



Labour Market Intelligence: Business Enterprise 2012

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Foreword

Foreword

This report examines Labour Market Intelligence (LMI) relating to the Business Enterprise sector.

This report presents a picture of Business enterprise across the UK. It looks at:

- the business enterprise landscape
- the business enterprise workforce
- business enterprise and learning and skills development

The principle purpose of this report is to provide a robust analysis of what Business Enterprise looks like across the UK.

Executive Summary

This report provides an overview of the available labour market intelligence on skills needs, supply and gaps related to business enterprise in the United Kingdom.

Since the publication of the last labour market intelligence report in 2008, there have been a number of complex changes in the business environment which have greatly influenced the dynamics of the business enterprise sector. Particularly affected have been the skills needs of small businesses, the supply of enterprise support services to address these needs, and the near-term sustainability of different types of enterprise support.

Key headlines and highlights to emerge from the review of available data and intelligence include:

Definitions and Importance

- Business Enterprise is both the business created by the entrepreneur and a process. The process is about creation and innovation which leads to an enterprise (i.e. the journey from opportunity to idea to viable business).
- Within business enterprise, we include all those individuals who are starting and running a small business or developing the knowledge and abilities to do so. This includes the self-employed, freelancers and sole traders. For statistical purposes this definition extends to businesses with fewer than 20 employees.
- Business enterprises are crucially important at a number of levels. Economically, they account for almost 98 per cent of all enterprises and just under a third of total employment. Business enterprises run by the self-employed and small business owners represent 30 per cent of all employment and 29 per cent of UK turnover.
- The population of self-employed and small business owner-managers account for the majority of businesses across different sectors and geographies in the United Kingdom. Available estimates indicate that the number of self-employed people and small businesses will increase in the near future.
- Each year over half a million individuals require the business enterprise skills and knowledge to set up, operate and grow their business.

The Business Enterprise Landscape

- There were an estimated 4.5 million private sector businesses in the United Kingdom at the start of 2011, an increase of 94,000 (2.1 per cent) since the start of 2010. These businesses employed an estimated 23.4 million people, and had an estimated combined annual turnover of £3,100 billion.
- SMES accounted for 99.9 per cent of the total number of United Kingdom enterprises in the private sector at the start of 2011. This is an increase of two per cent since 2010. The SME sector accounted for 58.8 per cent of total employment and 48.8 per cent of total turnover in the private sector at the start of 2011.
- Micro-enterprises, i.e. those enterprises with fewer than nine employees, accounted for 95.3 per cent of the total number of United Kingdom enterprises.
- The estimated number of private sector businesses in the United Kingdom has increased in each of the last eleven years.
- In terms of the nature of business activity, three sectors account for nearly one-half of all enterprises in the UK: construction; professional, scientific and technical activities; and wholesale and retail.
- Of the estimated 4.5 million private sector businesses in the United Kingdom at the start of 2011, 3.9 million (86.7 per cent) were in England. With 748,000 private sector enterprises in 2011, London had more enterprises than any other region or country in the United Kingdom. The South East had the second largest number of enterprises with 745,000. Together these regions account for almost a third of all

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private sector enterprises in the United Kingdom.

- Published figures from Lloyds TSB for the financial year ending March 2011 highlighted that 396,000 new businesses started in the year 2010/2011, a growth of 9.4 per cent in comparison to 2009/2010. In 2008, SFEDI estimated that there was 405,000 new business starts a year in 2006/2007 which suggests that levels of new business start-up activity are now reaching those witnessed before the economic downturn.
- Recent data for 2010 identifies that 800 businesses closed each day in Britain in 2010; the highest number ever recorded. It was also the second year in a row in which more businesses closed down than started up.
- Businesses are also closing earlier, with 90 per cent surviving their first year. In comparison, 96 per cent of businesses survived their first year in 2005.

The Business Enterprise Workforce

- Nearly 4.1 million people were self-employed in the United Kingdom at the end of 2011.
- There has been an increase in the number of self-employed people over the last two years, increasing from 3.9 million at the end of 2009 and 3.99 million at the end of 2010.
- Whilst more males are self-employed than females, the rate of increase of female self-employment is over double that for male self-employment. This increase has been fuelled by a growth in elementary rather than higher-level occupations.
- The likelihood of being self-employed increases strongly with age.
- There is some variation in self-employment rates between ethnic groups. The highest rates (over 15 per cent) are among those of Chinese origin and those from 'other' ethnic groups, while the lowest (10.6 per cent) are among those of Black/Black British origin. The self-employment rate among people of Asian/Asian British origin is very similar to that of British white people.
- Disabled people in work are more likely than non-disabled people to be self-employed. This pattern is consistent with previous evidence for the UK and is similar to experiences across other European countries.
- A key characteristic of the self-employed is that they work longer average hours than employees.
- The self-employed are slightly less likely than employees to be found in the two highest qualification categories (degrees and other higher education qualifications). The self-employed are also under-represented among those with qualifications at GCSE (A*-C) level, while they are slightly over-represented among those with 'A' levels, and with 'other qualifications' or no qualifications.
- The self-employed are under-represented among the highest skilled groups (levels 3, 4 and above) and over-represented among the less-skilled groups (level 2 and below, and those without qualifications).
- The self-employed are far less likely than people in employment to be engaged in formal training activities or more broadly in formally developing their skills. However, they are more likely to engage with more informal methods of learning and skills development, often with other owner-managers and business professionals.

Business Enterprise and Learning and Skills Development

- The majority of SMEs are expecting to grow their businesses over the following two to three years. Growth aspirations are more likely amongst business owners with higher level qualifications and previous business management experience.
- Smaller businesses tend to operate more informal business processes than larger

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businesses, reflecting the issues of managing the complexities and ambiguities associated with growth.

- People development issues are not reported to be the main obstacles to SMEs achieving their business objectives. However, acquiring or developing appropriate skills is a constraint on the ability of businesses to meet their objectives. This appears to be more significant the larger the SME.
- SMEs tend to favour informal recruitment practices. However as the business grows, it becomes apparent that there is a need for a more formalised method of recruitment.
- Overall smaller businesses are less likely to use formal and off-the-job training and far more likely to rely on tacit knowledge and informal learning. The larger the business the more likely it is to have staff training, a training budget and IIP recognition.
- Informal approaches are typically adopted by small business owners when looking to identify areas for business improvement and ways of developing business abilities.
- Small business owners are generally happier using informal, discursive approaches to identifying areas in which they can improve their own business abilities. Informality also marks the methods through which business owners reported developing their business abilities. The key methods include: learning from your own experiences, discussing with other owners, and using professional advice (e.g. banks, accountants, solicitors).

1. Introduction

1.1 Introduction

This section of the report provides an overview of the definitions used throughout the report related to business enterprise and enterprise support, in order to provide clarity in terms of the process of data collection and collation, types of data used, interpretation of this data and the nature of any implications. It also provides an overview of the importance of business enterprise and changes to the enterprise support landscape.

1.2 Defining Business Enterprise and Enterprise Support

To ensure consistency and coherence in the interpretation of data and insights within this report, the following definitions will be used:

Business Enterprise is both the business created by the entrepreneur and a process. The process is about creation and innovation which leads to an enterprise (i.e. the journey from opportunity to idea to viable business).

Being enterprising is a set of personal abilities, skills and behaviours. These include seeking out opportunities, taking initiative, taking calculated risk, managing independence and networking to acquire resources and learning. These can be manifested in a variety of different contexts, ranging from a small business to a not-for-profit social enterprise to a large corporate organisation.

Being an entrepreneur involves - an individual or group of individuals - creating, developing and managing a venture. For the purposes of this report, an entrepreneur is associated with owning and managing a venture.

Enterprise support is the collection of individuals and organisations who provide assistance and help to support an individual or group of individuals to start and develop their businesses. These individuals and organisations can be in the private, public and third sectors.

Within business enterprise, we include all those individuals who are starting and running a small business or developing the knowledge and abilities to do so. This includes the self-employed, freelancers and sole traders. For statistical purposes this definition extends to businesses with fewer than 20 employees. This represents 2.8 million individuals who own or control the business they work in and 98 per cent of all business enterprises in the United Kingdom.

We use the below 20 employee definition as in these small businesses, the business owner requires a broad base of enterprise skills to run their business and at this size they will not require specialist, professional managers (Gibb, 2000). As discussed below, the concerns, motivations and necessary abilities for people within the business enterprise community are distinct from career managers in larger organisations.

Also included within the scope of the definition of business enterprise above are those people who are looking to develop the enterprise attitudes and abilities that could be utilised when starting their own business enterprise in the future.

1.3 The importance of business enterprise

Business enterprises are crucially important at a number of levels. Economically, they account for almost 98 per cent of all enterprises and just under a third of total employment (BIS, 2010). Many people start their own business or enter self-

1. Introduction

employment because they perceive that they are excluded from, or are unable to achieve their full potential within, employment. For many, employment is not an option because of a lack of opportunity, personal circumstances, location, disability or community factors. Enterprise is therefore an important contributor to both employment rates and social inclusion.

Other ways in which business enterprises are important include being:

- the seedbed of the economy, in terms of the supply of medium to larger businesses of the future
- a source of competition through entry of new businesses into local and regional economies
- a source of innovation and creativity
- a provider of services to address the needs of consumers and other businesses
- a route for individuals and communities to facilitate community renewal and tackle social exclusion.

The population of self-employed and small business owner-managers account for the majority of businesses across different sectors and geographies in the United Kingdom. Despite recent economic events which have impacted upon the activities and performance of larger organisations, available estimates indicate that the number of self-employed people and small businesses will increase in the near future.

There are estimated to be approximately 400,000 new businesses started every year. As such, each year over half a million individuals require the business enterprise skills and knowledge to set up, operate and grow their business. Most of these individuals are not employers: almost three-quarters of all business enterprises have no employees, and the vast majority of the remainder are micro-businesses with less than 10 employees (SFEDI, 2011a).

Business enterprises run by the self-employed and small business owners represent 30 per cent of all employment and 29 per cent of UK turnover. This figure is often attributed to many people having few opportunities to participate in the labour market other than by starting their own business (Labour Force Survey, 2011).

The self-employed and small businesses therefore represent a major and increasing proportion of all individuals employed in the United Kingdom. At a time when large businesses in the public and private sector are reducing their workforces, 14 per cent of the paid workforce are self-employed and small business owners. The ability of this grouping to have the skills and know-how to survive and thrive is important to the competitiveness of the economy, particularly in terms of employing other people and developing relationships with other businesses (BIS, 2010).

1.4 Enterprise support

Enterprise support covers all those individuals and organisations who provide assistance and help to support an individual or group of individuals to start and develop their businesses through personal learning and business development assistance.

Traditionally, enterprise support is associated with publicly-funded support for people starting and running small businesses, such as:

- business advisers

1. Introduction

- brokers in publicly funded agencies such as local enterprise agencies
- local authorities
- organisations working with key target groups such as young people (e.g. the Princes Trust), women (e.g. Prowess) and older people (e.g. PRIME).

Over the last 12 to 18 months, however, there have been a number of changes to the nature and extent of publicly-funded enterprise support. This reflects not only the availability of public monies and resources within the current economic conditions, but also the position of the Coalition government which is encouraging businesses to help each other, as part of their social responsibilities. As such, there is more emphasis on enterprise mentoring and business coaching and less emphasis on more traditional business support occupational roles such as business advisers and brokers.

1.5 Sources of evidence

The aim of this report is to provide an up-to-date analysis of business enterprise in the UK. It draws on a range of national, regional and sectoral secondary data sources to ensure that an accurate picture is reported.

The key sources referred to in this report include, but are not limited to:

- literature on business enterprise
- previous labour market intelligence reports relating to business enterprise
- available statistics, particularly those published by the Government, including the Business Population Estimates and Labour Force Survey
- telephone consultations with key stakeholders involved in shaping the enterprise learning and skills landscape.

1.6 Structure of the report

The report has four key sections:

- **Section 2 - The Business Enterprise Landscape:** An overview of the importance and the key characteristics of the business enterprise market
- **Section 3 - The Business Enterprise Workforce:** An analysis of the key characteristics of the business enterprise workforce
- **Section 4 - Business Enterprise and Learning and Skills Development:** A review of the approaches of business enterprise to managing both the business and associated learning and skills development needs
- **Section 5 – Summary:** A summary of the key headlines and highlights to emerge from the analysis and review of current thinking and data on business enterprise.

2. The Business Enterprise Landscape

2.1 Business Enterprise – Profile and key characteristics

There were an estimated 4.5 million private sector businesses in the United Kingdom at the start of 2011 (see Table 1), an increase of 94,000 (2.1 per cent) since the start of 2010. These businesses employed an estimated 23.4 million people, and had an estimated combined annual turnover of £3,100 billion.

