



Generation Crunch: the demand for recent graduates from SMEs

Research Report
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1 Introduction

- 1.1 In October 2009, it was confirmed that the British economy was experiencing the longest recession since records began in 1955.¹ Despite signs of a slowdown in the growth of unemployment, the number of people without work stood at 2.46 million.²
- 1.2 While there is evidence to suggest that individuals with higher level qualifications are less likely to be unemployed³, many recent graduates are still struggling to find work. The Association of Graduate Recruiters reported in July that graduate vacancies had plummeted by 25% and that an average of 48 applicants were competing for each available job.⁴ In November, research by the Higher Education Careers Services Unit found that graduate unemployment had increased by 44% in 12 months and was at its highest for 12 years⁵. Recent graduates are also competing with an increasing number of experienced workers who have lost their jobs and are attempting to return to the labour market.
- 1.3 In some respects, the challenges faced by recent graduates in the current recession are more acute than in previous downturns. In recent years there has been a rapid increase in the number of people entering higher education, leading some commentators to warn of an oversupply of graduates.⁶ The class of 2009 is also the first to have paid up to £3,225 in top-up fees for each year of study. It is not surprising that recent graduates have been described as 'generation crunch'.⁷
- 1.4 The government response has been to unveil a package of measures including the Graduate Talent Pool internship programme⁸ (aimed at graduates from 2008 and 2009) and funding to support 10,000 internships in small and micro businesses in partnership with the Federation of Small Businesses. While these measures are to be welcomed, ultimately, the fate of generation crunch will be determined by the demand for their services from employers.
- 1.5 Although there is a relatively clear picture of the demand for recent graduates from the public sector and larger businesses (particularly from the biannual Association of Graduate Recruiters survey), much less is known about demand from Small and Medium-sized Enterprises (SMEs). Indeed, a 2002 study by Leeds Metropolitan University for the Small Business Service, warned that without more information:

*"policy makers will carry on 'running blind' in rising to the challenges presented in stimulating a stronger relationship between supply and demand in the SME graduate labour market."*⁹

1.6 A follow-up study in 2007 indicated that little progress had been made:

“In 2002 public policy had clearly recognised the value of expanding SME demand for new graduates. It simply was ill equipped to base any decision making on a sound evidence base. This is still the case.”¹⁰

1.7 This matters, as there are an estimated 4.8 million SMEs in the UK, employing 23.1 million people, with a combined annual turnover of £3,000 billion. Together, SMEs account for 99.9% of all enterprises, 59.4% of private sector employment and 50.1% of private sector turnover.¹¹

1.8 To be effective, policy interventions aimed at *stimulating* the demand for generation crunch graduates must be shaped by a clearer understanding of what drives the recruitment decisions of SMEs, what the main barriers and enablers to recruitment are, and what impact graduate recruitment has on these businesses. The aim of this report is to develop a more sophisticated understanding of the current and future demand for generation crunch graduates (individuals that graduated in the 18 months between January 2008 and August 2009) from SMEs. The report findings are based on a telephone survey of 502 SMEs in the East Midlands conducted during August 2009.

1.9 We do not pretend that this report provides a *conclusive* summary of SME demand for graduates. As so little research has been conducted in this area, our intention was to take a snapshot of demand in one region and use this to stimulate a debate (amongst policymakers, higher education providers and graduates) and provide a foundation for further study. In some respects, the questions raised by this report are as important as the answers it provides.

1.10 The focus on ‘generation crunch’ graduates is timely, but also reflects the fact that much of the existing data relating to graduate recruitment either does not take into account *when* the individuals in question actually graduated or focuses exclusively on ‘young’ graduates¹². While our definition of a recent graduate may appear somewhat arbitrary, it at least allows us to focus on individuals (of any age) that are likely to be entering the labour market for the first time after graduating. It is also worth noting that in most institutions, graduation ceremonies take place in both the summer and winter, so in using our 18 month definition will have captured at least three different cohorts of graduates.

1.11 After this introduction, chapter 2 outlines the key findings from our research and chapter 3 the research method. Chapter 4 summarises the extent of demand for generation crunch graduates. Chapter 5 provides an analysis of *generation crunch recruiters* - those SMEs that had recruited a recent graduate in the last 12 months, and chapter 6 looks at *generation crunch non-recruiters*. Chapter 7 explores the demand for placement students and interns and we conclude in chapter 8 with a summary of the key messages from our research.

2 Key findings

Many SMEs are unclear what a graduate level qualification is

- What is a graduate? We began our survey by asking each SME to identify the qualifications (from a broad selection of nine) they considered to be 'graduate level'. The results suggest that a significant minority of SMEs are unclear what counts as a graduate qualification. For example, one third (29%) incorrectly identified A-Levels as graduate-level and just 59% correctly identified Foundation Degrees as being so.
- This confusion over the graduate 'brand' could limit the impact of initiatives aimed at stimulating the demand for generation crunch. A proportion of graduates could also be overlooked by some SME recruiters. There is a clear need to rationalise the plethora of qualification frameworks, levels, and agencies that currently litter the education and skills landscape and to develop an easily understandable summary of what is (and what isn't) a graduate level qualification.

The recruitment of generation crunch graduates by SMEs is a minority pursuit

- Once furnished with the correct definition of a graduate qualification, just 11% of SMEs reported they had recruited a generation crunch graduate in the *last* 12 months and only 12% indicated they would do so in the *next* 12 months. The likelihood of recruiting increased in line with business size and each SME recruited an average of 2.5 generation crunch graduates.
- These figures are not as gloomy as they might appear. The sheer number of SMEs means that even with just 11% recruiting an average of 2.5 staff this could still equate to several thousand vacancies. A modest policy goal of securing a small percentage point rise in the number of SMEs (particularly larger ones) recruiting recent graduates could result in a significant increase in the number of opportunities for generation crunch.

