

ARE SMALL BUSINESSES AN APPROPRIATE VEHICLE THROUGH WHICH TO  
TACKLE UNEMPLOYMENT?

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## **ABSTRACT**

Jobs created by small businesses represent the majority of employment opportunities created in the UK. Efforts to reduce long term unemployment might focus on the benefits of working closely with these businesses.

The UK Government's New Deal employment initiative, introduced in 1998, used wage subsidies to encourage the integration of the long term unemployed to the labour market. This might have naturally complemented the recruitment needs of small business, however, such businesses generally seek skills lacking in the long term unemployed. As such, the employment opportunities they create tend not to be accessed by this group.

Small business use of employment interventions are undermined by the complex social and economic issues presented by the target group and the deeply rooted causal factors of unemployment that wage subsidies, alone, struggle to influence.

Recognising the New Deal as the main labour market intervention of the last 10 years, its relationship with small businesses relied on a series of hopeful and naive assumptions in terms of candidate suitability and employer participation.

Only by developing intensive, multidimensional, complementary and long term interventions can long term unemployment be tackled successfully as a partnership effort with small business.

**CHAPTER 1 SMALL BUSINESS RECRUITMENT AND THE  
UNEMPLOYED**

INTRODUCTION

MAKING THE UNEMPLOYED EMPLOYABLE

SMALL BUSINESS RECRUITMENT AND THE NEW DEAL

INTERVENTIONS: STRENGTHS AND LIMITATIONS

THE CHANGING LABOUR MARKET 1998-2006

DISSERTATION STRUCTURE AND METHOD

## **Introduction**

UK Government policy has long promoted a range of labour market interventions aimed at reintegrating the unemployed. As small businesses create most employment opportunities in the economy, a natural opportunity for a complementary relationship between these appears. However, tackling unemployment using the jobs created by small business may be a difficult process to establish and an overly simplistic solution to propose.

The vocational skills and personal qualities of unemployed candidates, compared with the specific requirements of the small business employer, will challenge the effectiveness of labour market interventions in this context. The complexities of human behaviour and the unpredictability of the commercial environment – especially for small business – will test this simplicity and viability of such a complementary approach.

The central issue for this dissertation is in determining the nature of this relationship and to discuss the factors which influence small business employers in their cooperation with employment interventions. This is examined through a focus on the New Deal – introduced as a national employment programme in 1998 and premised on the inducement effect of wage subsidies.

The main question here is:

*“In a complex policy and practice environment, can small business recruitment be positively influenced in favour of the unemployed ?”*

This dissertation establishes the economic and social environment in which such interventions operate, assesses the behavioural traits in small business which determine recruitment decisions and reviews employer experiences of wage subsidies. Overall, this process seeks to demonstrate the limitations of a simple wage subsidy measure for the long term unemployed when used with the context of small business.

*Economic Origins*

Many labour market interventions derive from a belief that the most effective way of tackling the problem of long term structural unemployment is to make the unemployed more attractive to employers – through help with motivation and job seeking, skills development and a flexible system of wage differentials.

Layard (1994) states that individuals in long-term unemployment reduce the quantity of available labour, which in turn increases wage costs leading to reduced labour demand and increased unemployment. In such a scenario employment interventions can reduce long term unemployment, increase the scale and depth of the labour market, improve the quality of labour supply without increasing wage costs, stimulate labour demand and permanently counter long term unemployment. This will help prevent development of long term unemployment, over time contributing to a reduction in the overall incidence of this.

Supply side strategies, such as the New Deal, concentrate assistance measures towards the long term unemployed and away from the short term unemployed. The aim of this is to advantage the former -the latter being better equipped to find employment from their own efforts with more than 80 per cent of this short term group, finding alternative employment within six months of becoming unemployed (Campbell 2000).

Layard (1994) asserts that in this approach, job substitution does not present as a problem because as the long term unemployed move into employment, the short term unemployed will remain generally more employable and as the economy grows, will find jobs more easily - reducing the ‘natural’ rate of unemployment in the labour market. This helps to make the unemployed more employable, reduces wage pressures in the economy and allows for higher levels of overall output without creating inflationary pressures.

### **Making the Unemployed Employable**

In the New Deal the stress is upon the improvement of employability of the long term unemployed rather than on job creation. Employability is to be achieved through skills training, labour market flexibility and by strengthening personal, social and economic networks. At the core of this are the four main components of employability introduced by Hillage and Pollard (1999) as

1. Assets - The personal and economic qualities possessed by the typical New Deal referral
2. Deployment - The characteristics of the local labour markets where New Deal will operate
3. Presentation - The manner in which the New Deal managing agent (Employment Service) presents the New Deal candidate to the employer.
4. Circumstances - The enduring nature of reservation wages, benefits dependency and social impediments to labour market access.

The New Deal model seeks to combine employment and welfare policy in a manner commonly referred to as 'active labour market policy'. This is based on the two broad approaches of training and job creation schemes, alongside employment subsidies supported by coercion through withdrawal of welfare entitlement (Nathan 2001; Campbell 2000; Meager and Metcalf 1987).

New Deal is effectively an individually focussed, supply side approach to national training policy (Campbell 2000; Hasluck 1999a; Tongue 1999). It has been developed as a long-term programme, which seeks to fundamentally address the way in which Government policy addresses the issue of unemployment. It is an attempt to redefine the interface between the welfare state and the individual; displacing the post war benefits system with an employment focussed alternative i.e. a positive engagement in occupational activity linked to a financial incentive as opposed to economic inactivity and benefits dependency (Gregg 1999; Peck 1998; Corry 1998; Evans Millar and Sayre. 1997; Finn 1997). This is in contrast to the dominant 'universal social welfare' based model of the post war years, designed to provide interim welfare support for those experiencing periods of unemployment but

stretched by social and economic changes which have burdened the model with long term structural demands it was never designed to deal with (Green 1998a, Finn 1997).

### ***Enduring Unemployment***

New Deal will concentrate in areas experiencing high rates of long-term unemployment. These tends towards clusters of certain community types across the UK – predominantly ex-industrial (Peck 1998; Clark and Leyard 1997)– and that from this long term unemployment becomes a geographic, cultural as well as a social and economic issue (Turok and Webster 1998; Layard 1994). This is evidenced not only by comparatively high rates of unemployment, but within this, as Green (1998b) notes, high rates of long term unemployment.

At its inception, more than half the target group for New Deal was concentrated in 18 of the UK's 471 local authorities (Peck 1998) - mostly large city areas in ex-industrial regions such as Tyneside, Clydeside, Merseyside and South Wales. This introduces a spatial aspect to the implementation of the New Deal (Turok and Webster 1998; Green 1998b; Fothergill 2001). Here there are high incidences of individuals whose vocational qualities employers find unattractive i.e. basic skills deficiencies and complex social and economic circumstances. This does little to encourage economic activity, which impacts on the viability of the local economy, in turn making it difficult to support sustainable economic activity and employment generating businesses.

Weak labour supply does not encourage business activity, leading in turn to weak demand (Fothergill 2001; Lee 1999; Barkham *et al.* 1996; Brown and Sessions 1996; Fielder 1992; Green 1998b; Vassen and Keeble 1995). This is inevitably bound in with labour quality issues which conspire to reinforce this experience (Campbell 2000; Smith 2000; Lee 1999).

This set of problems can be summarised as the variable geography of labour demand (Green 1998a; Peck 1998). In effect, the poorest areas are expected to absorb the most labour. It is also the case that in these areas the lowest quality types of jobs

dominate e.g. poor pay and terms and conditions of work. This further undermines the ambitions of the New Deal approach by concentrating effort in those areas least able to support it aims (Campbell 2000; Brown and Sessions 1996). It follows from this that a general application of a New Deal approach will prepare people for employment in areas which have limited employment opportunities (Pugh 1998).

The difficult social and economic circumstances evident at the area level, the relative disengagement of the target group from the social and economic mainstream and the inherent weaknesses in the local business base may prove to be complicating factors. This introduces an institutional effect at the local level where pure market approaches addressing supply and demand are weak and the limits of economic determinism become evident.

New Deal does not take sufficient account of the demand side structural causes of unemployment – a fact that Layard (1998) states will be most difficult in those demand deficient parts of the country where the need is greatest. In New Deal demand is assumed, supply is asserted. A market-based, employer dependent approach using the welfare system to compensate for these problems appears ambitious.

Previous attempts at introducing predominantly supply based labour market programmes have experienced limited or temporary effects because, as simple jobs/employment or ‘work-first’ based approaches, they have been unable to account for the many social, economic, cultural and personal factors at play. This is evidenced by the persistence of unemployment and poverty as key characteristics of community life in many disadvantaged areas despite repeated interventions. (Green 1998b; Brown and Sessions 1996).

Green (1998b) finds that a spatial concentration of poverty, together with the failure to adequately address this in the past, has directly led to underdeveloped access routes to employment opportunities, and poor flows of employment information i.e. ‘word of mouth’ employment opportunity. Alongside this, employer’s perceptions of poor quality business environments, underdeveloped services and issues of labour

quality make these areas unattractive to business investment. Finally, the aggregate income from multiple, interdependent welfare benefits can make the transition to paid employment of marginal (and sometimes negative) gain. Here a culture of unemployment develops where personal attitudes and preferences may prove resistant to employment and unattractive to employers.

The interplay of these factors means that possible solutions in addressing elements of unemployment must be sensitive to, and try to account for, its complex causal factors and enduring nature. The individual choices which affect the transition from economic inactivity to employment are complicated and the factors which will influence the success of such a transition are equally so. The processes of the New Deal will be rigorously tested in the operational environment.

### ***Quality of Labour***

Qualitative research with individuals (Leggard *et al.* 2000) and case studies of delivery (Tavistock Institute 1999) identified a wide range of specific barriers to employment faced by New Deal clients on all programmes.

Hasluck 1999; Fothergill 2001; Atkinson, Giles and Meager. 1998 and Green 1998c summarise these as economic, social and personal. Unemployed individuals entering the New Deal tend to have weak or out of date vocational skills and work experience, a reliance on welfare benefits and the personal and social issues which develop along side unemployment. At its early stages, around a third of New Deal for Young People and half of those on New Deal for the Long Term Unemployed held no academic qualification. Of those qualifications held, the great majority were at VQ 1 and 2, or equivalent (Hasluck 2000).

The most conspicuous characteristic of the New Deal client group is that they lack work experience. Almost 30 per cent have never had a job whilst a further 40 per cent have been mainly unemployed (Hasluck 1998). Moreover, virtually 80 per cent of those with work experience had previously worked in just three sectors Catering (31per cent) manufacturing (29per cent) and construction (19per cent)

This unemployment and long-term unemployment fosters a decay effect on an individual's readiness for employment and training. After six months unemployment the chances of someone finding work in any given week have fallen to less than 1 in 50, and thereafter still fall further (McQuaid 2002)

Strong social trends are evident across the target groups much of which is attributable to a concentration of long-term unemployment in poorer social classes previously dependent on declining sectors such as heavy industry. Within such communities cultures of low opportunity, low expectation, generational unemployment and benefits dependency prevail. Sub groups within this identify ethnic background, the older unemployed and young males as of particular disadvantage. At the time of its introduction, the New Deal target groups were almost predominantly male (70 per cent of entrants). In the New Deal for the Long Term Unemployed, this increases to 84 per cent (Hasluck 2000).

Factors frequently affecting the employment prospects of the New Deal target group relate to motivation to work, confidence, loss of benefits in the transition to work, caring commitments, access to labour market information, transport difficulties, personal health and lifestyle.

### **How the New Deal Might Help Small Business**

The design of the New Deal model assumed that small business might benefit through a flow of potential employees who brought with them a wage subsidy and a training allowance. Given that these individuals were to be sourced from the long term unemployed, it was accepted that they might require additional time and support to settle in the workplace. To assist this, the Employment Service would make available a named contact serving both the employer and the employee to provide the initial job matching service alongside continuing support and guidance, allowing both to adjust to this new situation.

It was accepted that the new employee would take time to 'get up to speed'. To compensate for this, the New Deal wage subsidy would reduce the employer wage

costs for the first six months of placement. In addition, it was also expected that the employee and employer would work together to ensure that appropriate vocational training was undertaken as part of this relationship. This relationship would be facilitated by the New Deal Personal Adviser. After this six months New Deal placement, there was an expectation that if the employee had proved their worth and if the employer could afford to, a permanent employment position would result.

In a small business the introduction of a New Deal employee might help to provide additional labour at an especially busy time, release a member of staff to vocational training and increase the overall capacity of the business

In financial terms, the New Deal employee would also introduce a £60 per week contribution to their own wages as well as an accompanying training allowance for use in developing accredited job specific skills. Over the 26 weeks of New Deal this would save the business £1560 in salary costs or provide £1560 worth of free labour. More realistically it was likely to present a situation somewhere in the middle where the management costs, business inconvenience and lower productivity of the New Deal employee would present as a sum benefit somewhat less than this. In a business context of the immediate need for staff and the protection of the business function, this may then become a very marginal benefit.

### **Small Business Recruitment and the New Deal**

45 per cent of private employment in the UK is found in small business. The majority of jobs growth in the UK economy occurs in the small business sector and within this, a small sub-set of businesses (5-10 per cent) who together account for around 40-50 per cent of the employment created (Storey 1998). The small business is a significant creator of employment opportunities and as such should be viewed as a natural target area for the New Deal to engage with.

New Deal should be able to improve the quality of labour supply to enhance employment prospects. Small businesses offer the greatest number of opportunities but the skills and qualities on offer from the unemployed must prove sufficiently

attractive for recruitment to occur. Involving the private sector as key players and equal partners in this effort will be a critical success factor.

Employers offering entry-level employment are principally interested in core skills and attributes such as attitude, reliability, motivation and literacy/numeracy (Hasluck 2000; Hasluck 1998). These are often referred to as employability skills, commonly observed as lacking in the long term unemployed

At its inception, New Deal was marketed very strongly at the employer community, especially small business employers (Campbell 2000; Joseph 2000; Convery 1999; Finn 1999; Corry 1998). It was launched with an appeal to small business to honour a social commitment whilst benefiting from an improved quality of local labour supply. This call to community and social responsibility is not just about the recruitment needs of small business but about including the unemployed in the community mainstream. Confusingly, little effort was made to explain this or involve small business in the initial design of the New Deal model (Finn 2001).

### ***Recruitment***

New Deal appears as a micro level intervention, driven by the needs of the individual long-term unemployed and paying little attention to the stated preferences of the employer community (Green 1998; Willets 1998; Evans 1996). By its design, New Deal relies heavily on individual responsibility on the part of the long-term unemployed and voluntary commitment from the business community. It offered no acknowledgement of related business interventions favoured by the business community and at a structural level, there appeared too little recognition of the potential positive influence that the small business community could have had in shaping its approach.

Within New Deal, there appears to be no associated strategy concerning demand stimulation and the creation of new additional jobs for this purpose. The opportunity to link the recruitment priorities of small businesses with the aims of New Deal has not happened and its design has not been influenced by the advice of employers (Finn 2001; Mason 1998). This approach intended to engage employers in the New

Deal process seems to be built on a presumption of good intent and spare capacity (Beatty and Fothergill 1998; Green 1998; Peck 1998).

The health of a business is likely to be strongly linked to the quality of its staff which in turn is related to the strengths of its recruitment process (Atkinson, Giles and Meager 1996; Fielder 1992,). The critical success factors in the relationship between the New Deal initiative and the recruitment needs of the small business is likely to be found here. This may be regarded as the 'meeting point' of greatest potential in bringing supply and demand labour market issues together in New Deal (Campbell 2000; Hasluck 1999; Nye 1998).

### **Interventions: Strengths and Limitations**

New Deal is founded on the use of wage subsidies as an inducement to employer involvement, yet these appear unattractive to the business community. In the 1970s employment subsidies were seen as an appropriate response to the major changes in employment that were taking place in the main UK labour markets, especially the major job losses occurring in manufacturing. Employment subsidy programmes were implemented on a national scale and were designed to encourage job preservation, retention and slow down the rate of job loss (Campbell 2000; Snape 1998; McKay 1997). By the late 1970s and early 1980s, employment subsidy programmes had become more sharply targeted, normally on the long-term unemployed but sometimes on other target groups such as young people.

The following table outlines the variety of wage subsidy approaches undertaken over this time in the UK of which the New Deal Employer option is but the latest.

**Table 1.1 Previous Employment Subsidy Measures in the UK**

<b>Programme</b>	<b>Period</b>	<b>Target Group</b>	<b>Subsidy</b>
Recruitment Subsidy for School Leavers	75-76	School leavers	£5pw for 26 weeks
Temporary Employment Subsidy	75-79	Potentially redundant employees	£20 pw for 52 weeks
Youth Employment Subsidy	76-78	Young People ,<20, unemployed for 6 months	£10 pw for 26 weeks
Small Firms Employment Subsidy	1978	New Recruits to Small Firms	£20 pw for 26 weeks
Temporary Short Time Working Compensation	79-84	Potentially Redundant Employees	75% of normal wage for days not worked
Adult Employment Subsidy	78-79	Long Term Unemployed	£20pw for 26 weeks
Young Worker Scheme	82-86	16-17 year olds taking low paid jobs	£15 pw for 52 weeks
New Worker Scheme	86-88	18-20 year olds taking low paid jobs	£15 pw for 52 weeks
Enterprise Allowance Scheme	82-91	Unemployed people into self employment	£40 pw for 52 weeks
Training and Employment Grants Scheme	89-92	Long term unemployed in Scotland	50% wage + 100% training costs for 26 weeks
Worktrials	1989	Unemployed trying out a job	Remain on benefits of 13 weeks
Business Start Up Scheme	91-95	Unemployed people into self employment	Varied from TEC /LEC area
Workstart 1 Workstart 2 Workstart 3	1993 1994 1995	Very long term unemployed	WS1 £2340 WS2 £700/2800/ WS3 £1000
NI Contributions Holiday	1996	Very long term unemployed	Employers NI for 12 months

(Hasluck 1999)

Participation in these wage subsidy programmes was voluntary.

Storey (1998) reports that despite a design which has deliberately sought to encourage employer use, such initiatives remained stubbornly unattractive to the business community, evidenced through low rates of uptake, employer enthusiasm and satisfaction. Hasluck (1999, 2000) reports that employer scepticism regarding the effectiveness of these grants generates resistance to their use. Even where they have been used, they have contributed little in the way of additional sustainable employment with most employers using them to reduce wage costs or pre screen employees - producing a strong displacement and deadweight effect with limited additional employment.

**Table 1.2 Subsidy Programme: Impact Summary**

Recruitment Subsidy for School Leavers	Approx. 15% additionality
Youth Employment Subsidy	5% additionality
Small Firms Employment Subsidy	Employment in participation firms increased by 20% – however employment in non-participating firms increased 12%. Based on these figures deadweight appears as 60% and gross additionality 40%
Temporary Short Time Working Compensation	High deadweight effect (61%) 1975–79 8800 applications covering 540000 jobs. Jobs saved were in declining sectors. TSTWC delayed the inevitable
Adult Employment Subsidy	Did not proceed beyond pilot stage due to poor employer take up. 5% additionality
Young Worker Scheme	16% additionality
Training and Employment Grants Scheme	Rule that jobs must be additional – deadweight of 16% Additionality 27%
Workstart 1-3	Deadweight 48-85% Additionality 11-19%
National Insurance Contributions ‘Holiday’	Participation as voluntary, take up rates very small- low take up attributed to lack of employer awareness

Hasluck (2000)

Overall these programmes appear as bonus payment for recruitment that would have occurred anyway across an employer community whose actions are more likely to be influenced by a whole host of other, more immediate, business factors than the simple availability of subsidised labour (Hasluck 2000; Meager and Metcalf 1997).

Despite a range of different approaches, wage subsidies show only limited impact in reintegrating the most difficult target groups to the labour market (Meager and Metcalf 1998). Hasluck (1999) suggests that the use of an employment subsidy implies that the heart of the problem is low candidate productivity on the part of the new subsidised recruit and the inability of the employers to sustain a marginal increase in the workforce through purely commercial effort. No single approach appears to have captured the imagination of the employers and established itself as a regular feature of employer activity.

