALMP	Active Labour Market Policy/Policies
APR	Annual Percentage Rate
AT	Austria
BE	Belgium
BG	Bulgaria
BME	Black and Minority Ethnic
CH	Switzerland
CoFund	Business Angel Co-Investment Fund
CY	Cyprus
CZ	Czech Republic
DE	Germany
DK	Denmark
DWP	Department for Work and Pensions
EC	European Commission
EE	Estonia
EFG	Enterprise Finance Guarantee
EPL	Employment Protection Legislation
ERC	Enterprise Research Centre
ES	Spain
ESF	European Social Fund
EU	European Union
EU-LFS	European Union- Labour Force Survey
EU-SILC	European Union Survey on Income and Living Conditions
FE	Further Education
FI	Finland
FR	France
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GR	Greece
HE	Higher Education
HU	Hungary
IE	Ireland
ILO	International Labour Office
IS	Iceland
ISCED	International Standard Classification of Education
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta

NEA	New Enterprise Allowance
NEET	Not in Employment, Education or Training
NL	Netherlands
NO	Norway
OECD	Organisation for Economic Cooperation and Development
OLS	Ordinary Least Squares
PIAAC	Programme for the International Assessment of Adult Competencies
PL	Poland
PT	Portugal
PTEP	Prince's Trust's Enterprise Programme
RO	Romania
SE	Sweden
SEIS	Seed Enterprise Investment Scheme
SI	Slovenia
SK	Slovakia
SME	Small and Medium Sized Enterprise
SOC	Standard Occupational Classification
STW	School to Work
STYLE	Strategic Transitions for Youth Labour in Europe
TEA	Total Early Stage Entrepreneurship Activity
UK	United Kingdom
UKFEA	UK Female Entrepreneurship Ambassadors
VET	Vocational Education and Training
VoC	Varieties of Capitalism
WAVE	Women Adding Value to the Economy
WISER	Women in Self-Employment Resource
YES	Youth Entrepreneurship Strategies
YTR	Youth Transition Regimes

1. Introduction

Since the election of the Conservative/Liberal Democrat government in the UK in 2010, there has been a resurgence of interest in proactive self-employment policies. After introducing a working definition of self-employment, this report principally describes the most prominent contemporary public, private and third-sector policies that are designed to increase entrepreneurial activities among the population. Some of these schemes are designed – fully or in-part – to move young people from unemployment or education into self-employment.² Evidence of these interventions’ rationale, effectiveness and quality is provided below, where available.³

To allow for future comparative work, the report also briefly outlines policies and programmes designed to promote self-employment among other groups under-represented in self-employment, i.e. certain black and minority ethnic communities and women – the “missing entrepreneurs” (EU, 2013a). Future comparative work could look to identify common transferable success factors and lessons for learning contained within the various schemes described.

Such a comparative research project would have to address the fact that policy tensions can be located within and between the described schemes, with regards to their rationales and anticipated outcomes: some initiatives are designed – wholly or in part – to increase the number of start-up businesses within their target populations; others aim to increase the human capital of participants, with the expectation that this would improve career trajectories and decrease labour market detachment, regardless of the number of sustainable start-up businesses actually created through the initiative; others still are designed to positively affect private sector job growth within SMEs and micro-employers.⁴ Differences between these rationales create implications and tensions as to where the government’s resources should be directed: at individuals/groups with the greatest chances of business success, or at those with the greatest need/most at risk of being excluded from the labour market (EC, 2012). This thinking is expanded upon in Section Six.

A further cause for concern is whether it is actually beneficial for the UK government (or others) to proactively seek – either directly or indirectly – to increase the proportion of self-employed workers within the economy. Regardless of an initiative’s intent, it would be problematic if it was shown to produce poor quality working conditions for participants. Section Four of this report aims to address these concerns by examining contemporary evidence regarding the quality of self-employed work in the UK.

1.1 Aims of this paper

The aims of this paper are fourfold. The first aim is to examine how self-employment is defined and the characteristics of those most likely to go into self-employment. The second aim is to provide an overview of national policies to encourage self-employment and entrepreneurship in the UK. The third

² Due to time and resource limitations, a systematic mapping of all such interventions was not possible: for a sense of the scale of such a task - a recent non-systematic review of programmes aimed only at providing start-ups and SMEs with capital support found over 30 distinct schemes in Scotland alone (McHugh *et al.*, 2014).

³ However, in the UK, as elsewhere in the EU, the evidence based on the success of such programmes is relatively small and lacking in rigour (European Commission, 2012, OECD/EC, 2013).

⁴ Meager *et al.* (2011) note that even among UK policy makers and influencers, there has often been a lack of clarity as to the basic rationale for such policies.

aim is to critically examine concerns associated with the quality of self-employed work. Based on the above, the final aim is to suggest key research questions that should be considered in Tasks 2 and 3.

1.2 Organisation of the paper

The organisation of the paper is as follows: We begin with defining self-employment in the UK and identifying the characteristics of those most likely to go into self-employment. Following this, the national policies of the UK which aim to encourage self-employment in general and for youth in particular are presented. Furthermore, an insight into the quality of work associated with self-employment is provided. The paper also outlines sustainability and job creation of start-ups. Finally, the paper concludes with directions for future research.

1.3 Definition of Self-Employment

In differentiating the UK from some continental nations, no financial or qualification thresholds are required for an individual to become self-employed. Under UK tax law, common law standards are used to determine whether an individual works under a contract *of service* – i.e. is an employee – or under a contract *for services* – i.e. is a self-employed individual. The UK Government currently advises that an individual should be considered self-employed for tax purposes, with clients not expected to make PAYE (income tax) or National Insurance (social security) contributions, if:

- “they put in bids or give quotes to get work;
- they’re not under direct supervision when working;
- they submit invoices for the work they’ve done;
- they’re responsible for paying their own National Insurance and tax;
- they don’t get holiday or sick pay when they’re not working; they operate under a contract... that uses terms like ‘self-employed’” (Government Webportal, 2014).⁵

In the UK, like internationally, self-employment should be thought of as distinct from ‘bogus self-employment’, where non-autonomous workers are in practice wholly answerable to an organisation which controls their labour. If working in ‘bogus self-employment’, de facto workers are signed-off by their de facto employer as being self-employed so as to avoid de jure tax and employment rights liabilities.⁶ Such work is common in the UK’s construction, homeworking, and service industries (TUC CoVE, 2008).

Looking at self-employed workers in the UK and elsewhere, it is clear that a heterogeneity of different job types and conditions can be found within such work – even though it is routinely treated as a homogeneous category of work under UK tax and employment law and in official statistics. Two ways in which the academic literature has made intra-self-employment distinctions is by differentiating between:

⁵ HM Revenue and Customs (the UK tax administration) currently provides a complementary checklist, asserting that an individual is likely to be self-employed by common law standards if they mostly answer the following questions in the affirmative: “*Can they hire someone to do the work or engage helpers at their own expense?; Do they risk their own money?; Do they provide the main items of equipment they need to do their job, not just the small tools that many employees provide for themselves?; Do they agree to do a job for a fixed price regardless of how long the job may take?; Can they decide what work to do, how and when to do the work and where to provide the services?; Do they regularly work for a number of different people?; Do they have to correct unsatisfactory work in their own time and at their own expense?*” (HMRC, 2014).

⁶ Under UK employment law, self-employed individuals are not covered by the majority of employment protections. The exceptions are mainly those concerning occupational health and safety and some discrimination protections.

“Autonomy” vs. “dependency” when working: while workers fully directed by a sole employer could be considered as ‘bogus self-employed’, when one uses a number of factors to test for such conditions,⁷ it is rare for analysis to report consistently negative or positive responses. In practice a spectrum of dependencies exist within self-employed work, with the self-employed being free to work according to their own standards and conditions, or dependent on the dictates of clients (cf. Burchell & Rubery, 1992).

“Necessity” vs. “choice”: when becoming and remaining self-employed, another dichotomy in the literature is between self-employment driven by necessity – for example, unemployment and/or a lack of further professional opportunities – and ‘opportunity’-driven self-employment, where individuals consciously propel themselves into self-employment so as pursue entrepreneurial opportunities (Cf. Binder and Coad, 2013).

A further, practical division which can be used to make complementary distinctions between **different groups of self-employed individuals** is that between **sole traders** – businesses wholly owned and run by one individual – and the **self-employed-with-staff**. In the UK, as of 2012, 78.3% of self-employed individuals were sole traders, while 21.7% had at least one individual working for them. Importantly for this study, sole-traders tend to have a younger age-profile than the self-employed-with-staff (Baumberg & Meager, forthcoming). It is, however, important to note that sole-traders and self-employed with staff are not necessarily distinct groups, with some self-employed moving between the groups (in both directions). Thus while some self-employed remain sole-traders (because they prefer to work in this way, or because it is the norm in the occupational segment of self-employment in which they operate), many sole-traders will recruit staff as their businesses grow, and become employers; equally, some small businesses with a few employees may reduce their employment levels in an economic downturn, and their owner-proprietors will move in the opposite direction (from being employers to being sole-traders).

1.3.1 Who Starts a Business and Who Does Not?

According to the Office for National Statistics (ONS, 2014), in 2014, 4.6 million people in the UK were self-employed in their main job. The self-employed accounted for 15 per cent of the employed population, the highest rate at any point over the past four decades, since data collection began. This places the UK slightly below the EU average of 15.2 per cent (Eurostat, 2014). Using a different measure of entrepreneurial activity, so-called total early-stage entrepreneurial activity (TEA)⁸, the 2013 Global Entrepreneurship Monitor – a global longitudinal study – found that in 2013, 7.1 per cent of the UK working-age population were actively devoting resources to setting up a new business or running new businesses that had been paying out wages for no more than 42 months. This again places the UK slightly below the EU average of 8.0 per cent (Amoros & Bosma, 2013).

The UK is one of only a few EU countries to experience a **strong rise in self-employment** in recent years (ONS, 2014). While across EU countries, over the period between the 2009 (Q1) and 2014 (Q1), self-employment fell on average by 0.1 per cent, the proportion of the UK workforce who are self-employed rose by 19 per cent over the same period (ONS, 2014). The rise in self-employment has been a key part of increases in the overall employment rate in the UK over recent years.

⁷ Such as those used by the Government and HMRC, as described above.

⁸ This conceptualisation of early business activity focuses on the propensity of individuals to become entrepreneurially active. As TEA includes activities prior to the establishment of a business and very small new businesses that are not required to register for VAT in the UK, TEA rates diverge from official statistics on business births.

According to ONS data, most of the growth in total employment, (1.1 million) between the first quarter of 2008 and 2014, is accounted for by a rise in self-employment (ONS, 2014).