Table 1: Number of enterprises in the private sector and associated employment and turnover

	Enterprises	Employment (0000s)	Turnover (£ millions)
All enterprises	4,542,765	23,391	3,052,558
SMEs (0-249 employees)	4,536,445	13,760	1,489,255
All employers	1,178,745	19,707	2,850,127
With no-employees	3,364,020	3,684	202,431
1-9	968,545	3,651	403,871
10-49	173,405	3,469	460,500
50-249	30,475	2,957	422,454
250 or more	6,320	9,631	1,563,302

Source: BIS Business Population Estimates (2011)

Notes:

1. All enterprises turnover figures excludes Section K (financial insurance activities) and Division 78 (employment activities) where turnover is not available on a comparable basis.
2. The 'no employees' category comprises sole proprietorships and partnerships comprising only self-employed owner-managers and businesses comprising only an employee director (BIS, 2011).

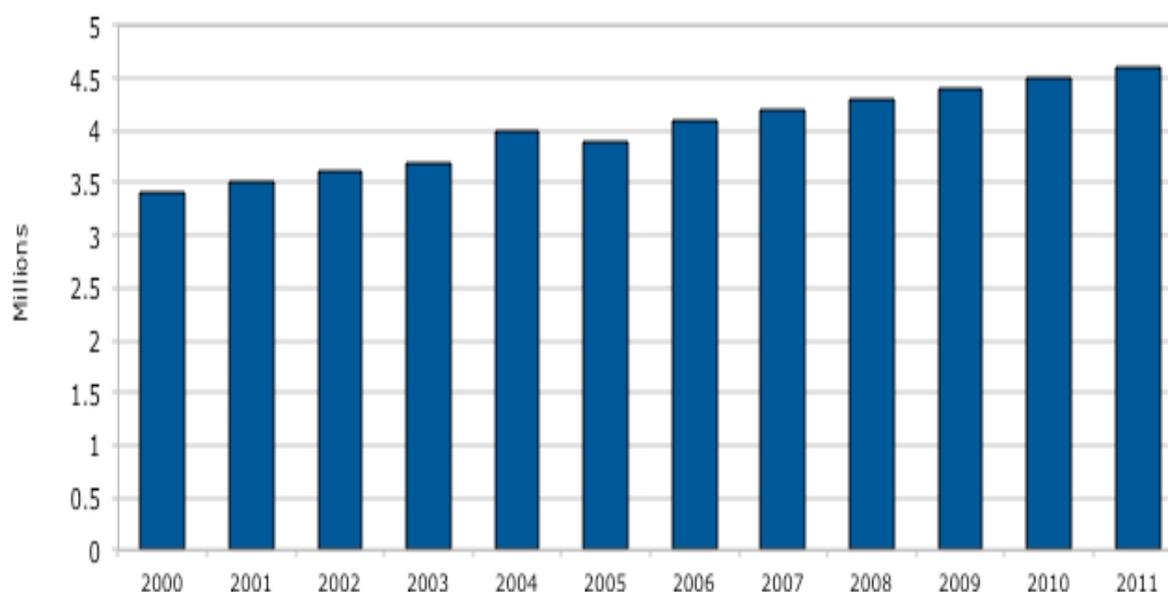
Table 1 shows that small and medium enterprises accounted for 99.9 per cent of the total number of United Kingdom enterprises in the private sector at the start of 2011. As with the wider business population, this was an increase of two per cent since 2010. The SME sector accounted for 58.8 per cent of total employment and 48.8 per cent of total turnover in the private sector at the start of 2011.

Micro-enterprises, i.e. those enterprises with fewer than nine employees, accounted for 95.3 per cent of the total number of United Kingdom enterprises. Business Enterprises (i.e. those with less than 20 employees) accounted for 98 per cent of enterprises in the UK. For both micro-enterprises and business enterprises, this represents an increase of approximately two per cent, in comparison to a decrease in the stock of large enterprises of 0.3 per cent.

The estimated number of private sector businesses in the United Kingdom has increased in each of the last eleven years. At the start of 2011, there were an estimated 4.5 million private sector businesses, an increase of 1.07 million (31.0 per cent) since 2000 (see Figure 1).

2. The Business Enterprise Landscape

Figure 1: Number of private sector enterprises in the United Kingdom, start of 2000 - start of 2011



Source: Office for National Statistics (2011)

Over the last decade, the year-on-year increase in the number of private sector businesses varied between a minimum of 0.1 per cent between the start of 2004 and the start of 2005, and a maximum of 6.9 per cent between the start of 2003 and the start of 2004. These changes were driven by an increase in the number of SMEs from 3.5 million to 4.5 million (31.1 per cent) between the start of 2000 and the start of 2011. Meanwhile, the estimated number of large private sector businesses decreased from 7,200 to 6,300 (12.0 per cent) over the same period.

The number of registered enterprises fell by 33,000 (a decrease of 1.6 per cent) during 2010, to 2,060,000 at the start of 2011 (see Table 2). However, the number of unregistered businesses increased by an estimated 127,000 (5.4 per cent) to reach 2,482,000 at the start of 2011. Most of the change in the number of businesses between 2010 and 2011 was due to an increase in the estimated number of unregistered sole proprietorships (increasing by 113,000, or 5.1 per cent) (BIS, 2011). It is these unregistered partnerships that form the majority of the business enterprise stock, as defined in Section 1: Defining Business Enterprise and Enterprise Support.

Table 2: Changes in the number of enterprises between 2010 and 2011

Type	Sole proprietorships	Partnerships	Limited companies	Total	Total
	Change				Number
Registered enterprises ¹	-25,000	-13,000	-6,000	-33,000	2,060,000
With employees	-15,000	-9,000	-6,000	-29,000	1,179,000
Without employees	-11,000	-4,000	11,000	-4,000	882,000

2. The Business Enterprise Landscape

Unregistered enterprises ²	113,000	14,000	N/A	127,000	2,482,000
All private sector enterprises	87,000	1,000	6,000	94,000	4,543,000

Source: BIS Business Population Estimates (2011)

Note:

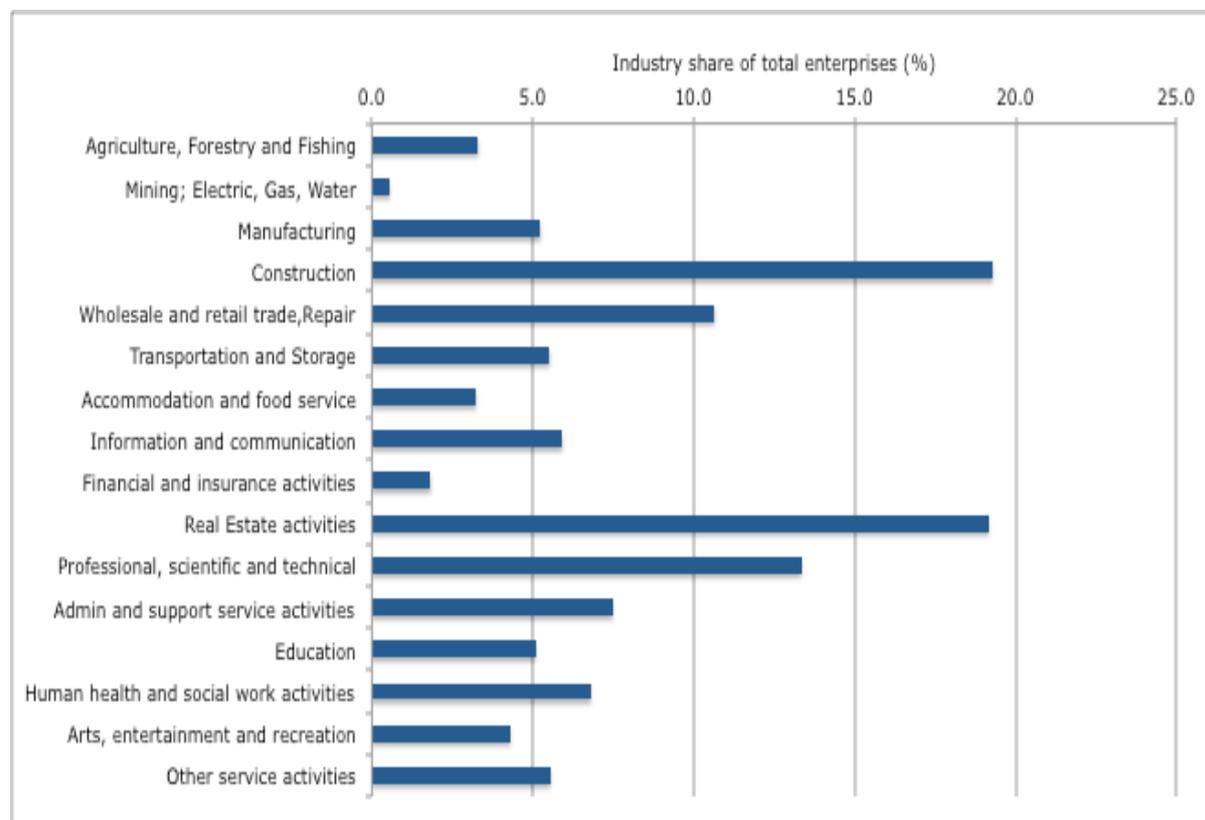
1. Registered enterprises comprise those enterprises registered for VAT and PAYE but excluding Composite Managed Service Companies. The totals for registered enterprises will differ from ONS statistics on registered businesses in the UK (e.g. Business Population Estimates shown in Table 1).
2. Unregistered enterprises comprise self-employed people working alone or in partnership. These do not exclude Composite Managed Service Companies.
3. N/A – Not applicable as the BPE methodology assumes all businesses are registered.

In terms of the nature of business activity, three sectors account for nearly one-half of all enterprises in the UK: construction; professional, scientific and technical activities; and wholesale and retail (see Figure 2). Table 3 highlights that the proportion of self-employed and business enterprises - as a percentage of the total business stock - varies between different sectors, whilst the proportion of SMEs is somewhat consistent at around 99 per cent.

The number of enterprises with no employees varies from 24.3 per cent in accommodation and food service activities to 93.1 per cent in education. The United Kingdom average is 74.1 per cent. The proportion of business enterprise varies from six per cent in education to 69 per cent in accommodation and food services, although the half of the sectors have between 15 and 30 per cent of enterprises with less than 20 employees (see Table 3).

2. The Business Enterprise Landscape

Figure 2: The share of private sector enterprises by industry in the United Kingdom, start of 2011



Source: BIS Business Population Estimates (2011)

Table 3: Number of enterprises in the private sector by industry and size, start of 2011

Industry		Size (number of employees)					All
		None	1-20	21-49	50-249	250+	
A	Agriculture, Forestry and Fishing	64.4	34.7	0.6	0.2	0.0	149,825
B, D, E	Mining, Electricity, Gas, Water	79.1	16.8	2.4	1.3	0.4	24,695
C	Manufacturing	62.7	30.3	4.0	2.5	0.5	237,645
F	Construction	82.9	16.2	0.6	0.2	0.0	876,150
G	Wholesale and Retail Trade, Repair	51.9	44.7	2.2	1.0	0.2	483,855
H	Transportation and Storage	85.7	12.6	1.0	0.5	0.1	251,035
I	Accommodation and Food Service	24.3	69.6	4.2	1.6	0.3	147,220
J	Information and Communication	78.9	19.5	1.0	0.5	0.1	268,520
K	Financial and Insurance	75.0	22.0	1.5	1.1	0.4	83,300
L	Real Estate Activities	60.4	37.2	1.5	0.7	0.2	87,285
M	Professional, Scientific and Technical Activities	75.3	23.1	1.0	0.5	0.1	606,090

2. The Business Enterprise Landscape

N	Administrative and Support Service Activities	74.4	22.9	1.4	1.0	0.3	339,840
P	Education	93.1	6.2	0.5	0.2	0.0	230,760
Q	Human health and Social Work Activities	82.4	14.0	2.7	0.9	0.1	309,185
R	Arts, Entertainment and Recreation	88.8	10.1	0.6	0.4	0.1	195,395
S	Other Service Activities	75.9	23.4	0.5	0.1	0.0	251,960

Source: BIS Business Population Estimates (2011)

Of the estimated 4.5 million private sector businesses in the United Kingdom at the start of 2011, 3.9 million (86.7 per cent) were in England. With 748,000 private sector enterprises in 2011, London had more enterprises than any other region or country in the United Kingdom (Table 4). The South East had the second largest number of enterprises with 745,000. Together these regions account for almost a third of all private sector enterprises in the United Kingdom.