Generation crunch recruiters:

- **May be in the minority:** but are spread across all broad industry groups (with the exception of production and transport). The majority recruited recent graduates under the age of 25 that had studied on a full time basis.
- **Primarily value the skills of recent graduates:** when asked to specify their primary reason for recruiting a recent graduate rather than a non-graduate, the most frequently cited response was that graduate-level skills were required for the role. Generation crunch recruiters also valued the employability skills and experience of recent graduates over non-graduates. While almost all had minimum entry requirements, they related more to the skills and experience of candidates than degree classification or subject studied.

- **Report high rates of impact and retention:** 62% had definitely or possibly seen a positive financial return on the financial investment made in recruiting a generation crunch graduate. More generally, just 4% of recent graduates were reported as leaving the business within one year and 28% were still employed after 5 years.
- **Claim to mainly recruit graduates into graduate level positions:** 74% had recruited a recent graduate to fill what they understood to be a 'graduate level' position – one that requires (and was advertised as requiring), a graduate-level qualification. However, this finding should be treated with caution, as the concept of a 'graduate job' is defined and understood in a variety of different ways. It is also possible that some SMEs were reluctant to admit (or unaware) they had recruited a recent graduate to fill a non-graduate role.

Generation crunch non-recruiters:

- **Report that lack of demand, rather than inadequate supply, is their primary reason for not recruiting:** some 48% of generation crunch non-recruiters had no job vacancies to fill (at any level) and 39% indicated they did not require graduate level skills in their business.
- **Say improving the quality of recent graduates will do little to encourage them to recruit in the future:** almost one third (32%) indicated that nothing would make them recruit a generation crunch graduate in the next 12 months. A similar number (29%) reported that a change in their business strategy would be required before their recruitment plans changed. While 19% suggested that an improvement in the quality of recent graduates *would* make them recruit one in the next 12 months, none cited this as a reason for *not* recruiting in the last 12 months.
- **Want government to provide more money to incentivise graduate recruitment:** when asked what more government could do to encourage the recruitment of generation crunch graduates, unsurprisingly, most non-recruiters identified either a training or recruitment subsidy.

The recruitment of placement students and interns is also a minority pursuit:

- Just 9% of all the SMEs we surveyed had actually recruited a placement student or intern in the last 12 months and half of this group indicated that they would not be doing so again during the next 12 months.
- However, this minority of SMEs pointed to a range of benefits from recruiting a placement student or intern, for example, over one third (36%) reported that it was a good way of recruiting staff on a permanent basis.

3 Research method

3.1 The aim of our research was to assess the extent and demand for recent graduates from Small and Medium-sized Enterprises (SMEs) in the East Midlands. This report outlines the key findings from our research and is based on a telephone survey of 502 SMEs conducted during August 2009. The survey focused on SMEs that:

- are based in the East Midlands region
- are VAT or PAYE registered, private enterprises
- employ between 2 and 249 members of staff

3.2 SMEs employing fewer than 2 staff were outside the scope of the research. The propensity to recruit staff increases in line with business size and so the incidence of graduate recruitment in this size band was always likely to be negligible. According to the National Employers Skills Survey 2007, just 11% of micro establishments (with between 2 and 4 staff) reported vacancies *at any level* during the year¹³, and only 5% had recruited anyone under 24 straight from higher education.¹⁴ Our own findings indicate that only 1% of SMEs with between 2 and 9 staff had recruited a recent graduate in the preceding 12 months.

3.3 According to the latest available data, there were 96,430 SMEs that matched all three criteria.* Quotas were set to ensure that our survey sample reflected the distribution of these SMEs by county and broad industry group. We set disproportionate quotas for business size to allow us to make meaningful comparisons between SMEs in different size bands.

3.4 Using a structured questionnaire, the survey was conducted with the individual within each business identified as having overall responsibility for recruitment (e.g. CEO/Director, senior manager, HR manager).

3.5 Graduates were defined as holders of any qualifications awarded at Levels 5 through to 8 on the Framework for Higher Education Qualifications in England, Wales and Northern Ireland (FHEQ).¹⁵ Drawing on the Framework, Table 1 illustrates the main qualification types at each level:

* According to bespoke data ordered from the Inter-Departmental Business Register, Office for National Statistics.

FHEQ level	Example qualifications
5	Foundation Degrees, Diplomas of Higher Education, Higher National Diplomas
6	Bachelor's Degrees, Graduate Diplomas/Certificates
7	Master's Degrees, Post Graduate Diplomas/Certificates
8	Doctoral Degrees

Table 1: Definition of 'graduate level' qualifications used in the research

3.6 As the survey focused on the extent and nature of 'recent' graduate recruitment, respondents were asked to base their responses on individuals that had graduated since the beginning of 2008 (the preceding 18 months). It was during 2008 that the slide into recession began and the unemployment rate started to increase.

4 The extent of demand for generation crunch graduates

4.1 In this chapter we present our findings relating to the extent of existing and future demand for recent graduates from SMEs.

Defining a 'graduate'

4.2 Our first finding is that there is not a clear or shared understanding of the term 'graduate' amongst SMEs. Before we provided respondents with our definition, we asked each SME to identify which qualifications (from a broad selection of nine) they considered to be 'graduate level'. The results are outlined below in Figure 1 (the five qualifications above the dashed line are graduate level, the four below are not). Strikingly, 29% of SMEs incorrectly identified A-Levels as graduate-level qualifications and just 59% correctly identified Foundation Degrees as being so.