The recent rise in self-employment has been associated with marked changes in the composition of the self-employed population in the UK (Philpott, 2012; ONS, 2014). Notably, the accelerated **growth of female self-employment** accounts for a large share of the overall rise. Between 2009 and 2014, the number of self-employed women increased by 34 per cent; the number of self-employed men rose by only 15 per cent over the same period (ONS, 2014).⁹ Nonetheless, men still dominate self-employment, accounting for 68 per cent of the self-employed. **Older workers** also account for a large portion of the rise in self-employment: 84 per cent of the increase in the number of self-employed workers between 2008 and 2012 was among those aged 50 and above (ONS, 2013). According to the Office for National Statistics, the rise in self-employment between 2009 and 2014 is in fact predominantly accounted for by the **historically low outflow rate** from self-employment of 23 per cent over this five-year period (ONS, 2014). The new self-employed are also much more likely to be working part-time, to be working in sectors other than those within which self-employment is traditionally concentrated, and are receiving lower incomes (Baumberg and Meager, forthcoming; cf. section 4). This has led some to claim that the rise in self-employment is in large parts a reflection of slack labour market conditions that present people with fewer alternatives to self-employment, and hence limit exits from self-employment (Philpott 2012, ONS 2014).

The **self-employment rate in the UK increases strongly with age** (ONS, 2013; Meager and Carta, 2011). In 2012, only 5 per cent of young people between 16 and 24 who were working were self-employed, compared to 37 per cent of those 65 and over who were working (ONS, 2013). At 47 years, the average age of self-employed workers in the UK in 2014 was higher than that of employees by seven years (ONS, 2014). 43 per cent of self-employed workers in 2014 were aged 50 or over, compared to 27 per cent of employees (ONS, 2014). **Early-stage entrepreneurial activity (TEA)**, by contrast, is **highest among middle-aged groups** in the UK. In 2013, 5.7 per cent and 4.6 of 18-24 and 55-64 year olds respectively displayed early-stage entrepreneurial activity, compared to 9.2 per cent of 35-44 year olds (Levie, Hart and Bonner, 2013).

In the UK, as in the vast majority of EU member states (OECD/EC, 2014a), young people between the ages of 18 and 30 had higher nascent entrepreneurship rates than the general population over the period from 2008 to 2012 (3.4 per cent vs. 3.0 per cent), i.e. were more likely to report that they were involved in setting up a business. A Eurobarometer Survey conducted in 2009 found that the two youngest age groups (15–24 and 25–39) also displayed the highest levels of belief that self-employment would be feasible for them, with 40 per cent and 42 per cent respectively responding that self-employment in the next five years was either ‘very feasible’ or ‘quite feasible’ (EC, 2012). This was much higher than the figures for the 40–54 and over 55 cohorts (29 per cent and 13 per cent, respectively) (EC, 2012). However, the high levels of optimism and start-up activity among the young do not seem to translate into business ownership: during the same period, young people in the UK were less likely to be the owner-manager of a new business (one that has paid salaries or wages for between three and 42 months) than individuals in the working-age population as a whole (2.7 per cent vs. 3.1 per cent).¹⁰ Moreover, as in all other EU member states, the established business ownership

⁹ This is partly due to the negative impact of the economic downturn on skilled trades in male-dominated industries such as construction. The sectors favoured by self-employed women, notably the service sector and professional occupations, were less strongly hit.

¹⁰ This relationship is reversed in the majority of EU member states: the new business ownership rate for youth exceeded that in the general population in 16 MSs over the same period (OECD/EC, 2014a).

rate among this age group was much lower than that in the working-age population as a whole, with young people (18-30) being approximately one fifth as likely to be operating established businesses between 2008 and 2012 (1.2 per cent vs. 6.1 per cent).

Explanations for this pattern, whereby **younger age groups are more entrepreneurially active** and have more positive attitudes to self-employment as a career option for themselves, but are **less likely to be self-employed** or established business owners, tend to refer to the higher levels of resources people accumulate with age. Such capital, both financial (e.g. savings or inheritances) and human (e.g. experience and skills acquired through employment), may create better conditions for entry into self-employment, as well as business survival (Meager & Carta, 2011; ONS, 2013).

As elsewhere within the EU, **women** in the UK are considerably **less likely to be engaged in start-up activities** than men. In 2013, the ratio between female and male entrepreneurial activity (TEA – see above for definition) was 2:3, with 5.8 per cent of working-age women engaging in early-stage entrepreneurship. This can be linked back to gender differences in entrepreneurial attitudes. In 2013, 52.1 per cent of working-age men but only 36.1 per cent of women believed that they had the “skills, knowledge and experience to start a business”. Women in the UK also appear to display a greater fear of failure, with 40.0 per cent (compared to 34.4 per cent of men) claiming that “fear of failure would prevent me from starting a business”. However, the current ratio of female to male TEA is considerably higher than the long-run ratio of 1:2 (Levie, Hart & Bonner, 2013), which is reflected also in the rise in female self-employment in recent years. Self-employed women remain more likely to work part-time and to be sole traders (Causer & Park, 2009), and are concentrated in different sectors compared with men, with the most popular being cleaners and domestics, child minders and related occupations, hairdressers and barbers (ONS, 2014).

Ethnicity stands in a **complex relationship with self-employment and entrepreneurial activity** in the UK¹¹. While self-employment rates among Chinese (21.6 per cent), Pakistanis (17.2 per cent) and Indians (14.8 per cent) exceed that among the general population, Black Caribbeans (6.5 per cent) and Black Africans (6.8 per cent) are much less likely to be self-employed than the average working-age individual (Ram, 2006). GEM data from 2003-2008 suggests that individuals with a Black ethnic background are more likely to be actively trying or intending to start a new business than white Britons (Levie & Hart, 2011). However, as in the case of young people, this does not translate into higher levels of business ownership. Overall, ethnic and migrant groups make a disproportionately large contribution to entrepreneurial activity at the level of intentions, where they account for almost three quarters of the total, but make up less than 60 per cent of established business ownership, i.e. of owner-managers of businesses that have been active for at least three and a half years¹² (Levie and Hart, 2011). The low rate of conversion from expressed intentions to business activity may be due to the fact that ethnic minority businesses tend to be concentrated in specific sectors and are disproportionately located in deprived areas.

The self-employed are somewhat more likely than employees to have no qualifications, and slightly less likely to have higher-level qualifications (level 3 and above). Those with no qualifications and those with trade apprenticeship qualifications have the highest self-employment rates. There are big

¹¹ Hence it can be questioned whether the umbrella term ‘black and minority ethnic enterprise’ is helpful. As Levie and Hart (2011) argue, “While “ethnic minority” and “migrant” may be convenient labels, they may mask important differences between different ethnic groups that affect entrepreneurship rates independently of ethnic status.”

¹² The Global Entrepreneurship Monitor defines “established business owner/managers” as those whose businesses have been paying wages for more than 42 months (Levie, Hart & Bonner, 2013). The ratio of established business ownership to early-stage entrepreneurial activity can be interpreted as a proxy for between the two stages, and hence for business survival (ibid.).

gender differences in the **educational characteristics** of the self-employed: Self-employed women are much more likely than their male peers to have higher level qualifications (level 4 or above) and much less likely to have completed trade apprenticeships (Meager & Carta, 2011).

1.4 Summary

This section has demonstrated that, under UK common and statutory law, no substantial statutory barriers prevent individuals from forming contracts of services as a self-employed individual. The academic literature clearly demonstrates that the category of self-employment encompasses heterogeneous working relations and conditions, with the degree to which a self-employed individual is working wholly independently from their client(s), and the amount of choice an individual could exercise when forming such a working relationship often used to differentiate self-employed individuals from one another.

Unlike in most European countries, the self-employed population in the UK has undergone significant growth over the past decade, which has been associated with changes in its composition. The self-employed in the UK remain more likely to be male and older than the general working population. Those who, in the current economic environment, are actively starting their own businesses are more likely to be male and middle-aged. However, TEA rates among women and older workers have been rising, as have female self-employment rates. Among the young, as well as among certain Black and Minority Ethnic groups, high levels of interest in and early-stage entrepreneurial activity fail to translate into self-employment or business ownership.

2. Policies to Encourage Self-Employment in General and for Youth in Particular

This section adopts a common structure, based on a template agreed with the Work Package leader, in order to facilitate comparison with the other country reports. As such it incorporates a typology of policy categories, some of which are structured around the mode of policy delivery (financial, human capital support etc.), while others are structured around the target groups of the policy (not only youth, the primary interest of the research, but also women and minority ethnic groups for example). It is worth noting that this typology does not always sit easily with the UK policy and institutional landscape and there is, as a result, some overlap and repetition between the various subsections (which we have, nevertheless attempted to minimise).

2.1 Financial Support

The provision of financial support for self-employment and start-up activity is a central element of UK policies to encourage self-employment. A European-level evidence base signposts the often-implicit rationales of these policies: greater financial resources have been shown to be associated with higher levels of survival and growth in new businesses (EC, 2012); while a lack of capital was the most commonly stated specific reason why UK respondents did not consider self-employment to be a feasible career alternative for themselves within the next 5 years in the 2009 Eurobarometer survey (EC, 2012). Young people, in particular, are in a disadvantaged position with regard to access to finance, because they are likely both to have lower personal savings and to be less able to satisfy lending requirements based on collateral, credit history, and past business performance (OECD/EC, 2012). Across the EU28, youth were significantly more likely to report lack of capital as a reason why self-employment would not be feasible for them than the adult population as a whole (26 per cent vs. 21 per cent, OECD/EC, 2014a).

The UK government's New Enterprise Allowance (NEA) is one example of a scheme designed to redress these difficulties. Run since 2011,¹³ the NEA is primarily aimed at unemployed people aged 18+ and looking to start their own business.¹⁴ Administered through the UK's public employment service (Jobcentre Plus), benefit claimants can be referred to participating mentoring agencies in the private or third sector. These mentoring agencies subsequently place participants with independent voluntary business mentors, who aid claimants in drawing up business plans, which are then assessed by the same mentoring organisation. If their business plan is approved and a business start-up is created, participants are subsequently eligible for an on-going state subsidy for the first 26 weeks of their self-employment.¹⁵ As of October 2013, participants have also been able to apply for start-up capital loans of up to £2500, repayable over 3 years with 6 per cent Annual Percentage Rate (APR) of interest (McGuinness and Dar, 2014).

¹³ The scheme was trialled in Merseyside in 2011, before being expanded nationwide in 2012. The scheme is now open to new referrals until 2016. The scheme has historic precedents, e.g., it broadly replicates the policies of the previous Labour administration's *New Deal self-employment programme* and *Six Month Offer*, both of which were targeted at benefits recipients.

¹⁴ Beneficiaries must be in receipt of the Jobseekers' Allowance or Employment and Support Allowance (targeted at ill and disabled individuals), or be a lone-parent claiming income support.

¹⁵ Receiving £65/week for their first 13 weeks of operation, followed by £33/week for the remaining 13 weeks: for a comparison of alternative benefits, the Jobseekers' Allowance is currently valued at ~£72/week for over 25 year olds.

Table 1 shows the number of mentor and allowance starts as of March 2014, and participants' age profiles.

Table 1: NEA Participants

	NEA mentor starts	NEA weekly allowance starts
Total (number)	93,880	46,000
Age (%)		
18-24	9%	7%
25-49	70%	70%
50+	21%	23%

Source: Department for Work and Pensions (2014)

Approximately one in two of those who has an initial meeting with a mentor goes on to receive the NEA allowance, i.e. succeeds in starting up a business (DWP, 2014). An analysis of the benefits status of NEA participants by the Department for Work and Pensions (DWP, 2013a), which used administrative data to track a cohort of 3200 individuals for a 12-month period starting from when their NEA claims began, found that 78 per cent of participants were continuously off benefit for the entire period of the analysis. The 26th week of the scheme, at which point the NEA allowance ceased, marked a central point: a small number of participants simply gave up their attempts to start-up at this point and returned to benefits, but four fifths stayed in the programme (DWP, 2013a).