The introduction of wage subsidies in the New Deal does not appear to be based on solid positive experience of previous initiatives. Small businesses have a limited

history of involvement with and use of Government sponsored employment initiatives. In particular, and of specific interest in the case of the New Deal, there appears to be a general lack of interest in such grant mechanisms aimed at bringing the previously unemployed back in to the labour market (Hasluck 1999, 2000, 2001; Campbell 2000; Meager and Metcalf 1998; Theodore 1998).

The key features emerging from this analysis are the limited additional impact that such initiatives can bring to the labour market. The typical experiences of these programmes can collectively be regarded as having produced low rates of additional employment, limited gains in employer involvement, deadweight as a significant issue and low sustainability.

### **Inducing Employer Involvement**

The most obvious impediment to employer enthusiasm in using wage subsidies will be the job readiness of the potential employee given their period of absence from the labour market. Employment skills atrophy quickly and employers tend to regard this as a general trend in the unemployed, applying a homogeneous understanding to this despite the diversity of this cohort.

There appears to be a general perception in the employer community that recruiting a previously unemployed individual, entails the consideration of additional factors beyond those when employing a previously employed individual. It is reasonable to infer that where New Deal seeks to encourage the employment of the previously unemployed these issues will arise. Particular sub groups of the unemployed fare even worse with many employers stating a strong aversion to employing those with a criminal record, language difficulties or a history of mental health difficulties (Metcalf 2000). The Federation of Small Business report a considerable issue of literacy and numeracy difficulties when recruiting from such groups with over 50 per cent of employers identifying some problems (FSB 2000).

In addition to this where the unemployed are recruited they tend to feature as employees at the more vulnerable end of the labour market. They are recruited

disproportionately into insecure, low paid employment (Dickens 2001;Peck 2000; Theodore 1998; Strawn 1998; Hasluck *et al.* 1996) and lack the personal coping strategies and access to personal networks to prevent against an entry/exit pattern of labour market engagement.

The main difficulty which will arise in the operation of the New Deal will centre on the specific requirements of the small business employer and the inadequate quality of labour presented by the New Deal for this. Even where employers are able to manage this, further complications will be generated when recruiting through the New Deal; in administrative and management issues, training requirements and the perception of insignificant, or negative, business benefit for the effort and time invested. The financial inducement offered will not be strong enough to offset the business and risk and commercial liabilities raised when recruiting through the New Deal.

Small business recruitment practices will not be influenced by the New Deal model. Their core purpose is to sustain business function and generate trading surpluses. Distractions from this can prove costly in an environment of tight margins and strong competition. In a competitive business environment where day to day issues might mean the difference between viability, survival and failure, this ability to plan activity in strategic social terms becomes a little stretched. Here there is a conflict between the principle and the reality of New Deal.

New Deal may appear as a continuation of misplaced interventions which have failed to account for the stated needs of small business (King and Wickham Jones 1997) . Where the New Deal focuses on its main target as the unemployed individual, this understates the needs of the business as an employer. Whilst the overall drive of New Deal has been in its aims to promote employability, employers expect that this approach should become more sensitive to their needs (Hasluck 2000;Griffiths 1999;Evans, Nathan and Simmons 1997;Hasluck 1999; Meager and Metcalf 1987).

It is perhaps telling that those who best understand the needs of the employing organisation (the employer) appear to be consulted least about how to work

successfully with support agencies in improving job prospects for the long term unemployed. This is especially evident in the case of small business. In this context, the final success of any employment intervention will be strongly determined by how employers are successfully incentivised to participate.

### ***The Changing Labour Market 1998-2006***

Since the introduction of the New Deal in 1998, it has continued its work in an evolving social, economic and political context. Changes in the labour market over this time have led to the lowest national levels of recorded unemployment in over 40 years, with many parts of the country able to claim full employment.

Businesses operating in this tightening labour market may have been able to use wage subsidies to offset the costs of additional general employment, reduce the costs of existing employees and help manage the risk associated with recruiting from the long term unemployed.

In broad terms, this tightening labour market, would suggest that employers may be more inclined to consider employing the long term unemployed because of labour shortage and the value of New Deal in easing this process. These strong market conditions are reported as conducive to the success of large-scale welfare to work programmes, similar to the New Deal (Nathan 2001; Peck 1998; Robinson 1998) where such programmes are highly dependent on prevailing macro-economic trends. Given the positive trends evident around the introduction of the New Deal, the economic environment should be supportive of its aims. However it remains likely that the fundamental difficulties raised when small businesses attempt to recruit the unemployed through structured labour market interventions will limit the anticipated New Deal effect.

### **Dissertation Structure and Method**

This dissertation will examine the limits of the small business as a suitable employer host to the long term unemployed. It is constructed around six main chapters based on the following structure.

### ***Chapter 1 Introduction***

The key questions addressed in this chapter include:

- What is the political, social and economic context in which the reduction of long term unemployment is attempted?
- What are the central objectives of the New Deal approach?
- What issues may arise when a major intervention of this type is used with small businesses?
- Dissertation structure

### ***Chapter 2 Method***

The main empirical base for this dissertation was a programme of field research undertaken by way of a three-point questionnaire conducted over an 18-month period between 1998 and 2000. 360 small private businesses from 6 New Deal administrative delivery partnership areas across the UK formed this. Further in-depth case study interviews were undertaken with a further 27 businesses selected from this group. Information collated through is interpreted to provide an account of the experiences of this employer group when working at the early stages of the New Deal.

### ***Chapter 3 Employment Outcomes and Business Benefits***

This chapter introduces this empirical research evidence and discusses the nature of the relationship between the recruitment behaviour of the small businesses and the impact that the New Deal has been observed to have on this. It assesses the impact of the New Deal as a wage subsidy approach, interpreting employer use of this against the effect anticipated at the introduction of a wage subsidy. Key questions include

- How do small businesses typically recruit and does this fit with the New Deal model?
- How well does the New Deal account for the sensitivities of small business recruitment?
- What type and quality of employment is produced by the New Deal?

- How do employers view the employment of the long term unemployed through New Deal?
- How has the New Deal affected the recruitment practices of the small business?
- What benefits has New Deal participation brought to the small business?

#### ***Chapter 4 Working with the New Deal***

This chapter examines the underlying reasons affecting the participation of small business in the New Deal and sets out to determine the key design and operational factors which have determined this. It draws further on the employer survey, interpreting this and outlining the reasons for the observed issues arising in the use of New Deal. Key Questions include

- What did employers expect to gain from New Deal and what happened in reality?
- What benefits did small business employers experience through participation in the New Deal?
- Did small businesses change its recruitment methods to accommodate the complexities of the New Deal?
- How the New Deal has failed to capitalise on strong, favourable labour market conditions?
- Is a wage subsidy a realistic form of inducement?

#### ***Chapter 5 Effective Intervention***

This chapter accounts for the limited additional employment created during the New Deal period and discusses how the characteristics of the long term unemployed and the limitations of the labour market interventions conspired to limit overall effect. The key questions here are

- What have been the main limitations of the New Deal and how have these been addressed in successor interventions?
- What issues of labour market policy and practice are raised by this?
- What related factors should complement an employment based strategy?

- What can we learn from the New Deal in terms of encouraging employment, supporting small business and attaining employment outcomes?

***Chapter 6 Conclusions and Recommendations***

This chapter builds from the positive developments identified as essential to the successful reintegration of the long term unemployed and suggests how these can be developed across future interventions to more fully appreciate the needs of the small business employer. The key points here are;

- What can we learn from the experiences of the New Deal?
- How can we develop positive employment pathways for the unemployed?
- How do we include employers as full partners in this ?

## **CHAPTER 2. RESEARCH METHODS**

INTRODUCTION

THE SURVEY

FIELDWORK

RESPONSE RATES

SURVEY SELECTION

BUSINESS TYPE DISTRIBUTION

THE CASE STUDIES

LIMITATIONS

## **Introduction**

The primary research, aimed at developing a fuller understanding of the New Deal approach with small business employers, was based on business survey structured as a three-part questionnaire supplemented by case study follow up. The areas and companies involved in this were selected for their capacity to offer a general reflection of the economic and social circumstances against which New Deal was intended to stimulate local labour supply i.e. areas in economic decline with corresponding levels of high unemployment.

## **The Survey**

The survey sought to elicit the views of typical small business employers with regard to the introduction of the New Deal and in particular the key issues of recruitment and employment growth. This was conducted across six key areas of the UK. 60 private small businesses from each of the six locations were identified with the assistance of the local New Deal Partnership and the local Employment Service District Office – responsible for the national administration of New Deal at the local level.

The Employment Service has a national presence in the main centres of population across the UK. It is organised into regional units of delivery, of which at the inception of the New Deal, there were 144. These units formed the basis of New Deal delivery. At this level, local consortia were set in place to implement the approach in each unit area. Ostensibly, this was to encourage a greater degree of representative and co-operative working, however as in the vast majority of cases the Employment Service were also the principal service provider, it may be considered that the New Deal in many respects became synonymous with the Employment Service. Since the establishment of the New Deal the Employment Service has reorganised as the Jobcentreplus and continues to act as the principal national public sector employment placing network.

Along with the Employment Service the delivery partnerships formed for the New Deal typically included representation from the local authority, the local enterprise

network (LEC/TEC), local Chamber of Commerce/local employers, the voluntary sector, Careers Service, FE College, Trades Unions and local elected representatives.

Of the companies participating in the survey, all were confirmed as likely to engage with the New Deal as employers. These employers were previously uninterested in such employment subsidy programmes but had developed an early positive attitude to these through the promotion of the New Deal. The survey did not include companies whose previous use of grants was unknown or who had a previous experience of these and who did not choose to work with the New Deal.

### **Fieldwork**

The main survey objectives were to

- Identify key activities and trends in these small businesses by baseline and follow up interview
- Identify key issues of recruitment, employment growth and business development
- Establish existing patterns of business trends in terms of turnover and profitability
- Assess grant related participation activity and the relative value attached to such programmes
- Relate this to the introduction of the New Deal initiative
- Determine the nature of the New Deal, its client group, the main social and economic factors and the needs of the business community.
- Assess the perceived value of New Deal as a tool for recruitment and growth
- Identify the key operational issues when small businesses chose to work with New Deal

The survey was conducted in three stages between December 1998 and October 2000.

The three stages of the survey were:

- Stage 1 Benchmarking Questionnaire                      Dec 1998 – June 1999
- Stage 2. Mid Point Questionnaire                              August 1999 – February 2000
- Stage 3. Final Evaluative questionnaire.                      March 2000 – October 2000

The survey was phased in such a way that each respondent would experience the same frequency of contact ensuring a consistency of approach i.e. each respondent would be contacted at approximately 6 monthly intervals. The phasing of this approach determined that the survey was conducted over 22-month period. The questionnaires were structured consisting mainly of closed response formatted questions but did include some open questions. The questionnaires are summarised as follows

#### Questionnaire 1

Baseline data

Nature of business. Size and scope of business

Use of employment and training grants

Anticipated issues in New Deal

Intention as regard New Deal

#### Questionnaire 2

Developing issues in New Deal involvement

Developing trends in company performance

Practical considerations in working with New Deal

Issues to be considered

#### Questionnaire 3

Overall assessment of New Deal against company interests

Practical issues in use of New Deal

Use of New Deal to assist recruitment

Trends in company performance during use of New Deal

All businesses in the survey were sent a letter of introduction around a week before being contacted by telephone. At each interview point, three calls per business were made to establish contact. Where the businesses was unable unwilling or unavailable to participate in the survey no further attempts at contact were made after the final third call.

### **Survey Selection**

The six areas in which the survey businesses were located were selected from the 144 Employment Service Districts across the UK. The areas were chosen with the aim of securing a reasonable balance of economic, social and geographical factors. Each of the 144 area units of delivery in the UK was contacted to assess the nature of New Deal partnership development in their area, the specific economic factors supporting small business involvement in New Deal and their willingness to become part of the survey. 78 replies to this were received of which approximately 20 were willing to become involved.

Six of these 20 were chosen for their common characteristics of high unemployment and long-term unemployment and the economic and social factors most commonly associated with this. These areas exemplify local communities experiencing major economic transitions, represent high concentrations of the New Deal target group and raises the issue that if New Deal cannot be made to operate effectively in these areas, where might it operate well and what implications for its structure, delivery and effectiveness arise.

The areas selected were:

- East Ayrshire. A declining rural-industrial-mining community. This area had a New Deal approach of a unique partnership attempted through the establishment of an independent limited company to run New Deal operations.
- East Sussex. A declining economy on the edge of London comprising a mixture of urban and rural.
- North West Wales. An area of rural decline
- London. Greenwich/Thameside/ Dartford. An area of inner city decline

- Portsmouth. A declining area suffering the withdrawal of a major public sector investor (Royal Navy)
- Glasgow. A major city facing the issues of declining industry and structural unemployment.

All of these areas were experiencing rates of unemployment greater than the national, an in many cases regional, average and all had economies where the small business sector was the dominant employer.

**Table 2.1 Unemployment and Long Term Unemployment by Area (%)**

%	Unemployment Rates			Long Term Unemployment Rates		
	1998	1999	2000	1998	1999	2000
Area Mean	5.9	5.7	4.9	29.2	29.2	26.9
Area St. Dev	0.99	1.0	1.0	4.	3.2	2.9
UK Mean	4.3	4.1	3.46	26.4	24.8	21.7

Source ONS

The variance of unemployment rates across the six areas is very low, a typical standard deviation of just 1 per cent. Moreover the correlation between the unemployment levels across the six chosen areas is high both between 1998 & 1999 ( $r= 0.955$ ) and between 1999 and 2000 ( $r= 0.963$ ), indicating that unemployment levels were consistently high over time.

At the commencement of New Deal in 1998, the main social and economic characteristics of the survey areas selected were as outlined below.

### ***East Ayrshire***

Traditionally this area was dependent on deep mining and manufacturing as the two most significant aspects of local economic activity. By the introduction of the New Deal the East Ayrshire labour market now had its main employment base in distribution, hotels, catering, public services, manufacturing and textiles. The latter accounting for a significant aspect of the local economy and as a sector being particularly vulnerable to market fluctuation. Reliance on the public sector as a key provider of employment is pronounced in this area where few large employers remain. 75 per cent of all private employees are within small businesses with less

than 10 employees. Long-term unemployment is a significant and stubborn trend in the area.

***East Sussex/Eastbourne (Hastings)***

The Eastbourne district comprises the towns of Eastbourne, Bexhill and Hastings as well as their associated outlying rural areas. The broad travel to work pattern covers a much wider locality incorporating Tunbridge Wells, Lewes and Brighton.

While the population as a whole is fairly evenly distributed with approximately 80000 people living in each area (total pop. 250000) the spread of New Deal eligible clients is concentrated mostly in the Hastings area which has about half of those eligible.

The local labour market consists of a high proportion of service industries, mainly retail and tourism related with most employment in these concentrated in small business. Tourism still holds as a major employer in the area. Most local businesses are not owned locally; a destabilising factor as relocation is always a possibility.

Regular employer surveys indicate the significant issue of basic employability skills in the recruitment process with literacy, numeracy and reliability featuring strongly in these. Deprivation levels suggest the area has significant experience of social disadvantage and physical decay. A stock of cheap, poor quality private rented housing attracts young unemployed people to the area. The area has a poor transport infrastructure, which is especially limited in its outlying areas.

***North West Wales***

There is considerable variation in the economic characteristics of different locales within the Northwest area. The rural-remote districts differ greatly in economic structure from the more readily accessible districts of the northern coast. Seasonality is a more serious problem in the coastal areas where seasonal unemployment can reach up to seven times the national unemployment rate.

Overall the employed labour force of NorthWest Wales has a relatively broad base of expertise in different occupational areas. An area wide decrease in full time work has followed the national pattern. This has been accompanied by an associated increase in part time work and self-employment.

Average household income for the area is low by national standards. Male unemployment and long-term unemployment continue to be another source of concern, as does a declining rate of male economic activity. Another major concern is the high number of unqualified people in the local economy, especially young people. In this, there are implications for the development of a skilled workforce.

### ***London – Thameside and Dartford (Greenwich)***

The delivery unit area covers 18.4 square miles stretching from Deptford to Thamesmead, along the south bank of the Thames covering an area from Woolwich in the North to New Eltham in the South. In 1996 the area had a population of just over 200,000, and composes a similar demographic profile as for the City of London as a whole.

There are approximately 3200 business units within the area, the vast majority of these small businesses. The breakdown of firms by size in Greenwich is typical of many areas in the sense most employ less than 25 people. At the commencement of the New Deal initiative it was estimated that there were about 50,000 jobs in the area across approximately 3,300 employers. The area ranks as the 14<sup>th</sup> most disadvantaged local authority district in England area out of the 366 such areas (1998).

### ***Portsmouth***

Portsmouth is the major centre of employment in the south east of Hampshire and possesses a thriving ferry port and several companies HQs. ICT; financial services and education form the major part of the city's economy. Portsmouth University is the largest employer in the City. Portsmouth is also a busy tourist centre attracting over 4 million people a year.

Within the city there are areas of severe and deep-rooted deprivation. These areas suffer from unemployment, poor housing, and an associated range of social problems. In 1997/98, at the beginning of the New Deal initiative, Portsmouth was ranked as the 44<sup>th</sup> most disadvantaged local authority in England. Some wards within these areas fall within the bottom worst 1 per cent of national Department of Environment deprivation indices.

At the beginning of New Deal the local Employment Service reported that difficult to fill occupations were identified as skilled trades, vehicle mechanics, metalworkers, skilled construction and assembly workers. This deficit of basic 'employability' skills is the single greatest area of concern from local employers. Employers repeatedly ask that this be addressed within training programmes undertaken. Growth areas within the local economy are identified as in leisure/culture/tourism, business services, ICT and light engineering. It is also recognised that current issues in skills shortage within the local labour market may hinder the development of these opportunity sectors as well as jeopardising their future long term viability.

### *Glasgow*

Glasgow remains, as it has long been, the most important centre of economic activity in Scotland representing more than 16 per cent of the country's employment. The city's role as an employment centre is emphasised by the fact that it provides a greater proportion of Scotland's jobs than it does of its population (13 per cent). Over the last 75 years the city has undergone a massive process of decline, structural change and regeneration. All of these forces continue to be at work in the city's economy and all are reflected in its labour market activity.

The most disadvantaged areas of the city represent around 44 per cent of the overall city population. Within these areas, the issues generated by unemployment and poverty are especially severe. Given the fact that these areas represent just under half of the population gives some indication as to the structural issues experienced by the city's labour market.

### Response Rates

Of the 360 SMEs identified at the outset, 199 made themselves available for the telephone interviews, which formed the basis of this approach. This reduced to 152 for the second interviews and 94 for the final interview. The response rates are shown in table 2.2

**Table 2.2 Survey Response Rates**

Original Sample	Interview 1	Interview 2	Interview 3
360	199 Interviewed 161 Unavailable	152 Interviewed 45 Unavailable 2 closures	94 Interviewed 47 Unavailable 9 closures
Response rate	199/360 = 55%	152/197 = 77%	94/141 = 66%

Business Survey: Response rates calculated excluding business closures

Response rates were fairly consistent across all six areas surveyed. The per cent figure is the response rate at the Interview 1 stage. The somewhat higher rates for the two Scottish areas may be due to the geographical base of the research. However a chi-square goodness-of-fit test to test that all categories contain the same proportion of values shows that the differences are not significant (chi-square = 3.462, df = 5 p = 0.629).