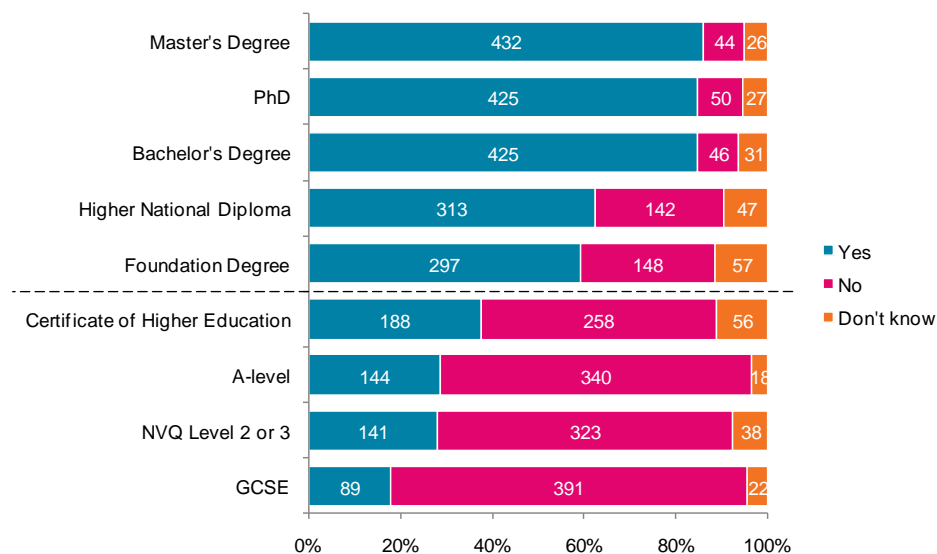


Figure 1: Which of the following qualifications do you consider to be graduate-level?
Base = 502

4.3 This chimes with the findings of previous CFE research that found many businesses struggle to understand the range of qualification frameworks and associated levels that are currently in use.¹⁶ While our definition is based on the Framework for Higher Education Qualifications (FHEQ), there is also the National Qualification Framework (NQF) and Qualification and Credit Framework (QCF) to contend with.¹⁷ In this context, it should perhaps come as little surprise that some SMEs struggled to distinguish between graduate and non-graduate qualifications.

Current and future demand

4.4 Once furnished with our definition, it soon became clear that the recruitment of recent graduates by SMEs is a minority pursuit. As Figure 2 illustrates, just 11% of the SMEs we consulted had recruited a recent graduate in the last 12 months, with the likelihood of recruiting increasing in line with business size.

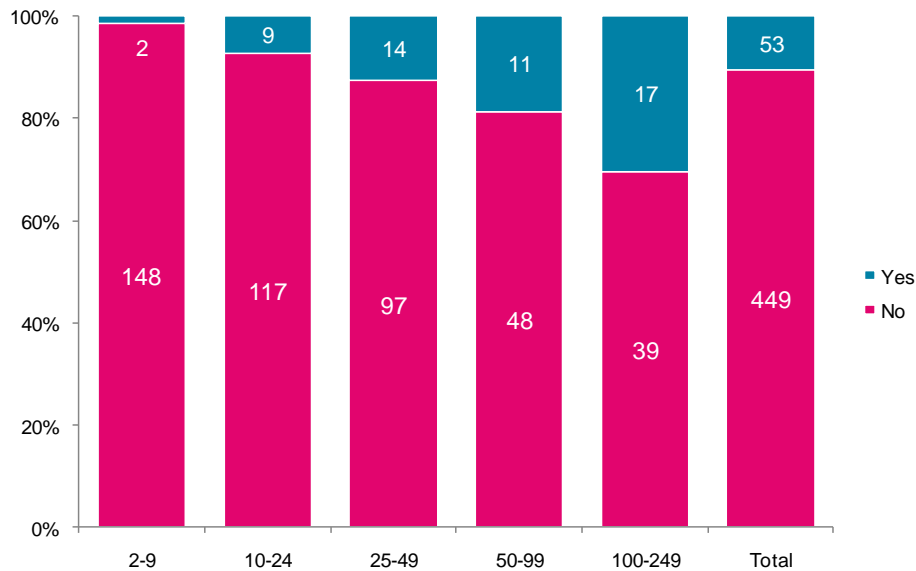


Figure 2: Has your business recruited a recent graduate in the last 12 months? (results by business size) Base = 502

4.5 When asked about their future intentions, the results were very similar, with just 12% of SMEs reporting that they planned to recruit a recent graduate in the next 12 months. The most recent National Employer Skills Survey (NESS)¹⁸ found that 9% of employers in the East Midlands had recruited an individual *under the age of 24 into their first job from university or higher education*, compared with a national average of 10%. Notwithstanding the methodological challenges presented in comparing survey data outlined in the introduction, this suggests that our results are broadly comparable with national trends.

5 Generation crunch recruiters

- 5.1 In this chapter we explore the nature of demand from the minority (11%) of SMEs that had recruited a generation crunch graduate in the preceding 12 months.
- 5.2 In particular, we examine:
- Reasons for recruiting
 - The recruitment process
 - The impact of recruitment and retention rates
- 5.3 Despite being small in number, we know that SMEs across all broad industry groups (with the exception of production and transport) recruited a recent graduate in the preceding 12 months. The 53 generation crunch recruiters in our survey recruited a total of 136 graduates. Most were under the age of 25 and had studied full-time. Just 38 were over the age of 25 and only 8 had studied part-time.

Reasons for recruiting

- 5.4 When SMEs were asked to specify their principal reason for recruiting a recent graduate instead of a non-graduate, the most frequently cited reason was that graduate-level skills were required for the role. As Figure 3 illustrates, SMEs also valued the employability skills and experience of recent graduates over non-graduates. A significant number of respondents (38%) indicated that they had not set out to recruit a recent graduate *per se*, but had selected one on the basis they were stronger than other, non-graduate candidates.