In terms of the size distribution of business enterprise at a regional level in the United Kingdom, Table 4 highlights that the percentage of businesses with less than 20 employees as a percentage of all enterprises varies from 21.0 per cent in London to 26.9 per cent in the West Midlands. Those businesses within less than 20 employees account for between 24 and 27 per cent of all enterprises in nine of the 13 UK regions. In all regions, 99 per cent of all enterprises have less than 50 employees.

Table 4: Number of enterprises in the private sector, by region and size, start 2011

Region	Size (number of employees)					
	None	1-20	21-49	50-249	250+	All
North East	70.6	26.8	1.6	0.8	0.2	118,655
North West	73.3	24.3	1.5	0.7	0.1	452,710
Yorkshire and the Humber	73.2	24.3	1.6	0.7	0.1	332,100
East Midlands	72.9	24.7	1.5	0.7	0.1	307,040
West Midlands	70.5	26.9	1.7	0.7	0.2	333,240
East of England	74.9	23.1	1.3	0.6	0.1	474,060
London	76.9	21.0	1.3	0.7	0.2	748,090
South East	75.9	22.1	1.3	0.6	0.1	744,975
South West	73.7	24.3	1.3	0.6	0.1	427,125
England	74.4	23.4	1.4	0.7	0.1	3,938,000
Wales	73.7	24.3	1.3	0.6	0.1	192,735
Scotland	70.7	26.8	1.5	0.8	0.2	289,965
Northern Ireland	72.5	25.1	1.6	0.7	0.1	122,065
United Kingdom	74.1	23.7	1.4	0.7	0.1	4,542,765

Source: BIS Business Population Estimates (2011)

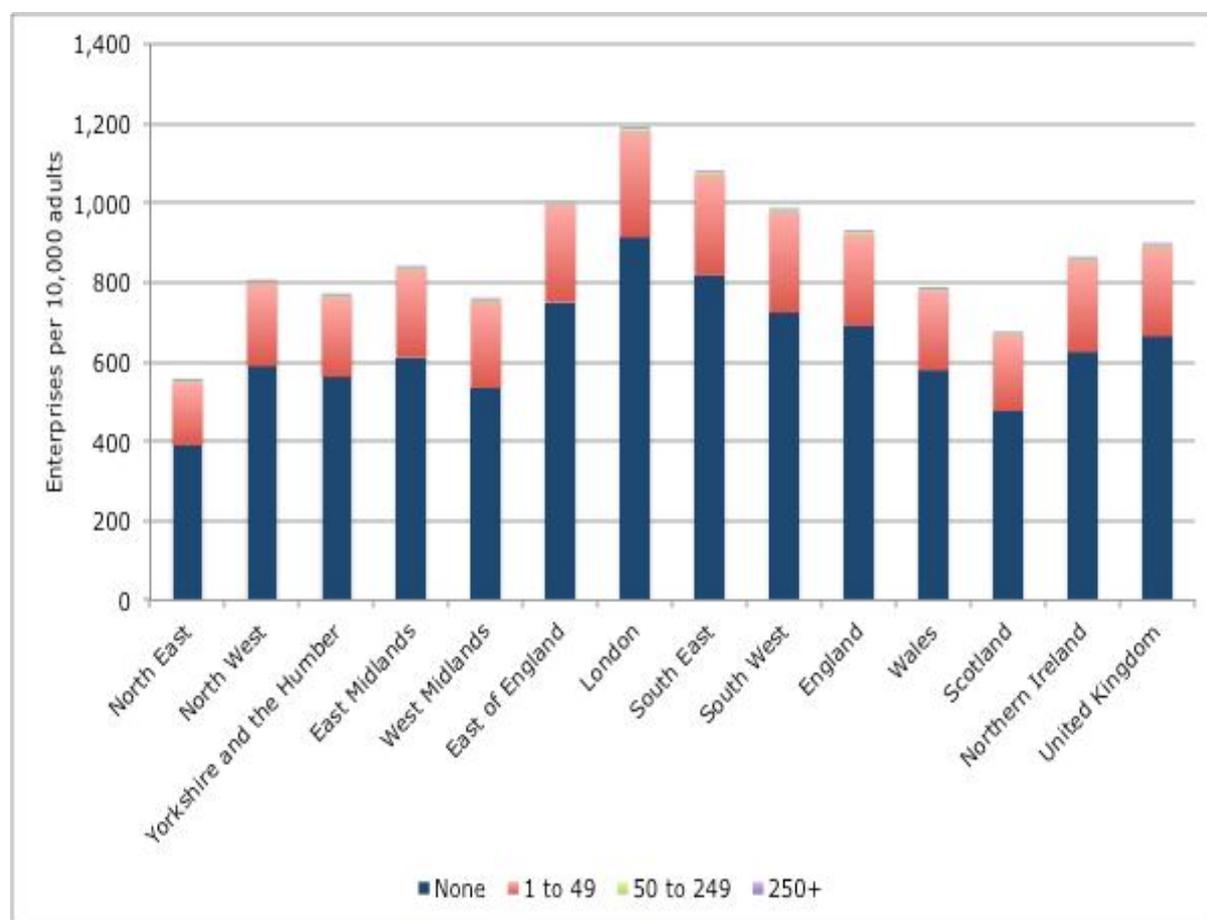
The geographical distribution of business enterprise can also be explored by reviewing the numbers of businesses relative to the adult population. This enables a comparison of

2. The Business Enterprise Landscape

the density rates of business enterprise across the different UK regions (Frankish et al., 2009).

Figure 3 shows that London and the South East have both the highest number of enterprises and the highest enterprise density rates (1,118 and 1,078 enterprises per 1,000 adults), whilst the North East has both the lowest number of enterprises and the lowest enterprise density rate (390 enterprises per 10,000 adults). This data reinforces the patterns within Table 3. However, across some regions, there are differences between absolute and relative counts of the number of businesses. For example, although Northern Ireland has the second lowest number of enterprises of the United Kingdom countries and regions (122,000), it was sixth in terms of its enterprise density rate. Similarly, whilst the North West had the fourth highest number of enterprises (453,000), it was eighth in terms of its enterprise density rate (803 enterprises per 10,000 adults).

Figure 3: Number of enterprises per 10,000 resident adults (aged 16 or more), by region and size, start 2011



Source: BIS Business Population Estimates (2011)

In terms of legal status, between March 2010 and March 2011, corporate businesses (companies and public corporations) represented 59.8 per cent of all enterprises, an increase of 0.9 per cent since 2010. Sole proprietors represented 23.3 per cent of all enterprises, a decrease of 0.5 per cent since 2010. There was a similar decrease in the number of partnerships from 13.2 per cent to 12.7 between 2010 and 2011. General government and non-profit making bodies accounted for 4.2 of total number of enterprises, compared with 4.1 per cent in 2010.

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Within the private enterprise sector, 62 per cent of all enterprises were sole proprietorships and 28 per cent were companies (see Table 5). Unsurprisingly, the majority of enterprises were either sole proprietorships or partnerships, reflecting not only the scale of such enterprises but also the associated objectives and aspirations around growth and development.

Table 5: Number of enterprises in the private sector by legal status and size, start 2011

Legal Status	Size (number of employees)					
	None	1-20	21-49	50-249	250+	All
Sole proprietorships	90.1	9.7	0.1	0.1	0.0	2,836,880
Partnerships	64.7	33.0	1.5	0.3	0.5	447,060
Companies	41.0	51.9	4.2	2.1	0.8	1,258,825
All private sector	74.1	23.7	1.4	0.6	0.2	4,542,765

Source: BIS Business Population Estimates (2011)

2.2. The dynamics of business enterprise – Birth and death rates

There are no reliable sources of data which enable an analysis of business enterprise start-up and closure activity in the United Kingdom over-time.

In terms of mapping start-up rates, until 2009/2010, VAT registrations provided a commonly used proxy for start-up amongst the business enterprise population. In 2010, this was superseded by data on the number of businesses registered for both VAT and PAYE. For smaller businesses, however, there may be a time lag between date of start and date of registration for VAT and PAYE, particularly the latter.

Therefore other proxies have to be used to understand the dynamics of start-up. For example, a number of the high-street banks publish aggregated data on the opening of new bank accounts. In July 2011, Lloyds TSB published figures for the financial year ending March 2011 which highlighted that 396,000 new businesses started in the year 2010/2011, a growth of 9.4 per cent in comparison to 2009/2010 (Lloyd TSB, 2011). The bank noted that this was the second year that there had been an increase in the number of new business starts. At its lowest, the figure stood at 330,000 new business starts in 2008/2009.

In 2008, SFEDI estimated that there was 405,000 new business starts a year in 2006/2007. This highlights that levels of new business start-up activity are now reaching those witnessed before the economic downturn (SFEDI, 2008).

Figures from Barclays Bank present a similar picture around new business start-up activity. Before the economic downturn, Barclay's data highlighted that the number of new businesses increased from 432,300 in 2007 to 436,600 in 2008 and are now returning to similar levels after a reduction in the level of bank account openings in 2009 and 2010 (Barclays Bank, 2011).

As with business start-up, there are a number of challenges with measuring business closure. Until 2010, one of the key indicators used to measure business closure was VAT

2. The Business Enterprise Landscape

de-registration rates. However, a number of commentators have noted that de-registration from VAT does not necessarily mean that a business has closed (Frankish et al., 2009). As a result, another commonly used measure is business insolvency rates. Whilst these do identify businesses which are facing closure, they only identify businesses which are closing due to financial mis-management. For example, there are no reliable data sources which identify closures of businesses for more positive reasons such as individual using self-employment as a route to gaining employment or access to further and higher education. Therefore available data on business closure has to be treated with a degree of caution (Frankish et al., 2009).

Recent data on business closure also highlight a number of contradictory trends. The most recent data for 2010 (published by the Office for National Statistics in December 2011) identifies that 800 businesses closed each day in Britain in 2010; the highest number ever recorded. It was also the second year in a row in which more businesses closed down than started up. A total of 297,000 businesses closed in 2010 in comparison to 279,000 in 2009, an increase of nearly 20,000. In 2010, 235,000 new businesses started, 1,000 fewer than in the previous year. Therefore, there is evidence to suggest that the number of registered businesses is declining.

These statistics also highlight that closures are concentrated in certain sectors and locations. In terms of the former, the highest rates of closures were in business administration and support services, professional, science and technical industries and construction. Business administration and support services which had a 'death rate' of 22.6 per cent or 45,000 closures. In comparison, there was growth in the information and communication technology sector with an increase in births of 13.4 per cent. In terms of the geography of closure, death rates were highest in the North West (13.5 per cent), Yorkshire (13.6 per cent) and London (15 per cent) in 2010. In comparison, Northern Ireland had a death rate of 9.1 per cent. However, in all regions, death rates exceeded birth rates (see Table 6).

Table 6: Birth and death rates by region, 2010

Region	No. of active enterprises (000s)	Births (000s)		Deaths (000s)	
	None	Count	Rate (%)	Count	Rate
North East	62	6	9.6	8	13.1
North West	228	23	9.9	31	13.5
Yorkshire and the Humber	163	17	10.2	22	13.6
East Midlands	154	14	9.3	20	12.7
West Midlands	186	18	9.6	24	13.0
East of England	233	23	9.7	28	12.0
London	403	53	13.1	60	15.0
South East	370	37	10.0	45	12.2
South West	203	18	8.8	24	11.6
Wales	88	8	8.5	11	12.5
Scotland	151	16	10.3	19	12.6
Northern Ireland	59	5	7.8	5	9.1
United Kingdom	2,300	235	10.2	297	12.9

Source: Office for National Statistics (2011)

2. The Business Enterprise Landscape

Table 7 shows that businesses are also closing earlier, with 90 per cent surviving their first year. In comparison, 96 per cent of businesses survived their first year in 2005. However, this does mean that nine businesses in ten are surviving their first year which compares favourably with other European countries (Kelley et al, 2010). The two and three year survival rates are also slightly down from five years ago, with the two-year survival rate was down by nearly six per cent in 2008 from 79.8 per cent in 2005 and the three year survival rates down by nearly two per cent in 2007 from 64.7 per cent in 2005.

Table 7: Survival rates for businesses started between 2005 and 2009

Survival rate	Rate (%)				
	Births 2005	Births 2006	Births 2007	Births 2008	Births 2009
One year	95.9	96.5	95.4	92.0	90.8
Two year	79.8	80.7	81.1	74.0	-
Three year	64.7	66.2	63.0	-	-
Four year	53.9	53.2	-	-	-
Five year	44.4	-	-	-	-

Source: Office for National Statistics (2010)

Data from the Insolvency Service (2011) highlights that there were 16,871 compulsory liquidations and creditors' voluntary liquidations in total in 2011 – an increase of five per cent on 2010. This was made up of 4,988 compulsory liquidations (which are up four per cent on 2010), and 11,883 creditors' voluntary liquidations (which are up five per cent on 2010). There were also 4,972 other corporate insolvencies, comprising 1,397 receiverships, 2,808 administrations and 767 company voluntary arrangements. In total these represented an increase of 1.3 per cent on 2010.