Regarding the nature and quality of businesses set up through the scheme, qualitative interviews with NEA participants, Jobcentre staff, and delivery partners have found that the scheme most commonly supports sole traders in gardening, hairdressing, and construction. The research found that overall, the...

“...programme was offering effective support for those interested in self-employment as a route to (re-)entering the labour market and playing a useful role in supporting the development of new enterprises. However, these enterprises were typically of a smaller scale and with less growth potential than initially anticipated” (Department for Work and Pensions, 2013, pg. 3).

Regarding the impact of the NEA intervention, this same research found that a slight majority of participants indicated they would have been likely to have established their businesses without support. However, most acknowledged that the scheme made the process easier and/or accelerated it. This suggests that the scheme has performed better as a facilitator than as a creator of self-employment. A significant barrier to success was identified through this research: a common view among participants was that the interest rates attached to the start-up loans were too high for them to serve a practical purpose. However, a strength of the scheme was identified in its combination of mentoring support and financial assistance, with human capital support found to be particularly important for those with the least experience of self-employment. However, other observers have commented that the level of continuing support offered is highly variable between regions: while in Wales, coherent support (introductory sessions, business skills workshops, face-to-face advice from professional business advisers, mentoring and funding advice) is delivered by Business Wales, former NEA recipients in England have to navigate a more fragmented support structure based on local services from a range of agencies, including Chambers of Commerce and not-for-profit social

enterprises¹⁶ (European Commission, 2014b). The Department of Work and Pensions study (2013) also found areas for improvement in: a lack of awareness of the scheme among frontline Jobcentre staff; and an inconsistent quantity and quality of on-going support from mentoring agencies once trading has commenced. Our literature review found no evidence of controlled studies of the business and career trajectories of NEA participants (cf. also European Commission, 2014b)

A second major area of activity can be found in the Start-up Loans Company: an initiative launched in 2012 to promote self-employment as a viable career path to entrepreneurs, including young people.¹⁷ A stated public policy rationale for the intervention is that it addresses a market failure of asymmetric information – where young people, most likely lacking track records and/or assets, are unable to access commercial credit. Furthermore, the programme is designed to improve the human capital of young people, where otherwise inactivity could lead to labour market detachment (Department for Business, Innovation and Skills, 2014)

The scheme offers human capital support to potential start-ups, again by matching applicants with delivery partners in the private and third-sector who aid in the development of business plans. Applicants, in conjunction with these delivery partners, can then apply for uncapped capital loans, repayable over 5 years on 6 per cent APR, the average loan size being £5,353 (Start-up loans, 2013). These loans are funded by the Department for Business, Innovation and Skills' 'Business Bank', which as of November 2013 had lent over £50 million to the scheme: a third of the way to its target of £151 million to be achieved by 2015 (Government press releases, 2013). Once operating, participants can access discounted products from a range of 'corporate clients',¹⁸ and delivery partners who theoretically stay attached to offer on-going mentoring services.

Regarding the quality of the intervention: a regional impact assessment of the project – conducted through interviews with participants and local delivery partners – has found that the programme has...

“...support[ed] employment and economic activity in at risk communities... [and] enhanced recognition of enterprise as a viable option for young people” (Department for Business, Innovation and Skills, 2014, pg. 20).

However, the quality of post start-up mentoring – among the most valued aspects of the programme for participants when offered – was found to be highly varied, with some delivery partners effectively dropping out once a loan had been secured. Furthermore, the Financial Times has reported a claim – contested by the Government – that 40 per cent of all loaned money is 'unlikely to be repaid' (Bounds, 2013): this potentially indicates a high failure rate and/or low growth rate among businesses set-up through the scheme. As for the intervention's effects on human capital, our literature review could find no examples of controlled studies of the business and career trajectories of participants.

In total, the UK Government claims to have helped over 30,000 new businesses as of 2013 through the NEA and Start-up loans schemes (Prime Minister's Office, 2013); however, little robust analysis of their effectiveness regarding new business/job creation or human capital creation is available. With both the schemes being relatively new, it is perhaps reasonable that there is lack of such data. However, a longer-running third-sector scheme with very similar ambitions and activities has received significantly greater academic attention.

¹⁶ The agencies offering support and guidance to businesses in England are members of the National Enterprise Network (European Commission, 2014b).

¹⁷ As of July 2013, 59% of businesses backed by the scheme were run by individuals aged 18-30 (Start-up loans, 2013).

¹⁸ Ranging from free software offers, to discounted eBay and PayPal services.

The **Prince's Trust's Enterprise Programme (PTEP)**, the only major national start-up programme offering which is specifically targeted at young people, has since 1983 offered a combination of human and financial capital support to young people setting up start-up businesses. The scheme is principally intended for unemployed or disadvantaged individuals, though all UK-based 16-30 year olds are currently eligible as long as they are working less than 16 hours a week and are not in receipt of a Masters' degree. Since 1976, around 80,000 young people have received support from the Trust (European Commission, 2014b). The scheme is primarily funded through private donations, though through the years has received both unconditional and matched funding from local, regional, national and European public authorities.

In terms of human capital support, the scheme offers initial advice and support to participants in producing business plans, and up to two years of volunteer business mentor support for those that start-up under the scheme. In terms of financial capital support, the PTEP offers successful applicants medium-term capital loans – capped at £4,000 for sole traders and £5,000 for partnership businesses – which are initially dispensed on a low interest (3 per cent APR) basis. When developing business plans, participants are also eligible for small 'will-it-work?' grants – currently capped at £250 – to be used for market-testing. The PTEP currently has an agreement with Jobcentre Plus, so that most individuals in receipt of Jobseekers' Allowance benefits can continue to receive these throughout their early-stage participation in the programme (Prince's Trust and Jobcentre Plus, 2010).

Regarding the quality of this intervention: the core delivery of the PTEP has remained generally similar for a number of years, and has received a large amount of academic study. When comparing a number of such reviews, Greene (2009) finds that "unsophisticated evaluations" of success – such as those that narrowly asked participants of their attitudes towards the PTEP – tended to generate more "positive" outcomes than sophisticated, econometric analyses¹⁹ – such as one that compared the career and business trajectories of a sample of participants against a control group (Greene, 2009).

The study identified by Greene as being the most sophisticated used three survey waves to conduct a longitudinal evaluation of the impact of the programme, based on a matched control group comparison involving 2,000 PTEP participants. This report found that for those that remain in self-employment after going through the scheme, PTEP participation had a significant positive impact on earnings: PTEP participants earned more than self-employed individuals in the control group (Meager *et al.* 2003). It should be noted, however, those with high educational levels²⁰ and from less deprived societal groups tended to experience the greatest success through the programme, and PTEP participants were disproportionately at the older end of the Prince's Trust's eligibility criteria: with only 10 per cent of participants being under 22 years old after two years of entering the scheme (Ibid.). The evaluation found that in the long run, participation in the programme had no significant effect on earnings and employment chances; a finding that calls into question to what extent initiatives like PTEP can reach the aim of building human capital among participants. Moreover, during their period of self-employment, PTEP participants were worse off financially than their control group counterparts (Meager *et al.* 2003).

When looking at the self-reported feedback of participants, it is interesting to note that the availability

¹⁹ Here, it must be noted that the evaluations of the Start-up loans and NEA interventions referenced earlier in this report did not use particularly sophisticated methodologies – often relying on the self-reporting of participants – and, in light of Greene's findings, caution must be taken when interpreting them.

²⁰ NVQ level 4 or higher.

of mentors was identified as a key success factor, with 90 per cent reporting their services to have been helpful (Ibid.) – echoing findings from impact assessments of the NEA and Start-up loans scheme, which suggest that human capital support was vital to participant success. This finding is backed by the fact that the amount of funding received from the PTEP did not have a statistical influence on the chances of business survival.

For those participants whose businesses failed – which rose to over 50 per cent of participants after four years of operation – their period of self-employment did not produce any particular advantages in finding subsequent employment or raising future earnings. Overall, Meager *et al.* (2003) found little evidence, other than the reported happiness of participants,

“that Prince’s trust ventures are stronger, that their support is effective, or that the experience is particularly economically beneficial to participants” (Greene, 2009, pg. 25).

This problematises a key public policy rationale of this and other self-employment interventions, particularly those targeting groups perceived as disadvantaged: namely, the argument that even those participants whose businesses fail benefit in the long-run, due to an up-skilling of their human capital (Ibid.).

2.2 Coaching and Counselling

Support via networks and mentoring can also help young entrepreneurs build the business-related social capital they often lack, and assist them in building relationships and legitimacy among stakeholders key to business success (e.g. financiers, customers, suppliers) (OECD/EC, 2012). Such support could address the shortage in skills that many youth identify as a significant barrier to self-employment. Across the EU28, in 2012, young people (15-24) were much more likely to identify a lack of skills as a reason why self-employment would not be feasible for them than the adult population (18 per cent vs. 8 per cent, OECD/EC, 2014a).

In the UK, few initiatives with a national scope exclusively offer coaching and counselling support.²¹ However, as demonstrated above, public and voluntary sector initiatives that seek to move young people into self-employment in the UK tend to offer financial support in tandem with coaching and counselling support. This tendency is in line with evidence from across the EU, which suggests that financial support programmes work better where they are complemented by coaching and mentoring (OECD/EC, 2012).

2.3 Programmes for Women: Creating Networks

In recent years, a growing number of dedicated policies and programmes aimed at activating the entrepreneurial potential of women have been created in the UK. Programmes tend to have a strong focus on encouraging women to consider starting businesses by providing targeted information, role models and mentorship, and engaging young women in particular with self-employment and business ownership as a potential career path. Such approaches can be seen as a strategy to address the ‘soft’ factors cited by women as barriers to setting up a business (cf. Section 2.a). They also reflect evidence that a lack of visible female entrepreneurs to serve as role models may lead women to feel that they do not “fit” the role of self-employed worker, business owner or entrepreneur (Gupta *et al.*, 2009). Unlike in the case of initiatives addressing other groups under-represented among the self-

²¹ A notable exception, www.mentorsme.co.uk – a web platform designed to facilitate SME access to mentoring – is a private-sector initiative operated by the British Bankers’ Association.

employed and entrepreneurs, the rationale for the majority of programmes targeting women appears not to offer opportunities to women understood as a disadvantaged group, threatened by labour market or social exclusion. Rather, they view women as a “largely untapped pool of entrepreneurs” (Carter 2000) that can be activated to benefit the economy as a whole (Women’s Business Council, 2013).