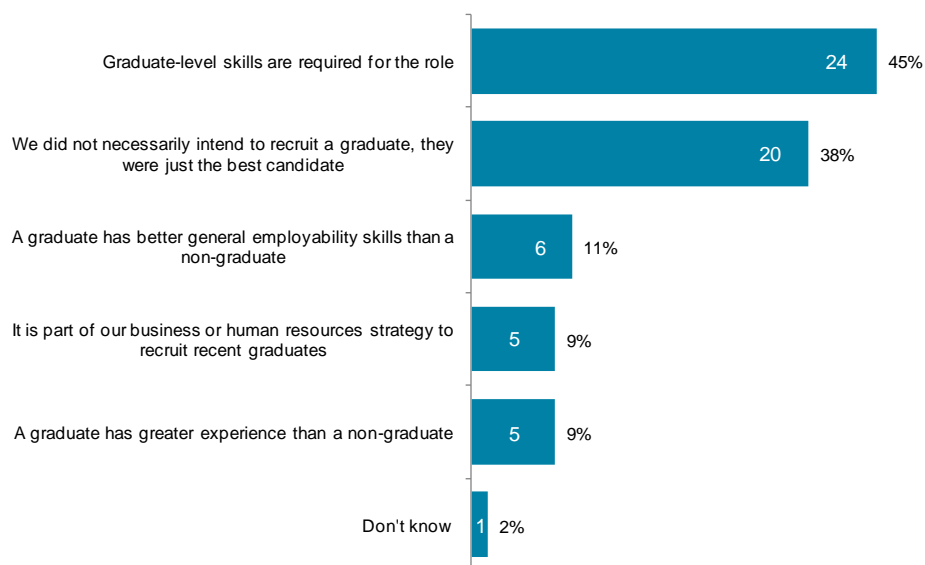


Figure 3: What was the principal reason for recruiting a recent graduate rather than a non-graduate? Base = 53

5.5 While there is no single, agreed definition of a graduate, the concept of a 'graduate job' is also defined and understood in a variety of different ways. Evidence suggests that graduates today fulfil a wider range of occupations than was the case several decades ago – largely as a result of economic and technological changes to demand, combined with an increase in the supply of recent graduates entering the labour market.¹⁹ This has led to the development of a four-part categorisation of graduate employment into traditional, modern, new, and niche occupations.²⁰ These can be distinguished from non-graduate occupations by the extent to which they make use of the skills and knowledge imparted through higher education.

5.6 In this context, it is encouraging to note that 74% of SMEs had recruited a recent graduate to fill *what they understood to be* a 'graduate level' position – one that requires (and was advertised as requiring), a graduate-level qualification. This counters the fear expressed by some commentators that many generation crunch graduates would be forced into menial 'McJobs'.²¹ However, it is also possible that some SMEs were reluctant to admit (or unaware) they had recruited a recent graduate to fill a non-graduate role.

The recruitment process

5.7 Generation crunch graduates should keep their eyes on the press; as Figure 4 illustrates, advertising in local, national or trade publications was the most common method of recruiting recent graduates used by the SMEs in our survey. It is striking that just 23% used a university or college to help recruit their recent graduates.



Figure 4: What methods does your business use to recruit recent graduates? Base = 53 (multiple response)

5.8 It is common for larger businesses to set minimum entry requirements for their graduate intake, many insist on a minimum 2.1 degree classification for example.²² As the number of graduates in the job market increases, some larger businesses are raising the bar for entry to ensure they get the best candidates.²³ Our research suggests that while SMEs almost all have minimum entry requirements, they tend to relate more to the skills and experience of candidates than degree classification or subject studied (see Figure 5). The requirement to have studied at a particular university or college was not cited by any of the SMEs in our survey.

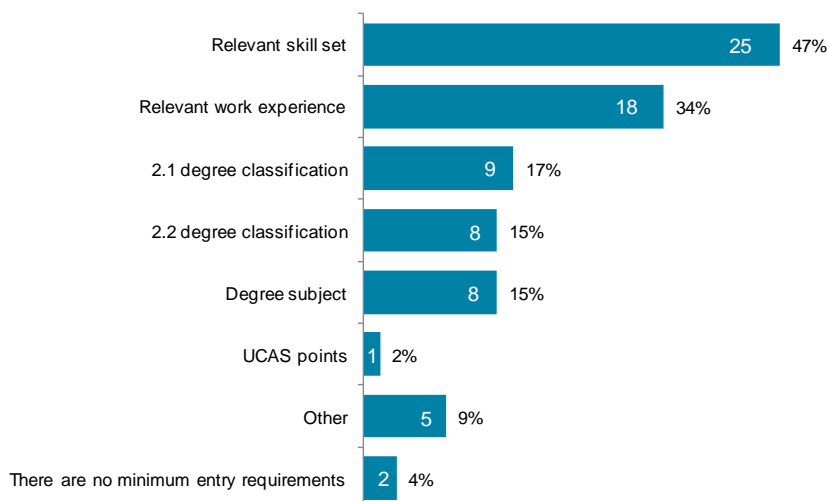


Figure 5: What are the minimum entry standards for recent graduates joining your business? Base = 53 (multiple response)

5.9 It is often difficult to elicit detailed financial information in business surveys. Respondents rarely have the information at their fingertips and can sometimes be reluctant to share this with a third party. In our survey, 40% either could not or would not share information on recent graduate salaries with us. Despite this, all respondents were happy to outline the wider benefits offered

to attract generation crunch graduates – and 77% offered at least one of the benefits outlined in Figure 6.

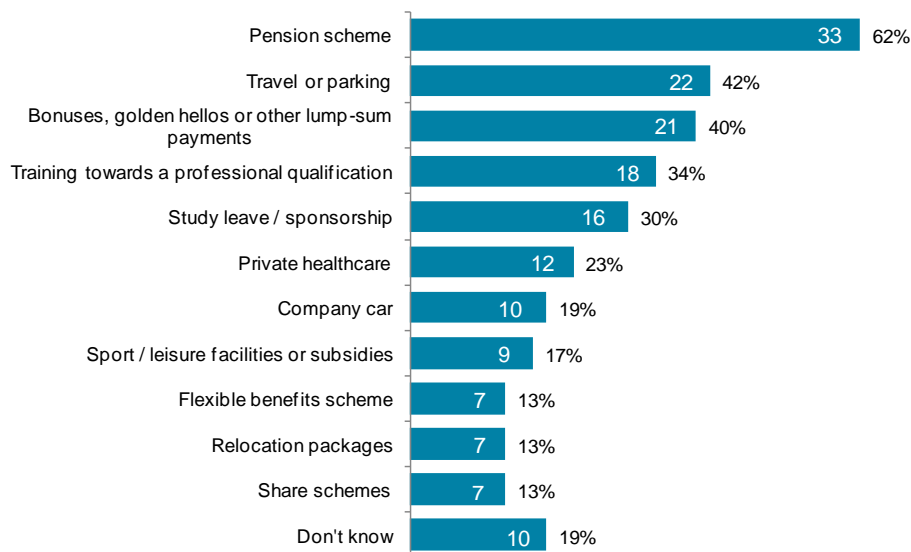


Figure 6: What additional benefits do you offer to attract recent graduate recruits? Base = 53 (multiple response)