In terms of a longer-term trend, however, current insolvency rates are relatively low in comparison to previous rates. In 2011, approximately 1 in 138 active companies (or 0.7 per cent of all active registered companies) went into liquidation, unchanged from the previous quarter. However, this level of liquidation remains low compared to a peak of 2.6 per cent in 1993, and the average of 1.2 per cent seen over the last 25 years. It should be noted that the number of active companies has changed considerably over this period in that there were 2.4 million active registered companies in the last quarter of 2011 in comparison to 900,000 in the early 1990s and less than 800,000 in 1986.

In summary, there is evidence of a significant amount of churn amongst the business enterprise market, particularly for micro-businesses. As noted above, ONS (2011) use VAT and PAYE registrations to estimate that 235,000 new businesses started and 297,000 ceased to be active in 2010. Based on previous estimates by SFEDI (SFEDI, 2008) the number of new businesses officially recorded in this way is probably only about half the actual number. However these additional start-ups are likely to be the smallest and most informal. They are therefore likely to be amongst those least concerned with people management and development issues at this stage of their development since they will not be employing people (Meager et al., 2011).

3. The Business Enterprise Workforce

3.1 Profile and key characteristics

According to the Labour Force Survey (2011), nearly 4.1 million people were self-employed in the United Kingdom at the end of 2011. There has been an increase in the number of self-employed people over the last two years, increasing from 3.9 million at the end of 2009 and 3.99 million at the end of 2010. Therefore, the United Kingdom as witnessed a 2.6 per cent increase in rates of self-employment over the last year.

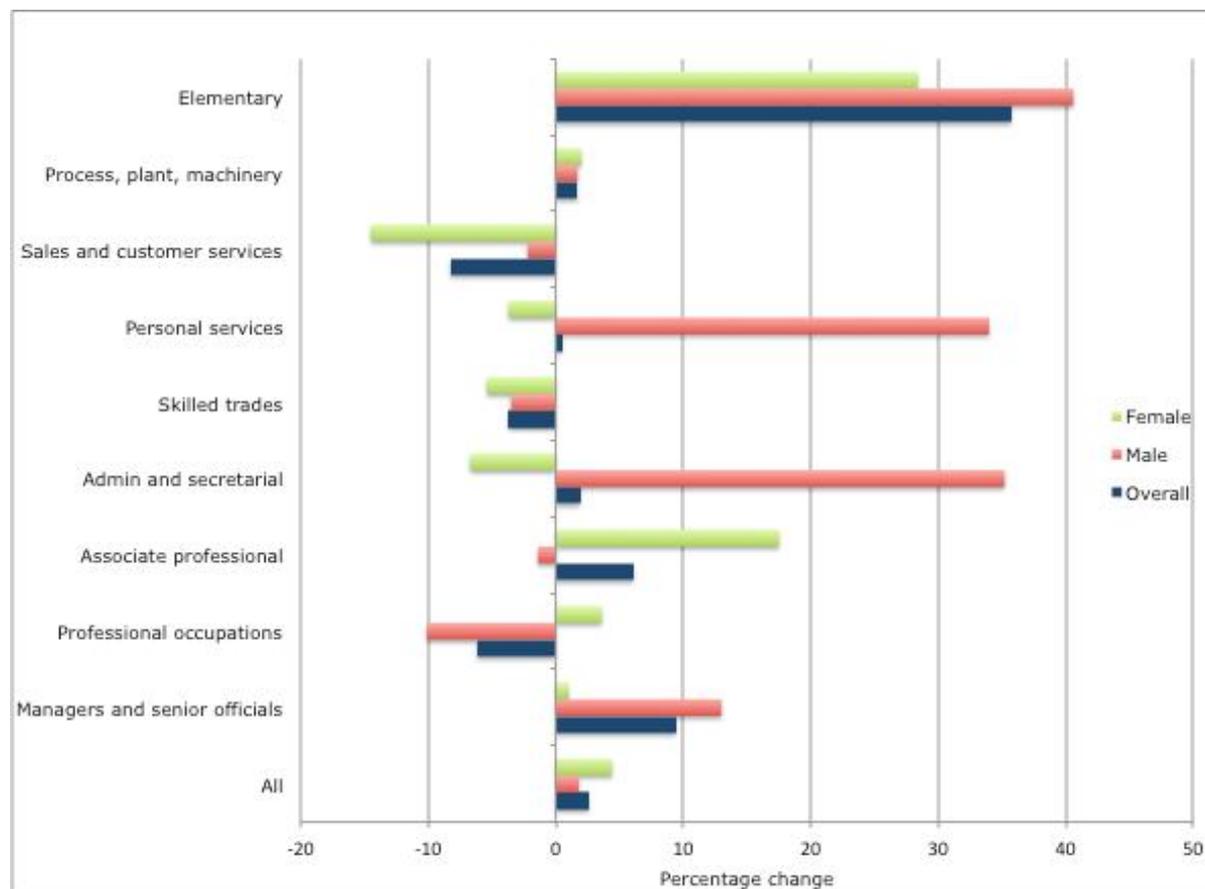
Whilst more males are self-employed than females, the rate of increase of female self-employment is over double that for male self-employment. Between 2010 and 2011, the rate of self-employment amongst males increased by 1.8 per cent. The rate of increase for self-employment amongst females was 4.4 per cent in the same period. At the end of 2011, there were 2.88 million self-employed males and 1.2 million self-employed females.

An analysis of the disaggregated data highlights that this increase has been fuelled by a growth in elementary rather than higher-level occupations. As highlighted in Figure 4, the self-employment rate increased by 35.7 per cent amongst elementary occupations. This compares to an increase of 9.4 per cent amongst managers and senior officials, and a decrease of 6.2 per cent and 8.3 per cent amongst professional occupations and skilled trades.

The increase in self-employment amongst elementary occupations is evident for both men and women. There are two possible explanations for such growth. Firstly, as with other such large 'spikes' in self-employment activity, changes to the legal employment status of certain groups of employees (e.g. in construction) may have resulted in individuals who were previously employed to be now considered to be self-employed (Greene and Mole, 2006). Secondly, the current economic downturn is pushing people within the lower socio-economic groups into self-employment and off benefits (Kelley et al, 2010). The balance between these two explanations will emerge with time.

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Figure 4: Level of self-employment by occupation, end 2011



Source: Labour Force Survey (2011)

In terms of those businesses with less than 20 people, i.e. the business enterprise market, key characteristics of the workforce include:

- 69 per cent were family-owned
- 27 per cent were female-led
- 40 per cent had a business location separate from their home
- 22 per cent had a degree or equivalent level qualification whilst 11 per cent had no qualifications
- 13 per cent had participated in job-related education or training in the previous thirteen weeks
- 5 per cent were currently working towards a qualification.

The key characteristics of the SME population which emerge from an analysis of the latest data from the Labour Force Survey (2011) include:

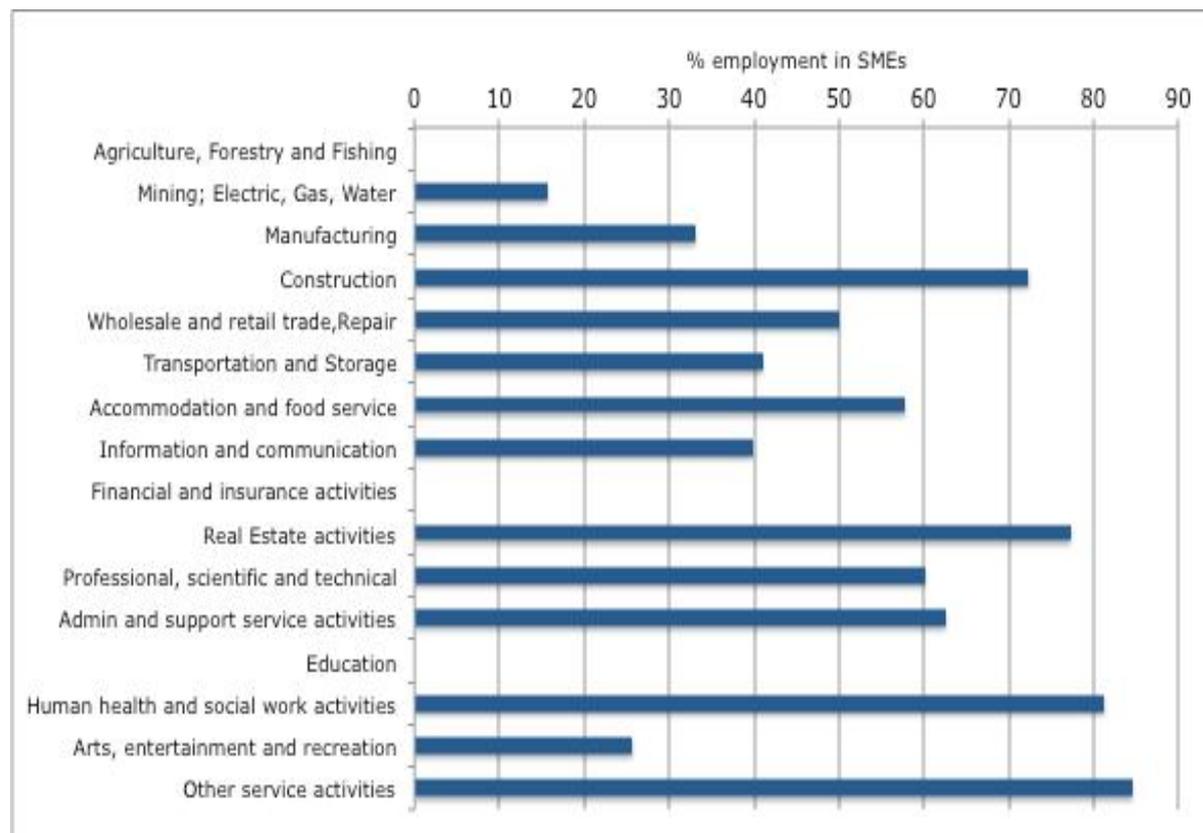
- 53 per cent are entirely male led, 14 per cent majority-led by women
- 8 per cent were led by people from minority ethnic groups
- 11 per cent of business partners or directors had a long-standing illness or disability
- one in three owners were aged 55 and over whilst eight per cent were under 35 years of age.

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3.2 Occupational analysis

At the start of 2011, 58.8 per cent of private sector enterprise employment was in SMEs (0-249 employees), although this proportion varied considerably by industry (see Figure 5). In financial and insurance activities only 26.4 per cent of employment was in SMEs. However, in other service activities virtually all employment (98.0 per cent) was located in SMEs.

Figure 5: SME share of employment within each industry, start of 2011



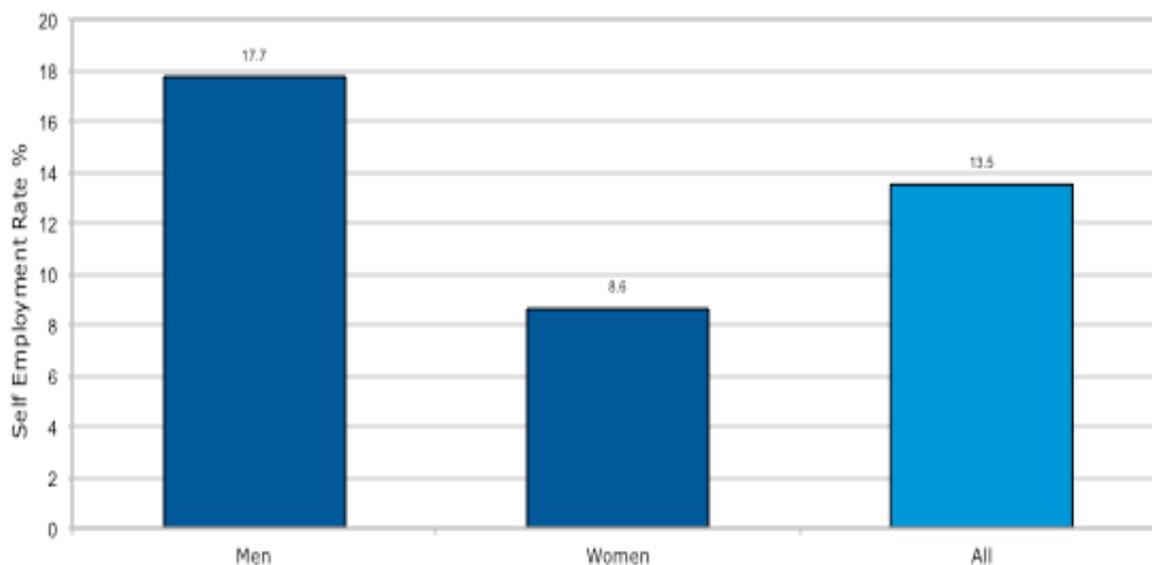
Source: Labour Force Survey (2011)

Figure 6 highlights that the majority of individuals in self-employment are male, with the rate of male self-employment just over two times higher than the rate for self-employment amongst females.