**Table 2.3 Survey Response Rates by Area**

Area	Response Rate (%)
East Ayrshire	62
East Sussex	45
Thameside and Dartford	50
Portsmouth	51
North West Wales	57
Glasgow	67
Overall	55.3

Business Survey

### Business Type Distribution

360 businesses were identified and selected as representative of the SIC profile of the UK (Figure 2.4). The primary focus of the project survey was to identify private sector small businesses which will naturally exclude certain organisational types as either being large utilities based operations or public sector agencies. There are no firms in mining and Quarrying (SIC C), Electricity/Gas/Water Supply (SIC E),

Public Administration (SIC L), Health and Social Work (SIC N), Private Households (SIC P) or Extra Territorial (SIC Q) in this survey.

It is clear that the SIC profile of the selected areas is very close to the UK profile with the exception of an over-representation in the Distribution and Retail Trade; Repair Vehicles, & Household Items category. The last column gives the probability that the sample proportion is the same as the UK proportion (hypothesis test on a single proportion)

The main areas of activity are to be found in three key sectors; manufacturing, distribution/retail and community/social/personal. Collectively these account for approximately 80per cent of the sample.

**Table 2.4 Business Type Distribution**

<b>SIC Classification</b>	<b>Frequency</b>	<b>%</b>	<b>UK%</b>	<b>Significance(p)</b>
Manufacturing & construction	60	30.2	30.3	0.93
Distribution and Retail Trade; Repair Vehicles, Household Items	62	31.2	23.4	0.01
Hotels and Restaurants	15	7.5	6.4	0.53
Transport, Storage and Communication	10	5.0	6.8	0.31
Other	11	5.5	12.8	0.002
Other Community, Social and Personal Service Activities	41	20.6	20.3	0.94
Total	199			

Business survey

All of the areas had a high percentage of their private workforce employed by small businesses, suggesting very few large private employers for these areas and a dependence on the SME as a critical component of the local economy.

**Table 2.5 Private Workforce Employed by SMEs <50FTE (%)**

Area	%
East Ayrshire	90
East Sussex	88
North West Wales	92
London – Thameside and Dartford	87
Portsmouth	88
Glasgow	90
UK	68

Source: New Deal delivery plans for each area. Employment Service 1997

The firms encountered at this benchmarking phase represented a total employment base of approximately 2500 individuals (estimated over the three years prior to the survey and prior to the introduction of New Deal). These figures will be used to inform the interpretation of small firm employment growth alongside the introduction of New Deal

Given the definition of small business adopted for this survey (<50 employees) it produced a range of companies fairly evenly spread across this. The following table outlines that roughly half of these had less than 10 employees, with 42 per cent having between 10 and 49 employees. This is not representative of the UK spread in term of SMEs and employee numbers in that in a normal spread most SMEs would be concentrated in the 1-5 category.

**Table 2.6 Comparison of Size of Firm between Survey Sample and UK (%)**

Firm Size (employees)	Sample %	UK %
0	0.5	1.3
1-4	27.0	62.9
5-9	26.5	19.2
10-49	42.0	15.3
50-99	4.0	1.0
100+	0.0	0.3

Source: FSB 2000 N=22000

From this it is apparent that the size of company spread in the business survey may be distorted towards the larger end of the small business range. In the FSB UK survey (table 2.6), 84 per cent of all businesses were in the <10 employees range, in the business survey this figure is 54 per cent. This may be due to a ‘preselection bias’

effect because of the nature of company selection for the survey, central to this report, where only those companies intent on working with New Deal at the earliest stage were selected.

These organisations may have been able to grasp the issues involved in New Deal participation more readily, feeling confident that they had the personnel systems required to work with it. It may be the case that this approach left out many smaller businesses as they had no intention of working with New Deal or were undecided, hence favouring the larger type of firm in the selection of the survey cohort.

However for the purposes of this study it offers an opportunity to assess how the behaviour of a more even spread of business size behaves against the introduction of the New Deal initiative within the terms of the research approach outlined.

The business surveyed tended towards the older end in terms of years established with over 50 per cent operational for 10 years or more. This should help to account for some of the more unpredictable business factors, which might influence behaviour in younger rather than more mature firms. This should assist in gaining an insight into the New Deal affect across a stable study cohort.

**Table 2.7 Company Age**

<b>Trading Years</b>	<b>No.</b>	<b>%</b>
Less than 1 Year	2	1
2 Years	7	4
3-5 Years	44	22
6-10 Years	39	20
10 Years +	107	53

Business Survey N=199

From this, we determine that the study cohort is a relatively mature set of organisations.

### **The Case Studies**

Given the limitations of a survey-based approach working within the structure of a questionnaire, it was felt necessary to complement this work with further qualitative

investigation. Following from the original cohort of businesses interviewed, and the information that a three-stage survey was able to provide, the issues raised by this were developed in further detail. This undertaken by way of in depth follow up interview based on a case study format for 27 of these businesses. These are summarised as follows, in terms of their SIC classification and the total number of staff currently employed.

**Table 2.8 The Case Study Businesses**

<b>SIC Classification</b>	<b>Frequency</b>	<b>Case studies %</b>	<b>Survey %</b>	<b>Case studies Aggregate employees</b>
Manufacturing & construction	9	33.3	30.2	125
Distribution and Retail Trade; Repair Vehicles, Household Items	12	44.4	31.2	59
Hotels and Restaurants	2	7.4	7.5	38
Transport, Storage and Communication	0	0	5.0	0
Other	1	3.7	5.5	4
Other Community, Social and Personal Service Activities	3	11.1	20.6	35
<b>Total</b>	<b>27</b>		<b>199</b>	<b>261</b>

Business Survey

The table shows that the case studies were broadly representative of the main sectors which feature as part of this research approach. Further, they were selected to provide a representative coverage of the six locations used. The experiences of these businesses are used to support the interpretation of the survey undertaken.

### ***Case Study Questionnaire***

The questionnaire which was used as part of this follow up process was designed to expand and illustrate on the responses elicited by the main earlier three stage survey. In the main this was to be concerned with establishing the specific difficulties experienced in workings with the New Deal and the issues small businesses must consider when recruiting from the long-term unemployed

### **Limitations**

Several methodological issues in the development of the business survey have limited the interpretation of the data presented.

The requirement to initiate an early start to the business survey, to coincide with the commencement of the New Deal led to the omission of several key reporting fields which, in retrospect, would have improved the quality of the survey data. These relate mainly the age and background of the New Deal candidate which would have allowed for greater differential analysis of the various New Deal programmes, and the selection of similar areas for the focus of the business survey.

The areas identified for this survey comprise a representative sample of the areas in which New Deal was likely to have its most significant impact i.e. areas with vulnerable local economies and above average unemployment. All of the areas chosen were categorised as high unemployment. Given this, a comparative inter regional assessment of high and low unemployment areas within the survey could not be assessed. In this regard, this has limited the scope of statistical interpretation. Finally, the data collated relates only to the timeframe of the survey 1998-2000.

The identification of the survey businesses was assisted by the local Employment Service. All participants on this had indicated their willingness to work with the New Deal initiative. This helps to explain the very high rates of enthusiasm encountered for the New Deal at the initial contact stage.

If New Deal were to encounter difficulties in establishing itself within groups of employers who were already attracted to it, it would be reasonable to assume that any issues arising would apply more generally across small businesses of similar size, sector and social/economic context. If it could not work with those who wanted to work with it, where could it work?

## **CHAPTER 3. EMPLOYMENT OUTCOMES AND BUSINESS BENEFITS**

INTRODUCTION

WAGE SUBSIDY RECRUITMENT

THE SURVEY BUSINESSES

SMALL BUSINESS RECRUITMENT

NEW DEAL EMPLOYMENT

BUSINESS BENEFITS

## **Introduction**

The following chapter examines the nature of the relationship between the general expectation of the wage subsidy intervention and the observed effect in the case of the New Deal. It reviews how such small businesses recruit new staff, and the processes through which they work towards this. It then examines patterns in small business recruitment against the introduction of the New Deal and assesses how small businesses have adjusted to this new form of recruitment assistance. It will look at the quality and quantity of the employment stimulated and, finally, will seek to demonstrate what benefit the New Deal has been able to offer to small business.

## **Wage Subsidy Recruitment**

At the centre of the employment option of the New Deal model is a wage subsidy approach, premised on the assumption that the availability of grant support to recruit the long-term unemployed may induce a positive recruitment effect for the participating businesses.

This wage subsidy feature of the New Deal might have been observed to produce

1. Businesses recruiting more people than they might normally have done as a direct result of participation - an additional employment effect
2. Businesses recruiting the same number of people but employing a larger proportion of the long term unemployed than might normally have been the case – a substitution effect
3. A combination of 1 and 2 above
4. No extra recruitment occurs, the ratio of long term unemployed recruits remains unaltered but the business is now able to claim a grant for this. A 100 per cent deadweight scenario

Employers have a variety of reasons for participating in the New Deal (Elam and Snape 2000). As illustrated in Table 3.1 these would appear not to be entirely related to the welfare of the long-term unemployed seeking to reintegrate in the labour market.

**Table 3.1 Motivation to Participate in New Deal (%) - Typology of Employers**

<b>Business Motivation</b>	<b>%</b>
Opportunistic – Business expanding anyway, might as well use New Deal	37
Altruistic – Genuine desire to help the unemployed	12
Strategic – New Deal as used to change the profile of the workplace or to take advantage of training opportunity	14
Responsive – convinced by and responsive to Employment Service approach overtures	6
Mixed	28

(Elam and Snape 2000)

Businesses, by and large, intend that any involvement they have with the New Deal would be of direct operational and commercial benefit. A small minority of businesses indicate altruistic purposes in engaging with the New Deal, however by far the greatest interest in working with the New Deal relates to the benefit that it can bring to the business.

The decision to employ in this way is not a simple function of grant availability. The attractiveness of employment grants to employers is bound in with many other factors critical to effective business functioning. This issue is explored through the empirical evidence base for this dissertation.

### **The Survey Businesses**

Up until the introduction of the New Deal very few businesses in the survey had experience of employment grant assistance. However, at the introduction of the New Deal around three-quarters of employers said they were willing to consider such methods. This marks a clear difference in how the New Deal has been promoted and received in comparison to previous approaches (King and Wickham Jones 1997) and suggests a willingness to adapt recruitment practices to account for this.

In terms of a baseline for the survey, only 16 per cent of the 199 employers participating in the first business survey had ever attempted to use any type of Government related employment grants. Where these grants had been used, around half of the activity was related to meeting increased training costs with the remainder used to subsidise wages and to assist in recruitment.

There were no significant differences in the limited use of these grants by age of company (chi-square = 4.95, df = 3, p = 0.176) or by sector (chi-square = 1.60, df = 3, p = 0.659). There was a significant difference by size of company with larger companies tending to use grants more often (chi-square = 10.83, df = 3, p = 0.004).

Around one in four of companies with over 15 employees had used recruitment grants in the previous five years compared with only 9 per cent of companies with fewer employees. This supports the suggestion that larger, more established companies have a developed human resource function which made the use of these grants less of an overall burden on company activity (Fraser and Storey 2002; Hasluck 1999; Storey 1998)

A similarly limited effect was evident in the case of grant based recruitment for these businesses. In the three years in the run up to the introduction of New Deal (1996/97/98) company recruitment across the survey base averaged at around 5 per cent of total employee numbers. 393 individuals were recruited by these businesses in the years 1996-98. Of this 5 staff (1.3 per cent) were recruited through the use of employment grants similar in intent to the New Deal.

**Table 3.2 Recruitment in Survey Businesses. Year Average 1996-1998. Baseline Summary**

Size of company by employees	Average number of employees per business	Average number of recruits per year per business per year	Total average FTE (all businesses)	Total recruits per year (all businesses)	% recruitment achieved through grants - past 3 years
1-15 (n = 139)	6.2	0.4	868	62	0.9
16+ (n = 60)	31.5	1.2	1888	69	2.3
All (n= 199)	13.8	0.7	2756	131	1.3

Business survey

From this it is evident that, in this context, employer use of recruitment related grants presents a very low activity baseline at the introduction of the New Deal.

***Anticipated Issues in New Deal***

Against this very low baseline, the business survey suggests that initial employer impressions of the New Deal were generally positive. Table 3.3 shows that only 15 per cent of employers said they would not participate in the New Deal programme and almost 3 out of 4 employers were favourable towards employing through this mechanism.

**Table 3.3 Anticipated New Deal Participation**

Participation Method	Total	%
Employer	147	74
Placement Provider/Employer	2	1.0
Will Not Participate	30	15
Undecided	20	10.1
Total	199	100

Business survey

There was no significant difference by the main sectors of manufacturing, distribution/retail and community/social; (chi-square test, chi-square= 4.53, df = 9, p = 0.874). There was a slight, but not significant, difference by size of employer with larger employers showing somewhat less interest than smaller employers (chi-square test, chi-square= 7.73, df = 6, p = 0.258)

In table 3.4, using a category scoring of 0=will not participate, 1=undecided and 2=participate as employer; there was no difference, by mean score, in intended use across the main three sectors (Anova, f= 0.286, df = 3, p = 0.835). However there was a significant difference by size of employer (Anova, f= 0.3.157, df = 2, p = 0.045) with the larger employers showing significantly less enthusiasm for the subsidy than smaller companies.

**Table 3.4 Anticipated Participation by Size of Employer (%)**

Participation Method	Category Score by Number of Employees			Total	
	1-5	6-15	16+	N	%
Number of employees					
Participate as Employer	80.3	77.8	61.7	147	74
Will Not Participate	10.5	12.7	23.3	30	15
Undecided	9.2	9.5	15.0	22	11
N	76	63	60	199	100

Business survey

This appears to contradict the previous general experiences of such subsidies where larger companies tend to take a greater interest (Hasluck 1999; Storey 1998). A possible explanation for this may be that larger businesses are more likely to have experience of using similar grants and, therefore, experience of the operational issues they present (Fraser and Storey 2002 and Hasluck 1999). This may lead to them being more cautious in their approach to New Deal than smaller businesses entirely new to this.

***Difficulties***

In the initial contact stage of the business survey questionnaire, businesses were asked to anticipate the difficulties that could arise as part of their prospective New Deal activity and which might jeopardise their involvement. Almost half could not foresee any difficulties at all whilst the most cited problem, (quality of recruit), was only seen as a potential problem by around 1 in 5 (table 3.5)

**Table 3.5 Anticipated Difficulties in involvement with New Deal (%)**

Anticipated Difficulty	%
None	44.7
Quality of recruit	21.1
Poor support/bureaucracy	15.6
Training commitment	9.5
Financial commitment	2.5
Will not participate	6.5
Total	199

Business survey

Across the four main anticipated difficulties (None, Quality of recruit, Poor support/ bureaucracy and Training/ Financial commitment) there were no significant differences either by sector (chi-square test, chi-square= 8.47, df = 15, p = 0.904) or by size of company (chi-square test, chi-square= 15.64, df = 10, p = 0.110). This would suggest a general optimism towards working with the New Deal.

**Table 3.6 Anticipated Difficulties in Working with the New Deal (%) – size of business**

Size of company by employees	1-15	16+	all
None	45	43	45
Quality of recruit	22	18	21
Poor support/bureaucracy	13	22	16
Training/ Financial commitment	14	7	12
Will not participate	5	10	7
Total	139	60	199

Business survey

It is clear from these findings that businesses felt confident in being able to work with New Deal. Three out of four expected to use the subsidy for a range of purposes suited to their business needs. There were no differences across sectors but there was evidence that smaller companies were keener on the New Deal than larger ones, possibly attracted by the benefit of wage subsidy (Fraser and Storey 2002).

### ***Benefits***

The most common business benefits that employers felt would be realised through New Deal activity was in training support and wage subsidy, which together accounted for 57 per cent of the responses to the business survey.

**Table 3.7 Benefits that the New Deal Employment Subsidy (%)**

Potential Business Benefit	%
Training support	35
Wage subsidy	22
Recruitment solution	12
Working capital	10
Other	6
Will not use	15
Total	199

Business survey

Once again there was no significant difference between sectors (chi-square test, chi-square= 13.60, df = 15, p = 0.556) but there was between companies of differing sizes (chi-square test, chi-square= 18.54, df = 10, p = 0.047). In particular, larger companies were less likely to use the New Deal as a simple wage subsidy but were more likely to use it as a recruitment solution for difficult to fill posts. This supports

the observation that large businesses appear interested in wage subsidies as a solution to recruitment issues whilst small business employers are more likely to be attracted to a wage subsidy because of its capacity to directly offset the cost of employment (Fraser and Storey 2002; Hasluck 1999; Storey 1998).

Finally, the New Deal was very much seen as a new resource with only one of the 199 respondents saying that it would replace existing grants. There was therefore no significant evidence from this group that New Deal would replace any existing employment grant activity.

### **Small Business Recruitment**

Fielder (1992) observes that small businesses tend to rely on word of mouth referrals as the most important part of the recruitment process. In this scenario, high levels of human capital are instrumental in determining successful labour market access (McQuaid, Greig and Adams 2004). This offers greater control over the recruitment process through the use of personal networks based on family, friends and business associates – often better placed to offer some guarantee of applicant suitability than a recruitment agency or open recruitment process. It is less expensive than formal advertising and helps minimise the risk of making an unsuccessful appointment. It helps introduce new employees of similar characteristics to existing employees making successful reintegration to the workplace more likely.

In overall terms, small businesses refer a minority of their employment vacancies through the Employment Service or similar recruitment intermediaries (Bunt, McAndrew and Keuchal 2007). This general experience is reflected in the recruitment activities of the survey businesses.

**Table 3.8 Recruitment Practices of Survey Businesses (%)**

Principal Recruitment method	Size of company by employees		(%)
	1-15	16+	
Word of Mouth	43	27	38
Newspaper Adverts	21	47	29
Employment Service	30	25	29
Other	6	2	5
Total (N)	139	60	199

Business survey

By occupational sector, there were no significant differences across the three main recruitment methods - word of mouth, newspaper adverts and Employment Service (chi-square = 4.98 df = 4 p = 0.289).

There were clear differences by size of company (chi-square = 12.84 df = 2 p = 0.02). 43 per cent of the smallest companies use word of mouth compared to 27 per cent of the larger companies. 47 per cent of the larger businesses use newspaper adverts compared to 21 per cent of smaller businesses. There was also a similar pattern by age of company with youngest enterprises likely to use word of mouth and the oldest more likely to use newspaper adverts. In this case, the differences were not quite significant (chi-square = 11.23 df = 6 p = 0.082) and may, in any case, be related more to the fact that younger companies tend towards a more informal structure. The use of Employment Service was relatively stable across size of company.

This would suggest some trepidation for many small businesses in entering into parts of the labour market that they do not know or understand, instead relying on relatively low risk but necessarily limited small personal network based recruitment. It also appears that the smaller and younger the business, the more likely it is to use word of mouth recruitment.

Fielder (1992) notes this reliance on a ‘word of mouth’ approach as especially significant given the characteristics of many of the high unemployment communities New Deal would typically focus on – where weak social structures do not support

effective word of mouth networks (Campbell 2000; Lee 1999; Meager and Metcalf 1998).

### ***New Deal Recruitment***

Against a historical lack of interest and very low take-up of employment grants, almost all of the respondents indicated their willingness to work with the New Deal initiative – 75 per cent definitely committed with 10 per cent undecided. For just about all businesses in the survey, New Deal would be their first experience of employment subsidy.

This can be interpreted as a strong indicator of interest to participate as employers. Considering the traditional reliance of such small business on word of mouth recruitment, this enthusiasm to develop alternative recruitment methods through the New Deal can also be viewed as a positive statement of intent. Given the difficulties experienced in recruiting through such a model – both because of its use of employment subsidies and the recruitment focus as being quite separate from a traditional word of mouth approach, this appears as an interesting development for the businesses surveyed and indicates a desire to change the manner in which they recruit and operate.

### ***Converting Good Intention***

At the introductory stage of the New Deal, most survey businesses appeared optimistic. About half of the respondents anticipated no real difficulties in working with the New Deal. It would appear to suggest an encouraging platform for the development of a new labour supply.

Where difficulties were anticipated, they related to misgivings about the quality of recruit, bureaucratic issues and the obligation that New Deal placed on businesses to introduce recruits to VQ level 2 (or on course to level 2) accredited training.