5.10 However, SMEs do not compare as favourably with larger businesses in this area. The Association of Graduate Recruiters found that 96% of its membership offer a pension scheme, 85% offer training towards a professional qualifications and 64% offer private healthcare.²⁴

The impact of recruitment and retention rates

5.11 Generation crunch graduates have a positive impact on the SMEs they work for. Figure 7 outlines the main areas of the business where this impact was felt.

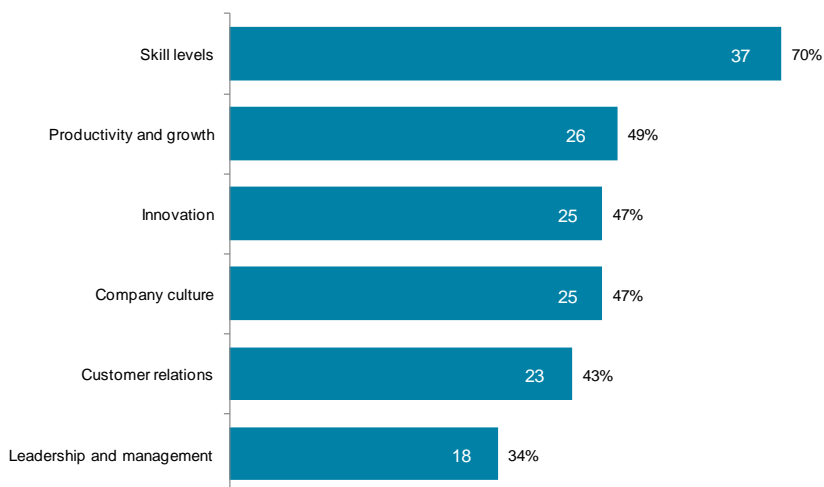


Figure 7: In what areas of your business have recent graduates made a positive impact? Base = 53 (multiple response)

5.12 As Figure 8 shows, almost two thirds (62%) of these SMEs had definitely or possibly seen a positive return on the financial investment made in recruiting a recent graduate.

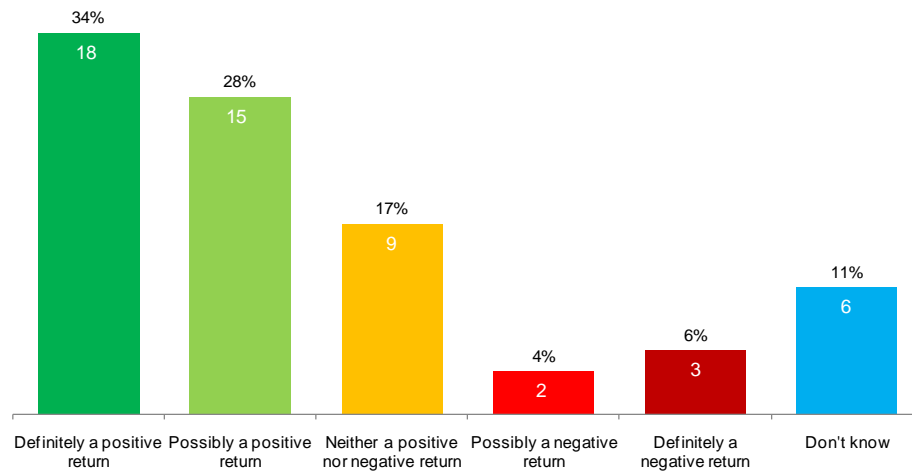


Figure 8: To what extent has your business seen a positive or negative return on the financial investment made in recruiting a recent graduate?
Base = 53

5.13 Encouragingly, the typical retention rate of recent graduates in SMEs is high. Just 4% were reported as leaving within one year and 28% were still employed after 5 years. The high proportion of don't know responses is understandable given that not all SMEs have an HR function and/or systematically monitor their employment retention.

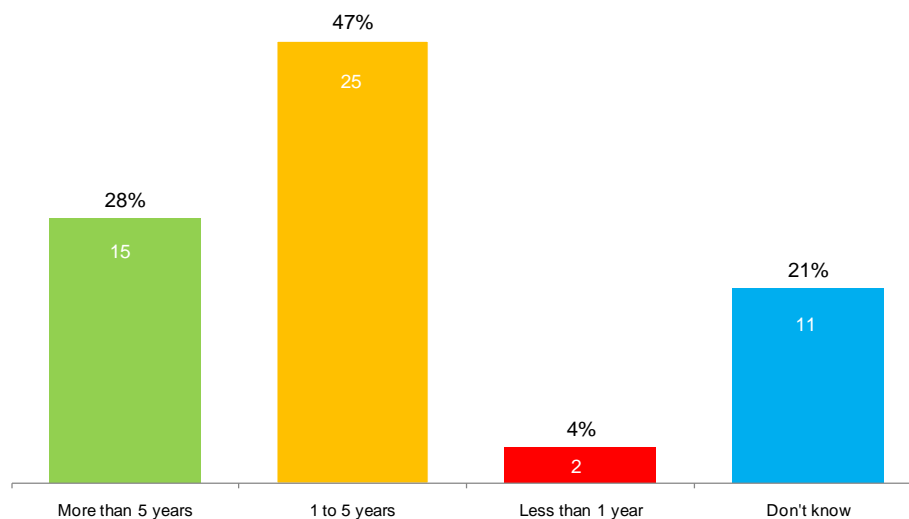


Figure 9: Typically, how long do recent graduates stay with your business once they have been recruited?
Base = 53

6 Generation crunch non-recruiters

6.1 In the previous chapter we explored the nature of demand from generation crunch recruiters. In this chapter, we focus on the majority (89%) of SMEs we surveyed that had *not* recruited a recent graduate in the past 12 months – the generation crunch non-recruiters. In particular, we explore:

- Reasons for not recruiting recent graduates
- How to encourage recruitment in the future

Reasons for not recruiting recent graduates

6.2 As we can see from Figure 10, the two most frequently cited reasons for not recruiting a recent graduate relate to a lack of demand. Some 48% of generation crunch non-recruiters had no job vacancies to fill (at any level) and 39% indicated they did not require graduate level skills.