Dedicated networks and mentoring schemes for female entrepreneurs play a central role in this area of policy. Relevant initiatives include

- **Prowess Women in Business**²², a network dedicated to developing a female-oriented business support infrastructure. Its objectives are to influence policy, disseminate practical information and create support networks for female entrepreneurs.
- The **UK Female Entrepreneurship Ambassadors (UKFEA)** programme²³, which is part of the European Network of Female Entrepreneurship Ambassadors. Participating female entrepreneurs seek to inspire others to set up their own start-ups by engaging with women in schools, universities and the broader community. According to the European Commission, data from five of the participating countries shows that the support of the network contributed to the creation of 52 women-led start-ups, with a total of 68 jobs²⁴.
- The **female** scheme, a network active across the EU, provides assistance (training, advice, mentorship) to female entrepreneurs, particularly those facing additional barriers to entry into self-employment, i.e. those over 50, lone parents, the long-term unemployed, and ethnic minorities. The scheme’s website serves as virtual support network and information source (EC, 2013d) and offers an online networking platform including a range of online business tools. Female also offers training events and ‘Mentoring Circles’, where prospective entrepreneurs can discuss business plans and common challenges in a group setting.
- Online networking platforms that seek to provide information and easily accessible virtual spaces for networking between prospective and established female entrepreneurs, e.g. women unlimited.²⁵
- Regional support networks like **The Women’s Organisation** in Manchester, which offers mentoring, practical support and networking, and **Enterprising Women**²⁶, a network active across the East and South of England that offers local business clubs, networking and mentoring.
- **Women’s Enterprise Scotland** supports women in starting their own businesses by providing mentoring and information, as well as a business ambassador programme that seeks to inspire potential female entrepreneurs.
- **WISER Women in Self-Employment Resource** at the University of South Wales is part of **Women Adding Value to the Economy (WAVE)**, a project funded by the European Social Fund that attempts to address the issues underlying gender pay inequalities in self-employment and employment in Wales. WAVE WISER²⁷ is a 3 year project operating between

²² <http://www.prowess.org.uk/about-prowess>

²³ <http://www.ukenterpriseambassadors.com/>

²⁴ http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/women/ambassadors/index_en.htm

²⁵ <http://www.womenunlimitedworldwide.com/about-women-unlimited/>

²⁶ <http://www.enterprising-women.org/>

²⁷ <http://enterprise.research.southwales.ac.uk/women/projects/wave/>

July 2012 and June 2015. The WISER programme offers aspiring women entrepreneurs mentoring by experienced businesswomen and creates networking opportunities for female entrepreneurs. It moreover offers university-level courses in entrepreneurship, including a “taster module” on identifying and assessing a business idea targeted at female undergraduates, a postgraduate “taster module” on female entrepreneurs, as well as accredited postgraduate qualifications in entrepreneurship practice and mentoring. The courses are open to any woman engaged in or aspiring to entrepreneurial activity. The approach of WISER links mentoring and formalised qualifications – including for the mentors themselves. There are no evaluations of this on-going project at this point.

- The UK Government is also involved in efforts to foster networks among female entrepreneurs. As part of the “**Get Mentoring**” project delivered by the UK Sector Skills Body for Enterprise (SFEDI), it funded the recruitment of over 6,000 volunteer mentors from the SME and micro business community, specifically trained to support female entrepreneurs. This initiative has fed into “Meet a Mentor for Women” events²⁸ that will take place across UK in 2015, linking up female-led start-ups and businesses exploring growth with mentors.

This review found no evaluations of the long-term effects of such targeted mentoring, though there is evidence that female-led businesses in the UK take up opportunities to receive such support. Data from the Small Business Survey 2012 shows that female-led SMEs are already more likely to use mentors than male-led businesses (9 per cent vs. 5 per cent; Department for Business, Innovation and Skills, 2013b), with women under 45 being most likely to report using a mentor (11 per cent, compared to men in the same age group, 8 per cent). A study carried out among 100 women entrepreneurs in Wales (Muir, Atkinson & Angove, 2001) revealed the importance of women’s business networks to women entrepreneurs: respondents reported relying on such networks as a source of personal, psychosocial and professional support and for access to training and learning opportunities as well as mentoring relationships.

Funding for female-run start-ups, by contrast, is mostly provided through mainstream programmes. One notable exception is the Aspire Fund, a £25 million investment fund for women-led businesses established in 2008, managed by the British Business Bank²⁹. The Fund aims to promote high-growth female-led SMEs by providing investments between £100,000 and £2 million on a co-investment basis. It is accessible to businesses with women in lead roles, such as executives, investors or advisors. Its main focus is on existing businesses, but it will consider start-ups with proven prospects. The Fund’s focus on high-growth businesses brings it in line with innovation and growth-oriented models of entrepreneurship support, such as the Angel Investment Co-investment Fund described in Section 2.4

Research has frequently identified differences in the financing patterns between female- and male-owned businesses (Carter et al. 2007). Recent studies in the UK provided evidence that gender differences in financing outcomes for small businesses in the UK are largely due to the structural features of female-led businesses rather than to discrimination on the part of banks. However, female entrepreneurs are also less likely to apply for loans due to discouragement (Carter and Mwaura, 2014). Campaigns have sought to address such misconceptions (Government Equalities Office, 2013).

²⁸ <http://www.mentorsme.com/useful-resources/events/meet-a-mentor-event>

²⁹ <http://british-business-bank.co.uk/market-failures-and-how-we-address-them/aspire-fund/>

2.4 Fostering Innovation³⁰

Looking at initiatives in the UK aimed at developing start-ups with high growth potential, it is clear that most large-scale contemporary projects seek to inject already existing SMEs with enhanced capital and human resources. This differentiates these initiatives from those described in sections 3.a and 3.b of this report, which largely concentrate on moving people (young people in particular) from unemployment/education into self-employment – necessitating an emphasis on business creation in the support they provide. Examples of high growth-potential initiatives (both public and private) include schemes designed to allow SMEs to obtain loans, and schemes designed to allow SMEs to obtain equity- and/or venture-investment (Department of Business, Innovation and Skills, 2013).

The Enterprise Finance Guarantee (EFG) is an example of the former. Operated by the UK's Department for Business, Innovation and Skills' 'Business Bank', the EFG offers a loan guarantee scheme to viable SMEs which have been refused loans by the commercial market, due to inadequate security and/or the lack of a track record. The scheme has been in operation since 2008, and it should be noted that it is not exclusively focused on young people.

While managed by the Business Bank, private sector lenders are charged with delivering the scheme. To receive loans of between £1,000 and £1.2 million – repayable at a commercial rate over 3 months to 10 years – already existing, UK-based SMEs with an annual turnover of <£41 million must make an application to an approved commercial lender. If the lender decides it is unable to supply a loan under commercial terms and conditions, they can consider lending under EFG terms and conditions, in which the Government makes a guarantee to the lender of 75 per cent of the original loan's value: in theory, this should increase the confidence of lenders, and their propensity to loan to higher-risk SMEs, now being liable for only 25 per cent of the risk (Business Bank, 2014).

A 2013 impact study of business improvements elicited by the scheme found that EFG-borrowing firms have, compared to non-borrowers, "fared well in terms of employment and sales growth" (Allinson *et al.*, 2013): with 2009-2012 sales growth increasing by 33 per cent for a typical EFG firm; 35 per cent for firms with a commercial loan; and 25 per cent for non-borrowers. Looking at employment growth, EFG businesses grew by 21 per cent over the same period; compared with 31 per cent for SMEs with commercial loans; and 11 per cent for non-borrowers. However, once econometric controls for business characteristics were considered, the Review found that a firm's access to EFG funding was not a statistically significant factor affecting business improvement: while "EFG creates a level playing field for the supported businesses to realise their growth potential..., business growth itself is very similar to... other businesses" (*ibid.*).

Another scheme directly targeted at high growth-potential SMEs, if not at young people, is the publicly-funded Business Angel Co-Investment Fund (CoFund). Since 2011, CoFund has sought to make initial equity investments of between £100,000 and £1 million into high growth-potential SMEs – with individual investments limited to 49 per cent of the value of a company's total investment round, and less than 30 per cent of a company's total equity at the close of an investment round. Follow-up investments can be made by the CoFund at a later date.

This scheme is designed, in part, to practically inject capital into, and "propel growth" in, young companies (Business Angel Co-Investment Fund, 2014). However, higher-level objectives have

³⁰ "Innovation" is a broad concept as a cursory perusal of the academic literature on the subject will confirm. For the narrow purposes of this report, we have taken the steer from the Work Package leader to focus on national policies and programmes which support innovative start-ups, or more generally start-ups which are seen as having high growth potential.

played a determinate role in shaping the scheme. A principal aim of the scheme is for it to support less experienced 'Equity Investment Angels': providing them with practical learning in how to invest in high-potential SMEs, thereby increasing their confidence to continue in the future. An anticipated knock-on effect is long-term increases in capital supplies for high growth-potential start-ups across the economy.

Therefore a 'partner syndicate' needs to approach CoFund for it to invest in a company. These partner syndicates need to contain 3 or more individuals operating independently of the start-up in question and willing to invest "meaningful amount(s) of cash... as a proportion of their investible wealth" into the business (Ibid.). These syndicates are expected to contain a 'lead', private-sector 'investment angel' responsible for bringing investment-worthy SMEs to the CoFund's attention: in theory, 'lead angels' would take 'junior angels' under their wing, providing guidance concerning investment principles in the process (Baldock, in correspondence).

Between 2011 and 2013, CoFund invested £13.8 million – out of a total budget of £100 million, provided by Government in the form of a 15 year non-subordinated loan. This investment was made in 39 different companies – out of 47 applicants – in partnership with 24 angel syndicates, with CoFund going on to hold an average 9.3 per cent shareholding in each company (Baldock, in correspondence). CoFund's investments have been clustered in "hot" sectors – namely digital technology, clean technology, and life sciences – with recipient SMEs geographically concentrated in London and the East of England (until Spring 2014, only English SMEs were eligible, after which the scheme was expanded across the UK). The average age of a successful company was 3 years, and generally these companies had previously been able to raise substantial amounts of seed capital independently (Baldock, in correspondence). Clearly then, the company profiles of participants of this scheme differ significantly from the individual profiles of participants of schemes described earlier in this report.

An early qualitative impact assessment of the CoFund, conducted by Rob Baldock and Colin Mason (forthcoming), has yet to enter the public domain. However, one of its lead authors found – from interviewing successful and unsuccessful businesses and investment angels – that successful businesses reported low levels of financial additionally: that is, most felt they would have been able to raise the received funds independently of the initiative, albeit over a longer time period. However, successful businesses did report high levels of project-specific additionally: with discrete projects unlikely to have gone ahead without the initiatives. Businesses reported the scheme's greatest utility lay in its ability to plug a commonly-encountered 'post-£500K, minus £2 million' equity gap.

However, Baldock found little evidence that the scheme had achieved its behavioural objectives: the private sector angels involved in the scheme have tended to be highly experienced and familiar with investment processes. In practice, few differentiations could be made between supposedly lead and junior angels (Baldock, in correspondence). Interviewed investment angels indicated that onerous application processes and too rigid application rules demanded significant investments in times from prospective angels, thereby discouraging new entrants to the 'angel market'. Looking to rectify the situation, Baldock prescribes the formation of Angel Investment Networks to allow for networking, so as to increase junior angels' confidence in navigating the scheme, ultimately allowing greater numbers of SMEs to access capital through it.