If recruitment trends were to be maintained from their 1996-98 levels (at around 5per cent per annum) from a total business employment base of around 2500, we might anticipate somewhere in the region of 120 new recruits employed (for n =199). From

this baseline we might expect to see a significant increase in the rate of recruitment assisted by New Deal grant intervention. This relationship between the anticipated and actual recruitment behaviour of small businesses when working with New Deal is of central interest.

A wage subsidy payment should reduce the wage labour costs faced by an employer and increase rates of employment as labour costs decrease. This reduction in labour costs should encourage firms to expand employment. As real wage levels fall, rates of employment rise. However, this simplicity of this relationship is tested when business productivity is reduced and working practices disrupted through the introduction of new employees.

The introduction of the New Deal occurred as only one of the many operational influences impacting on the shape and behaviour of the survey business at that time. As such, this early enthusiasm to work with New Deal and the simple positive employment effect anticipated became more difficult to realise in a complex and volatile business environment.

The survey reports a positive outlook for employment, turnover and profitability across the main respondent group. This optimism is supported by the external environment where the unemployment rate was falling. Between 1998 and 2000 across the survey areas the unemployment rate fell at both the local and national level. There was an 18 per cent decrease in the area mean for general unemployment, and 8 per cent reduction in long-term unemployment. There was also a 19 per cent reduction in general, and 18 per cent reduction in long-term, unemployment for this period at the UK national level. This general business stability, promising business outlook and favourable economic climate might reasonably suggested a positive environment to which the New Deal could be introduced.

### ***Anticipated and Actual Recruitment***

For the survey businesses, recruitment in the three years prior to the introduction of New Deal was concentrated in three main sectors of Distribution/Retail (SIC G,H), Manufacturing (SIC D) and Community, Social, Personal (SIC O). In the three years

leading to the introduction of the New Deal (1996-98), the total average aggregate number of employees in these sectors, as established from the initial questionnaire, was 2556. Staff recruitment for the average year was 124 - around 5 per cent.

**Table 3.9 Recruitment Patterns 1996-1998**

Sector	Average recruitment pa	Average Full Time Employees pa 1996-1998
Distribution and Retail	44	777
Manufacturing	25	547
Community, Social and Personal	36	543
Other	19	689
	124	2556

Business survey

When questioned on their plans for future recruitment, the number of jobs estimated for these businesses over the first year of New Deal (1998-99) was 366 or 14 per cent of the total workforce. Of this, 157 (43 per cent) were anticipated as New Deal.

This presented an anticipated increase in general recruitment activity when considering the modest increases from 1996/98, set out above. Forecast recruitment was around three times the rate (14 per cent) of the previous three years (5 per cent).

Part of this rise may be suggested by the change in behaviour predicted by the use of wage subsidy and recruitment in small businesses where the introduction of a grant measure should induce a positive effect on recruitment behaviour. This seems to reinforce the general view among the employer group that they did not anticipate any real impediments to their work with the New Deal.

In this, table 3.10 shows there were clear differences by size of company. New Deal jobs accounted for 53.7 per cent of the anticipated jobs for smaller companies but only 35.5 per cent of those for larger companies. This was a highly significant difference ( $z = 3.46$ ,  $p = 0.0005$ ) and might be due to the manner in which larger businesses tend to use these subsidies as a method of filling an existing or planned job vacancy. Smaller companies tend to act more opportunistically and use such

subsidies to directly offset general employment costs (Fraser and Storey 2002; Hasluck 1999; Storey 1998).

For smaller companies about half who anticipated recruiting through New Deal, did so (27.9 per cent opposed to 53.7 per cent). For larger companies, only about one-fifth of this anticipated recruitment was evidenced. This may indicate the difference between a general policy position on New Deal reported by larger companies through the business survey as opposed to a direct commitment expressed by smaller businesses.

**Table 3.10 Recruitment Activity 1998-1999**

New Deal Activity	Size of company by employees		All (n= 199)
	1-15 (n = 139)	16+ (n = 60)	
	Total employees	Total employees	Total Employees
Anticipated New Deal as percentage of anticipated recruitment	53.7% (80/149)	35.5% (77/217)	42.9% (157/366)
Actual New deal as percentage of actual recruitment	27.9% (12/43)	7.3% (4/55)	16.3% (16/98)

Business survey

There were some significant ‘like for like’ differences by size of company with respect to New Deal jobs over the timeframe. New Deal recruitment as a percentage of total recruitment was 27.9 per cent for smaller companies but only 7.3 per cent for larger companies ( $z = 2.74, p = 0.006$ ). There were no significant differences by sector in terms of the actual New Deal recruitment (chi-square = 1.19,  $df = 2, p > .05$ ).

When the companies were revisited the following year ( $n = 152$ ) 70 new jobs were anticipated over the coming year or just 3 per cent of the total workforce. This was lower than in the previous year. However a higher percentage were anticipated to be through New Deal (71.4 per cent).

The overall percentage of actual recruitment to New Deal jobs was 50.1 per cent (Table 3.11). This closer match between anticipated and actual recruitment may be influenced by the realities of working with the New Deal initiative where operational

issues began to impact on early enthusiasm. Interestingly there were now no significant differences by size of company, both smaller and larger companies recruited around 50 per cent to New Deal jobs ( $z = 0.38, p > .05$ ). There was also no significant difference by sector (chi-square = 1.11,  $df = 2, p > .05$ ).

**Table 3.11 Recruitment Activity 1999-2000**

New Deal Activity	Size of company by employees		
	1-15 (n = 106)	16+ (n = 46)	All (n= 152)
	Total employees	Total employees	Total Employees
New Deal as percentage of anticipated recruitment	75% (36/48)	63.6% (14/22)	71.4% (50/70)
Actual New Deal as percentage of actual recruitment	53.1% (17/32)	48.1% (13/27)	50.1% (30/59)

Business survey

Between the original consultation and the final point of the survey some 18 months later anticipated overall recruitment was overestimated by around 400 per cent and anticipated recruitment through New Deal offers an even greater overestimate. 157 New Deal recruits were anticipated over the first year of the initiative with the actual figure amounting to 16 in 1998-1999 and 30 in 1999-2000. Even allowing for the effect of a reduced sample size over the two sample periods (-24 per cent), this represents a degree of employer optimism regarding anticipated New Deal benefit, which does not fit with the reality. Little additional employment effect appears evident and recruitment appears as slowing despite the introduction of the New Deal within a generally stable business environment.

***Recruitment by Sector***

At the second stage interview, around the end of the first year of New Deal, out of 152 companies surveyed, 61.4per cent (19.0+42.4) had anticipated recruiting under the New Deal (table 3.12). About only a third of these had actually recruited under New Deal.

**Table 3.12 Recruitment Activity 1998-2000**

<b>Recruitment behaviour</b>	<b>%</b>
No recruitment anticipated	20.9
No New Deal recruitment anticipated	17.7
New Deal recruitment anticipated but not forthcoming	42.4
New Deal recruitment	19.0
Total	100

Business Survey

There were no significant differences across the three main sectors of retail, manufacturing and community (chi-square = 11.14, df = 6, p > 0.05). There were no significant differences between small (15 or less employees) and larger companies (15+ employees) (chi-square = 1.53, df = 3, p > 0.05).

Focusing now on the companies who had anticipated using New Deal, there was a difference between sectors where, in manufacturing, 48.4 per cent of companies who had anticipated using New Deal had actually recruited. Comparable figures in the Distribution/retail sector was 27.6 per cent. while in the community sector only 15.8 per cent had recruited. These differences were significant (chi-square = 6.26, df = 2, p<0.05).

**Table 3.13 Recruitment Behaviour by Main Sector 1998-2000**

<b>Recruitment behaviour</b>	<b>Distribution and Retail</b>	<b>Manufacturing</b>	<b>Community, Social and Personal</b>	<b>N</b>
New Deal Recruitment	8	15	3	26
% of all recruitment	27.6%	48.4%	15.8%	
New Deal recruitment anticipated but not forthcoming	21	16	16	53
% of all	72.4%	51.6%	84.2%	
Total Recruitment	29	31	19	79

Business Survey

Manufacturing has a stronger conversion rate of New Deal intent to New Deal recruitment with around half of anticipated recruitment occurring in this way. However, the numbers involved against the scale of effort and investment of New Deal in this case would suggest that no firm conclusions can be drawn about the potential of these factors as possibly informing a more focussed approach to New Deal effort.

There were no significant difference in New Deal recruitment between small (15 or less employees) and larger companies (more than 15 employees) (chi-square = 0.95, df = 1, p > 0.05). However closer examination of the smaller companies indicated that New Deal recruitment was somewhat higher among the very smallest companies. Recruitment rates among companies with 5 or fewer employees was 37.8 per cent while among companies with 6-15 employees it was only 16.1per cent. This difference was significant (chi-square = 3.95, df = 1, p < 0.05).

**Table 3.14 Recruitment Behaviour by Size of Business <15 Employees**

Recruitment	No. of Employees			
	1-5	%	6-15	%
New Deal Recruitment	14	37.8	5	16.1
Anticipated but no actual New Deal Recruitment	23	62.2	26	83.9
Total	37	100	31	100

Business Survey

This would appear or suggest that the smaller the business size the greater the rate of vacancy conversion into New Deal opportunity.

In the examples, above, New Deal did not directly lead to the creation of meaningful levels of additional employment as might be through the use of the wage subsidies which underpin such interventions. Projected New Deal employment was vastly over optimistic and tempered by the reality of the working environment.

As introduced earlier, recruitment behaviour could have been witnessed through several scenarios, however from the business survey, it would appear that very little has been achieved in the way of additional staff recruitment through the New Deal and that its anticipated effect has not been realised. Even where employment has been created in this way, related issues of quality arise.

### **New Deal Employment**

The New Deal approach focuses on a rapid reinsertion into employment of the long-term unemployed. It is concentrated at the entry level, low skill, and low pay end of the labour market where employment turnover is highest, skills requirements lowest

and job security weakest (Campbell 2000; Hillage and Pollard 1999; Crighton 1998). Of those securing employment through employment intervention programmes, at the time of the New Deal's introduction in 1998, over 80 per cent returned to unemployment within the first year Layard (1998) and Taylor (1998). In this, sustainable success is elusive.

### ***Income***

In the New Deal, it is likely that the quality of employment on offer tends towards lesser quality and low pay (Clarke 2002; Kitching and Blackburn 2002; Haughton 2000; Cosh, Duncan and Hughes 1998; Strawn 1998; White and Firth 1998). The business survey confirms these observations, where the jobs filled by the long term unemployed have been low skill, low pay and with little training offered despite the emphasis placed on this by New Deal.

In the three main sectors represented, the mean starting salary in non New Deal jobs was just over £11,000 per annum but for New Deal jobs the mean was significantly lower, at below £9,000 pa (t –test,  $t = 2.96$ ,  $df = 33$   $p = 0.007$ ). The survey evidence reports that the average New Deal salary agreed (£8940 from business survey) was above national minimum wage at this time (£7500) but below the average entry level salary (£10400) reported by Brown (2001) . This confirms both the general entry-level nature of the jobs created and re-emphasises the observation that, even within this context, New Deal employment tended towards the lower skill and salary level (Jones *et al.* 2004; Stewart 2002).

### ***Training***

The New Deal approach carried a heavy emphasis on the importance of training as a means of improving workplace competence and developing a stronger set of transferable skills which may then be used to protect the individuals place within the labour market; consolidating employment, making the individual more mobile and employable and reducing the likelihood of a return to unemployment.

Referrals through the New Deal brought with them a £750 grant to be used by employers to support the individual through VQ accredited training up to, or on

course towards, the level 2 VQ. The VQ structure as understood by the New Deal may be viewed as an attempt to lock the individual into a long-term career track. The following outlines how the VQ path could be followed

- Level I - foundation or unskilled work
  - Level II - semi-skilled / a broad range of skills and responsibilities
  - Level III - complex / technical / skilled and / or supervisory work
  - Level IV - managerial / specialist
  - Level V - professional / senior managerial
- (SQA 2006)

As Layard (1998) and Taylor (1998) report, previous experiences of employment intervention programmes such as the New Deal do not sustain employment placements for an initial year in four out of five cases. The training element within the New Deal presented an opportunity to help minimise such high rates of drop out. Training for staff helps improve employment sustainability by enhancing workplace qualifications and transferable skills (Katz 1998).

Prior to the introduction of the New Deal, two thirds of the training normally undertaken in the survey businesses was conducted informally, in-house and on the job. Little of this was conducted to VQ accredited standard and therefore was of limited general recognition and transferability outside the immediate workplace environment.

There was no significant difference in training methods by sector (chi-square = 2.27, df = 4, p = 0.686). There was however a significant size effect with 85 per cent of the smallest companies (with 5 employees or less) opting to informally train on the job (chi-square = 8.26, df = 2, p = 0.016) as compared to larger companies. Given the size of these companies, their limited human resource capacity and the cost difficulties of releasing staff for formal training actions it appears that little continuing investment was made in upskilling staff to, or on course towards, a VQ track recognized status once they were accomplished in the tasks required by the business.

**Table 3.15 Business Training Methods (%)**

<b>Method of Training</b>	<b>%</b>
Only recruit trained staff	4
Use local training provider to accredited level	10
Train on the job – informal	65
Use local college to accredited level	14
Do not train	2
Other	5

Business survey N=199

Recognising that a central impediment in general employability and increased employee value is in the development of recognized transferable vocational qualifications, this weakness within the New Deal structure could be assessed as limiting these. Short term, basic, unaccredited training undertaken in a very specific occupational environment may lead to a very narrow understanding of job range and the development of a context specific vocational skills set not immediately attractive to other employers in that sector. Furthermore, it will do little to lock the individual into a continuing programme of professional development. It is more likely to enhance basic/ core skills and do little to improve the transfer value of the employee beyond the entry level.

This situation would appear to reflect a more general inability for low skill individuals to progress beyond an initial low skill low paid job placing. Only 20 per cent of Britons in the lowest income groups will move permanently out of low paid work (Nathan 2000). New Deal would appear to offer little scope for career track employment to improve this.

Of the 35 companies recruiting 46 staff in the period of the study, only half (18) said that this training would lead to a recognised vocational qualification. There was no significant difference between sectors in training to a VQ2 level (chi-square = 0.70, df = 2, p = 0.70), nor by size of company (chi-square = 4.4, df = 2, p = 0.11).

**Table 3.16 Training of New Recruits (%)**

Method of Training	Training to VQ level		
	No (%)	Yes (%)	Total
Only Recruit Trained Staff	0	6	2
Local training Provider	6	22	17
Train on the Job	77	61	69
Local College	6	11	12
N	17	18	35

Business survey

Given that one of the original aims of New Deal was to direct new employees into formal accredited training through the workplace, this would appear as an obvious shortcoming of the New Deal in the example of the study cohort. Although this represents a positive shift from the 25 per cent VQ training baseline reported in table 3.15, it nonetheless demonstrates a continuing reluctance on the part of small employers to engage with a national workplace training agenda. This is despite the formal condition that this training takes place and suggests a resistance to the training requirements associated with New Deal.

The issue of training was highlighted in several case studies as a considerable inconvenience given the short nature of the New Deal placement, the minimum compulsory training elements of a VQ led approach against the limited time available, the difficulty in accessing suitable training providers and the general disruption caused to the business by having to organise and supervise training in this way.

From these experiences, it would appear that in general terms, the small business approach to the training of recruits is only modestly influenced by the New Deal package and, as such, New Deal appears limited in its capacity to equip staff with industry recognised qualifications.

**Business Benefits**

Elam and Snape (2000), report that of the most important consideration influencing a business considering participation in a wage subsidy initiative is the benefit that it can bring to the business. Working with wage subsidies must not overly distract the business from its core function, divert an undue amount of time or resources or prove

difficult to accommodate within existing business practices. Businesses expect to see a benefit for their effort. In the terms of wage subsidy, this benefit is most commonly articulated as an assisted and improved means of accessing and supporting new staff. Businesses requiring new and additional staff can look to wage subsidy schemes to alleviate the risk of recruitment through employee screening, skills matching and financial assistance towards employee costs (Storey 1998; Layard, Clark and Rubin 1997; Layard 1994). The needs of the individual employee, arriving in employment through such programmes, are not of central importance to the decision to participate

The benefit of the New Deal was seen as its potential to improve the quality and quantity of labour available to the business community, the supported manner in which these individuals were introduced to employers and the cost compensation offered through the wage and training subsidy offered. Where it worked effectively, the New Deal approach should have strengthened the capacity of the Employment Service to engage with the small business community, complementing the word of mouth and related recruitment networks they traditionally relied on.

Despite a very positive anticipation to participate in the New Deal (over 90 per cent of the survey businesses) and with recruitment forecast three times greater than in the previous three years, New Deal failed to produce any level of output close to that anticipated. Businesses simply could not, or would not use the New Deal. Employment outcomes were significantly overestimated by businesses.

The New Deal strategy of short, sharp employment placing, focussing on low skill, low pay and often short duration jobs required a degree of effort from the employer side that was judged as too large an investment for too limited a return. In these terms, the business benefit of New Deal was overstated. Despite a very positive reception from the small business community, New Deal became recognised as possessing similar limitations to previous wage subsidy initiatives

The recruitment behaviour of small business has not been positively influenced by the introduction of New Deal. It would appear that small businesses are no more favourably disposed to the recruitment of the long-term unemployed as a result of

New Deal. The main issues determining this situation are to be found in the lack of appropriate support offered by the Employment Service, the quality of recruit offered through New Deal, the unreliability of the referral process and the element of business risk presented by the long term unemployed. The commercial liability and additional responsibilities that untrained and ill-prepared employees bring to a business may simply prove too much take on, especially where trading margins are thin.

Given the limited element of risk perceived by employers and the inability of the New Deal to overcome this, it suggests several major limitations to the overall approach. Central to this would appear to be a poor appreciation of what employers look for in a job candidate and an over-optimistic assumption as to how flexible employers can be when dealing with new staff, particularly those presenting additional social and personal issues. This partly explains why the New Deal approach failed to build on initial enthusiasm by way of large-scale practical action.

Given the difficulties experienced with New Deal, and in previous similar initiatives, several fundamental issues regarding the employment of the long term unemployed appear, as yet, unaddressed. As has been seen from the experiences of the survey businesses, New Deal has not provided a reliable or stable supply of labour of sufficient quality to present a strong enough case for business benefit. This has negatively affected the uptake, use and perception of the initiative. The underlying reasons for this are explored in further detail in the following chapter.

**CHAPTER 4. WORKING WITH THE NEW DEAL**

INTRODUCTION

BUSINESS STABILITY

LIMITED ATTRACTION

A MISMATCH OF NEEDS

LIMITATIONS, FRUSTRATIONS AND IMPEDIMENTS

EXPLAINING THE NEW DEAL EFFECT

## **Introduction**

Early enthusiasm for New Deal was not realised by way of practical action. The number and quality of jobs stimulated through New Deal was far lower than expected and the initiative failed to establish itself with the small business community as a credible method of recruitment. This was mostly due to the immediate difficulties encountered with the quality of the recruit offered.

In addition to this, several fundamental factors surrounding the introduction of the New Deal also influenced levels of participation and cooperation evident from the business community. These generally relate to the issues of poor programme management, weak employer communication and the limited, or negligible, business returns in efficiency and productivity.

The following chapter looks at these issues through the experiences of the businesses surveyed. In particular it concentrates on the central issue of how businesses have interpreted this policy inspired labour market initiative in the practical environment. It considers the issues of access to the labour market for the long term unemployed, the quality of recruit emerging through the New Deal and attempts to understand this in a changing environment where the introduction of New Deal was only one of many factors impacting on businesses performance.

Through a discussion of the difficulties, impediments and frustrations experienced in recruiting through the New Deal, it reviews the New Deal effect from the perspective of the small business employer and explains why the New Deal model failed to build from an early strong enthusiasm.