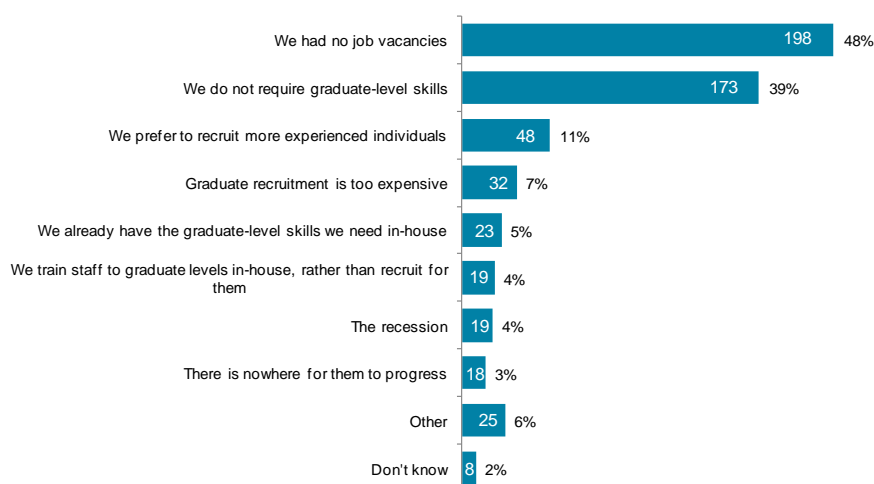


Figure 10: Why did your business not recruit a recent graduate in the last 12 months?
Base = 449 (multiple response)

6.3 It is striking how few respondents cited cost (7%) as a reason for not recruiting. While 11% indicated they preferred to recruit more experienced individuals, none cited dissatisfaction with the quality of graduates as a reason for not recruiting.

How to encourage recruitment in the future

6.4 As the vast majority of SMEs in our survey fall into the non-recruiter camp, it is important to identify what factors might change their behaviour. Almost one third (32%) indicated that nothing would make them recruit a generation crunch graduate in the next 12 months. A similar number (29%) reported that a change in their business strategy would be required before their recruitment plans changed. While 19% suggested that an improvement in the quality of recent graduates would make them recruit one in the next 12 months, it is worth remembering that none cited this as a reason for *not* recruiting in the last 12 months.

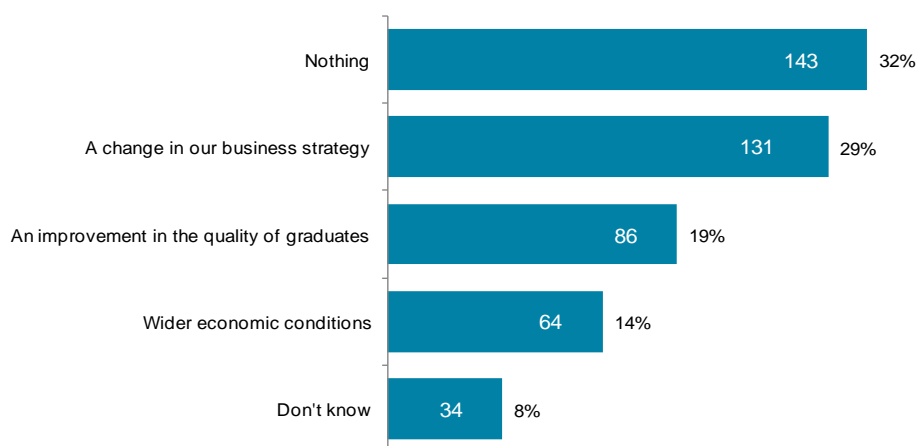


Figure 11: What would make your business recruit a recent graduate in the next 12 months?
Base = 449 (multiple response)

6.5 When asked what government could do to encourage the recruitment of recent graduates, the provision of either a training or recruitment subsidy was the most frequent response (see Figure 12).

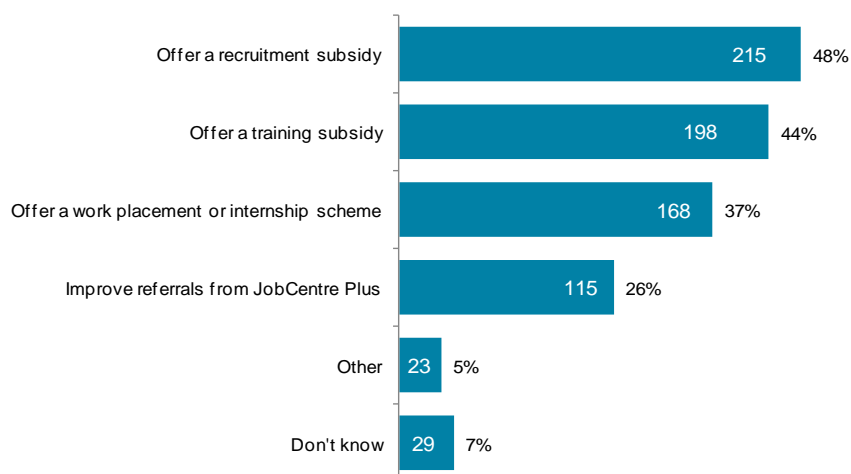


Figure 12: How could government encourage you to recruit a recent graduate?
Base = 449 (multiple response)

6.6 The prominence of subsidies is hardly surprising, but as we saw in Figure 10, just 7% of these SMEs cited cost as a reason for not recruiting a recent graduate in the last 12 months. However, the relatively healthy demand for a work placement or internship scheme is explored in more detail in the next chapter.