Looking at further schemes aiming to increase equity- and venture-investments in start-ups and SMEs, the Seed Enterprise Investment Scheme (SEIS) – developed in 2012 – provides 50 per cent capital gains tax relief to individuals wishing to invest in small companies of less than 25 employees

and with assets of less than £200,000. A SME can raise a combined total of £5 million from this venture capital scheme in addition to investments made under the Enterprise Investment Scheme and the Venture Capital Trust Scheme: two schemes similar in form but targeted at larger SMEs with greater financial assets (Business Bank, 2014). No large-scale impact study has yet been conducted of SEIS. However, according to general findings from the Enterprise Research Centre (Roper and Xia, 2014), businesses that receive public support for their product or service innovation are around 2.7 per cent more likely to survive over eight years than firms which conduct innovation without public support.

2.5 Programmes for Youth: Developing Entrepreneurial Mind-sets and Skills

Moving away from schemes that primarily operate through the provision of financial and human capital support to potential and already-existing start-ups, a second significant area of policy activity which has expanded since 2010 is the **mainstreaming of entrepreneurial activities into education**. Initiatives to develop entrepreneurial mind-sets and skills aim to make young people aware of self-employment as a career option, and to equip them with the entrepreneurial knowledge, technical skills and competencies required to establish and run successful businesses (OECD/EC, 2012). Evidence from French and UK science and engineering students seems to support the policy rationale for such activities, suggesting that participation in entrepreneurship education increased entrepreneurial intentions (Souitaris *et al.*, 2007)

Providing a succinct summary of the public policy rationale of such schemes, the new UK Business Secretary set out the Government's plans in 2010 for

“this decade [to be] the most entrepreneurial and dynamic in our history. This will be achieved by challenging aspirations, [and] embedding enterprise awareness in mainstream education, and mentoring future entrepreneurs” (Cable, 2010).

The intent of this approach is that educational establishments should help economic recovery by increasing economic capacity and maximising work-ready human capital. For a broad overview of the contemporary policy landscape affecting such schemes, and common themes and challenges involved, see Chapter 5 of Meager *et al.* (2011).

The principal sites where such activities have been attempted include universities, other Higher Education institutions, and Further Education institutions.³¹ For instance, in 2011, the Department for Business, Innovation and Skills announced the creation of ‘enterprise societies’ in every UK university and most FE institutions, so as to allow for the networking and development of students with entrepreneurial ambitions (Department for Business, Innovation and Skills, 2011a). Such governmental initiatives have complemented the prior activities of a number of universities which, seeking to valorise their courses, have constructed a number of inter- and intra-University entrepreneurial programmes.³²

An example of such an intervention can be found in the SPEED Plus programme in the West Midlands – part-funded through the Higher Education Investment Fund, European Research Development Fund and European Regional Development Fund. SPEED Plus has entailed a

³¹ I.e. post-compulsory educational establishments.

³² At the start of this decade, 80 per cent of UK universities offered some form of credit-bearing courses in entrepreneurial activity, with 91 per cent offering extra-curricular and/or graduate support (Meager *et al.*, 2011).

collection of 12 universities offering tailor-designed lecture seminars combined with action-centred learning, which sees students placed with local business mentors for six months of on-going one-to-one mentoring. During this time, students set up a start-up business, the management of which forms the basis of their marks for the academic unit. Participating universities also provide free premises from which students can operate their newly-founded businesses. The scheme is open to all students – not just those sitting business courses (Clements, 2012). A similar scheme, run by Kent University, sees an open-to-all-students course that combines lecture-based studies, mentoring and networking opportunities with the local business community, and an ‘incubation support team’, which provides free and subsidised office and laboratory space, and technical and legal advice to student start-ups (Kent University, 2014). Several further examples of intra-University entrepreneurship networks – such as Bee Purple based in the University of Brighton³³ – can be found throughout the UK.

Turning to consider the quality of these interventions, the evidence suggests that individual schemes have been shown to produce significant effects when supported with significant resources – the SPEED programme has helped produce 200 business start-ups in Staffordshire alone (Clements, in correspondence). International literature likewise shows that while there is only partial and mixed evidence regarding such schemes’ impact on entry rates into self-employment and knowledge and skills acquisition, positive impacts have been recorded regarding participating individuals’ attitudes to, and success within, self-employment (cf. Chapter 5, Meager *et al.*, 2011).

However, looking across the UK, Colette (2013) has argued that there is too wide a ...

“...spectrum of definitions, conceptualisations and foci of entrepreneurship education in [Higher Education], as articulated across global, European and UK policy documents and related papers” (Colette, 2013, pg. 843).

In practice, policy makers’ definitions of entrepreneurship education has ranged from teaching students how to start-up businesses, through to providing students with ‘soft skills’ perceived as integral for the wider world of work. With such a loose definition, Colette (*ibid.*) found that in practice ‘entrepreneurship education’ – as conceptualised in the policy literature – was used to address too broad a range of economic and social concerns to be reasonably and realistically delivered by optional, modular supplements to undergraduate and post-graduate study, thereby limiting these interventions’ effectiveness.

Smith *et al.* (2006) provide practical reasons why universities have been failing to meet the considerable expectations of policy makers. These ranged from resource limitations, the challenges of keeping course content fresh and engaging, finding suitable entrepreneurs to participate in programmes, and securing sufficient time and prominence within timetables and curricula. Furthermore, it was found that courses including high proportions of action-centred learning or other innovative pedagogical techniques could be poorly implemented by universities lacking experience in “synergistic [i.e. non-lecture based] methods”. As a result, and on a national scale, universities’ renewed obligation to provide entrepreneurial training has had a limited effect in increasing human capital stocks and creating new businesses and jobs.

A similar story can be found in compulsory-age education. Since 2004, England’s schools’ inspectorate has been required to assess the quality of ‘enterprise education’, with schools required to...

³³ <https://www.youtube.com/watch?t=10&v=mspJoFnXmpA>

“offer pupils the opportunity to develop entrepreneurial skills for self-employment” (cf. Young, 2014, pg. 26).

However, Draycott and Rae (2011) have found that poorly-defined and understood concepts have meant

“the rationale and philosophy of enterprise is poorly articulated and understood in the educational policy literature” (Draycott & Rae, 2011, pg. 11).

This has allowed for a degree of ‘mission-creep’, with enterprise and entrepreneurship

“‘hijacked’ by [many] schools as a convenient vehicle for them to evidence a range of ‘soft’ skills which they cannot easily do in other ways” (Ibid.).

This observation is supported by the findings of others, who have argued that existing approaches to training and education do too little to develop entrepreneurial attitudes and skills among young people, focusing instead on preparing them for paid employment (OECD/EC, 2012, Potter 2008). Regardless of any normative arguments regarding this development, such a divergence is limiting the effectiveness of embedded entrepreneurial education as a method with which to increase young people’s start-up activities.

2.6 Programmes for Black and Minority Ethnic Groups³⁴

Black and minority ethnic (BME) groups that display low rates of entrepreneurship or self-employment have been the targets of a range of publicly funded initiatives designed to promote self-employment and start-up activity. Government initiatives in this area tend to have a dual focus: to combat problems of disadvantage or marginalisation (Blackburn & Ram 2006) and to maximise the contribution of BME businesses to the UK economy. A 2008 Government White Paper on Enterprise articulated plans to reduce barriers of entry for ethnic minority businesses through programmes related to access to finance (Department for Communities and Local Government, 2013), business support, and public procurement (BERR 2008).

Recent years have seen increasing attempts to address issues of access to finance for ethnic minority entrepreneurs (Department for Communities and Local Government, 2013). There is evidence to suggest that while structural factors such as sector, firm size, the presence of a business plan, firm age, and legal form all impact on finance outcomes in the UK, even after controlling for these structural factors the relative likelihood of borrowing success remains lower among BME business owners as compared to their White British and Irish counterparts (Carter *et al.*, 2013). Moreover, there are suggestions that BME entrepreneurs are being discouraged from making loan applications by indirect factors such as negative media reports or hearsay, their own expectations regarding the likelihood of rejection and daunting a priori notions of what bank borrowing entails (Carter *et al.*, 2013, Blanchflower *et al.* 2003, Kon & Storey 2003). The British Bankers’ Association agreed to deliver a series of “road show events” across the country, highlighting issues concerning access to finance in areas with a high ethnic minority population, as well as ensuring that the online mentoring portal Mentorsme highlights offers of specific ethnic minority business support (Department for Communities and Local Government, 2013).

³⁴ Approaches to describing migrant or ethnic minority populations differ between European countries. While in Germany, for instance, the focus often lies on migration and the identification of individuals with a “migration background”, in the UK, distinctions tend to be based on ethnic self-identification (Electoral Commission, 2005). Hence comparisons based on such categories need to take into account such divergent definitions. For this reason, in the UK report we focus on programmes targeted at black and minority ethnic groups, rather than programmes targeted at migrants per se.

Individuals from ethnic minorities access start-up support provided as part of mainstream schemes. For instance, in Q4 2012, 15.6 per cent of those who started meeting with a business mentor under the New Enterprise Allowance and 13.2 per cent of those who started to claim the NEA weekly allowance were from a minority ethnic background, compared to 17.6 per cent of those claiming unemployment-related benefits in the same period (ONS, 2012). Similarly, 35 per cent of the 6,000 loans provided under the Start Up Loans scheme by 2013 were to minority ethnic entrepreneurs. According to evidence from the 2010 and 2012 Small Business Surveys, minority ethnic-led SMEs are more likely than SMEs generally to use the services of business mentors: 24 per cent of SMEs with at least one Black partner or manager surveyed in 2012 reported using the services of a mentor, four times the rate among SMEs in general (Department for Communities and Local Government, 2013).

However, there is a debate about whether business support for minority ethnic communities should be delivered via mainstream agencies or more specialised providers (Carter *et al.*, 2013). Many studies have identified a low level of knowledge and take-up of mainstream business support among black and minority ethnic entrepreneurs (Speluva *et al.* 2008, Mascarenhas-Keyes, 2006, Ram & Smallbone, 2003). The promotion of BME entrepreneurship via targeted services has been part of British policy since the Scarman report on the Brixton uprisings in the early 1980s recommended such measures (Ram 2006). Examples of the various initiatives which have implemented such targeted business support (often at a local level, given the geographic concentration of BME communities) include the following:

- The Phoenix Development Fund, a £198 million fund that ran from 2000 to 2006 in England, sought to tackle social exclusion by promoting entrepreneurship in deprived areas and among under-represented groups. 20 projects funded under the scheme focused specifically on Black and Minority Ethnic business, with the aim of involving intermediaries who held trust within communities in the provision of business support. They provided peer support (advice, micro lending), start-up training, mentoring, qualifications and networking within communities. A survey of stakeholders and beneficiaries (Ramsden 2008) found that such grass-roots approaches targeted to the needs of individual communities were successful in engaging communities that had not previously taken advantage of mainstream business support.
- The SIED/REFLEX Programme was a programme first launched in the London Borough of Islington that delivered community-based business support to groups that are difficult to reach from the perspective of mainstream business support agencies, notably ethnic minority, faith and lone parent groups. Funded under the EU REFLEX Programme, it consisted of a broad partnership led by a local authority, encompassing public, private and community organisations. Under the scheme, advisers from within local communities were trained to provide information, advice and consultancy to new and established entrepreneurs. Advisers were attached to established community organisations frequently used by the community, to ensure high levels of trust and low barriers to entry into the programme. A survey of participating stakeholders, community business advisers and clients conducted by the Kingston Small Business Research Centre found that more than 1,000 entrepreneurs or businesses sought advice during the funding period, with the programme providing a total of 1,665 counselling sessions to businesses, as well as 237 workshops and 21 cases of assistance with funding applications. The research confirmed the success of the community-based business support model as a means of engaging people considered hard to reach by business support systems. Moreover, the project successfully built organisational capacity

among participating institutions. The membership organisation Association of Community Based Business Advice (ACBBA) for community organisations who deliver community-based business support that was established as part of the project continues to facilitate the dissemination of good practice and to provide professional development for the business advisers.