## **Business Stability**

The New Deal was introduced across an employer community sensitive to many internal and external factors influences affecting business performance. In an effort to understand and account for these factors, the business survey monitored perceived and actual changes in business turnover and profitability. This was as an attempt to explain the general internal business context to which the New Deal was introduced.

In addition, some interpretation of the employment trends evident in the regional labour markets within which the survey businesses were located, and for the most part traded, might help develop an understanding of the general economic trends evident in the external environment at this time.

In attempting to identify factors of potential instability, acknowledge environmental change and understand business performance, we might account for any effect these may have had in producing the low levels of participation and enthusiasm evidenced.

### ***Internal Factors***

The main purpose of any business is to interpret and manipulate a volatile and competitive external business environment to produce stable internal business features capable of producing financial surplus.

Small business structures based heavily on informal and personalised management and can produce organisations which may often not behave in planned terms. In order to survive, each business must possess a unique structure and production capacity heavily reliant on the key attributes of the core staff. To be successful, this core is dependent on strong interpersonal relationships and communication. In such small sensitive organisations, flexibility and adaptability is the key to success and survival.

Appreciating the sophisticated and sensitive factors which drive small business, measuring performance presents many methodological issues which have been impossible to account for in the relatively limited data generated by the survey conducted for this study. However, in order to develop some understanding of how the survey businesses performed during the introductory period of the New Deal, a measure of this was attempted where the businesses were asked to comment on their main business trends - based on company turnover and profitability - at three main stages.

A simple scoring method was used to differentiate between these, where 1 = anticipated decline in turnover and profitability, 2 = no change and 3 = anticipated

increase. This produced perceptual data offering a broad and general insight by proxy into the business environment in case. Although by no means a fully reliable indicator, it nonetheless has assisted in determining a general business overview, finding a generally positive and stable commercial context.

Allowing for modest changes over time and between sectors, it was found that that there were no significant changes evident in profitability and turnover trends

**Table 4.1 Business Trends as Reported over Survey Timeframe**

<b>Questionnaire</b>	<b>N</b>	<b>Mean</b>
Baseline Questionnaire First question: Business Trends in previous two years	199	2.42
Baseline Questionnaire Second question: Business Trends at start of survey	199	2.51
Follow up Questionnaire 1: Business Trends after first 6 months	152	2.64
Follow up Questionnaire 2: Business Trends at start of survey for those responding to third question	152	2.59

Business survey

A comparison of the scores for the first two question periods showed that there was no significant difference between actual and projected turnover and profitability trends in the sample as a whole at the start of the survey (paired t-test,  $t = 0.723$ ,  $df = 198$   $p = 0.47$ ). At this baseline first questionnaire, it would appear that the survey cohort enjoyed a relative stability in their main profitability and turnover trends over the two year period leading up to the introduction of the New Deal.

At no point in the survey did the businesses report an unduly negative trading environment. At the survey follow up stages, the stability of the business base appears to remain. Given that only modest and mostly positive trends in the survey businesses are observed, in the context of the introduction of the New Deal, we may think of the survey cohort as stable, as expressed in terms of a positive outlook for turnover and profitability.

In this regard it could be said that these key indicators of business performance did not exhibit any obvious, negative influence on the economic prospects of the survey

businesses which may have explained their reluctance to engage with the New Deal. As such we might observe these factors, at worst, as exercising a neutral effect on New Deal participation.

### *External Factors*

The survey was conducted at a time of falling unemployment at both the local and national level.

**Table 4.2 Unemployment and Long Term Unemployment by Area and at UK Level 1998-2000 (%)**

	Unemployment			Long Term Unemployment		
	1998	1999	2000	1998	1999	2000
Area Mean	5.9	5.7	4.9	29.2	29.2	26.9
UK Mean	4.3	4.1	3.5	26.4	24.8	21.7

Source Nomis 2001

Note: Long term unemployment = 12 months+ ; area mean is average of 6 study areas.

In addition, at the national level, employment trends across Distribution and Retail (SIC G, H) and Community/Personal (SIC O) sectors can be viewed as generally stable with the range for these sectors over the time period 1998-2000 as less than 0.4 per cent. The fall in manufacturing employment appears as more marked than this where a reduction of 6 per cent for this sector has resulted in a labour market share reduction of 1.5 per cent. Over this period 243,000 manufacturing jobs were lost.

**Table 4.3 UK Employment by Sector 1998-2000 (%)**

Sector	1998	1999	2000	Range
SIC G, H –Distribution/Retail	23.7	23.8	23.6	0.2
SIC D Manufacturing	16.9	16.1	15.4	1.5
SIC O Community, Social and Personal	4.7	4.9	5.1	0.4

Nomis 2006

In absolute terms the following changes occurred where overall employment in these sectors increased by almost 1 million.

**Table 4.4 UK Employees by Sector 1998-2000**

Sector	1998	1999	2000	+/-	Range
SIC G, H – Distribution/Retail	5,880,000	5,973,000	6,063,000	+183,000	+3%
SIC D Manufacturing	4,196,000	4,050,000	3,953,000	-243,000	-6%
SIC O Community, Social and Personal	1,166,000	1,254,000	1,306,000	+140,000	+12%
UK Labour Force	24,731,000	25,089,000	25,658,000	+927,000	+3.7%

Nomis 2006

This increasing labour force masks the percentage decline of manufacturing in overall terms. At the regional level five out of the six areas report a fall in this sector.

**Table 4.5 UK Employment by Main Sector and Government Office Area 1998-2000 (%)**

SIC	Distribution+Retail SIC (G,H)			Manufacturing (SIC D)			Community, social and Personal (SIC O)		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Year									
London	18.3	18.1	18.2	10.1	9.9	8.4	9.8	8.5	9.5
South East	20.0	20.8	19.8	15.7	15	14.6	6.6	5.6	5.4
South West	21.9	20.8	20.7	16.1	16.6	16.7	6.6	5.6	5.4
Wales	20.1	18.2	17.7	20.6	20.2	18.5	5.5	5.1	6.0
Scotland	19.8	20.2	20.0	16.8	14.9	14.3	5.5	5.8	6.2

Nomis 2001

With the exception of manufacturing, the general economic and employment situation over the duration of the survey period may be regarded as a positive business environment. Short term and long term unemployment fell in all of the study areas and at the national level. Even where there has been a substantial decrease in the number of manufacturing employees, this sector has the strongest conversion rate of New Deal intent to New Deal recruitment with around half of anticipated recruitment occurring in this way – as shown in the previous chapter in Table 3.13 :Recruitment Behaviour by Main Sector

The business stability evident and the increase in employment prospects over this period provided a generally receptive environment for the application of an employment-based initiative of the New Deal type. Given an environment where the degree of business risk associated with employment through the New Deal would not appear to be exaggerated by additional external and internal business factors, the introduction of the New Deal wage subsidy might have been expected to perform as intended, creating employment opportunities for the long-term unemployed and

encouraging businesses in the recruitment of this group. However, as we have seen, this does not appear to have happened. Despite an increase in employment opportunity, there appears to be no apparent connection between this and recruitment for the survey businesses. The New Deal has failed to make its anticipated impact.

Clearly this situation has been influenced by other factors surrounding the implementation of the initiative. The following section outlines what these factors have been.

### **Limited Attraction**

Given the skills set and employability traits of the typical New Deal candidate, labour market access is likely to concentrate on entry-level employment. (Fothergill 2001; Leggard *et al.* 2000; Atkinson, Giles and Meager. 1998, Green 1998; Hasluck 1999; Tavistock Institute 1999).

The New Deal was designed to assist businesses in their recruitment needs by providing a new supply of additional labour. This flow of new labour would be stimulated by wage subsidy and training inducements designed to offset the additional cost and inconvenience of employment. A financial inducement effect would attract employers towards using the New Deal. Additionally, the fixed wage subsidy associated with New Deal may prove relatively more attractive in lower pay employment as being of greater relative value to the employer and helping to reinforce the use of the subsidy in these circumstances.

### ***Financial Inducement***

From a position of initial optimism, the realities of working with the New Deal model and the issues presented by the potential employee starts to affect initial employer enthusiasm. In a real setting, its perceived initial value is tested and becomes of less worth than originally anticipated. Most small businesses participating as case studies in the business survey reported that, in a strict business sense, recruitment through the New Deal offered only, at best, a minimal benefit. The main issues arising through this are that small businesses (especially

owner/employers) can be very asset precious and wary of external staff. The disruption caused by a new employee in a small business is likely to outweigh the benefit and that a wage subsidy and training allowance is unlikely to compensate for this disruption

In general terms employers at this end of the labour market appear less concerned with specific vocational skills and more interested in core skills such as attitude, reliability, motivation and literacy/numeracy (Hasluck 2000; Hasluck 1998). These are the personal attributes most commonly observed as lacking in the long term unemployed (Campbell 2000; Hillage and Pollard 1999; Crighton 1998). Where these basic core skills are underdeveloped, a simple financial inducement may be of little compensation and unlikely to convince the employer as to the value of agreeing a New Deal placement.

### *Quality of Recruit*

In times of strong labour demand, as is evident around the introduction of the New Deal, the more able unemployed may be recruited directly to employment, leaving the more complex cases for the New Deal to work with. Of the employers responding to the business survey, quality of recruit was the fundamental difficulty adversely affecting their ability to work with the New Deal. The trade off between accessing subsidised labour and the weak state of work preparedness that many such individuals possessed, questioned the overall value of recruitment in this way. Here quality of recruit refers mainly to poor employability because of weak core skills.

We have seen that, in broad terms the majority of businesses expected to use New Deal as a means of employment recruitment and almost half did not foresee any difficulty in working in this way. However, this anticipated activity did not materialise, mainly through the issue of insufficient quality of labour supply and the weakness of the systems set in place to compensate for this.

Employer access to a sufficient quality and quantity of labour formed the central relationship within the New Deal. The support and resources provided by the New Deal to meet the needs of the employer was the critical relationship upon which the

effectiveness of the initiative was to be built. From the survey evidence offered, this relationship appears as slight if at all evident. Despite stable economic environment and suitable recruitment conditions, little has been created by way of additional employment in the survey businesses over the duration of their early involvement with the New Deal. General recruitment was less than 30 per cent of anticipated and New Deal recruitment at only 10 per cent of what the businesses themselves had forecast.

The sensitivity of the recruitment process for small businesses would appear to resist the attempts made by New Deal to influence this. After the enthusiasm expressed with the principle of the New Deal, where only around 20 per cent of employers thought that the quality of recruit might be an issue, the operational reality of working with the New Deal and the labour supply that it stimulated, produced an entirely different view of this. When revisited some six months later, the expectation of recruit quality as an issue had been realised at a rate of over three times that anticipated with only one in eight of the survey businesses reporting that they experienced no operational problems in their work with the New Deal (table 4.6).

Of the businesses participating in both interviews; using a like-for-like comparison of those respondents featuring in both survey stages, the increase in the numbers citing quality of recruit and the decrease in those citing no operational problems was significant (Wilcoxon signed rank test,  $z = 7.29$   $p < 0.01$ ). Within this, there were no significant differences across sectors nor across companies of differing sizes.

**Table 4.6 Anticipated and Actual Difficulties in involvement with ND (%)**

<b>Difficulties</b>	<b>Anticipated</b>	<b>Actual</b>
None	45.0	13.2
Quality of recruit	19.5	62.5
Poor support/bureaucracy	16.1	5.9
Training commitment	9.4	2.0
Financial commitment	2.7	2.6
Will not participate / other	7.4	13.8
Total (N)	152	152

Business survey

Note: The participating businesses reduced from 199 at the first interview stage to 152 at the second purely due to difficulties in maintaining contact.

There were no significant differences across sectors (chi-square = 10.84, df = 6 p = 0.094) or across companies of differing sizes. (chi-square = 3.62, df = 4 p = 0.46).

**Table 4.7 Main Issues with New Deal to Date by Employment Sector (%)**

Issues	Distribution and Retail	Manufacturing	Community, Social and Personal	Other
None	16.7	5.1	11.8	10.7
Quality of recruit	70.8	59.0	52.9	71.4
Other	12.5	35.9	35.3	17.9
Total (N)	49	39	35	29

Business survey

The reality of working with the New Deal does not appear to justify initial enthusiasm. Following from the work of Dean, McNeil and Melrose. (2003) Hasluck (2001); Campbell (2000); NAO (2002); FSB (2000); Metcalf (2000); Meager and Metcalf (1998) and Atkinson (1997) it would appear that employers dealing with the previously unemployed individuals referred by New Deal have their enthusiasm and interest curbed when faced with the reality of working with potential employees presenting additional workplace needs, most commonly in terms of poor reliability, weak motivation and basic literacy/numeracy.

Initial enthusiasm and interest in working with the New Deal was tempered by the realities of poor quality referrals, the organisational disruption, and call on management time and cost implications that these have on the smooth functioning of the business. Case study evidence from 27 businesses followed up from the business survey confirms that even where New Deal has led to successful employment, employer impressions are that it is a difficult way to recruit and retain staff.

The simplicity of the New Deal job matching and support programme appears limited in its capacity to address the issues affecting the small business employer. It also assumes a simple employment demand, irrespective of the local economy it is based in. Several further key limitations from this are suggested in the following section.

### **A Mismatch of Needs**

In its view of small business involvement, the New Deal design appears as hopeful rather than targeted. Only 31 per cent of general employment vacancies are promoted by the Employment Service and can be considered in the New Deal (Bunt, McAndrew and Keuchal 2007). In addition, the survey businesses identified that around one third of their job vacancies were at the entry-level end of the labour market (defined as initial assessment/basic skills).

### ***Insufficient Demand and Restricted Opportunity***

New Deal was introduced to local labour markets where the majority of job vacancies were traded outwith the Employment Service network. Most of these jobs were advertised in other ways with the majority of these being through informal 'word of mouth' networks. We have already seen the preference of the small business to recruit through these networks and how difficult it is to route these vacancies through the more formal New Deal approach.

An enduring reliance on word of mouth recruitment presented a fundamental mismatch between employer recruitment preferences and the New Deal labour supply, translating as a shortage of suitable New Deal vacancies. Where vacancies did arise, many were ill matched to the skills set of the typical New Deal candidate. This insufficient availability of appropriate labour market opportunities may be seen as an additional complication for the introduction of the New Deal (Crighton 1998; Theodore 1998). This has been identified as the issue of 'jobs gap' in New Deal. (Pugh 1998; Snape 1998).

The subsidised jobs option was geared to help those unable to secure employment in the open market. This suggests candidates of limited employability unattractive to employers. The evidence base suggests that, in the main, employers will not readily recruit from this cohort. (Auspos and Riccio 1999; Sheehan and Tomlinson 1998; Finn 1997; Gardiner 1997). This is reinforced by the employer experiences observed in the business survey.

***Labour Availability and Skills Shortages***

Where labour demand was evident in the survey businesses, a New Deal approach was often inappropriate due to a pressing need for qualified/experienced/skilled staff. This re-emphasises the observed shortage of suitable vacancies becoming available. Alongside the general issue of poor quality and low employability recruits, it further suggests the mismatch in supply and demand. The following table sets out the main reasons for employers rejecting New Deal candidates.

**Table 4.8 New Deal Rejection and the Need for Skilled Staff by Main Occupational Sector**

	Poor Quality of Recruit	Totally Unsuitable	Immediate Need for skilled staff	Total
Manufacturing	18		16	34
Construction	6		6	12
Retail	12		20	32
Personal services	16	2	14	32
N	24	1	27	52

Business survey

Quality of labour appears as the single most significant impediment to progress in the New Deal. The small business group featured in the survey report a limited number of entry level vacancies suitable to the New Deal labour supply. Only 6 per cent of Employment Service vacancies handled were converted to New Deal placements (Bunt, McAndrew and Keuchal 2007).

Just as significant, however, are the other vacancies they do report which call for more highly skilled staff. In this instance, the New Deal model would appear even more remote as a solution to employer recruitment needs. The main skills shortages reported are in the professional and managerial levels of the labour market, which traditionally operate internal labour markets outside the reach of the Employment Service and the New Deal. (Green 1998, Fothergill 2001).

**Table 4.9 Recruitment Difficulty - Reported by Sector**

Skills area	%
Initial assessment/basic skills	32
Professional Occupations	37
Science and Engineering Professionals	16
Secretarial	8
Other	8
N=88	88

Business survey

There were no significant differences in reported recruitment difficulty across sectors but there were interesting and significant differences across companies of differing sizes (chi-square test, chi-square = 49.74, df= 8, p <0.001).

Three quarters of the smallest companies had found problems recruiting at the very basic skills levels. As has emerged previously, the smallest companies have the most informal recruitment methods and appear to lack sufficient organisational capacity to cope with skills shortages and recruitment issues. In the business survey it is these companies, which appear to have the greatest numbers of entry-level positions and the greatest difficulties in filling these. This is a potential support area that New Deal would appear to neglect; doing little to ameliorate this and suggesting a fundamental mismatch between the recruitment needs of these businesses, the mechanics of a recruitment process and the capacity of the New Deal to support these.

This blunt approach of the New Deal appears insensitive to the areas of the labour market which might have proved most receptive i.e. entry levels skills shortage and traditional 'word of mouth' vacancies. The insensitivity of its approach appears to have compromised some labour market opportunities, which might otherwise have proved successful.

Case study evidence suggests that where small business initially identified New Deal as a possible solution to its difficulties in recruiting staff and how this situation quickly became unworkable. This was mainly due to shortages of core personal and social skills, as well as specific vocational skills and a lack of confidence in the Employment Service referral process which did not appear sensitive to or sophisticated enough to account for the stated needs of the business.

New Deal does not reflect the recruitment needs and practices of the small business community. It has not extended to include the word of mouth vacancies which dominate the entry level job market, nor can it provide support to skills shortages in the local economy. Further, it does not appear to possess a specific and sensitive intervention strategy capable of responding to employer recruitment need, especially at the micro end of the small business spectrum where limited organisational capacity appears to frustrate participation.

### **Limitations, Frustrations and Impediments**

27 in-depth case studies were undertaken in order to complement, expand and illustrate on the survey responses. In the main these helped establish the specific difficulties experienced in workings with the New Deal and the issues small businesses encountered when recruiting from the long-term unemployed

From this evidence base, New Deal has inefficiently attempted an over-general and unfocussed approach which may have been more successful if its planning and targeting of effort had been considered more carefully. It attempted to work with a very narrow pool of low quality labour, could not address employer skills shortage issues for small businesses and, in effect, levered inappropriate individuals artificially into a labour market that could not absorb them.

This suggests a fundamental misunderstanding of how these labour markets work and confirms the belief of many in the business survey that the support role of the Employment Service is not sufficiently developed to consider the direct needs of participating business when recruiting through New Deal.

### ***The Role of the Employment Service***

Much of the initial enthusiasm to work with the New Deal was due to its successful promotion to the small business community by the Employment Service. This promotion described a model which included a tailored support relationship for the employment placement. However, much of this appeared built on an assumption of simple recruitment needs and an optimism around the issues likely to arise; expecting

that a light and general level of assistance would be adequate to facilitate a successful employment outcome. In the experiences of the survey businesses, this optimism was not realised and the weaknesses of the Employment Service quickly became apparent as they struggled to cope with the complexity of the individuals referred to them against the expectations of the employers providing placements.

A common observation from the case study businesses was that the New Deal Personal Advisers appeared to lack experience, and in many cases interest, in the needs of the participating businesses. Their interest appeared more geared to simple placement targets as opposed to successful and sustainable employment outcomes. Their involvement appeared front-loaded, short-term and ill equipped to deal with the complexities often generated by the New Deal candidate. The simple employment strategy underpinning the New Deal was not sufficiently equipped to consider the structural level social and economic issues encountered (Beatty *et al.* 2007; ODPM 2005; Ritchie *et al.* 2005; Lawless 2004).

Across these experiences, the Employment Service did not appear adequately resourced or experienced to help the small business community deal with the issues generated by their participation and cooperation. A weak referral and support mechanism effectively passed risk to the employer. In this, an imbalance quickly developed between the expectation of how New Deal would work (as promoted to employers) and the reality of this in a field setting (as experienced by employers).