7 The demand for placement students and interns

7.1 In the previous chapter, we saw that over one third (37%) of generation crunch non-recruiters indicated that government could encourage them to recruit a recent graduate by offering a work placement or internship scheme.

7.2 However, as Figure 13 illustrates, just 9% of all the SMEs we surveyed (both recruiters and non-recruiters) had *actually* recruited a placement student or intern in the last 12 months. Just over one third of this group had also recruited a recent graduate in the last year.

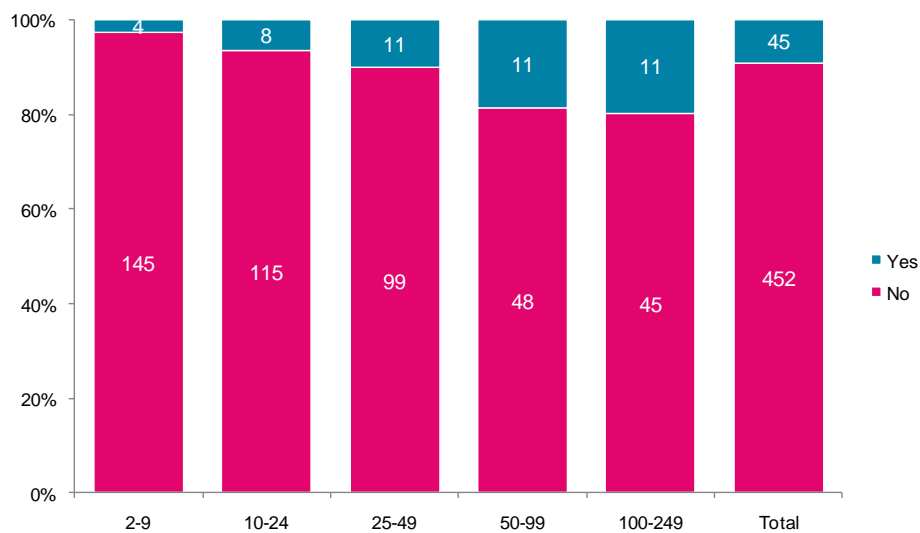


Figure 13: Has your business recruited a placement student or intern in the last 12 months (results by business size, excludes 5 don't know responses)
Base = 502

7.3 Between them, this 9% (45 in total) had recruited some 146 placement students or interns from higher education. As we can see from Figure 14, the majority (71%) were undergraduates - typically undergoing an industrial or 'sandwich' year as part of their course - one quarter were graduates and a small minority (4%) were postgraduate students.



Figure 14: At what stage of education were the placement students or interns you recruited in the last 12 months?
Base = 45

7.4 As Figure 15 illustrates, these SMEs experienced a range of benefits from recruiting a placement student or intern. Over one third (36%) reported that it was a good way of recruiting staff on a permanent basis. Surprisingly, the most frequently cited benefit related to the employability prospects of the student or intern rather than a 'bottom line' business benefit.

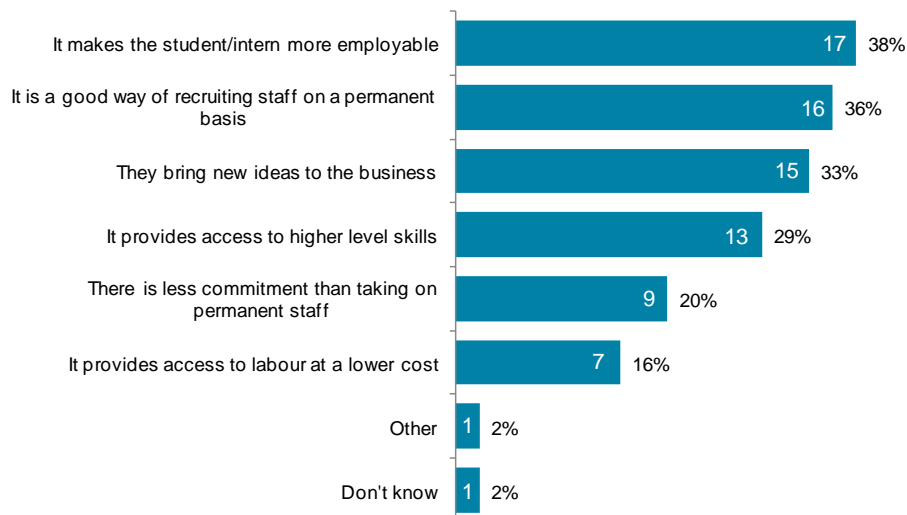


Figure 15: What have been the main benefits of recruiting a placement student or intern?
Base = 45 (multiple response)

7.5 Worryingly, almost half (49%) of SMEs that had recruited a placement student or intern in the last 12 months did not intend to do so in the next 12 months. When all SMEs were asked about the main barriers to recruiting a placement student or intern, the most frequently cited response was, by some distance, 'lack of need'.