A defining feature of self-employment in the UK, as well as the majority of other developed market economies and in most periods, is that the likelihood of being self-employed increases strongly with age. Data on self-employment dynamics (e.g. from panel surveys) (see, for example, Meager and Bates, 2004) also shows that the likelihood of self-employment entry tends to increase with age, while the likelihood of self-employment exit declines with age (see Figure 7). Therefore, the duration and stability of self-employment increases with age.

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Figure 6: Self-employment rates, by gender



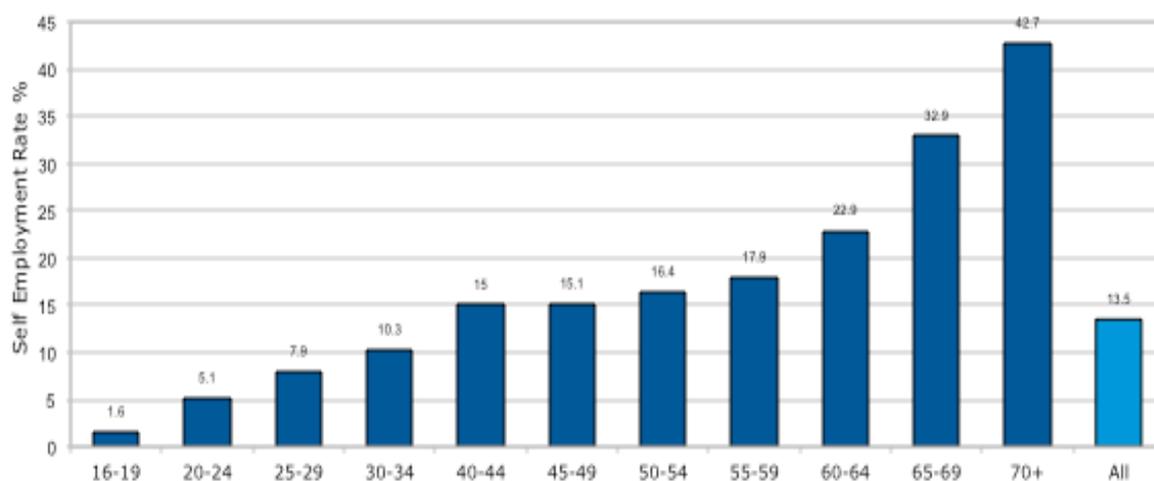
Source: Labour Force Survey (2011)

There are a number of reasons why age may be important. Current thinking suggests that individual accumulations of capital tend to increase with age, and that such accumulation may be both a precondition for self employment entry, and a factor enhancing survival chances in self-employment (Greene and Mole, 2006). This applies both to certain kinds of human capital (e.g. skills and experience acquired in wage employment) and to financial capital (e.g. savings or inheritance which help overcome entry barriers to business start-up). As highlighted in the segmentation framework in Section 3: Education, training and skills, both sources of resources are important in terms of moving from idea to action when starting a business.

This pattern is evident within the UK. Data from the Labour Force Survey (2011) highlights that self-employment rate increase dramatically with age, the highest rates being found among people above normal retirement age. There are several likely reasons for this latter finding. First, the self-employed, without a normal retirement age, have options to continue working into old age traditionally denied to people in salaried employment. Within this context, it will be interesting to unpack what effect the abolition of the default retirement rate for employees has on self-employment rates. Second, many people move from employee to self-employed status in later life, in some cases as a flexible route into retirement (the self-employed may, for example, have greater scope than employees to vary the hours and location of their work as they age). Third, there is some evidence that a significant group of self-employed people face low incomes and poor pension entitlements in later life and may, therefore, be less able than their employee counterparts to afford to retire (see, for example, Meager et al., 2011).

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Figure 7: Self-employment rates, by age



Source: Labour Force Survey (2011)

At a more specific level, Table 8 shows the self-employment rate by age group for the April-June quarter of 2005, 2007 and 2010 respectively. The table highlights no consistent pattern in that the self-employment rate of nearly all age groups increased prior to the recession between 2005 and 2007 (the exceptions being the 55-64 age group for which it fell slightly, and the 45-54 age group for which it remained constant); over the period of the economic downturn, self-employment rates continued to increase for most groups, except for the 65-plus group and the 25-34 group, for which they fell. A recent study on self-employment has suggested that self-employment rates may be rising in the current economic conditions simply because employee jobs are being lost faster than self-employment jobs (Meager et al., 2011).

Table 8: Self-employment rates by age (2005, 2007, and 2010)

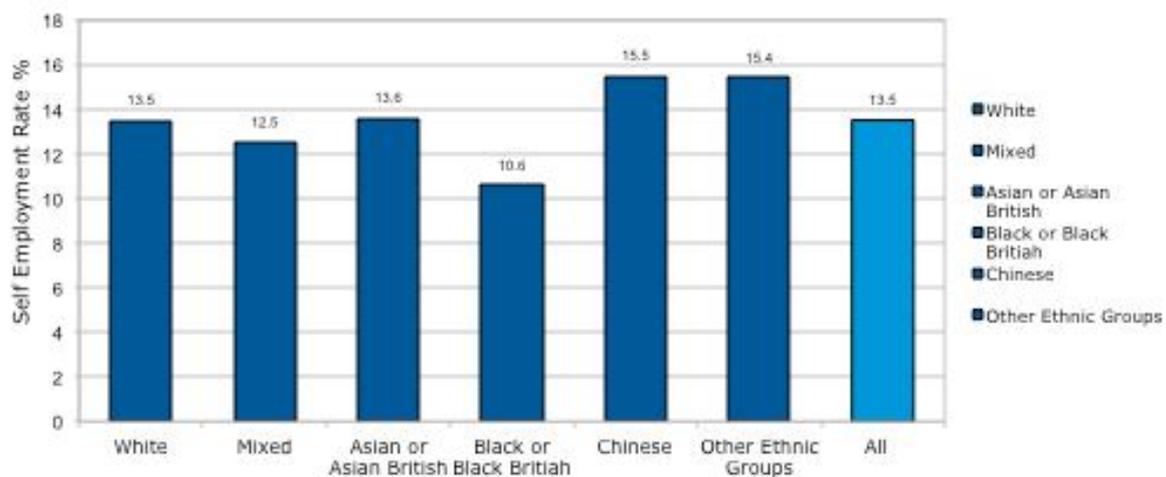
Age	Self-employment rate (April-June %)		
	2005	2007	2010
16-24	3.6	3.9	4.1
25-34	8.8	9.8	9.0
35-44	13.6	13.7	14.4
45-54	14.8	14.8	15.7
55-64	18.9	18.6	18.9
65+	34.2	36.6	35.9
All ages	12.5	12.9	13.5

Source: Labour Force Survey (2011)

There is some variation in self-employment rates between ethnic groups (see Figure 8). The highest rates (over 15 per cent) are among those of Chinese origin and those from 'other' ethnic groups, while the lowest (10.6 per cent) are among those of Black/Black British origin. The self-employment rate among people of Asian/Asian British origin is very similar to that of British white people.

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Figure 8: Self-employment rates by ethnic origin



Source: Labour Force Survey (2011)

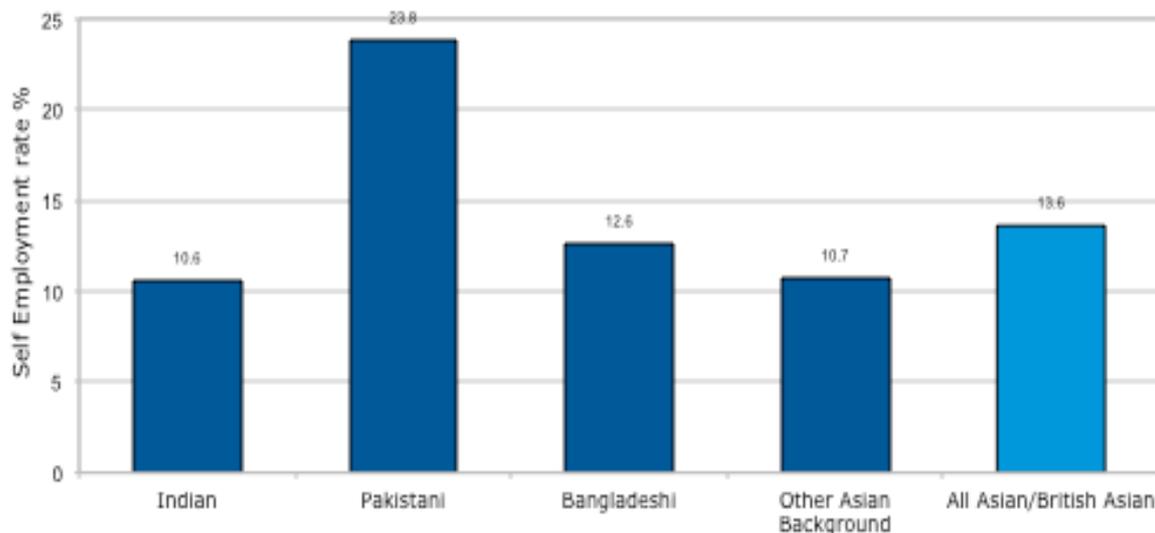
It should be noted that the data from Labour Force Survey analysis does not distinguish between immigrants and British-born ethnic minority groups. These groups are likely to face different barriers. Immigrants are less likely to be fluent in English; are a self-selecting group (for example, may be more willing to take risks) and are less likely to have established social networks, as compared with British-born ethnic minorities (Ram et al., 2006).

More generally, Dhaliwal and Kangis (2006) suggests that variation between ethnic groups has a number of possible explanations. Different groups face varying 'ethnic penalties' in the labour market, which may reflect employer discrimination in the labour market or other factors, such as levels of social capital. So a variety of factors are likely to contribute to the variation between groups, including differing language skills, trends in migration and regional and sectoral effects.

Ram (2006) notes that the different ethnic minority groups identified within surveys such as the Labour Force Survey are somewhat heterogeneous and, as such, care needs to be exercised when unpacking trends in the extent and nature of business enterprise activity. Unfortunately the Labour Force Survey does not, for the most part, provide data on levels of business enterprise activity within the different ethnic minority groupings. The exception to this is the Asian/Asian British category, which is further broken down in Figure 9 below. This shows significant variation in self-employment rates, varying from 10.6 per cent among people of Indian origin, to 23.8 per cent among people of Bangladeshi origin. This may be linked to the motivation and drivers for different groups moving into self-employment. For example, a number of commentators have suggested that some ethnic groups are more likely to undertake self-employment to take advantage of an opportunity while others are motivated by necessity, in particular, unfavourable labour market conditions. Thompson et al. (2010), using the Global Entrepreneurship Monitor, confirm previous research suggesting that ethnic minority men – especially those from Pakistani backgrounds – are more likely than white British counterparts to be 'necessity' rather than 'opportunity' entrepreneurs

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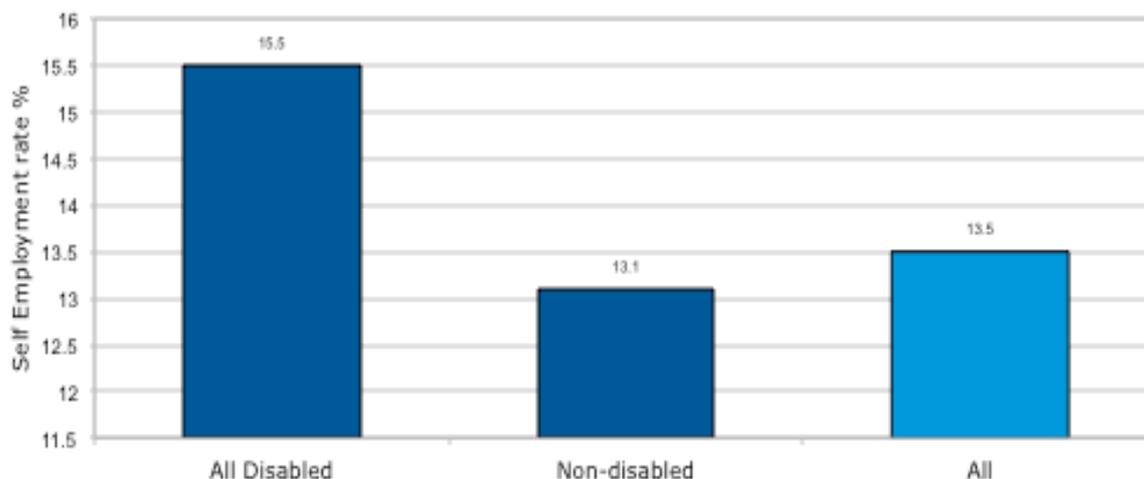
Figure 9: Self-employment rates by ethnic origin (Asian sub-groups)



Source: Labour Force Survey (2011)

Disabled people in work are more likely than non-disabled people to be self employed (see Figure 10). This current pattern is consistent with previous evidence for the UK and rates of self-employment amongst disabled people across repeats experiences across other European countries (Pagán, 2009).