The wage subsidy effect anticipated by the introduction of the New Deal employer option was not realised. The quality of the individual recruit referred and the limited support subsequently made available by the Employment Service were the main causes of unsuccessful placement. Alongside this, the weakness of the supporting administration and management of the referral process and the apparent lack of local flexibility and discretion to meet the expressed needs of local business further undermined the credibility of the initiative. A common observation was that the New Deal exploited employer goodwill, in pursuit of centrally determined national targets.

### ***Administrative Burden***

Small businesses are sensitive to regulatory requirement, statutory reporting and general issues of bureaucracy (FSB 2000). Additional difficulties were reported in the bureaucracy and management responsibilities generated by the New Deal, whether this is through monitoring, assessment, progress recording, health and safety compliance or any other administrative requirements of participation. Although an effort was made to keep such administration to a minimum, it nonetheless featured as an unwelcome burden to many of the participant businesses. Whether the burden of New Deal in this respect, was real or perceived, it still emerged as an irritating feature.

In the business survey, all stated that the immediate operational needs and established working practices of the business would always come first and that there was only a limited degree of latitude that they could exercise when New Deal recruits did not fit well with these. Where administrative burden started to interfere with the operations of the business, this introduced another good reason for employers to choose against working with the New Deal.

### ***Commercial Liability***

Businesses that had had a negative experience in working with New Deal were more likely to stress the commercial risk and liability that untrained and ill-prepared employees can present. Several felt that this risk was simply too much to ask – and indeed where a small business trading on very tight margins is asked to consider the additional responsibilities of a New Deal recruit this may simply prove too much to take on. Most employers, consulted through the survey, felt recruitment of the long-term unemployed added additional risk to the recruitment process. In addition, the weak referral processes of the New Deal could not help them assess the degree of this risk.

Employers report that New Deal relies too heavily on the goodwill. Even where this is evident it is still no guarantee of successful placement. All of the case study businesses reported that Employment Service support to the individual work

placements was inadequate given the given the sometimes serious, social, personal and vocational issues presented by the New Deal referral

### ***Expectation to Train***

The expectation to provide training towards VQ2 accreditation as part of the New Deal was a further inconvenience to the many small businesses. Many had never worked in this way, having always relied on more informal training approaches.

Case study evidence supports a view that the effort required to induct, train, supervise and encourage a new employee disrupted the rhythm of the small team approach, resulted in lost production time and presented as of limited, negligible or negative value in cost benefit terms. In several cases, the training requirement in some occupational areas exposed some employers to a training commitment longer than the New Deal support period. In many case study cases, even when a seemingly suitable candidate was introduced to the workforce through the New Deal, the sensitivity and fragility of even the most sympathetic working environment made this unsustainable. Employer goodwill and candidate suitability are still not enough to support a positive New Deal impact.

### **Explaining the New Deal Effect**

For the survey businesses, the introduction of the New Deal initiative did genuinely appear to present an opportunity to adapt traditional recruitment practices. However, as we have seen, this did not translate as employment growth or enthusiasm for the operational aspects of the New Deal. In terms of building a proactive labour market re-engagement for the long-term unemployed based on employer responses to financial inducements, New Deal failed to productively connect with the small business community.

Making the long term unemployed more attractive to employers through the New Deal appears as a simplistic approach founded on a naive expectation that employer goodwill alone would prove sufficient. The experiences of employers working with the New Deal demonstrates a degree of dissatisfaction and disillusionment with the

quality of the labour provided and the support available from the Employment Service

From these experiences and observations it becomes apparent that the limited effects of Government sponsored programmes encouraging the recruitment of the long term unemployed carry through into the New Deal where similar trepidation, reluctance and wariness endure on the part of the small business employer. This is particularly apparent where potential employees are referred as part of a process which seems to involve no meaningful preselection of candidate for referral and is underpinned by the use of benefits sanction to coerce participation.

Following from the work of Dean, McNeil and Melrose (2003), Hasluck (2001), Campbell (2000), Meager and Metcalf (1998) and Atkinson (1997) it appears that employers dealing with the previously unemployed individuals referred by New Deal, displayed the same wariness of engaging with this type of individual as had been experienced in previous similar labour market interventions. It would appear that New Deal is identified as the latest in a continuing series of these.

Throughout these interventions, wage subsidies have proved to be a relatively weak attraction to employers and, as in the case of New Deal, sanctioned individuals are viewed as of dubious worth to the employer community. This is especially so when they appear as levered into labour markets offering few suitable vacancies with employers expected to accommodate their standing recruitment practices to accommodate them.

### ***Employability***

New Deal was based on the premise that by improving the employability of the long term unemployed, employers would show a greater interest in them as potential employees. In the experience of the businesses surveyed for this study, New Deal has done little to make this happen. Employability, using Hillage and Pollard's (1999) definition, has not been improving as is shown below

1. Assets - The poor personal and economic assets displayed by the typical New Deal referral

New Deal recruits were viewed as lacking the personal and vocational assets sought by employers. Experience has shown that employers, although not averse to the notion of recruiting the long term unemployed, find the practical issues raised as distracting to their business purpose. It appears that New Deal does little to address these inadequacies, with specific reference to core skills, and in this respect may be regarded as having little to contribute in the development of individual employability. Employers initially interested in the New Deal quickly lose this interest when they realise the poor personal, social and economic assets brought to the workplace by the New Deal candidate. Dean, McNeil and Melrose (2003) Hasluck (2001); Campbell (2000); NAO (2002); FSB (2000); Metcalf (2000); Meager and Metcalf (1998) and Atkinson (1997)

2. Deployment - The insular nature of the local labour markets where New Deal has concentrated its efforts

As New Deal concentrates its recruitment efforts at the low skill/low pay end of the employment spectrum and has a spatial focus in those areas of high unemployment, mobility of labour is required to bring the unemployed and job opportunities closer together. However, typical low-income workers do not demonstrate high degrees of labour market mobility (Pugh 1998). Therefore issues arise around the efficiency of New Deal as it attempts to prepare individuals for employment in jobs markets which are local, low skill, low pay and in short supply or towards job markets further afield to which they will not travel. This has been identified as the issue of 'jobs gap' in New Deal (Pugh 1998; Snape 1998; Theodore 1998). Furthermore, the inability of New Deal to adequately break into the very important word of mouth networks governing access to the end of the labour market is also shown to compromise its effect. (Fothergill 2001; Campbell 2000; Lee 1999; Green 1998; Meager and Metcalf 1998; Fielder 1992)

3. Presentation - The manner in which the New Deal managing agent (Employment Service) has presented the New Deal candidate to the employer.

The individual's ability to connect with job related information and use this to communicate with potential employers is a critical aspect of the job seeking exercise. The Employment Service has undertaken the role of broker in this. However, the support made available by them for the New Deal is regarded as a main weakness of the initiative, second only to the quality of recruit. This has undermined confidence in the initiative and has proved to be a key obstacle in engaging employers (Hasluck and Green 2007). This points to a general dissatisfaction with the support made available, does not appear to engender employer confidence in the system and undermines the potential effect of the overall approach.

4. Circumstances - The enduring nature of reservation wages, benefits dependency and social impediments to labour market access.

Despite its efforts to convince the long term unemployed as to the social and economic benefits of employment, the tendency within New Deal to focus on entry level, low quality, low paid work set against the security of existing benefits income produces a disincentive to work in this way (Dickens 2001; Campbell 2000; Peck 2000; Hillage and Pollard 1999; Crighton 1998; Strawn 1998; Theodore 1998; Hasluck 1996). The social and economic status of employment may be lower in such communities, making such approaches less credible (Ritchie, Casebourne and Rick 2005). The insecurity associated with this together with the marginal financial benefits act as a disincentive to participation (McCormack 2002). Without a sufficiently strong incentive to participate New Deal is unlikely to prove attractive. Finally, the need for a coercive approach to New Deal participation would suggest a low rate of natural attraction.

In overall terms, using these four key indicators, New Deal has done little to address the central components of personal employability. The New Deal approach may be viewed as a blunt instrument when attempting to account for the complexities of the communities and individuals it is most closely focussed on. Employers are wary of

recruiting from the long term unemployed. This is especially so when their control over this process and prior knowledge of the candidate is limited. The experiences of the employers in the survey group do not reflect any real change of attitude in this respect. Indeed, when asked specifically to comment on this issue at the final stage of the field research very few reported New Deal as having any significant impact on their traditional means of recruitment only 5 per cent of respondents felt that it had any positive effect (n=97).

Despite the initial welcome given to New Deal by these businesses, a reluctance to consider the New Deal recruitment process as a credible alternative to the traditional means of recruitment may indicate the true difficulty of altering small business recruitment behaviour through the use of an externally devised and applied model.

Even where some businesses connected directly, proactively and positively with all of key New Deal aims, working frustrations interrupted this intent. The sheer range of complicating factors, ambitious targeting and naïve understanding of business needs produced many difficulties which reduced the perceived value of the initiative.

The key points here were that the Employment Service did not fully understand the needs of their business and were unable, or unwilling, to pre-select those most appropriate candidates. From this, the Employment Service was unable to relate to the needs of this business and a credibility gap emerged very quickly between employers and the administration of the New Deal by the Employment Service.

In general, although there was a consensus that the relative risk of recruiting unemployed individuals should not be a significant disincentive for businesses to participate in the New Deal. Long term unemployed individuals represent an acknowledged, small but manageable, risk which with the correct support, enough time and encouragement should yield a return to the recruiting business for the effort invested. However, this is very much an 'in principle' position as indicated by the high rates of initial interest not carried through into practice. It would appear that although small businesses are not averse to the principle of the New Deal, and similar initiatives, the supporting framework required to protect their operational

interests is not sufficiently developed. New Deal has not introduced the full set of conditions necessary to encourage stronger employer involvement.

The imbalance of risk loading towards employers and the inconvenience evident in working with New Deal recruits were the most likely factors influencing an employer's decision to withdraw from participation. A range of subtle and delicate business factors combined to confound the simplicity of the wage subsidy hypothesis. Here, most felt that the burden placed on employers by this arrangement was unreasonable, disproportionate and incompatible with the immediate needs of the business. The realities of recruiting and running a business often conflicted with the ideal of the New Deal.

## **CHAPTER 5 EFFECTIVE INTERVENTION**

INTRODUCTION

EMPLOYMENT GROWTH AND LABOUR SUPPLY

MISDIRECTED EFFORT

DIFFERENTIAL EXPERIENCES

ENHANCED AND REFOCUSSED INTERVENTIONS

## **Introduction**

It has been observed that against an optimistic initial assessment of the New Deal, small employers have found the operational dimension to be quite different from that anticipated, with a limited range and quality of jobs created. These experiences reflect those of the employers who worked with previous, similar wage subsidy interventions (Dean, McNeil and Melrose 2003; Hasluck 1999, 2000, 2001; Campbell 2000; Meager and Metcalf 1998; Theodore 1998). This suggests that the decision for an employer to recruit through such mechanisms is as complex and difficult, if not more so, than the decision to return to work for the long term unemployed.

We have seen that the combined effect of wage subsidies, within the context of welfare reform, displays limited potential to effectively engage the small employer community. A reluctance to engage employers in the design of New Deal, offers a weak platform on which to build a high volume initiative providing economic and social impact. This has arisen despite the experiences of similar earlier initiatives in Australia and the USA reporting the critical importance of acknowledging employer needs as the main success factor (Finn 1999).

Reintegrating the unemployed to the labour market requires a considered and structured approach, which relies on more than simple employment (ODPM 2005; Ritchie *et al.* 2005; Lawless 2004). Little has been done through New Deal to recognise and compensate for the main structural level social and economic causes of unemployment. This has inevitably frustrated its establishment as a credible jobs strategy.

Small business employers are not attracted to the New Deal wage subsidy approach as a simple labour supply model (Hales *et al.* 2000). Even when they have been, where large numbers of employees places have been generated, the main experience has been of very high deadweight and very low additional employment generated (Hasluck 2001; Meager and Evans 1998; Beatty *et al.* 1997; Atkinson and Meager 1994; OECD 2001).

The New Deal effort in these circumstances is based on a hopeful and simplistic understanding of how small businesses behave. New Deal may have been more productive if it sought to better understand this behaviour. Developments in labour market re-integration stemming from the New Deal must learn from these experiences if their aims are to be realised.

Since the introduction of New Deal major changes have occurred in the UK labour market. This chapter reviews these changes and introduces the refinements in intervention attempted. From this it observes the recurring factors which confound their efforts and suggests how future modifications and refinement can realistically and successfully address the long standing difficulties of reintegrating the long term unemployed in the labour market through private employers.

### **Employment Growth and Labour Supply**

Since its introduction in 1998 and up to 2006, the New Deal has operated in an environment of reducing short term and long-term unemployment, evidenced by

- A 46 per cent reduction in unemployment across the six areas of the business survey
- A 37 per cent fall in unemployment across the UK
- A 49 per cent fall in long term unemployment across the six business survey areas, and
- A 42 per cent reduction in long-term unemployment for the UK as a whole.

These trends of reducing unemployment and long term unemployment suggest a buoyant labour market where employment opportunities are improving. Over this timeframe unemployment levels have fallen significantly. This is supported by an accompanying rise in the national employment rate to around 75 per cent (Dewson 2005). The total workforce increase over this period is 4.1 Million with over 50 per cent of this (2.2 Million) coming from increased female participation. Overall, the UK employment rate is at its highest level in over 30 years (Pissarides 2006). This

appears as a fairly large scale re-ordering of the workforce resulting in larger numbers of individuals available for work.

**Table 5.1 Total Employment (Millions) and Employment Rate for Working Age People 1997-2006**

Year	1997		2000		2003		2006		Change	
	No.	%	No.	%	No.	%	No.	%	No.	%
Male	13.7	78	15.0	79.4	15.0	79.3	15.6	78.8	1.9	+13.8
Female	11.2	67.4	11.7	69.2	12.0	69.9	13.4	70.3	2.2	+19.3
Total Number in UK Workforce	24.9	72.8	26.4	74.6	27.1	74.9	29.0	74.6	4.1	+16.3

Source: Nomis 2006

The main drivers for these positive shifts in the labour market have been through increased economic activity in several key sub groups, especially in the 50+ age groups.

**Table 5.2 Economic Activity Rates (%)**

Year	1998	1999	2000	2001	2002	2003	2004	2005	Change
16-19	54.3	53.2	52.3	52.1	50.7	50.2	58.0	57.1	+5.0%
16-19 Male	-	53.6	52.1	52.1	50.0	49.1	59.0	57.7	+7.6%
50 - retirement	65.3	66.3	67.1	68.1	68.4	69.2	72.2	72.6	+11.0%
50+ Male	-	42.1	42.5	43.1	43.3	44.1	46.1	46.2	+9.7%
50+ Female	-	27.7	28.4	29.1	29.5	30.2	31.5	32.1	+15.8%

Source Nomis

1998 Labour Force Survey. No gender breakdown available

1999 – 2003 Local Area Labour Force Survey, 2004 – 2005 Annual Population Survey

Within these upward trends, there are reported increases in employment rates of +11 per cent for the disabled and +12 per cent for lone parents. The main decrease in labour market activity has been seen in the lowest qualified groups of the labour market where workforce rates have declined -7 per cent over the same timeframe (Bivand 2006a).

Employers have been recruiting from the unemployed. However, this has been driven by very high labour demand rather than as a direct consequence of the New Deal. Employers will naturally recruit the most employable and will do this through direct recruitment or through the Gateway stage of the New Deal - before the employment option and its wage subsidy, planned as 40 per cent of all referrals. Where demand pressures build beyond this, employers find themselves dealing with the subsidised

job option of the New Deal; where the most problematic individuals are found, in terms of preparedness for employment.

### *New Deal Employment*

Government figures report almost 3 million participants across the main New Deal, and Employment Zone, initiatives since their introduction. About 40 per cent of this activity was undertaken with the youngest age group, with the 25+ and lone parent groups representing about a quarter each of the total.

**Table 5.3 New Deal Starters/Registrants and Job Outcomes by Gender. Cumulative to October 2006 (Thousands)**

Programme	Participants			Leavers to Jobs		
	Male	Female	Total	Male	Female	Total
New Deal – YP	781	364	1,145	509	201	710
New Deal 25+	544	116	660	231	47	278
New Deal Lone Parents	41	686	727	24	458	482
New Deal for Disabled	144	86	230	77	47	124
Total	1,510	1,252	2,762	841	753	1,594

Source DWP 2007

Around 3 million advertised vacancies are notified to Job centres in a given year - 37 per cent of all advertised vacancies (Bunt, McAndrew and Keuchal 2007) suggesting perhaps 8 million or so open vacancies in a given year across the UK (Gadenne 2006). However, New Deal reports only 1,500,000 leavers to jobs from an estimated total of 24,000,000 jobs processed by the Employment Service between 1998 -2006 – 6 per cent. This low conversion figure of New Deal opportunities from general Employment Service vacancies can be attributed back the weak employability of New Deal candidates. Such individuals are unattractive to employers who will not readily recruit from this cohort. (Auspos and Riccio 1999; Sheehan and Tomlinson 1998; Finn 1997; Gardiner 1997). Despite the sustained efforts of the Employment Service only a small number of their employment vacancies were used within New Deal.

Given that an estimated 70 per cent of these new jobs are to be found in small business (NEP 2004) and that the Employment Service deal almost exclusively with

small to medium employers - [<10 employees, 57per cent and 10-250 employees, 42per cent] (Bunt, McAndrew and Keuchal 2007) this suggests an underexploited opportunity to bring together the small business employer and the New Deal employee.

Even where jobs have been created, difficulties in sustainability arise as many of these jobs tend towards the unstable, poorly paid, lacking fringe benefits and offering relatively little training. Three out of four of such jobs achieved by the previously unemployed are temporary, part time and of a lower skill level than their previous occupation (Clarke 2002; Kitching and Blackburn 2002; Haughton 2000; Cosh, Duncan and Hughes 1998; Strawn 1998; White and Firth 1998). As such, this type of employment does little to address the structural factors that lead to unemployment and long term unemployment.

New Deal has not been enough to provide sizeable numbers of vacancies, sustain employment for the target groups, nor impact on employment levels in especially disadvantaged communities.

### Differential Experiences

Over the period 1998-2006 New Deal was the main form of labour market intervention for the long term unemployed, but worked alongside several other initiatives of similar intent.

**Table 5.4 Summary of Main UK Labour Market Interventions 1998-2006**

Programme	Date	Scale (Participants)
New Deal for Young People	1998 -	1,145,000
New Deal 25+	1998 -	660,000
New Deal for Lone Parents	1998 -	727,000
New Deal for Disabled People	2001 -	230,000
New Deal 50+	2000 -	78,000*
Employment Zones	2000 -	211,000
Working Neighbourhoods	2004-2006	20,000 (estimate.)
Action Team for Jobs	2000-2006	200,000 (estimate)
City Strategy	2006-2008	300,000 (estimate)
Pathways to Work	2003 -	110,000 (pilot phase)**
StepUp	2004-2005	3500
Employment Retention and Advancement	2003-2006	16500

\* Figures for Jan04 to Nov 06

\*\*Client group coverage at 2006 - 900,000

Source: DWP Tabulation tool 2006

Developments within the New Deal have attempted to address specific features of long term unemployment and deliver specialised assistance measures to address these. Their respective structures and outcomes are introduced below.

### ***The New Deal***

#### *New Deal for Young People 1998-*

New Deal for Young People (18-24) was the largest aspect of the overall New Deal programme, with over 1,100,000 participants between 1998-2006. Mandatory involvement was triggered by an Income Support claim of 6 months or more. This led to the appointment of a personal adviser who would work with to secure employment within the initial 4 months Gateway period. After this, referral to one of the New Deal options took place.

#### *New Deal for the 25+ 1998-*

Similar in structure to the New Deal for Young People, this option concentrated on the older long term unemployed whose access to the labour market may be more complicated due to previous employment difficulties and complex personal circumstances.