8 Conclusions

- 8.1 As we outlined in the introduction, there is a very limited body of research relating to the demand for graduates from SMEs. As far as we are aware, this is the first study that focuses specifically on the demand for *recent* graduates (however defined) from SMEs. While our study was relatively small in scale and focused on businesses in a single region, we believe that our findings provide a valuable foundation that policymakers and providers of higher education can build on to help *stimulate* the demand for generation crunch graduates from SMEs.
- 8.2 Yet for this to happen, at a very basic level all SMEs should have a clear understanding of what it is to be ‘a graduate’. The fact that many do not, can largely be attributed to the plethora of frameworks, levels, qualifications and agencies that litter the education and skills landscape.
- 8.3 Imagine for a moment that you are an SME employer seeking clarification on this issue. A website search for the Qualification and Curriculum Authority (QCA) would redirect you to the agency that it is currently transforming into – the Qualifications and Curriculum Development Agency (QCDA). QCDA provides information on the Qualifications and Credit Framework (QCF) which outlines nine levels (entry to level 8) of qualifications. They are also responsible for the (soon to be defunct) National Qualifications Framework (NQF), but not the regulation of exams, which is the responsibility of the Office of the Qualifications and Examinations Regulator (Ofqual). While the Explaining Qualifications section of the Ofqual website does a good job of explaining how the NQF and QCF relate, it also has a link to the Quality Assurance Agency (QAA) that has responsibility for the Framework for Higher Education Qualifications (FHEQ) which places qualifications on a level between 4 and 8. The FAQ section of the QAA website tells users that for details of ‘non-graduate’ qualifications they should visit the QCA website. At this point, the SME employer has gone full circle, but can at least presume that the qualifications on the FHEQ are all graduate level.
- 8.4 The confusion does not end here. Using the examples provided by Ofqual, a Level 7 fellowship in music performance on the NQF/QCF is a higher qualification than a Bachelor degree (which appears at Level 6 on the FHEQ). So while graduate qualifications are always higher level qualifications, higher level qualifications are not always graduate qualifications. *To the layperson, this is utterly bamboozling.* While the UK Commission for Employment and Skills is currently leading a drive to simplify employment and skills services, there is clearly an additional need to develop, in conjunction with the HE sector, a clear definition of what it is to be a graduate.
- 8.5 This is more than a question of semantics. Policy interventions aimed at stimulating the demand for graduates must be underpinned by a clear

understanding of what a graduate is. At a practical level, a proportion of graduates could also be overlooked by some SME recruiters.

- 8.6 In terms of our headline findings, we should not be too downhearted that just 11% of SMEs had recruited a recent graduate in the last year and only 12% planned to do so at some point in the next 12 months. The sheer number of SMEs means this could still equate to several thousand vacancies for generation crunch graduates. A modest policy goal of securing a small percentage point rise in the number of SMEs (particularly larger ones) recruiting recent graduates could lead to a significant increase in the number of opportunities available.
- 8.7 SMEs that do recruit generation crunch graduates have an encouraging story to tell. While it is clear that not all recruits enter 'graduate level' roles (however defined), two thirds have seen a positive return on the financial investment made and most report that retention levels are high. However, less than a quarter had involved a university or college in the recruitment process. There is clearly untapped potential here for greater higher education-SME collaboration, particularly as most universities and colleges are attempting to engage with businesses on a number of other fronts such as contract research and workforce development.
- 8.8 Our research suggests that the current trend for increasing the employability skills of graduates is unlikely to result in a significant increase in the level of demand from SMEs. The government's recent paper on the future of the higher education sector, *Higher Ambitions*²⁵ outlined plans for all universities to produce a statement on how they promote student employability and prepare their students for the employment market. However, in our study, the majority of SMEs that had not taken on a recent graduate in the last 12 months reported that lack of demand, rather than inadequate or unsuitable supply, was their primary reason for not recruiting.
- 8.9 This chimes with the recent *Ambition 2020*²⁶ report produced by the UK Commission for Employment and Skills, which concluded many UK employers (of all sizes) are pursuing business strategies that do not require graduate-level skills and the supply of graduates is outpacing the growth of jobs that require them. Taken together, this suggests that increasing the employability skills of graduates will – in isolation – have only a marginal impact. The same is true of initiatives aimed at promoting, subsidising or improving access to graduate recruits; while they may lead to a short term reduction in graduate unemployment they do not address the fundamental barrier – lack of business need – that prevents most SMEs from recruiting.
- 8.10 A longer term approach, which emerged earlier this year in the government's paper *Building Britain's Future - New Industry, New Jobs*²⁷ is to identify and support a number of key sectors to stimulate growth and assist economic recovery. This industrial activism has meant that funding (including that provided to universities to place graduate interns) is already being prioritised to support key sectors. However, as we have identified that the recruitment of recent graduates and interns by SMEs is a minority pursuit, targeting

interventions at a small number of nationally-defined sectors may do little to change the behaviour of the majority of businesses.

8.11 Further research focusing on the demand for recent graduates across all sectors could identify how best to develop a *sustainable* approach to graduate recruitment in SMEs. As a starting point, the National Employer Skills Survey indicates that the recruitment of graduates under the age of 24 from higher education during the previous 12 months varies widely between Sector Skills Council sectors (from 4% to 22%). While we have a clear indication of the extent of demand by business size, and broad comparisons with other data sources tell us that *overall* demand is similar across all English regions, the sectoral nature of demand for generation crunch graduates is not as well understood.

8.12 Finally, it is essential that government interventions aimed at stimulating the demand for generation crunch graduates are grounded in the day to day reality of running a business, particularly an SME. Recruitment decisions are rarely made in isolation from a wider range of human resource, strategic and financial decisions. There is also evidence to suggest that while the left hand of government is attempting to stimulate the adoption of high value added business strategies and graduate recruitment, the right hand is busily adding to the burden of regulation and oversight that SMEs have to contend with. Research by the Federation of Small Businesses (FSB) suggests that the average small business spends seven hours per week grappling with regulation.²⁸ In a recent interview²⁹ with the FSB, Lord Mandelson, the Secretary of State with responsibility for both business and universities accepted that this was an issue:

“When you bring together all the regulations that have been introduced, you can’t help but conclude that while each is probably justified, together it creates quite a burden. Government has to be very disciplined in genuinely justifying new legislation.”

8.13 In this context, it is little surprise that talk of increased activism makes some SMEs nervous. Success in encouraging businesses to recruit the brightest and the best of generation crunch may be determined as much by government doing less, as it will by asking SMEs to do more.

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