Figure 10: Self-employment rates by disability



Source: Labour Force Survey (2011)

However, there is a lack of clarity as to what extent the greater self-employment propensity among disabled people is a positive 'pull' factor (e.g. because self-employment offers a means for disabled people to adapt their working environments to their disability or impairment), and how far it reflects a more negative or 'push' choice in response to discrimination by employers. It is likely that both 'push' and 'pull' factors are relevant.

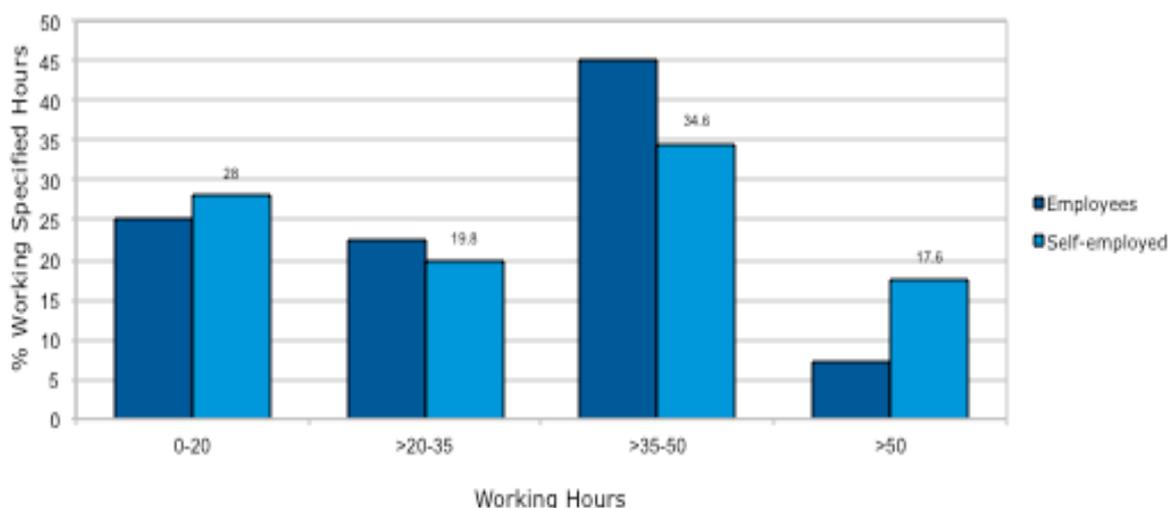
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It is possible to disaggregate the category 'disabled' in the Labour Force Survey data. The Labour Force Survey uses two definitions of disability: 'DDA disabled' (i.e. according to the definition of the Disability Discrimination Act) and 'work-limiting disabled' (based on the respondent's own assessment of whether their impairment limits the amount or kind of work they can do). The category (disabled) in Figure 10 above is based on a broad definition, including all people meeting the DDA disabled definition, the work-limiting disabled definition or both.

In terms of hours worked, a persistent characteristic of the self-employed is that they work longer average hours than employees. This is likely to reflect the fact that they have no contractually-fixed working time, that their working time is not generally regulated by law and, in some cases, that the hourly earnings from self-employment can be very low and long hours may be required in order to achieve a reasonable income level. As far as the latter is concerned, the study of start-up businesses supported by the Prince's Trust showed, for example, that many self-employed people were effectively working at hourly rates well below the National Minimum Wage (see Meager et al., 2003). For many, this will be balanced by other factors such as perceived independence, greater flexibility in working arrangements and greater choice in the type of work undertaken (Meager et al., 2011).

Figure 11 confirms this pattern, showing that the self-employed are, compared with employees, heavily over-represented among long hours workers (they are also slightly over represented among those working very short hours). For example, Figure 11 shows that 18 per cent of the self-employed work more than 50 hours a week, compared with only seven per cent of employees.

Figure 11: Total weekly working hours: employees and self-employed (2010)



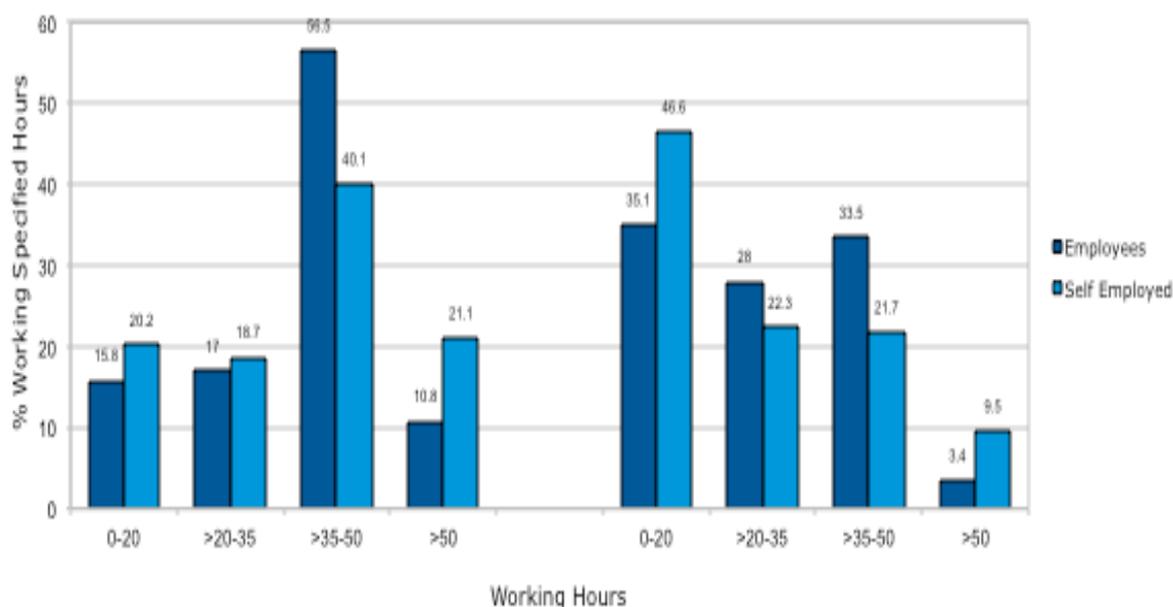
Source: Labour Force Survey (2011)

Figure 12 shows that there are marked differences between men and women. It is true for both men and women that, compared with employees, the self-employed are over represented among those working very long hours and those working very short hours. However, self-employed men are particularly likely to be found among the long hours workers (over a fifth of self-employed men report hours in excess of 50 per week).

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Among self-employed women, by contrast, the large proportion in the very short hours category is particularly notable (almost a half of self-employed women work 20 hours or less per week). It seems that the opportunity for short (and possibly more flexible) working hours, which self-employment may offer, is particularly attractive to women.

Figure 12: Total weekly working hours: employees and self-employed, by gender (2010)



Source: Labour Force Survey (2011)

3.3 Education, training and skills

Table 9 highlights that the self-employed are slightly less likely than employees to be found in the two highest qualification categories (degrees and other higher education qualifications). For example, 34.6 per cent of self-employed are qualified to this level, compared with 37 per cent of employees which is likely to reflect the older age profile of self-employed people compared with employees.

Table 9: Highest level of 'higher' qualification held by employment status, 2010

Type of qualification	Self-employed (%)	Employees (%)
Degree or equivalent	24.8	26.7
Higher education	9.8	10.3
GCE A Level or equivalent	26.2	23.1
GCSE grades A*-C equivalent	17.5	21.4
Other qualifications	12.2	11.2
No qualifications	8.9	6.2
Don't Know	0.8	1.0

Source: Labour Force Survey (2011)

The self-employed are also under-represented among those with qualifications at GCSE (A*-C) level, while they are slightly over-represented among those with 'A' levels, and with 'other qualifications' or no qualifications at all (see Table 9).

3. The Business Enterprise Workforce

Table 10 identifies that the self-employed are under-represented among the highest skilled groups (levels 3, 4 and above) and over-represented among the less-skilled groups (level 2 and below, and those without qualifications). In particular, the self-employed are over-represented among those with trade apprenticeships in that the proportion of the self-employed with apprenticeship qualifications is just over double the proportion of employees with a trade apprenticeship.

Table 10: Highest level of 'vocational' qualification held by employment status, 2010

Type of qualification	Self-employed (%)	Employees (%)
NQF Level 4 and above	34.6	37.0
NQF Level 3	15.9	16.6
Trade apprenticeship	8.5	4.1
NQF Level 2	12.1	16.2
Below NQF Level 2	10.4	11.7
Other qualifications	9.7	8.2
No qualification	8.9	6.2

Source: Labour Force Survey (2011)

Therefore, the available data from the Labour Force survey would suggest that the self-employed are on average somewhat less well-qualified than employees, although the difference is not large, particularly the different age groups of employees and self-employed.

The data also highlights that the self-employed are far less likely than people in employment to be engaged in training activities or more broadly in formally developing their skills. For example, Figure 12 highlights that the self-employed are only half as likely as employees to be currently working or studying towards a qualification, and only half as likely as employees to have received job-related training or education in the last three months. In part, this may reflect not only the longer hours worked by the self-employed and the owners of micro-businesses but also the lack of resource and time in comparison to employees in larger organisations.

This supports research undertaken by SFEDI when developing the business enterprise qualification strategy in 2009 which highlighted that the self-employed and business enterprise engage with more informal methods of learning and skills development, often with other owner-managers and business professionals. This is explored further in Section 4: Business Enterprise and Learning and Skills Development.

Therefore, the formal training and development gap between the self-employed and employees is not a recent phenomenon as it reflects a structural difference between these two groups.

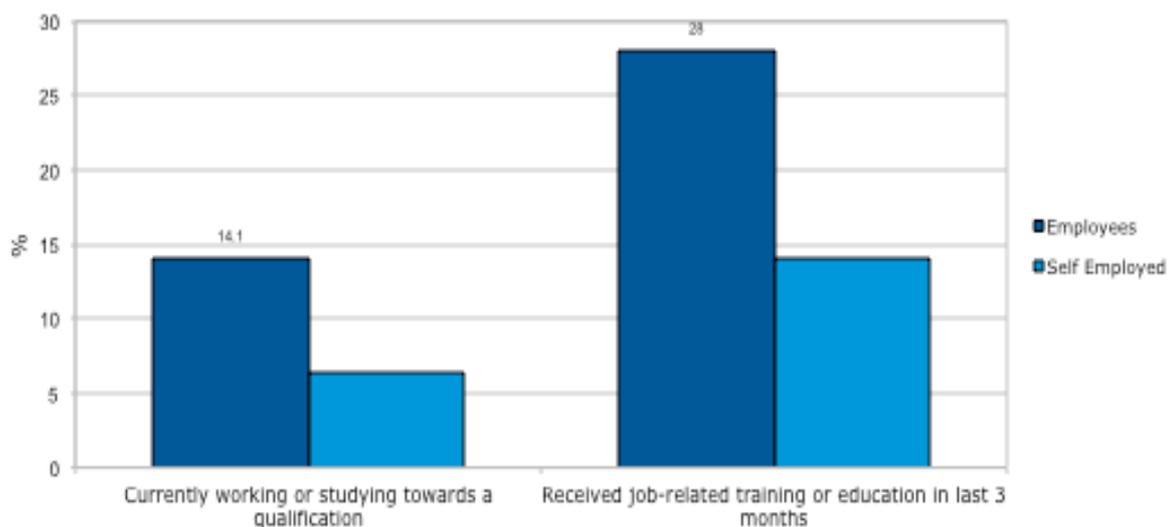
Meager et al. (2011) suggest that the observed differences between the self-employed and those in employment may reflect the nature of business activity pursued by the self-employed, as opposed to whether the personal characteristics of individuals within both groups.

Figure 13 shows that the self-employed are less likely than those in employment to be either currently working or studying towards a qualification and engaging with job-

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related training or education.

Figure 13: Current levels of studying and recent training, by employment status, 2010



Source: Labour Force Survey (2011)

3.4 Understanding the Business Enterprise skills market

The above analysis of data and intelligence on the business enterprise has highlighted an important distinction between those businesses being run by owner-managers, including as a form of self-employment, and other small businesses. In addition, within the business enterprise market there are important distinctions in terms of learning and skills needs and requirements. For example, growth aspirations have been shown by a number of commentators to have an important association with skills needs and learning and development activity (Anyadike-Danes et al., 2008).