#### *New Deal for Lone Parents 1998 -*

This voluntary element of the New Deal was established to improve rates of lone parent participation in the labour market. This was based around a work focussed interview with benefits claimants setting out a range of alternative options such as in work benefits and childcare support.

#### *New Deal for the Disabled 2001 -*

New Deal for the Disabled is a voluntary employment programme designed for individuals claiming Incapacity Benefit. The programme is delivered through a network of Job Brokers drawn from a mix of public, private, and voluntary organisations.

*New Deal 50+ 2000-*

ND 50 + is a voluntary initiative offering return-to-work support through the New Deal programme for older individuals. On successfully attaining employment, individuals were offered continuing support from a personal adviser and could claim an employment credit of £40 per week for a maximum of one year.

***Outcomes***

The New Deals for disabled, 50+ and lone parent models lean towards the concept of profiling as a more productive form of intervention (Hasluck 2004; McQuaid, Greig and Adams 2004). All made good use of personal advisers and each offered selective and specialised forms of assistance to key target groups as opposed to general models aimed at broader groups of the unemployed. As such they were more successful in their job outcomes and job sustainability than the main mandatory New Deals for Young People and the 25+.

Evaluation evidence (Evans, Millar and Sayre 2003) shows that since 1998, more than half of participants in New Deal for Lone Parents have progressed into employment. Leavers to jobs figures up to 2007 put this employment rate at over 60 per cent with a sustainable job rate of 48 per cent (Bivand 2006b). Similar positive trends appear evident in the other two programmes. In the New Deal for Disabled just over 50 per cent progress into employment and after one year 36 per cent of participants were still in work with a further 35 per cent looking for work (Labour Market Trends 2005). Similarly, for New Deal 50 plus, 84 per cent of participants did not return to claim benefits after participation (Grierson 2002) with almost all remaining in employment. However, low rates of sustainability (13 weeks +) of 36 per cent New Deal (Disabled), 32 per cent for the 25+ group and 48 per cent for lone parents raise the question of whether more could have been achieved with the resources and time invested. Participation in these three programmes (lone parents, 50+ and disabled) was voluntary – suggesting greater levels of work motivation (Hasluck and Green 2007). The comparable rate for the mandatory New Deal (Young People) was 26 per cent

Furthermore, apart from New Deal for Lone Parents, these high rates of success may be misleading where the overall rates of activity have been relatively small. In the UK at the 2001 census, 14 per cent of the population (8.6 million) were registered as disabled. At 2006 there were around 2.6 million Incapacity Benefit recipients with around 230,000 of these attending the initial New Deal interview. The figures above represent about 70,000 job placements.

For New Deal 50 plus evidence of success is spread over three years, producing around 23,000 job outcomes per year for a target group who have 145,000 claiming Jobseekers Allowance with a further 1,187,000 receiving Incapacity Benefit (Sainsbury and Davidson 2006). Although this is regarded as an effective way to work with this target group, it has been limited in its overall effectiveness by the fact that it has only been able to engage with a relatively small number of participants

Increasing the scale of the intervention may improve its effect, however it may also be the case that it is operating at its natural level where the reported enthusiasm and motivation of those voluntarily participating would not be replicated in a larger, mandatory version of this.

Overall, jobs gained through all three of these three New Deal models tend to be in low skill/elementary occupations with employers showing little motivation to encourage upskilling through the use of the training grant made available (Needels and Schmitz 2006; DWP 2003a; Lakey *et al* 2002).

Of the evaluation evidence offered (Dutton *Et al* 2005; Hasluck 2004; McQuaid, Greig and Adams 2004; DWP 2003b; Evans, Millar and Sayre 2003; Lakey *et al* 2002; Grierson 2002) no specific reference is made to the views of employers in dealing with these groups other than their preference not to support any professional development through vocational training. This suggests a continuing imbalance of interest towards the operational processes of the New Deal as opposed to any sustainable effect it may have in supporting employer and employee interests. It further assumes that employers act in a rational manner when presented with employment inducements and that these can be applied successfully with only a

superficial understanding of this. An example of this can be found in the case of small employers who struggle to cope with the additional workplace demands created in the employment of the disabled (Needels and Schmitz 2006; Dewson 2005)

In the case of New Deal for Lone Parents, where volume has been significantly higher, participants still experience significant barriers to work mainly in childcare and domestic issues emerging to complicate the employment placing (Dutton *et al* 2005). Positive outcomes tend to be skewed towards more affluent communities and results for disadvantaged areas are not so encouraging (Evans, Millar and Sayre 2003).

Success with the lone parent group has very a very strong resonance with the similar success reported by the Welfare to Work model in the USA where the issue of economic inactivity does not appear to be based around the weak quality of labour, but rather the impediment that care responsibilities present. Where adequate childcare/personal care can be provided this is observed to free up access to employment for this group (Meager 2006; Strawn 1998; Welfare to Work Partnership 1996).

Some modest improvements in the use of personal advisers and job brokers may have contributed to these improved success rates, however the observed improvement in sustainable employment over that of the original New Deal model may be best explained by the voluntary nature of participation, the motivation of participants to work, and the use of childcare as a mechanism to unlock an existing, relatively high quality labour reserve of lone parents. Were such models to become mandatory it is difficult to see how such high rates of success could be maintained. These specialisations of the New Deal can report some positive but quite limited general effects. These limitations may be observed as re-emphasising the enduring issue of difficulty in labour market reintegration, effecting sustained employment and assisting career progression for these groups.

### *Initiatives of a Spatial Focus*

Recognising the spatial element to deprivation and economic inactivity as manifested in disadvantaged communities (Beatty and Fothergill 1998; Green 1998; Peck 1998; Turok and Webster 1998), the development of area-focussed initiatives appears as a natural enhancement in supporting the aims of the New Deal. Several of the main examples are introduced below.

#### *Employment Zones 2000-*

Employment Zones were established in 2000 to address the enduring issue of long term unemployment which, in many areas, had proved resistant to the consistent downward national trends in unemployment. Fifteen zones were established to provide support services based on a concentrated process of targeted employment placings. These were provided by a combination of private, public-private and wholly public providers.

#### *Working Neighbourhoods (pilot) 2004-2006*

Working Neighbourhood pilot sites were deliberately small, having approximately 6,000 residents per site, where approximately 2,000 people are receipt of working age benefits. This allowed Jobcentreplus and its partner agencies to offer intensive help and support to all economically inactive residents (within available resources). Issues identified by local residents as inhibiting access to employment were mainly in lack of suitable jobs, poor employment skills, low work motivation and underdeveloped support systems in transport and childcare.

#### *Action Team for Jobs 2000-2006*

Action Team for Jobs was based on voluntary participation and provided an adviser-led service, located in the local community, to connect with individuals reluctant to otherwise engage with Jobcentreplus services. A target of 70 per cent non Jobseekers Allowance individuals was set against this.

#### *City Strategy 2006-*

Given that many areas, and communities, within the UKs cities display high rates of unemployment and economic inactivity, this initiative aims to increase employment

rates among individuals, tackle child poverty; improve employment rates for single parents and increase job retention and advancement. At July 2006, 13 cities in the UK were selected after a competitive process. Each strategy is tailored to the specific needs of the host city (Branosky 2006)

### ***Outcomes***

All of these approaches recognise that general employment placing measures alone can be insufficient for many communities and that more sophisticated and targeted approaches are required. However, whilst these address spatial concentration of need, their effect in acknowledging and addressing the causes of this high unemployment is perhaps not so developed.

The outcomes of the Employment Zone approach produced superior outcomes in comparison to the main New Deal and New Deal 25+ models and could report a raised unemployment outflow of 4 per cent greater than similar non-Employment Zone areas - 55 per cent of Employment Zone participants had experience of paid work over the first 10 months compared to 51 per cent for New Deal 25+ (Hales *et al.* 2003). Whilst many of the jobs secured produced higher sustainability rates than similar employment programmes, many did not last into the longer term. Hales *et al.* (2003) found this to be due to the fact that many of the jobs secured were temporary, and candidate's personal factors surfaced to complicate the job placement. In more general terms, even after 20 months from eligibility to participate, over half of the Employment Zone participants had spent no time in paid work. The emphasis on employment related payments to these employment brokers introduced a very strong incentive to quickly secure jobs for the target group. This placed a considerable emphasis on a simple employment placement focused on the most employable (CPC, TERU, MORI 2002).

Working Neighbourhoods sought to proactively engage with the target group and accelerate access to New Deal and Employment Zone provision. It appears from the work efforts with around only one-third of participants successfully making this transition. 35 per cent of participants had moved into employment in the two years up to 2006 – 55 per cent of this for more than 13 weeks and 37 per cent for over 26

weeks. This is lower than comparable New Deal approaches. It is suggest by Dewson *et al.* (2007) that weak demand side measures frustrated the efforts of this approach.

The Action Team model is built on an approach designed to reach the most difficult to engage clients. From its inception to September 2005, Action Teams has helped over 150,000 individuals back to work and against the targets set, it appears to have been reasonably successful (Casebourne, Davis and Page 2006). This success may be due, in part, to the outcome based funding paid to service providers where there has been a clear focus on employment rather than on soft skills development. As was witnessed in Employment Zone, this suggests a focus on the most employable and that more difficult client groups and individuals may not have been suited to the Action Team model.

In these examples, the social and economic context is viewed as an important determinant of success and related environmental issues are addressed to varying degrees. However, there still appears to be a very heavy weighting towards job placement as a simple solution; the targeting of effort at the most employable, a heavy emphasis on the needs of the individual and limited dialogue with the employer community. All are driven by job targets and related social and economic factors appear as temporary issues circumvented rather than tackled. There is a limited acknowledgment of these causal factors of high long term unemployment.

Their limited long term economic and social effect, at the broader area level, may be explained by this. Such models do not address the structural features of high unemployment and may be viewed as addressing the symptom rather than the causes of this. Several more recent approaches, based on active intervention now seek to do this, most notably Pathways to Work.

### ***Active Intervention***

Building from the principles of active labour market policy, several large scale interventions have developed.

*Pathways to Work 2003 -*

Pathways to Work is an attempt to disrupt and reduce the pattern of referral and claim for Incapacity Benefit. It is based on an assumption that individuals newly referred as potential or repeat claimants may be able to benefit from a range of alternative work-based options to prevent a long-term pattern of Incapacity Benefit support developing. This is a direct acknowledgment of the difficulties faced when attempting to redirect existing claimants into employment.

Condition Management Programmes are recognised as an essential aspect of this approach as management of the individuals non-vocational circumstances can prove just as crucial to success. This would include measures which might relate to mental health, complementary therapy, stress management, addictions support and addressing other personal, clinical, welfare benefits and social issues which might otherwise frustrate a successful job placement. Given that 40 per cent of Incapacity Benefit claimants report mental health issues rather than physical incapacity; this is indicative of both a shift in the profile of the average claimant and in the approaches developed by Department of Work and Pensions to address this (Barnes and Hudson 2006; Bivand 2006a)

*Intermediate Labour Markets (various dates)*

Intermediate Labour Market projects operate as labour market interventions which seek to build from a transitional employment experience between the most disadvantaged members of local communities and local employers. Designed to address complex personal, social, financial and vocational issues, the long term preparation for work associated with this model allows the individual to deal with a range of issues over a reasonable period of time in advance of full employment. These training programmes offer a bridge between unemployment and employment and help prevent premature inappropriate job placement and high rates of job drop out.

*Employment Retention and Advancement 2003- 2006*

Conceived as the next step in welfare reform and operating on a demonstration project basis from 2003, Employment Retention and Advancement is designed to help break the low pay/low skill dimension of employment associated with many previous programmes. Whereas many of the methods introduced, this far, concentrate on moving individuals from welfare benefit into employment (regardless of its sustainability prospects), this approach aims to keep them working longer and help them improve their employment value through skills development. This is seen very much as a shift away from short-term work-first approaches which have dominated in the past, many of which were viewed with some suspicion by employers due to quality of labour issues.

***Outcomes***

These approaches acknowledge the importance of preventing negative patterns emerging for individuals attempting the return to work, whether this is the Incapacity Benefit trap, ineffective and short term employment placing or the low skill/low wage rut that many entry level jobs can become.

Evidence on the performance of Pathways to Work is encouraging. Early indications suggest that it is leading to a reduction in Incapacity Benefit caseload sizes (Blyth 2006). In effect, individuals are successfully being attracted away from Incapacity Benefit. Blyth (2006) reports the rate of 6 month off flow at around 8 percentage points higher in Pathways areas than for control areas (where a national 6 month off flow rate of around 30 per cent is evident). In addition, the rate job entry is around twice that of comparison areas – 4.6 per cent compared to 2.3 per cent (Bivand 2006a). However it is not certain that this reducing caseload is directly reflected in increased levels of employment. Displacement to other benefit, such as Jobseekers Allowance, is a real possibility.

Intermediate Labour Market interventions nurture vocational skills in a supportive environment prior to job placement. Job outcomes tend to be more expensive than direct job placing programmes but report superior outcomes in terms of reduced drop out, improved job sustainability, higher income jobs and a stronger link to the

communities in which they operate (Bickerstaff and Devins 2004). Many have sought to develop strong positive links with a core group of employers as a means of strengthening the relevance of the training experience and introducing some proactive employer input to the training programme. This helps to address some of the demand side issues which other approaches find difficult to do.

The long-term intensive approach of Employment Retention and Advancement is quite different from the previous short-term target driven behaviour of the main employment agencies. 16,500 participants were engaged in this between 2003 and 2005 with their progress tracked beyond this (Hall *et al.* 2005). This approach seeks to engage with the employer as a partner, identifying employer concerns as valid and equal to employee issues. Early evaluation evidence (Dorset *Et al* 2007) shows some developing patterns where participants in this initiative are beginning to earn higher wages than the control group but that this modest success is limited mainly through early difficulties in fully engaging with historic support mechanisms; still driven by a job outputs culture

These approaches make some limited move away from the dominant participant needs led and employment outcome focussed approach of the other main measures discussed. It suggests a shift away from a reactive programme of unemployment reduction to one which adopts a more rounded perspective to the causes and effects of unemployment. In this, there is recognition of preventative action, personal and professional development and critically, the potential of employers as equal partners and guarantors of success for many of the job placements secured. Given the structural level issues and prevailing cultures of the agencies involved this nonetheless suggests a modest move towards some greater interpretation and planning based on employment demand factors.

### ***Prevocational Intervention***

Many individuals will be unsuited to the types of initiative introduced above. For them, their distance from successful labour market activity will be considerable. This may be due to serious addictions, mental health, homelessness, motivational issues or a simple reluctance to disengage from a long term benefits dependency. For these

individuals, there is little merit in introducing them to employers. Indeed, this inappropriate type of referral was one of the central criticisms of New Deal from the employer survey undertaken. Instead, programmes designed to prepare the basic personal circumstances of the individual have been attempted as an initial form of intervention and preparation prior to referral to more vocational programmes. Such approaches are felt to offer a more realistic primary form of engagement for many complex cases and help reduce inappropriate, unsuccessful and wasteful employment placings

### ***Complementary Programmes***

Labour market interventions are not the exclusive reserve of the Department of Work and Pensions and its partners. This is a very complicated and crowded arena with many players involved, each with their own specific, thematic and geographic outcomes in mind. Such projects have been developed, funded and delivered by a broad range of statutory, voluntary and private sector organisations. Projects which have co-existed with the main interventions have included those aimed at minority groups, disadvantaged communities, sectoral skills shortage areas and employment initiatives tied to physical regeneration projects.

### ***Enabling Approaches***

Finally, we have previously seen how the UK Government is interested in both welfare reform and increased labour market participation. Alongside these direct vocational intervention programmes introduced above, there are also a series of enabling and facilitating measures which have been introduced in an effort to 'Make Work Pay' and help tackle the issue of reservation wage and marginal income benefit. The two largest of these have been the introduction of tax credits and a national minimum wage.

Tax credits offer varying degrees of attractiveness for the individual, however in common with other measures of similar intent there appears to be enduring issues of employment quality. At this volatile, below average wage end of the labour market, minimum wage jobs are of relatively short duration and tend towards low skill and low pay. Further, there is no evidence to show that such jobs act as stepping stones to

higher paid jobs. Low pay is not a transient experience and workers in this bracket tend to remain in this type of employment (Bivand 2005; JRF 2004; Bennet and Hirsch 2001; Boheim and Taylor (2000); Layard 1998; Taylor 1998)

Nearly a quarter of UK employees remain in low paid employment, a rate almost unchanged since the introduction of the minimum wage. The rate of low paid as a percentage of all UK employees' shows signs of increasing rather than decreasing NPI (2004) with these workers concentrated in the retail, health/social care, hotels and catering and miscellaneous services sectors. NPI define the low pay threshold as household income which keeps the worker and their dependents free of poverty without means tested support. At publication (NPI 2004) they estimate this to be in the region of £6 to £7 per hour (estimated on full time working) – adult minimum wage in 2004 was £4.85 per hour.

The Working Families Tax Credit and the Employment Tax Credit may increase the incentive to work, however they may also act to restrict labour supply as economically inactive couples will receive the highest reward if only one is in employment. A joint income will reduce credit eligibility and might possibly make employment economically unattractive (Bennet and Hirsch 2001).

From this we may observe the limits of a minimum wage policy as of relatively small effect, producing relatively small wage increases within an overall environment of high turnover, low paid, low skill, and insecure employment. At best it may have curbed the excesses of the UKs worst employers while for many it can be viewed reinforcing a low wage, low skills culture, subsidising employers to pay less than a living wage.

These projects may exist entirely independently, as combination approaches or as complementary partnerships. They may rely on funding from many sources. Taken together they represent a significant volume of activity, which seeks to complement, and in many cases improve, the larger programmes discussed earlier.

### **Demand Assumptions**

For New Deal the principal measure of success is employment. Storey (1998) observes that small businesses, as the largest creators of employment opportunity, may have been expected to provide much of this.

The New Deal set out to tackle long term unemployment, found particularly in areas of weak market activity and high benefits dependency. Such intent relies on an accompanying increase in the availability and quality of jobs available within the economy. For long-term effect, it will also depend for its success in helping to improve the sustainability of these jobs for the individuals employed in them.

This approach has not taken real account of account of the demand side structural causes of unemployment – i.e. the strength of the local community economy upon which any jobs related strategy must rest. Through employment led measures such as the New Deal, disadvantaged areas have seen very limited gain in employment volume, quality and sustainability; evidenced by the persistence of unemployment and poverty despite repeated interventions. (Fothergill 2001; Haughton 2000; Green 1998; Brown and Sessions 1996).

There is an immediate issue of poor demand and weak supply in the areas where these interventions are concentrated. The complexity of the social and economic issues, the weakness of the community infrastructures, poor quality of labour and the failure of the market to provide employment opportunities compound to present a very difficult working environment. Market based approaches in weak market areas will, by definition, find it difficult to succeed (Green 1998b). In this, it is unrealistic to base an employment strategy on an expectation that the local small business base will engage at a meaningful scale. Here the fundamental design of a labour market intervention drawn to areas of high long term unemployment is weakened by the incapacity of these areas to provide sufficient, sustainable employment opportunities. Interventions following the New Deal must appreciate these difficulties more fully and adopt a programme design which accounts for these.

### **Enhanced and Refocused Interventions**

The New Deal has relied on the use of wage subsidies for employers. Many of the supporting initiatives, designed to improve access to New Deal will also work in this way. Employment Zone, Step-up, Action Team for Jobs and Pathways to Work have all made use of these.

The wage subsidy approach persists despite the concerns expressed over its attractiveness to employers and the success evidenced by alternative interventions offering different inducements and support measures. In the recruitment of the long term unemployed, employers appear to respond as much to intervention stressing employee support and aftercare as wage subsidy. This would tend to confirm the business survey findings that many other issues come before the availability of wage subsidy in the decision to recruit. The original New Deal model may have understated this and had its effectiveness impaired as a result.

