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About the RSA

The RSA (Royal Society for the encouragement of Arts, Manufactures and Commerce) believes that everyone should have the freedom and power to turn their ideas into reality – something we call the Power to Create. Through our research and 27,000-strong Fellowship, we seek to realise a society where creative power is distributed, where concentrations of power are confronted, and where creative values are nurtured. The RSA's Action and Research Centre combines practical experimentation with rigorous research to achieve these goals.

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Executive summary

Self-employment is growing rapidly in the UK. Since the turn of the century there has been a 30 percent increase in the number of people who work for themselves, with the result that one in seven of the workforce are now self-employed. Should these growth rates continue, the RSA predicts this community could soon be larger than the public sector workforce. While this trend is broadly to be welcomed, experience tells us that very few of the newly self-employed will ever take on staff. Government data shows that only three percent of sole traders hired someone (and kept them) over the 5-year period from 2007–2012. This is concerning not least because our economy has historically relied on small businesses to create jobs, particularly for those on the margins of society such as migrants, the recently unemployed and those with few qualifications. Doubling the recruitment rate to six percent would result in an extra 100,000 jobs being created and sustained over five years.

The government has sought to respond to this challenge by introducing a number of measures aimed at stimulating recruitment among sole traders – most of which have centred on breaking down the barriers to finance, deregulating the labour market or providing extra information. While it is too early to determine the impact of some of these measures, we know that a number have fallen well short of their intended targets. The National Insurance contribution holiday had very low take-up rates, with just six percent of the expected number of businesses benefiting from the tax break. Similarly, the wage subsidies provided by the Youth Contract were only used by a fraction of the businesses the programme was intended to reach. Efforts to further deregulate the labour market have also been met with strong opposition – from trade unions and business groups alike. A case in point is the fierce resistance to the Adrian Beecroft report of 2012, which called for the introduction of no-fault dismissals.

Taken together, the disappointing experience of using conventional policy levers to boost employee recruitment indicates the need for a fresh approach. In this report we argue for the application of behavioural insights to deepen our understanding of the challenge. Behavioural insights are new ways of thinking that draw upon the domains of psychology and neuroscience to explain what drives human behaviour and inform how it might be changed. To date these insights have been applied to address a variety of social challenges – from increasing the number of organ donors to boosting pension enrolment. Clearly behavioural interventions will only be effective in this setting if business owners can actually afford to take on staff. But government data shows that 23 percent of non-employers experienced an annual increase in turnover in the latest round of surveying, suggesting that the availability of finance is not the only obstacle, and that there is capacity in at least some businesses to take on employees.

With this in mind, this paper unpacks three types of barrier to employee recruitment among the self-employed (see Figure 1). The first are the

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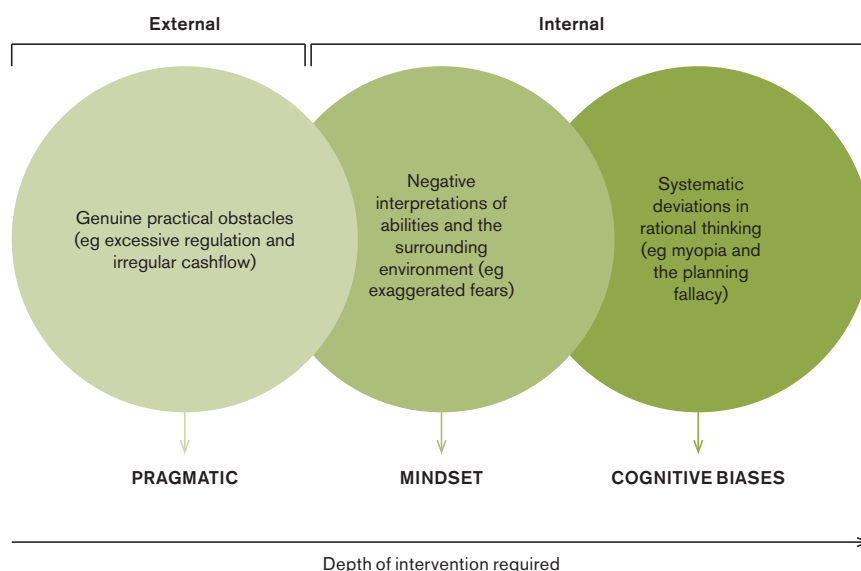
pragmatic issues that most people are familiar with, including the immediate costs of taking someone on. Not only do employers need to pay their staff wages, they must also cover employer National Insurance contributions and, under the new auto-enrolment scheme, will soon be required to make payments into their employees' pensions. Many business owners also lack knowledge about how to manage staff, with some unaware of their obligations to register with HMRC as an employer, purchase Employers' Liability insurance and set up on PAYE to record employee earnings. Moreover, there is nearly always a risk involved in taking on a new pair of hands. Many prospective employers fear that a worker could fall ill and require paid leave, or that they would be ineffective and difficult to remove.