It is also intuitively obvious that the business skills required to start and a run a business offering gardening services, for example, will be very different from those needed in starting and running a high-technology, venture-capital supported businesses. Understanding these different needs and quantifying them is important if we are to better specify the nature and extent of support requirements (Atherton and Lyon, 2001).

A review of current thinking around business enterprise identifies a number of approaches and frameworks to segmenting the business enterprise community and working through the implications for the development of learning and skills needs for both policy and practice (Sear, 2004). These vary from approaches using key demographic characteristics such as size or sector of business enterprise activity to more qualitative frameworks based on stage of business development experience of the owner-manager or behaviours and experiences of the business enterprise.

Traditionally, more quantitative frameworks using criteria such as size, sector and location have been used. Whilst these frameworks are relatively easy to apply in identifying groups of business enterprise, the segments lack a degree of internal consistency and coherence in that a business with ten employees may be considered small in retail but medium to large in a consultancy market.

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As a result, a number of more qualitative frameworks have been developed to assist in developing an understanding of the business enterprise market and the needs of different segments. For example, a framework developed by Business Link by Intrepid Consultants identified four types of business based on a composite measure of complexity: 'At the end of the process we chose a segmentation model based on a definition of complexity, which takes into account six dimensions: the size of the business, the number of sites it operates, whether it belongs to a group, its legal status, whether it operates any international trade and an assessment of the framework of regulatory complexity it operates within' (businesslink.gov.uk, 2010). This approach identified four segments: future businesses, bedrock businesses, threshold businesses and confident corporates.

A framework developed by Wood Holmes Group in 2008 focused on the start-up market and divided business owners into five different categories depending on the quality or potential of the business idea and the quality of management capability. The five segments were: sparks, success stories, quality starts, learners and veterans (see Appendix 1).

Such an approach provides a way of identifying a number of groupings which have a degree of internal coherence in terms of the:

- activities undertaken to start their own business;
- challenges and opportunities faced in starting their own business;
- key learning and skill developmental needs and support responses required; and
- types of intervention required and the role for publicly funded interventions vis-à-vis private sector led responses.

The framework also provides an opportunity to map the type of competencies required by each grouping to manage the journey into business start-up and the role for learning and skills development in the movement of individuals between different groupings.

The defining characteristics of each segment include:

Success stories

- High personal capability to manage a new business start-up
- Previous experience of managing a business or business unit of a larger business
- Develop team around total capabilities required to form a business (based on diagnosis of personal limitations/weaknesses)
- Use planning to manage the business towards a stated vision
- Understand, and plan for, the start-up process

Quality starts

- Awareness of the start-up process, either directly or indirectly, through, for example, personal and social influences
- Research viability of idea and market before starting
- Approach to the start-up process influenced by previous experience
- Generally start a business doing something different from previous experiences
- Key 'need-to-knows' relating to understanding the entire start-up process and how to run and manage the business post-start

Veterans

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- Able to research and plan the process, but tend to use analysis to minimise the possible impact of potential problems, rather than through 'learning by doing'
- Know how to launch a business, typically based on social influences (e.g. partner or family runs a business)
- More time could be spent on generating and refining the idea pre-start
- Proposition is not necessarily differentiated in the market place, which can create a subsequent need to further refine and develop the idea post start-up
- Tend to sell/survive on founder's own ability/experience

Sparks

- Idea developed out of, but related to, previous experience
- Viability of market idea extensively tested in proposed market segment
- Limited awareness of the start-up process
- Approach to the process is generally ad hoc and opportunistic
- Limited planning and anticipation of requirements in establishing a new business (e.g. need for business plan and cash-flow forecast)

Learners

- Limited awareness of the process by which to start a business
- Strong industry/technical knowledge underpins business idea, but limited to previous product/service experience
- Limited awareness, and capability, in terms of how to run own business
- Ad hoc/opportunistic approach to acquisition of resources
- Rely heavily on previous experience but learn through experience and need for alternative/innovative approaches
- Post-start recognition that need to learn extensively during start-up to trade successfully

From the above list of defining characteristics, a number of questions emerge which can be used in defining the level of experience. These include:

- previous experience
- experience in relation to the type of business started
- business management experience
- drivers to start a new business
- opportunistic/Strategic
- necessity/Reactive
- idea formation and testing
- degree to which idea is tested and refined before starting the business
- planning how to start a new business
- type/focus of planning - strategic or tactical
- drivers to planning the process - voluntary or imposed
- financing the process
- number of sources used
- type of sources used
- size of financial package/needs.

Whilst such qualitative segmentation frameworks are useful in identifying segments with greater internal meaning (e.g. those businesses in Figure 4 who have a viable idea and previous experience of running a business will have similar needs), data is rarely available in a form to enable the scale and scope of segments to be mapped, without the process being resource intensive.

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4.1 Business aspirations and objectives

Two recent surveys provide useful evidence around the business aspirations and objectives of business enterprises. Firstly, the SME Finance Monitor managed by the BDRC Continental and British Bankers Association highlights that 76 per cent of those surveyed in the last quarter of 2011 wish to grow by selling more products and services to existing markets (BDRC Continental, 2012). In comparison, 32 per cent and 25 per cent wish to grow through developing new products and employing more people respectively.

Secondly, a survey undertaken by SFEDI in the summer of 2011 highlighted that approximately one business in two noted that they intended to pursue modest growth (SFEDI, 2011b). In comparison, approximately one business in five was intending to pursue substantial growth. Research undertaken by Anyadike-Danes et al (2009) into the characteristics and dynamics of growth businesses outlines that approximately six per cent of businesses are high-growth businesses, i.e. a business with a minimum of ten employees at the beginning of a three-year period that achieves an average annualised employment growth greater than 20 per cent over that period. It is this group of businesses that has been the key target group for successive governments in supporting enterprise development.

Such findings appear to be somewhat consistent over-time. According to IFF Research (2010), for example, two-thirds (67 per cent) of SMEs were expecting to grow their businesses over the following two to three years. For those planning to grow, just over a quarter (26 per cent) expected to hire new staff and more than a third (36 per cent) would be investing in training existing staff.

Similar growth aspirations were reported by Williams and Cowling (2009) before the current economic crisis. The aspiration for growth increased with size of business: 65 per cent of micro businesses wanted to grow compared to 77 per cent of other small businesses and 88 per cent of medium-sized businesses. New businesses were also more likely to expect growth (84 per cent). This is consistent with previous SFEDI research which highlighted that growth aspirations were more likely amongst business owners with higher level qualifications and previous business management experience (SFEDI, 2008).

Overall, 20 per cent of SMEs reported employment growth in the previous twelve months. Again this was more likely to have occurred amongst medium-sized businesses (39 per cent) than micro businesses (18 per cent). Almost two-thirds of businesses (65 per cent) had not experienced growth in the previous year and did not anticipate any in the next twelve months.

It is important to unpack the development aspirations of businesses as they will influence the approach to developing the business and the associated needs and requirements (Atherton and Lyon, 2001; SFEDI, 2008). For example, the needs and requirements of a business struggling to survive will be different from a business looking to grow.

4.2 External market conditions

About half (49 per cent) of SMEs consider external finance to be fairly or very important according to IFF Research (2010) but only 19 per cent had actually sought such finance in the previous six months. The vast majority (82 per cent) said they did not apply for external finance because they did not need it. Retained profit was most likely to be used

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to fund working capital or cashflow.

Issues around access to finance have been identified by numerous surveys over the last five to ten years, alongside issues with economic conditions, regulation and employing people (Blackburn and Wainwright, 2010). In terms of regulations, it is regularly reported within surveys that small businesses have concerns with both the complexity and change in the regulatory burden and that small businesses bear a disproportionate cost in complying with regulation. With the economy, a number of issues emerge around the strength of the currency, levels of competition and the degree to which the UK economy is conducive to doing business in comparison to other developed market economies.

4.3 Internal structures and resources

As we note below in relation to training and development, smaller businesses tend to operate more informal business processes. For example, as highlighted in Table 11, less than half of the very smallest businesses with employees have a business plan according to results from the UK Employer Perspectives Survey 2010 reported in Shury et al. (2011).

Table 11: Proportion of organisations with business plans

	Size					
	2-4	5-9	10-24	25-49	50-249	250+
% with business plan	49	60	71	79	83	91

Source: Shury et al. (2011)

Indeed, Dragon's Den's Doug Richard has posted a provocative blog entitled 'You Do NOT Need a Business Plan to Start a Business' (Richard, 2010). This is particularly surprising given that his activity tends to be targeted at the potential high growth businesses that are most likely to have such plans. However his argument is that so much will change during the start-up phase that a fully worked-up business plan is unnecessary.

A recent survey of business enterprises by SFEDI (2011b) highlighted that amongst the diversity of challenges identified by the businesses, two key bundles emerged related to financial challenges in developing the business and managing people (see Table 12). In terms of the former, businesses noted that issues such as the rising costs of overheads, managing these within the business and the accessibility and appropriateness of finance from banks and other finance providers provided challenges in developing the business. This included keeping the business going through accessing capital for cashflow and growing the business through securing expansion finance. This focus on financial challenges is not surprising given the current narrative around the relationships between banks and smaller businesses and the resultant work of the Finance Task Force to support the development of financial capabilities in small businesses and improving access to finance. It is also supported by the outcomes of other recent business surveys (see, for example, Forum of Private Businesses, 2010).

Table 12: Key challenges facing the development of the surveyed businesses over the

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next 12 to 18 months

Challenges	Frequency
Financial challenges	36.4%
People issues	31.4%
Political environment issues	22.0%
Economic challenges	21.2%
Sector specific challenges	11.0%
Changes in market/consumer demand	9.3%
Ability to win work	7.6%
Lack of resources	2.5%
Nature of the business culture	0.8%
Ability to effectively market services/products	0.8%
Other	53.4%
Total no. of businesses	118 (100%)

Source: SFEDI (2011b)

A set of people development challenges were identified by the SFEDI survey including issues with skills shortages, staffing and retention of key staff, motivation of potential employees to working in a smaller business and engaging employees in the development and growth of the business.

The SFEDI survey, therefore, demonstrates a balance between the key challenges faced which are internal and external to the surveyed businesses. However, on closer inspection, those businesses looking to restructure or stay the same were more likely to identify challenges external to the business. These included challenges in the economy (e.g. lack of work, reduced client budgets), changes in market/consumer demand and ability to win work. In comparison, more growth orientated businesses were likely to focus on challenges internal to the business.

This distinction is important in that a small business may have limited opportunities to influence and impact upon issues within the macro-economy but through developing a degree of fit between the internal operating environment and its day-to-day task environment, it will be well placed to take advantage of any business opportunities (Gibb, 1997).

When assessing the factors that are likely to influence the ability to grow in the next 12 to 18 months, the recent SFEDI survey highlights that one business in two noted that prevailing economic conditions was the key factor that will influence the ability of the business to grow (see Table 13). As noted above, this is not surprising given the current economic conditions and the associated challenges for smaller businesses. These are not only impacting upon levels of confidence amongst the stakeholders of small businesses but also the availability of key resources such as finance, premises and the costs of supplies (Forum of Private Business, 2010).

Table 13: Factors influencing the ability to grow the surveyed businesses

Factors influencing the ability to grow ...	Frequency
Economic conditions	54.9%
Expanding existing markets or developing new products/services	49.2%

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Recruiting the right people	36.4%
Modifying products/services, developing new ones	33.1%
Managing internal resources	30.5%
Managing the competition in the market	30.5%
Developing new skills and abilities	28.8%
Securing adequate finance	24.6%
Managing succession in the business	21.2%
Taxation or business regulations	19.5%
Having leaders who can take on new challenges	19.5%
Managerial capabilities to foster innovation	17.8%
Restructuring the organisation	16.9%
Finding appropriate premises	14.4%
Securing supplies	14.4%
Changing the culture of the organisation	7.6%
Total no. of businesses	118 (100%)

Source: SFEDI (2011b)

However, there were a set of factors identified as important which were internal to the business and as a result could be addressed within the business or with support from external networks and stakeholders. One surveyed business in two identified that 'expanding existing markets or developing products and services' as a key factor influencing the ability to grow and approximately one in three identified:

- Recruiting the right people
- Modifying products/services and developing new ones
- Securing adequate finance
- Managing internal resources more effectively
- Managing the competition in the market
- Developing new skills and abilities in the current workforce.

There is earlier evidence that acquiring or developing appropriate skills are a constraint on the ability of businesses to meet their objectives. This appears to be more significant the larger the SME (Johnson and Devins, 2008). Once again the key issues are around money, competition and winning customers. It is interesting to note that Table 13 also indicates that the main skills and development challenge, around marketing and sales abilities, relates directly to those latter issues.