Our review found no robust empirical evidence concerning the outcomes of such targeted business support in terms of new businesses created and their survival. Moreover, no data were found regarding the extent to which such programmes are accessed by young Black and Minority Ethnic individuals.

2.7 Policies for Unemployed Persons

This topic has been considered above where we described the two most prominent UK-based initiatives predominantly targeted at unemployed people. Beneficiaries of the New Enterprise Allowance – including substantial numbers of young people – are predominantly in receipt of specific out-of-work benefits, namely the Jobseekers' Allowance or the Employment and Support Allowance (targeted at out-of-work ill and disabled individuals).³⁵ Participants of the Prince's Trust's Enterprise Programme must either be unemployed, or be an in-work individual from a socio-economically disadvantaged group, in the 16-30 age groups. See above for full descriptions and assessments of these initiatives.

2.8 Building an Entrepreneurial Mind-set Publication and Context of EU Policies

Section 2.5 above has described the nature of, and issues surrounding, various financial/human capital support interventions, and attempts at embedding entrepreneurial education within schools and FE/HE institutions: these being the most commonly found types of self-employment initiatives in the UK. Here, we extend this analysis with an overview of the difficulties associated with linking together such interventions at a national level so as to instil entrepreneurial mind-sets within students, school-leavers, and the working population

For illustration purposes we focus on one specific example (from Wales): the Welsh Government has, through its 2004-2015 Youth Enterprise Strategy (YES), attempted to administer a range of interventions in conjunction with public and third-sector organisations, with the express intent of increasing self-employment among young people, and in a wider sense aiming to...

“...develop and nurture self-sufficient, entrepreneurial young people in all communities across Wales, who will contribute positively to economic and social success” (National Assembly for Wales, 2013, pg. 10).

This multi-departmental strategy, written by the Welsh Department of Economy, Science and Transport and the Welsh Department for Education and Skills, includes a number of interventions similar in scope and ambitions to those listed above. These include:

- The provision of human and financial capital support in the form of £6,000 Young Entrepreneurship Bursaries – aimed at NEETs³⁶ – and Graduate Start-up Bursaries.

³⁵ Though lone-parents claiming income support are also eligible

³⁶ Individuals 'Not in Employment, Education or Training'.

- The embedding of entrepreneurship and self-employment awareness within the national curriculum,³⁷ school inspectorates,³⁸ and exams.³⁹
- A mass participation 'Big Ideas Wales' road-show and website campaign, aimed at encouraging "young people, entrepreneurs and partners such as Schools, Colleges, Universities, youth and community groups to get involved to increase awareness, understanding and aspirations for entrepreneurship."
- The creation of six open door regional entrepreneurship hubs within HE and FE institutions, aimed at providing technical support and advice to all comers (Welsh Assembly Government, 2010).

The YES was recently reviewed by an all-Party Welsh Assembly Inquiry, which took written evidence from interested stakeholders and young participants of these interventions. The report findings give a number of crucial considerations for policy makers on how to best construct an entrepreneurial landscape.

The inquiry (National Assembly for Wales, 2013) heard clear evidence that the YES has produced an upward trend in young-people's aspirations for self-employment, with greater numbers holding mind-sets which view such work as a viable and attractive career path. The inquiry also heard that while offers of financial and personal support were equally valued by participants of self-employment interventions, high quality personal support was found to be more difficult to attain from non-state sources: mentoring was therefore seen as a particularly valuable activity of the State.

However, despite these positive findings, the inquiry heard "there is still a gap between the swell of aspiration and the actual reality". Assessing why no upward increase in entrepreneurial activity could be detected, the report authors found that the "landscape of opportunities, initiatives and organisations involved in entrepreneurship" represented a "minefield" to participants: who lacked clear understandings of how and when they were able to access aid to set up start-ups. The inquiry also found a relative "lack of enterprise throughout the education system, [a] lack of joined up thinking across different programmes and organisations, inadequate advice and support such as poor signposting to information, over-bureaucracy, inflexibility and delay in the grant system, and a lack of expert support" offered to potential entrepreneurs. Perceptions of urban biases in resource allocation were also voiced by key stakeholders and young people. Clearly here, poor quality signposting and pipelines between projects represented crucial barriers to inter-project success.

In response to their findings, the report authors recommend: the construction of well-publicised 'one stop shops' from which young people could access information; closer collaboration and joined up thinking between funding and delivery stakeholders; and the publishing of clear route maps of available opportunities. Such advice could readily be transferred to other UK nations.

A further concern of the report writers was the noticeable lack of rigorous data concerning the outcomes of the "plethora" of State sponsored activities across Wales. Our difficulties in finding robust research evidence with which to support this review suggests that this may be a wider problem affecting the whole of the UK, and more resources must be allocated to recording and comparing the business and career trajectories of participants of such projects against control populations.

³⁷ Through a national 'enterprise competition' for +5 year olds, the development of 'Dynamo' teaching materials for 5-19 year olds, and including self-employment in the obligatory 'Careers and the World of Work' national curriculum framework for 11-19 year olds.

³⁸ With Estyn – the Welsh schools' inspectorate – required to assess schools' approaches to entrepreneurial activity.

³⁹ With obligatory education on entrepreneurship being included in the new Welsh Baccalaureate, which is growing in use for age-16 examinations.

Looking at the rest of the UK, discrete services of similar intent, ambition and effectiveness can be found throughout Scotland and Northern Ireland (Walsh, 2014). However, while clear barriers to success can be identified in the practical delivery of the Welsh YES, no equivalent top-level initiative aimed at producing entrepreneurial mind-sets can be found in England. Instead, responsibilities for signposting and training activities tend to be found at the local level, and delivered from a range of public, private and voluntary bodies (Ibid.).

2.9 Summary

From this brief and inevitably selective review, looking at high profile schemes designed to encourage youth self-employment, two types of initiatives dominate the public/private policy landscape:

- schemes designed to deliver financial and human support to potential and already-existing SMEs; and
- schemes designed to promote awareness of, and enthusiasm for, entrepreneurial activity.

Similarly, these schemes can be divided between:

- those that directly target young people and/or students⁴⁰;
- those that target other socio-demographic groups partially excluded from self-employment⁴¹; and
- generic schemes targeted in theory at the general working-age population.⁴²

While participants in all of these initiatives tend to report being broadly satisfied with the outcomes of their participation, empirical investigations have revealed that:

- one of the UK's most prominent financial-/human-capital support packages has largely failed to positively affect the career trajectories of participants when compared to non-participants;
- a major initiative aimed at affecting the population's attitude to equity investment has failed to produce behavioural changes of benefit to start-up businesses;
- initiatives aimed at promoting self-employment in schools and HE institutions have a tendency to be appropriated for divergent purposes, limiting their effectiveness;
- a lack of signposting and joined up activities leaves initiatives aimed at developing entrepreneurial mind-sets underused by their target populations.

There is little evidence regarding the effectiveness of schemes that provide targeted mentoring or business support for women or for black and minority ethnic groups.

⁴⁰ E.g. the Prince's Trust Enterprise Programme and Speed Plus. Of course, further intersectionalities – such as class background – may also play a determinant role in affecting eligibility for these programmes.

⁴¹ E.g. the Phoenix Development Fund. Of course, a young woman may benefit from a scheme targeted at women, but her age is not a decisive factor in determining her eligibility for the scheme.

⁴² E.g. CoFund and the NEA. Ibid.

3. The Quality of Work Associated with Self-Employment

A number of European-level reports have identified an “entrepreneurship quality gap” affecting disadvantaged groups, including young people, women and immigrants: this gap has been shown to affect the turnover, income, and business survival rates of affected groups’ enterprises (OECD/EC 2014a:24, EC 2005). Such a gap could problematise the rationales of policies aimed at increasing entrepreneurial activities among these groups: even an initiative with a 100 per cent success rate in producing start-ups would have a questionable utility if the work that occurred within these start-ups was of a lower quality than that otherwise available to participants through wage employment in the ‘regular’ labour market.

This section seeks to add UK-based evidence, concerning the quality of self-employment in general, to this debate. Baumberg and Meager (forthcoming) have recently completed a quantitative investigation of the changing qualities of self-employed work. This section of the review should primarily be taken as a descriptive summary of that study. Baumberg and Meager (forthcoming) look to address a longstanding debate in the literature about the intrinsic quality of self-employment.

3.1 Wage Levels

Historic studies have found that the self-employed have more polarised incomes than employees, and when other characteristics are controlled for, self-employment increases an individual’s chances of falling into lower deciles of overall income distributions (Meager & Bates 2001). UK data also show a ‘scarring’ effect of self-employment – in that once transitioned to becoming employees, previously self-employed individuals are liable to experience degraded employment and income prospects (Meager 2008): this would appear to partially undermine a favoured policy rationale for interventions aimed at increasing self-employment, in so far as such interventions aim to improve the human capital and, resultantly, career trajectories of those that later go on to become employees.

Baumberg and Meager’s (forthcoming) initial literature review also suggests that the 2008 economic crisis, and its aftermath, may have had significant effects on the nature of self-employment. Between 2001 and 2008, nearly 2/5 of self-employment growth was found in construction, with a similar and overlapping proportion in skilled-trades. However, following the recession, while there has been no slowdown in the overall growth rate of self-employment, self-employment in construction has hardly grown at all, and the self-employed sector, as a proportion of skilled traders, actually fell. Resultantly, self-employment has become more evenly distributed across sectors, and is noticeably polarised occupationally. This redistribution may have had an impact on the overall quality of self-employment in terms of pay: reviewing data from the Family Resources Survey, Levy (2013) found a 16 per cent decline in the median real incomes of self-employed individuals between Financial Years 2007/08 and 2010/11 – noticeably faster than the declines seen in employees’ pay.⁴³

3.2 Working Hours

In the UK, as is the case internationally, there is a wealth of long-standing evidence that the self-

⁴³ Making reference to the same data, the Office of National Statistics reports that the inflation-adjusted median income from self-employment fell by 22 per cent between 2008/9 and 2012/3 (ONS 2014).

employed tend to work significantly longer working hours than employees (Parent-Thirion *et al.*, 2007).⁴⁴ Of particular note, however, is that there has also been, in the UK, a rapid increase in the already growing number of self-employed individuals working part-time since the recession: seen to such an extent that by 2011 the proportion of self-employed individuals in part-time work exceeded the proportion of employees. This, along with the above-described fall in real wages, supports a hypothesis that the noticeable recessional/post-recession growth in self-employment ...