### ***Efficient Use of Resources – Beyond Wage Subsidies***

Jobs realised through wage subsidies alone do not create much in the way of additional employment, are low skill/low pay/poor prospects and generally short term in nature. In terms of economic investment, where these jobs can be achieved, they are not a springboard to much more. People who enter low skill jobs without current or appropriate qualifications are unlikely to gain them during or, more tellingly, as a result of their job occupancy (Brace 2005; Holzer 2004). Cyclical individual employment tenures may persist in these labour markets where employment status is highly dependent on vulnerable and unstable employment conditions. (Labour Market Trends 2003)

Such high rates of wastage are clearly not value for money in terms of the effort invested and may only reinforce low skills equilibrium at the community level. The employment effects of measures intended to stimulate the recruitment of the long term unemployed and other vulnerable groups in the labour market generally tend to be lower than even the most pessimistic predictions of most theoretical models and simulations. In his review of European and North American job subsidy schemes Marx (2005) found that subsidised schemes do not appear to have a significant

positive effect on the employment chances of beneficiaries in the regular labour market.

Further to this, wage subsidy models may only become attractive to employers if they are able to enhance the wage subsidy with complementary business focussed support measures which include vocational development activities for the employee (Marx 2005; Atkinson and Williams 2003 and Katz 1998). It is evident that the benefits of a subsidy alone are insufficient to support meaningful, sustainable individual progress.

Cockx *et al.* (1998) stress the significance of active labour market policies which perceive training as an intrinsic part of the programme approach. These return a better performance in job tenure terms than the simpler wage subsidy. This provides support for a developing human capital theory as opposed to the more basic employment matching theories which have driven many employment programmes on the UK to date. Targeted training adds significant strength to job security. (Brace 2005; Holzer 2004). Recruitment opportunities and sustainable employment for the economically inactive are only likely to improve when workforce development and advancement is provided alongside personal support (Newton *et al.* 2005). This view is reinforced by Katz (1998) and Atkinson and Williams (2003), who observe that employment subsidy schemes only, work in combination with counselling and vocational training as a support to retention and advancement. This entails working with both the supply and demand sides to ensure a stronger recognition of their mutual interests and to avoid the design of intervention models which concentrate primarily on labour supply without fully understanding or appreciating the nature of demand. It may be a more efficient use of resource to divert wage subsidy funds into stronger employer/employee support services. These employment support services must then be couched in broader economic and social regeneration terms.

In almost all of the New Deal interventions introduced earlier, the emphasis is clearly on the supply side and the needs of the unemployed individual in the transition to work. Employer involvement in initiative design and operations has been generally limited (Coleman 2007; Hasluck and Green 2007). However examples of a more

balanced employer influence on intervention design, in some cases, may be the beginning of a trend towards full partnership working between the supply and demand sides. It is clear that refinements of approach are being made in light of New Deal experiences; however, many of these initiatives are developed only as small scale pilot measures. The true test of service development and refinement will be evidenced in how far their most effective features can be mainstreamed within future practice.

### ***Structural Level Changes***

The Employment Service (1998) intended that the New Deal initiative in the UK would contribute to an increase in the sustainable level of employment and a reduction in social exclusion by helping long term unemployed people and other marginal groups into jobs. In this time there has been an increase in the UK workforce and a significant drop in the numbers of unemployed. However, alongside this remain persistently high rates of unemployment and economic inactivity which might be further reduced.

The UK Government has adopted a range of measures to encourage the greatest possible employment rate (HMSO 2001). In working towards an 80 per cent employment rate target a number of new labour market interventions may be required to make it more likely that employers will recruit from the long term unemployed and individuals in receipt of related long term welfare benefits; principally Incapacity Benefit. Towards this, the original New Deal model requires refreshment, refocusing, enhancement, extension and improvement.

The Government has set out to build on the early experiences of New Deal through developing a range of intervention types which may more accurately reflect the needs of the target group and the communities in which they live. Driving this has been a process of institutional reform.

The push from central Government to modernise the relationship between the benefits system and employment represents a decisive shift away from passive to active labour markets. Towards this, the uniform nature of national structures has

begun to break down into smaller, more sensitive and localised services, helping to redefine the relationship between service providers and individuals.

Many new initiatives have been introduced alongside this, either as a specialisation of, or complement to the New Deal approach. Large Government departments are now expected to work in innovative partnerships with many other types of voluntary and statutory organisations and the public sector monopoly in the delivery of employment and training services is being dismantled and replaced by a new mixed market (Bivand 2006b). These have shown the value of greater flexibility and focussing of approach in order to address localised, complex and variable factors which influence economic inactivity at the community level.

This is supporting greater coherence between welfare and employment and has helped to develop a range of preventative measures which seek to reduce economic inactivity in favour of alternative labour market based measures. These developments are resulting in changes in working practices, new referral and attendance procedures for clients and the development of new aids to help secure employment.

### ***Interventions Development***

It is apparent that from the introduction of the New Deal in 1998, interventions designed to engage and work the main target group have improved. The main New Deal approaches have continued in the use of wage subsidy as the principal instrument of attraction for employers. These have been New Deal for Disabled People, New Deal for Lone Parents, New Deal 50+. However, many of the other initiatives introduced are not based around such subsidies but on proactive and managed relationships brokered between employers and the unemployed by a range of specialist intermediary mechanisms operating thematically or geographically. This suggests that the availability of employment support services as an alternative to the simple financial attraction of a wage subsidy may be as, if not more important, to employers in the process of deciding to recruit the previously unemployed (Dewson, Richie and Meager 2005)

The following table summarises the main developments in labour market intervention since the introduction of the New Deal and suggests a number of developing trends in these.

**Table 5.6 Labour Market Intervention Initiatives Following From New Deal**

<b>Programme</b>	<b>Partner Base</b>	<b>Fund Flexibility</b>	<b>Mandatory</b>	<b>Use of wage subsidy</b>	<b>PA based</b>	<b>Preventative</b>	<b>Client Focus</b>	<b>Outreach</b>	<b>Area focus</b>	<b>Year</b>
Employment Zones	Yes	Yes	Yes	Possible	Yes	No	JSA	No	Yes	2000-
Action Team for Jobs	Yes	Yes	No	Possible	Yes	No	JSA/IB	Yes	Yes	2000-2006
Pathways to Work	Yes	Yes	No	Possible	Yes	No	JSA/IB/IS	Yes	Yes	
New Deal for Disabled People	Yes	Yes	No	Yes	Yes	Yes	IB	No	No	1998-
New Deal for Lone Parents	No	Yes	No	Yes	Yes	No	JSA/IS/IB	No	No	1998-
New Deal 50+	No	No	No	Yes	Yes	No	JSA/IB	No	No	1998-
Employment Retention Advancement	Yes	Yes	No	No	Yes	No	JSA/IB/IS	No	No	2003-
Pathways to Work	Yes	Yes	No	No	Yes	Yes	IB	No	Possible	2003-
Working Neighbourhoods	Yes	Yes	No	Possible	Yes	No	JSA/IB/IS	Yes	Yes	2004-2006
City Strategy	Yes	Yes	Possible	Possible	Yes	Possible	JSA/IB/IS	Yes	Yes	2006-2008
Flexible New Deal	Yes	Yes	Yes	Possible	Yes	Yes	JSA/IS	Yes	No	2008-

Note. IS=Income Support; JSA=Jobseekers Allowance; IB=Incapacity Benefit

These support services have been based around geographic and thematic specialisation of employment support, the use of small discretionary flexible funds, outreach and proactive engagement with the target group, prevocational and aftercare support, support with benefits and housing issues, coherent and co-ordinated multi agency support, greater use of sanction, workforce development and preventative intervention. Together these are beginning to address many of the complex and variable issues which disrupt or ruin the return to work process for the long term unemployed.

Such approaches recognise and more accurately reflect social and economic needs in such communities. However, these represent modest progress in addressing the stated concerns of the small business employer and should be regarded as foundations for future development; core components of a more sensitive mechanism linking together the long term unemployed and the employment opportunities presented by small business. The following chapter picks up on these developments and offers some considerations as to how these might be consolidated and developed within a more sophisticated support framework.

## **CHAPTER 6 CONSIDERATIONS FOR FUTURE PRACTICE**

LEARNING FROM THE NEW DEAL

EMPLOYMENT PATHWAYS

EMPLOYERS AS FULL PARTNERS

CONCLUSION

### **Learning from New Deal.**

Much effort has been invested in the volume of New Deal referrals made and the sheer numbers of individuals involved. Set against this, is an experience of difficulty to place individuals, reluctant and disenchanted employers and fragile employment placements. To many involved, it appears that New Deal has been more a numbers game than a serious attempt to deal with the issues of long term unemployment through a partnership with local employers. However, despite its limitations the overall New Deal experience has left in place some strong foundations for the development of more effective future practice.

Government proposals to strengthen the return to work process for the long term unemployed are reflected in the model of the Flexible New Deal. This will replace the current, separate New Deals for young people and unemployed adults, including Employment Zones and private sector led New Deals and will be delivered in partnership with public, private and voluntary sector contractors (DWP 2007). The new programme will provide increasing levels of support with increasing duration of unemployment benefit claim with a corresponding increase in the requirements placed upon benefits claimants.

The flexible New Deal will modernise and streamline the existing New Deals to provide greater flexibility and more personalised support for people of all ages seeking employment, including self-employment. The key elements of this approach are:

- Jobcentre Plus to lead jobsearch for the first 6 to 12 months;
- A Gateway stage, common to everyone and building on the current New Deal gateways, leading to more intense jobsearch activity and skills assessment, with the most disadvantaged people being fast-tracked to this stage from the outset and all others entering after six months;
- People still looking for work after the Gateway period to be referred to a specialist provider

The model for the flexible New Deal accepts Employment Service limitations and welcomes the significant complementary support that can be provided by specialist providers from other sectors. Underpinning all of this is the recognition that the many long term unemployed people require more structured, longer term employment pathways prior to job placement. This more sophisticated view of the return to work process is informed by the weaknesses of the original New Deal model and, considers a series of critical success factors other than simple job placement. Here, a strong emphasis on preventing unemployment, targeting services, developing alternative job information channels, providing skills training, placement aftercare and a more supportive dialogue with employers all contribute to the process. This more rounded effort starts to address the concerns expressed by employers and should provide the platform for a more successful programme of interventions. It will help to introduce a broader range of support services from specialist providers and contribute to the development of employment interventions, including the flexible New Deal model, more attuned to the needs of employers and prospective employees. The key elements of this are introduced below.

### **Employment Pathways**

Employment and employability programmes must account for many ingrained, structural issues which complicate the return to work for many individuals. Developments in employment interventions, from the New Deal, increasingly appreciate the complexity of the return to work process; reflected in greater design sophistication. The following themes are emerging as common considerations within the flexible New Deal model and related measures.

### ***Profiling***

Researching the qualities of the prospective employee and the requirements of the business will set in place a New Deal approach of added value. Improving the referral process for prospective employees directly addresses the issue of wastage associated with high candidate turnover and low job sustainability, helps use resources more intelligently and efficiently and reduces employer risk. Sharper focussing of resources and a more intensive matching process will help to overcome employer reluctance to engage.

Profiling individuals and business and targeting interventions from an informed and negotiated perspective will help to successfully tackle the enduring difficulties which arise from a general application of employment interventions (McQuaid, Greig and Adams 2004). Designing subsidies specifically for very difficult groups and assisting employers in working with this will not be a ready solution for every problem thrown up in such complex cases. However, Hasluck (2004) finds persuasive early evidence from the USA and UK that in some cases such an approach can both be more effective and efficient than those of previous intervention models.

### ***Information Channels***

Functional communities tend to have good word of mouth and formal information channels. Less advantaged communities less so. This reintroduces the concept of social capital as an integral part of any employment based initiative. Where social capital is weak, intermediary agencies may try to compensate. However word of mouth remains a critical success factor in employment terms; especially so in this context where small businesses rely on such networks as the main form of recruitment. Without access to information and the knowledge that these networks deliver, individuals can be effectively shut out of the labour market (McQuaid, Greig and Adams 2004). The broader use of partner agencies as part of the Flexible New Deal delivery structure should help support a stronger information partnership with employers and the local community and should generate an improvement in the number of job vacancies notified. The role of the Personal Adviser in supporting these channels will prove beneficial.

### ***Preventative Outreach***

The importance of preventing individuals from entering unemployment and economic inactivity is acknowledged as of critical importance. The Department of Work and Pensions and its partner agencies are now more astute at intercepting and redirecting individuals who might otherwise have entered long term economic inactivity. Over the longer term, it is anticipated that such approaches will help fundamentally reshape patterns of welfare dependence and workforce rates in the UK.

### ***Target Groups***

We have seen that the long-term unemployed are a small subset of the unemployed and economically inactive within a given area. The original New Deal approach draws from a very narrow base and missed many other excluded groups, in particular those receiving Incapacity Benefit. Wider regeneration effort is compromised by this. As part of a broader welfare reform agenda, future approaches will adopt a more intelligent analysis of community level economic and social issues, where are regarded as contributing factors to long term unemployment and economic inactivity. Here the innovative features of the Flexible New Deal, alongside related interventions, will work across a variety of target groups and delivery structures.

### ***Skills Training***

The use of VQ accredited training within the original New Deal appears was underdeveloped and offered little benefit in terms of transferable skills, improved labour market mobility and in strengthening job retention rates. Upskilling and vocational qualifications appeared a difficult concept for the average small business DWP (2004). Adapting business function to suit the training needs of the New Deal was an unattractive proposition; and as such career development and employment progression were not as developed as they could be. Where small businesses did engage with the New Deal they did so according to their normal working practices. Where this did not fit, New Deal involvement was rejected.

Lack of skills is identified as the main barrier to sustained employment for the long term unemployed (Hasluck 2006). The only decrease in labour market participation over the last 10 years rates have been the unskilled (Bivand 2006). Increasing the stock of working age people with higher level vocational skills and introducing the non skilled to the labour market through training based access will be of crucial importance to future economic and social success (Leitch Report 2006). Recruitment opportunities for the unemployed are likely to improve only where workforce development and enhancement is introduced to support lower skill vacancies (Leitch Report 2006; Hogarth and Wilson 2003)

Although training is important, the manner in which it is developed, implemented and focussed appears a critical factor of success (Holzer 2004; Cockx *et al.* 1998). Greater planning and employer consultation may help to embed training as a valuable part of the overall approach. The relationship between the long term unemployed individual and the employer can be cemented by the introduction of a skills based development programme, which increases the value of the employee in the workplace and, in theory, makes them less expendable (Marx 2005; Atkinson and Williams 2003; Katz 1998; Cockx *et al.* 1998). Employers are less demanding of specific technical skills if candidates exhibit employability and soft skills (Hogarth and Wilson 2003). These skills will follow if the individual is right for the business. It is these very core skills that employers report as lacking in the New Deal candidate.

Employer training pilots, established in 2002, set out to test the effect of an offer of VQ2 level training for low skilled workers – together with wage compensation to employers for the time taken off and direct training costs. Participating employers were less interested in the compensation on offer and more interested in training linked to business needs and the support of a business adviser (Hillage 2005). This brokered service analysed the skills need of the business and the personal qualities of the individual before providing a measured match of mutual benefit. Embedding an individual with skills potential within a business helps improve employment sustainability and reduce job drop out rates. Further, it raises the profile and value of training in the business community (Dearden 2005; Hillage 2005). The offer of flexibly delivered, Government funded VQ level 2 training in priority sectors through the ‘Train2gain’ initiative offers evidence of new, more progressive thinking in this regard.

A more considered, selective and intelligent approach to training within a revised New Deal should help to improve its value and credibility within the business community.

***Flexible Fund. Local Discretion. Area Focus***

Small, flexible and personalised support services can go far in preventing small issues developing as serious impediments to labour market participation. This provision is becoming more common in intervention programme design. This discretion reflects new partnership models and operational flexibility, recognising that large scale centralised and rigid programme design cannot account for very specific localised factors.

***Aftercare***

The provision of aftercare recognises the importance of job sustainability as offering social and economic stability, providing a strong platform for professional development, upskilling and increasing individual labour value. Ongoing support service can prove valuable to employer and the employee. This helps to prevent avoidable job drop out, improves longer-term outcomes and ultimately increases efficiency and effectiveness in labour market interventions. The role of a dedicated personal adviser appears as central to this. Most intervention programmes stemming from the New Deal now recognise the importance of this.

**Employers as Full Partners**

In the original New Deal model, employer goodwill was taken for granted. This has been a missed opportunity, or an opportunity squandered. In relative terms, little consideration was given to stated business needs whilst much was given to the needs of the individuals with whom they were expected to work with, develop and employ.

The initial interest and goodwill of the employer community could not be captured through fragmented and incoherent policy and practice which offered little by way of true partnership. The attempted implementation of public policy through the vehicle of the private sector employer raised a series of incompatible issues and in the end little business benefit or community level effect was evident.

The features of a strong employment intervention programme, suggested above, are welcome developments but, in many cases, will require further development in proving attractive to employers. Greater consideration of employer need is critical in

any future employment intervention model informed by the experiences of the New Deal (ERS 2005).

### ***Understanding Business Behaviour***

Small business are sensitive, fragile and sophisticated organisations whose behaviour is affected by a large range of external and internal factors which hold more influence over the decision to recruit than the crude attraction of a wage subsidy. Small business employers consistently report that such subsidies are of little benefit as stand alone interventions.

Where private business influence has been apparent on the design and operation of the New Deal model, it has been mainly through organisations such as Welfare to Work Coalition or Employer Forum. Some representation from small business groups may be evident (perhaps through the Federation of Small Business or local Chamber of Commerce) but in the main design level discussions are dominated by larger business and public sector organisations. Given the scale of their employment potential , the voice of the small business is relatively weak here.

Future interventions based on the New Deal experiences should learn more about the behaviour of these small businesses, what they favour in terms of support services, how their development and employment growth can be assisted and how the central business function can be protected and enhanced during this process. Without this attention to detail, it is likely that future interventions will be received with similar suspicion and indifference. This underlines the central importance of strong and meaningful employer partnerships running from the design to the operational stages. Understanding small business needs by sector, size, location and a host of other factors may then help anticipate how best they will respond and cooperate.

### **Conclusion**

Tackling unemployment through an interventions structure which assumes a simplistic relationship between the skills requirements of the small business and the vocational qualities of the unemployed is unrealistic. This is especially so in the case of the small business whose specific needs and operational sensitivities require

sophisticated support measures. The Employment Service deal almost entirely with small businesses yet very few of the vacancies processed were converted to New Deal opportunities. The simple job matching measures that New Deal delivered appeared crude in concept and limited in effect.

New Deal has not positively influenced the recruitment practices of small business in favour of the long term unemployed. From this experience it can be said that small business is not an appropriate vehicle through which to tackle unemployment. For this to occur successfully a new model of engagement is required; one built from strong employer dialogue and demand sensitive support structures.

The strength of the employer/employee relationship is based on the value of the employee. Where this can be enhanced through; better identification, prevocational preparation, skills development, aftercare and vocational progression, employee value increases and job tenure improves. Many features emerging from recent UK practice now recognise this and are evident in Employment Retention and Advancement, Train2gain, StepUp, Intermediate Labour Markets, Action Team, Employer Training Pilots and Condition Management programmes.

The strong relationship encouraged by these integrated measures, in turn, improves the relationship between employers and employment support agents and contributes to an approach more in keeping with human capital than employment theory. Such approaches can extend further into supporting the key tenets of employability identified as weakly supported by the New Deal; assets, deployment, presentation and circumstances (Hillage and Pollard 1999).

We have seen that lightly resourced, market driven interventions may only be of temporary effect and offer little in terms of structural, long-term employment opportunity in partnership with the employer community. Investment in longer term, sophisticated and intensive forms of employment intervention are likely to provide the quality required by small business. There are some early encouraging signs that this is now acknowledged in policy. However, until further progress is made towards this, and qualitative improvement becomes evident, small businesses are unlikely to

present as a straightforward employment destination for labour market interventions working with the unemployed

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