Table 14: Constraints on ability to meet business objectives by size

Constraints	All small businesses	Number of employees		
		<10 (micro)	10 to 49 (small)	50 to 259 (medium)
Increasing competition	2.69	2.48**	2.77	3.00
Availability/cost of finance for expansion	2.63	2.75**	2.59	2.27
Marketing and sales skills	2.53	2.40**	2.60	2.70
Availability/ cost of overdraft finance	2.38	2.47**	2.36	2.09

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Overall growth of market demand in principal products	2.35	2.20**	2.45	2.54
Management skills	2.31	1.97**	2.52	2.82
Skilled labour	2.25	2.00**	2.48	2.38
Acquisition of technology	1.95	1.93**	1.94	2.02
Difficulties with new technology	1.89	1.76**	1.90	2.10
Availability of appropriate premises or site	1.75	1.70*	1.78	1.80
Access to overseas markets	1.60	1.47**	1.66	1.84
Total responses (no.)	2362	1008	1060	274

Source: Reproduced in BIS (undated)

Note:

1. Means are calculated from scores on a scale of 1-5. 1= insignificant, 2 = slightly significant, 3 = moderately significant, 4 = very significant, 5 = crucial. Asterisks indicate statistically significant differences (* 10% level; ** 5% or better).

Table 14 highlights that managing people in the business was found difficult by about one in eight owners of small businesses. This figure was higher for those aiming to grow their business (17.2 per cent) and aged under 35 (20.6 per cent).

Broadly similar results were reported by the Small Business Research Trust. Labour shortages and skills/training were the ninth and tenth ranked barriers to business growth amongst micro businesses and fifth and equal sixth for other small businesses (see SBRT, 2007).

Table 15: Aspects of running a small business found difficult

Difficulty	%
Managing cash flow and finances	34.6
Winning new customers	29.2
Creating or identifying business opportunities	17.6
Solving business problems	16.7
Business networking and communication	15.0
Keeping and maintaining satisfied customers	13.4
Negotiating effectively	13.0
Managing people in the business	12.2
Creating and managing business systems	9.9
Legislation and government requirements	5.3
Long hours and time management	2.9
Paperwork and administration	2.4
Marketing and advertising	2.0
Recruiting staff	1.3
Total number of responses	2,601

Source: SFEDI (2008), p.36/37

Where human resource decision-making is located within multi-site organisations has

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implications for the engagement with government support services. Branch establishments do not have the autonomy to make their own decisions, unlike single-site entities and head offices and therefore may be susceptible to organisation-wide policies and practices. This has strategic consequences for delivery and promotion of government support services since decision-making and take-up may take place at different locations (Shury et al., 2011).

The Internet has increasingly been used as a cost-effective medium for delivering information and other services to SMEs. For example, the website is the one element of Business Link that is to be retained. However it should be noted that use of the Internet increases with business size. Overall, 83 per cent of SMEs use the Internet (Williams and Cowling, 2009, p.23). This is primarily for e-mail (96 per cent), business website (72 per cent), purchasing (71 per cent) or selling (41 per cent).

4.4 Recruitment

Reference has already been made to recruitment in Table 14. This does not figure as an important area of difficulty for small businesses. However this will in part be explained by the fact that many of the smallest businesses will not have recently recruited people.

Most research points to the fact that SMEs tend to favour informal recruitment practices. However as an organisation grows, it becomes apparent that there is a need for a more formalised method of recruitment. Barrett et al. (2007) cite a study by Kotey and Slade of 1,330 micro, small-and medium sized firms (n=371) that found that as firms grew, their HRM practices became more standardised and the documentation practices grew.

Although informal practices may be appropriate for small firms, these informal practices can become problematic in periods of growth (Marlow, 2006). Studies have shown that this is particularly an issue in growth-oriented small firms.

4.5 Training and development

Over half of SMEs (57 per cent) had funded or arranged training or development for staff during the previous twelve months according to Williams and Cowling (2010). This included informal, on-the-job training. However such activity was far more common amongst medium-sized enterprises (95 per cent) than micro businesses (52 per cent). For half of those arranging training this did not lead to a formal qualification and again the propensity for this outcome to occur rose with size of business. Similar results were found in relation to management training.

In a survey of more than a thousand smaller businesses SBRT (2007) reported that 49 per cent of businesses provided no formal training, only on-the-job training. This figure was far higher for micro businesses (60 per cent) than for other small (32 per cent) or medium (12 per cent) sized businesses. There was very limited use of formal external training but the proportion of businesses reporting use of formal internal training and a mix of formal and informal training rose with size of business.

Overall smaller businesses are less likely to use formal and off-the-job training and far more likely to rely on tacit knowledge and informal learning (BIS, undated).

The larger the business the more likely it is to have staff training, a training budget and IIP recognition (see Figure 13). This again emphasises the tendency for smaller businesses to operate more informal processes. The results reported in Shury et al. (2011) are presented below in tabular and line graph form.

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Figure 14: Proportion of organisations with training, budgets and IiP recognition and awareness



Source: Shurry et al. (2011)

Broadly similar results were reported in SFEDI (2008), citing results from the Learning and Training at Work Survey. This shows smaller businesses were also less likely to have a human resource plan, training plan or training budget (see Table 15).

Table 16: Proportion of firms with plans, budget and IiP recognition

	Size of employer by no. of employees				
	5-24	25-99	100-199	200-499	500+
Training plan	55	76	82	91	91
Training budget	40	64	86	88	91
Human resource plan	32	52	72	82	86
IiP recognition	15	31	37	45	50

Source: Shurry et al. (2011)

It is also noticeable that amongst the smallest businesses less than half of those with human resource plans have achieved IiP recognition. This suggests that there could be substantial scope for increasing recognition amongst those SMEs that do have more formal practices relating to people management and development (Tamlin et al., 2008).

A paper developed by Beaver and Hutchings (2005) asserts that strategic human resource management (SHRM) and human resource development (HRD) play an

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essential role in SMEs. They suggest that small businesses that engage in SHRM and HRD will not only profit by gaining a competitive position but will also be able to adjust more readily to changing and often uncertain influences within the business environment.

Integrating training and development activities into key business decisions is important because of the associated benefits to the SME of doing so include: increased flexibility from being able to transfer people with core skills to different parts of the organisation; the prevention of a shortage of key management skills; and focus on devising the company's own methods and techniques of operation which relate to its particular demands and the good atmosphere and satisfaction among people working effectively towards recognisable goals (Kerr and McDougall, 1998, cited in Beaver and Hutchings, 2005, p. 595)

4.6 Learning and development and owner-manager attitudes, behaviours and preferences

Informal approaches are typically adopted by small business owners when looking to identify areas for business improvement and ways of developing business abilities:

Smaller businesses can also take a more informal look at staff training ... Micro businesses and small businesses are most likely to use informal methods to assess their skills needs, with larger SMEs more likely to use more formal methods such as skills audits. (Forum of Private Business, 2010).

This is reinforced in a number of surveys of the learning and skills preferences of small business owner-managers.

First, small business owners are generally happier using informal, discursive approaches to identifying areas in which they can improve their own business abilities (see Table 16). Only one in six would want to complete a structured and comprehensive business diagnostic with an adviser. However such diagnostics have traditionally been employed by publicly-funded business advisers, including in relation to IIP.

Table 17: Methods to identify areas for improvement in business abilities

Happy to use...	Yes, %
Discussion with accountant/solicitor/bank	54.8
A chat with owners of other businesses	46.9
Reviewing a simple list of questions to check if you could improve your abilities	34.6
Consultation with a business coach or adviser	20.5
Completing a structured & comprehensive business diagnostic with an adviser	16.7
Total number of responses	2,601

Source: SFEDI (2008)

Informality also marks the methods through which business owners reported developing their business abilities as shown in Table 17. Whilst a range of methods are used to develop the abilities required to run a business, the key methods include: learning from

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your own experiences, discussing with other owners, and using professional advice (e.g. banks, accountants, solicitors).

Table 18: Methods used to develop abilities to run a business

Learning from...	%
Experiences	92.8
Other owners	48.9
Professional advice	46.3
Books/articles/internet	36.5
A training course	33.4
A business coach/mentor	12.9
A business advisor	12.4
Some other source	9.7
Total number of responses	2,601

Source: SFEDI (2008), p.53

This is reinforced by a recent survey undertaken by SFEDI with businesses enterprises. In terms of the type of support used by SMEs to achieve business improvement objectives, the survey highlighted that the surveyed businesses primarily use advice and guidance, self-help tools and training, coaching and mentoring. This pattern of usage reinforces the findings of a number of research studies and business surveys which highlight that smaller business have a tendency to use advice and guidance from other businesses and self-directed learning from tools on websites, using more formal sources of support to address more complex needs and requirements. This reflects not only issues surrounding the cost and time of accessing more formal sources of support but also levels of empathy and understanding with the world of managing and running your own business within more formal support structures (Gibb, 1997; SFEDI, 2008).

Table 19: Sources of help to develop business abilities

Willing to use...	Yes, %
Other owners of small businesses	49.3
Business member organisation	29.4
E-learning package	20.2
College or university	21.5
Private training provider	16.3
Business coach or mentor	14.5
<i>Base</i>	<i>2,601</i>

Source: SFEDI (2008), p.52

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The recent survey by SFEDI also highlights that there are a number of differences in the type of support organisation and networks contacted by the surveyed owner-managers to discuss (i) business plans and (ii) to provide appropriate support around business development and improvement. Table 19 shows that the three most frequently contacted sources of support by the surveyed businesses to discuss business plans were: accountant/book-keeper; other businesses; and friends and family. The use of such sources of support to discuss business plans not only reflects that these will provide advice and guidance at little or no cost and at a time which works around the day-to-day demands of running a small business but also these sources are likely to be less critical of the plans and hence questioning of underpinning drivers (Gibb, 1997; Bennett, 2006). This is important because amongst certain groups of SMEs, the plans for the businesses will reflect the ego or personal motivations and drivers of the owner-manager (Bridge, 2010).

A different pattern of usage is evident when businesses are asked about who they contacted to provide appropriate support around business development. The three most frequently used sources of support were: enterprise agencies and business support organisations; business membership organisations; and trade/industry/professional bodies. This reflects not only the ability of 'closer' and informal sources of support to address increasingly complex needs and requirements but also the need to compare and contrast offers of support around finance, consultancy and legal advice and support.

Table 20: Sources of supported contacted by the surveyed businesses to discuss business plans and to provide appropriate support

Source	Discuss business plans	Provide appropriate support	Rank difference
Accountant/book-keeper	41.5%	30.5%	-4
Other businesses	37.3%	20.3%	-5
Friends and family	33.1%	20.3%	-4
Enterprise agency/business support organisation	32.2%	36.4%	+3
Bank	26.3%	25.4%	-1
Business membership organisations	22.9%	36.4%	+5
Trade/Industry/Professional body	18.6	34.7%	+4
Internet search	17.8%	31.4%	+4
Solicitor	16.1%	15.3%	0
Other	3.4%	1.7%	0
Total	118 (100%)	118 (100%)	

Source: SFEDI (2011b)

Note:

1. A positive rank difference means the use of the organisation to 'provide appropriate support' is higher than to 'discuss business plans'.

In addition, there is evidence from the SFEDI survey that different types of support are used by different groups of businesses. For example, businesses looking to pursue modest or substantial growth were more likely to use formal sources of support such as business support agencies, trade bodies, and consultants than those businesses looking

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to stay the same or downsize. In part, this reflects that growth-orientated businesses are more open to external input into the business, as they provide a different perspective on plans and objectives. A study of networking amongst high-technology businesses, undertaken as part of a DTI review of innovation in small businesses, highlighted a relationship between the propensity to network and the number of successful innovations, as this networking provided an opportunity to market test the innovation (Pittway et al, 2004). In addition, growth-orientated businesses need to access more specific/tailored sources of support, such as informal equity finance, legal advice on people issues, staff with specialist market knowledge and consultancy to gain accreditations. This type of support cannot be provided directly by more immediate or informal networks.

Therefore, there is now a very substantial literature that highlights that experiential and active forms of learning are relevant or preferred by small business owners. These sources are summarised in SFEDI (2008).

The key themes of Tables 16 to 19 is the tendency of small businesses to use more informal sources of support in addressing both business development and people development issues in the business. For example, Tables 17 and 18 highlight that one business in two surveyed SFEDI noted that they use other businesses in developing abilities to run and manage the business. Gibb (1997) and Bridge (2010) suggest that this pattern in the usage of support is driven not only by concerns with empathy with, and understanding of the life-world of the small business owner-manager but also accessibility in terms of cost and time, openness and the ability to act on the advice straight away.

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