“... includes a component of relatively less advantaged self-employment, exhibiting short hours and low incomes and including many in lower-skilled service activities not traditionally the preserve of the self-employed” (Baumberg & Meager, forthcoming).

Baumberg and Meager set out to expand upon this *hypothesis*, using data from the two most recent UK-wide Skills Surveys (2012, 2006) to assess the quality of self-employment according to:

“... task quality (including discretion, variety and skill match): skill requirements (training and learning): generic skills; and work effort (both intensity and hours)” (Ibid.).

3.3 Further Job Characteristics

Looking at job discretion, variety and skills match – that is, the opportunities one has to use previously-acquired skills, experiences and abilities – it was found that compared with employees, self-employed individuals have significantly higher levels of job discretion (2.66 | 2.18 on a 0-3 scale), job variety (44.9 per cent | 30.8 per cent reporting a ‘great deal’ of variety) and skills match (57. per cent | 39.4 per cent reporting being able to use ‘almost all’ of their past-acquired skills/experience/abilities).

Looking at **skills requirements**, it was found that self-employed individuals were more likely than employed workers to report that it would take 2-plus years to learn the broad skills needed to do their jobs well (44.7% per cent | 23.5 per cent. When looking at the generic skills captured by the Skills Survey – for those being “*computer use (importance and complexity separately), literacy, numeracy, physical, influence, self-planning, client communication, problem-solving, emotional and aesthetic skills*” – it was found that when asked about the importance of each to one’s job role, there were: “*Skills which are used to a greater degree by employees*”⁴⁵; “*Skills which are used to a greater degree by the self-employed*”⁴⁶; but also “*skills which are similar between employees and the self-employed*”.⁴⁷ These variations provide an inconclusive answer to the question of whether self-employment is intrinsically of higher-quality than employment in terms of skill use and training.

Looking at **work effort**, it was found that employees were significantly but marginally more likely to be required to work at high speed; but that self-employed individuals were more likely than employees to report that: their work requires them to work hard (52.7 per cent | 41.8 per cent), that they expend effort into their job beyond that which is minimally required, and that they work longer hours including overtime (40.6 hours | 36.6 hours). In terms of allowing ‘job carry-over’⁴⁸ – it was found that self-employed individuals were significantly but marginally more likely to report negative job carry-over.

⁴⁴ There is a debate about whether this should be seen as a ‘good’ or ‘bad’ feature of self-employment – reflecting either greater autonomy on the part of self-employed individuals, or greater difficulty in reaching a self-employed individual’s desired income level (Ajayi-Obe & Parker, 2005).

⁴⁵ Namely, the importance of computer use, complexity of computer use, verbal skills, and influence skills.

⁴⁶ Namely, physical, self-planning, client communication and problem-solving skills.

⁴⁷ Namely, numeracy, emotional and aesthetic skills.

⁴⁸ Where one’s job negatively affects one’s non-working day, cf. Warr, 1990.

Looking at **job satisfaction**,⁴⁹ it was found that self-employed individuals reported being more satisfied than employees (to the extent of + 0.4 points on a 0-7 scale) when considering “*pay, opportunity to use abilities, being able to use own initiative, hours of work, the work itself, the amount of work, and the variety in the work*”. Only when considering job security did employees report being more satisfied. Baumberg and Meager (forthcoming) suggest that this might imply something of higher-quality of self-employment, but also that the above-measured aspects of job satisfaction might favour the autonomy of self-employed work, that self-employed people might have different expectations about job quality, or that there are less appealing professional alternatives available to self-employed individuals.

These latter points led Baumberg and Meager (forthcoming) to consider the fact that the differences found between self-employed and employee work may not reflect any qualitative aspect of self-employment itself, but the kinds of people doing such work. Supporting this supposition, they note that self-employed individuals are ...

“...more likely than other employees to be male, older, and have 2+ dependent children; more likely to be craft workers and less likely to be clerks or service/sales workers; and more likely to work in agriculture/mining/fishing, construction or real estate while less likely to work in manufacturing, wholesale/retail or public administration/education/health” (Ibid.).

In light of this, attempts were made to add controls for such differences when conducting further analysis. Here, it was found that differences between employees and self-employees’ hours worked became smaller when controlling for industry, and non-significant when controlling for occupation. This suggests that self-employed individuals tend to work longer because of the type of person they are and the type of job they do, rather than due to an intrinsic element of self-employment per se. However, aside from this issue, and a few further areas where confounding factors were identified,⁵⁰ most identified patterns were unchanged once controls were added.

Noticeably, evidence suggests that the benefits of self-employment are greatest for women: compared with employed women, self-employed women were found to be “less likely to work at high speed, and have lower negative job carry-over (and are more satisfied with the amount of work” than women employees, while no such differences were found between self-employed males and male employees. Similarly, positive gaps between self-employed people and employees regarding job satisfaction levels – concerning the use of one’s abilities and initiative; work itself; and the variety of work – were greater for women than they were for men.⁵¹

Looking at differences between different forms of self-employment, it was found that sole traders had lower skill use and different patterns of skills matches than self-employed-with-staff.⁵² Conversely, self-employed-with-staff made the greatest work efforts, worked the longest hours, and experienced the most exhaustion when compared with sole traders and employees.⁵³ Self-employed-with-staff reported being less satisfied with hours worked, but more satisfied with job security, pay, use of skills

⁴⁹ Being “*an individual’s assessment of the quality of their job compared to their expectations and compared to the other possibilities available to them,*” job satisfaction must be seen as an indirect measure of job quality, as it is dependent on individuals’ psychologies (Baumberg & Meager, forthcoming).

⁵⁰ Namely, working under tension and working to tight deadlines, aesthetic skills, and problem-solving skills.

⁵¹ N.B. Baumberg and Meager did not look for, and IES found no further robust studies of, the qualities of young people’s self-employed work compared with those of older self-employed people, nor of the effects of self-employment of ethnic minority groups.

⁵² With all generic skills with the exception of physical and self-planning skills being less important for sole traders.

⁵³ Working hours = 45 hours/week for self-employed with staff| 35 hours for sole traders| 37 hours for employees.

and opportunities to use their initiative when compared with sole traders.⁵⁴ Looking at this evidence, Baumberg and Meager (forthcoming) posit that many self-employed-with-staff represent a sub-set of self-employees who set out as sole traders, and over time became more successful and motivated to expand: as a result, observed differences between these groups are likely in part to be explained by differences in the types of people in each group, rather than differences in the types of self-employment per se.

With the Skills Survey capturing many of the same variables over twenty years (1992-2012), Baumberg and Meager (forthcoming) were also able to look at differences in job quality within self-employment over time, in addition to making comparisons between self-employed and employed individuals. After controlling for compositional changes in the make-up of the UK's self-employed workforce, it was found that between 1996 and 2006, task discretion fell for self-employed workers, and certain elements of work effort⁵⁵ and tensions at work rose. However, past-acquired skills and some generic skills matches⁵⁶ rose, with the majority of changes occurring in the 1990s rather than 2000s. This demonstrates there were both positive and negative trends in self-employed job quality over this period. Perceptions of self-employed job quality also rose for every measure of job satisfaction between 1992 and 2006.

However, between 2006 and 2012, clearer negative trends could be found. Task discretion, skills matches, the time taken to learn jobs, and the use of problem-solving skills all fell, as did self-employed people's hours of work. Most elements of job satisfaction also fell.⁵⁷ These declines are consistent with post-recessionary increases in self-employment consisting disproportionately of increases in 'distressed self-employment' – with workers operating under conditions towards the 'dependent' and 'necessity' polarities as described in Section 2 of this report. Baumberg and Meager (forthcoming) found corroborating evidence of this in:

- increased experiences of recent unemployment among the self-employed.⁵⁸
- Shortened job tenures among self-employed individuals.⁵⁹
- the fact that the rise in self-employment between 2006-2012 was predominantly among sole traders.⁶⁰

All of which suggest that post-recession, relatively low-quality self-employment is increasingly being used as a survival mechanism, to an extent unseen before 2006. The fact that Baumberg and Meager's (forthcoming) evidence suggest that these trends have disproportionately been experienced by younger, newly self-employed sole traders should be of interest to the UK's policy community, which has been clear in its ambitions – if not its rationale – to increase such forms of employment in

⁵⁴ This contradicts the findings of Sutherland (2013), who also used data from the 2006 Skills Survey.

⁵⁵ Namely, working fast, working to tight deadlines, and hours of work.

⁵⁶ Namely, computer literacy, physical, and problem-solving skills.

⁵⁷ Going against this trend, there was a significant but marginal rise in satisfaction with amounts of work, and stability in satisfaction with hours.

⁵⁸ "In 2006, only 12.9% of the self-employed had been unemployed in the past 5 years, and 6.2 per cent had been unemployed in the past 12 months. By 2012, these figures had more than doubled to 26.5 per cent and 14.5 per cent respectively". In contrast, for the employee population 5-year-unemployment rose from 14.8 per cent to 17.4 per cent and 12-month-unemployment from 6.1 per cent to 6.5 per cent.

⁵⁹ Which remained hovering around nine years between 1997 and 2006, but dropped to 7.6 years in 2012.

⁶⁰ As a proportion of all survey respondents, sole-traders rose from 7.7 per cent to 11.2 per cent, while the proportion of self-employed-with-staff fell from 3.4% to 3.1%.

the future.

Clearly, between 2006 and 2012, the UK saw a degradation of self-employed job quality. However, one should not overstate the negative aspects of self-employment. Taking a longer-term perspective, between 1992 and 2012, and compared with the changing qualities of employees' jobs, the position of self-employment has improved:

"...work effort in self-employment is relatively less, the previous differences in negative job carry-over have evaporated, and certain aspects of job satisfaction have improved compared with employees" (ibid.).

Similarly, and primarily due to rises in part-time self-employment, differences between employees and the self-employed in hours worked have also reduced.

3.4 Sustainability and Job Creation of Start-ups

There is a lack of rigorous evidence on the long-term effects of start-up activity by under-represented groups, particularly by young people, in terms of business survival and job creation. Hence this section will present some data on the sustainability and job creation of UK start-ups more generally, before discussing the situation of youth-run start-ups by drawing on international evidence.

Regarding start-ups more generally, data from the Enterprise Research Centre (ERC, 2014) show that the 3-year survival rate of start-ups 2009-2012 across England was 62.3 per cent, i.e. close to 40 per cent of start-ups formed in 2009 did not survive until 2012. ONS data⁶¹ for the period between 2008 and 2013 show a 41.3 per cent 5 year survival rate for businesses born in the UK in 2008 and still active in 2013 (ONS, 2013). The Enterprise Research Centre has found evidence to suggest that a decade after their birth, between 70 per cent and 80 per cent of new firms will be dead (Anyadike-Danes *et al.*, 2013).

The role played by start-ups and small businesses in job creation is subject to intense debate in the literature. The Enterprise Research Centre has found that 9 per cent of UK start-ups have fewer than 5 employees at birth. Among the firms that survive for 10 years, 75 per cent of those born with fewer than 5 employees will remain in that category. Nonetheless, research by the Department for Business, Innovation and Skills (Department for Business, Innovation and Skills, 2011b) suggests that start-ups contributed on average a third of the total of 2.61 million jobs created on average each year between 1998 and 2010. In 2009/2010, start-ups' average contribution fell to 26 per cent.

A survey of 600 English and Scottish small business owner-managers found a complex relationship between gender and business performance, but concluded that gender remains a key determinant of performance, with women-run businesses having lower performance (measured in terms of jobs created, sales turnover, annual growth) even when other factors are controlled for (Rosa *et al.* 1996). Evidence from the US (Fairlie & Rob, 2007) suggests that differences may be due to the lower levels of financial and human capital (based on prior experience in business) of female entrepreneurs. An Australian study found that differences in failure rates ceased to be significant when controlling for industry differences (Watson 2003).

⁶¹ This is compounded in the UK by the fact that new businesses are not required to register for VAT until their sales reach a threshold, currently £81,000. Hence many small businesses and sole-trade entrepreneurs are not included in official statistics. According to anecdotal evidence, the failure rate among new businesses that remain below the threshold is particularly high.

This review found no data concerning the survival and job creation rates of youth-run start-ups in the UK. It can be assumed such businesses share the difficulties experienced by small-scale businesses more generally, particularly since businesses run by young people – like MBE-run businesses – are likely to be concentrated in competitive industries with low barriers of entry (OECD/EC, 2012). This means that such ventures may struggle to survive and grow. Evidence from the US suggests that start-ups with young owners have lower survival rates than those of older entrepreneurs (van Praag, 2003). There is, however, evidence that across the EU, young people’s businesses have a higher potential for growth than those run by older entrepreneurs (Eurostat, 2006): Among businesses that survived for three years, those run by individuals below the age of 30 had nearly double the growth rate of those run by entrepreneurs over 40 (206 per cent vs. 114 per cent). Young entrepreneurs thus appear to be “a high risk but high reward group of entrepreneurs” (OECD/EC, 2012: 9). EU level evidence suggests that selective programmes which support young people with the greatest initial resources, best business plans and most innovative businesses may be the most effective in achieving business growth and survival (OECD/EC, 2012). However, this gives rise to the question of what overall social aims are to be pursued by supporting start-up activity among young people. While supporting the businesses with the highest chances of success in the market may be the most effective way of promoting job growth in the private sector, programmes that aim to build human capital among young people who would otherwise risk social and labour market exclusion may require different benchmarks (OECD/EC, 2012).

3.5 Summary

This section has summarised the findings of several empirical investigations into the quality of work associated with self-employment. This reveals that self-employed individuals in the UK have more polarised wages than employees, with self-employed individuals being more likely to fall into lower income deciles, even if they go on to become an employed worker, due to the scarring effect of self-employment. In addition, an average self-employed individual works substantially longer hours than an average employee, though there has been a rapid increase in the proportion of self-employed, part-time workers in the past decade. Looking at further job characteristics, a relatively ambiguous picture emerges concerning the quality of self-employment compared with employed work. However, evidence suggests that post 2008 recessionary increases in self-employment have disproportionately consisted of increases in poor quality dependent /‘necessity’ self-employment, as described in previous parts of section 4 of this report.

The research for this review has uncovered no specific evidence in the UK regarding the long-term survival and job creation in start-ups driven by young people or created with the help of targeted business support programmes, mentoring or financing. Regarding the survival of SMEs more generally, data suggest that between 70 per cent and 80 per cent of new firms survive until the 10-year mark. While start-ups make a significant overall contribution to job creation in the UK, job creation seems to be concentrated among a small proportion of high-growth firms.

4. Research Questions

Thinking more generally about the likely future direction of self-employment in the UK (especially as it affects young people and the previously unemployed), the key question is how far the unusually rapid growth in self-employment since 2000 (which has accelerated since the financial crisis of 2007/8) will continue. Whether and how far this happens will depend on the balance between two potential drivers of recent self-employment growth highlighted in this report:

- One potential driver is 'necessity' -- with increased inflows to self-employment composed of people who would prefer to work as employees, but facing reduced choice in a slack labour market, and outflows to self-employment falling as older self-employed in particular continue to work longer (a factor perhaps influenced by restricted pension entitlements and reduced financial assets)
- The other driver is a growth in entrepreneurial orientation in the working population, which would manifest itself with inflows to self-employment increasing because more people really want to start their own businesses, and/or outflows falling because small businesses are more successful and survive for longer.

In practice, both factors are likely to have played a role (especially given that the surge in self-employment long preceded the recent economic crisis, and continued despite it), but the more the balance is towards the former the more likely it is that the recent growth in self-employment will flatten off or go into decline as the economic recovery continues (there is some evidence from official employment statistics in the last few months of 2014 and early 2015 that this may be beginning to occur).

From a research perspective, this context suggests that research is required into the optimal policy balance that can support self-employment which generates sustainable businesses and jobs rather than self-employment that operates as a kind of 'safety valve' when the regular labour market is under strain.

Specific research questions, with a focus on youth in particular, which might be considered for the future include the following:

- To what extent are the main objectives of policy-makers in supporting youth entrepreneurship primarily economic ones concerned with increasing the stock of small businesses (with growth potential) and extending an entrepreneurial culture, and to what extent do they have a broader social objective of adding to the human capital of disadvantaged young people and reducing their social exclusion? Which different policy packages better serve each of these two objectives?
- Related to this, further research is required into the question under which circumstances, if any, initiatives designed to promote youth self-employment and start-up activity actually promote the social goals often associated with them: notably building human capital, ensuring long-term labour market attachment and preventing social exclusion.

- Do programmes targeted at other apparently under-represented groups offer models for how to best support high-quality youth self-employment? Are the interests of young people best served by generic self-employment programmes (for which they are eligible), or is a policy approach specifically targeted at youth most effective?
- Given that it is likely to remain difficult for previously unemployed young people to bridge the gap between unemployment and high-quality work, be it self-employment or employment, and specifically, what steps can be taken to support young people in entering high quality self-employment? To what extent do the structural characteristics and market positioning of the types of enterprises most often created by young people in the UK predispose them to low quality self-employment?
- What are the longer-term implications of promoting self-employment as a viable career trajectory for young people? This might, for example, include examination of how sustained self-employment, or repeated spells of self-employment affects later career outcomes (including the development of skills and human capital, and the ability to build up financial assets, pensions etc.); similarly it might address the question of to what extent do youth entrepreneurship initiatives achieve an increase in participants' employability even where their businesses fail? (OECD/EC, 2012: 20 puts forward this thesis).
- This review presents evidence from Baumberg and Meager (forthcoming) which demonstrates that an increasingly large component of less-advantaged self-employed work is typified by under-employment and a short-hours culture. With this finding being in opposition to common perceptions of 'longer-working' self-employment, further investigations of this development (which is strongly related to the hypothesis discussed above about the changing balance between 'necessity' and 'choice' self-employment) could be illuminating.

5. Conclusion

Policies and initiatives aimed at fostering self-employment and entrepreneurial activity in the United Kingdom are characterised by great heterogeneity regarding their approaches, target populations and underlying rationales. Strategies adopted include providing financial support, often in conjunction with coaching and counselling, mentoring for new entrepreneurs, support for business networking, and attempts to promote an entrepreneurial culture in educational institutions. In the UK, high profile schemes that explicitly target young people fall into two main categories: schemes designed to deliver financial and human support to potential and already-existing SMEs; and schemes designed to promote awareness of, and enthusiasm for, entrepreneurial activity among students and the general population. Initiatives in the UK, however, target a wide range of (often overlapping) groups besides young people: the unemployed (including the young unemployed), groups currently under-represented in entrepreneurship like women and certain Black and minority ethnic groups, or innovative, potentially high-growth businesses. Young people are generally not explicitly targeted by the initiatives from the latter two categories identified in this report, but may have access to schemes by virtue of their ethnicity, gender, or the characteristics of their business. While the rationale of individual initiatives is often not clearly articulated (Meager *et al.* 2011), UK policies appear to focus either on building human capital and combating social and labour market exclusion in individuals or groups perceived as at risk, or on promoting private-sector job growth and economic growth, and it remains unclear whether a single policy approach can be effective in addressing both objectives.

The report found relatively little substantial evidence indicating that existing UK programmes succeed in reaching either of those goals. When evaluative data are available, in addition to descriptive accounts of a scheme's form and function, they generally suggest the existence of policy failures. While participants in all of the initiatives identified tend to report being broadly satisfied with the outcomes of their participation, empirical investigations have revealed that: one of the UK's most prominent financial-/human-capital support packages specifically targeted at young people has largely failed to positively affect the career trajectories of participants when compared to non-participants; a major initiative aimed at affecting the population's attitude to equity investment has failed to produce behavioural changes of benefit to start-up businesses; initiatives aimed at promoting self-employment in schools and HE institutions have a tendency to be appropriated for divergent purposes, limiting their effectiveness; and that a lack of signposting and joined up activities leaves initiatives aimed at developing entrepreneurial mind-sets underused by their target populations, so that increases in positive attitudes towards self-employment do not result in actual increases in start-up activities. There is no specific evidence regarding the long-term survival and job creation in start-ups driven by young people or created with the help of targeted business support programmes, mentoring or financing. While start-ups make a significant overall contribution to job creation in the UK, job creation seems to be concentrated among a small proportion of high-growth firms.

This report findings concerning the quality of self-employment give reason for careful reflection as to whether promoting self-employment is likely to achieve the human capital objectives often articulated for such policies. With regards to certain job characteristics, such as particular aspects of job satisfaction and work effort, self-employment appears to be favourable to employment. However, there are suggestions that the growth in self-employment in recent years has disproportionately represented increases in dependent and 'necessity' self-employment. New businesses owned by

young people, women, and Black and Minority Ethnic populations are particularly likely to cluster in highly competitive sectors, and to be small. It can hence be expected that they fall on the lower end of the spectrum as regards wages and quality of work. Furthermore, researchers have identified a ‘scarring effect’ of self-employment, in that previously self-employed individuals continue to experience degraded employment and income prospects once they re-enter the employed labour market.

This has ramifications for the evaluation of the success of policy interventions and initiatives designed to support self-employment and start-up activity among groups like young people. There appears to be a tension between the two goals of start-up support defined above. Initiatives suited to supporting job growth and start-up survival are unlikely to benefit from the same approaches as those that aim to build human capital and ensure enduring labour market inclusion, regardless of the number of sustainable start-up businesses actually created through the initiative. Moreover, the appropriate target groups for policies pursuing the two outcomes are likely to be different: the initiative’s administrators should either direct their resources at individuals/groups with the greatest chances of business success, or at those with the greatest need/most at risk of being excluded from the labour market (OECD/EC, 2012) respectively.

Overall, caution must be exercised when approaching UK initiatives as ‘building blocks’ for a policy promoting entrepreneurship. Additional evidence is required concerning the long-term outcomes of different approaches, and they have to be more explicitly assessed against intended social and economic aims.

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