Rather than repeat past interventions that have proven ineffective in dealing with these pragmatic issues, we instead propose several experimental ideas guided by the following four principles:

- **From reducing risk to pooling risk** – The starting point is to acknowledge that not all of the risks associated with recruitment can be eliminated. Efforts should therefore focus on finding new ways of *managing* risk, including by pooling it among business owners and local institutions. In practice this could involve establishing a collective insurance scheme for employees, or encouraging organisations like housing associations to 'host' workers and manage back-end HR and administrative tasks on behalf of small firms.
- **From hiring workers to accessing workers** – The notion of 'recruitment' has changed substantially in the last decade, with many business owners now preferring to hire freelancers and part-time staff rather than employ people on payroll. Policymakers and business support organisations should therefore aim to design interventions that can support more flexible types of employment. One useful measure would be to establish carousel-like workforce models, whereby businesses effectively 'share' employees with other firms. Another proposal is to reassess the IR35 tax rule, which serves to hamper the work of freelancers.
- **From stimulating demand to boosting supply** – The recruitment challenge is typically seen as one of limited demand, with too few self-employed people keen to take on staff. However, there is a flipside that relates to the inadequate *supply* of recruits who want to work in small businesses. Universities could help address this problem by organising careers fairs for small firms, while Jobcentre Plus should ensure they have a named member of staff in every branch who is tasked with helping small businesses raise awareness of their job opportunities.
- **From expanding support to consolidating support** – There is a temptation for policymakers to respond to the challenge of employee recruitment with a multitude of new schemes. Yet the business support ecosystem is arguably already bloated and too

costly. We argue that the government should focus on creating a leaner and more intelligent support system, which is informed by a greater number of randomised control trials (RCTs) and new bodies tasked with collating and sharing information on best-practice interventions.

Figure 1: Barriers to recruitment and growth



The second set of barriers to recruitment relate to the **mindset** of business owners. These barriers are rooted in the negative ways in which some entrepreneurs interpret the outside world and their own abilities to run their business. One aspect of this is the tendency to believe that the risks of taking on a member of staff are greater than they actually are. Comparing the attitudes of non-employers with those who have been through the process of hiring staff is telling. For example, only 22 percent of non-employers say the prospect of recruitment is very easy, yet the figure is over half for respondents who are *current* employers. The same divergence in opinion is mirrored in people’s attitudes towards crossing the VAT threshold – one potential consequence of employing staff. While 47 percent of business owners not registered for VAT say it would be difficult to operate their firm if they went past the threshold, this compares to just 13 percent of VAT registered business owners looking back in hindsight.

None of this is to dismiss concerns over the real obstacles that prevent people from taking on staff, especially their first employee. Rather it is to highlight that some fears are founded on inaccurate beliefs, and that these perceptions can be as powerful a brake on growth as genuine obstacles. One of the reasons for these misperceptions is that business owners are presented with too little relevant information, or with guidance that is inaccurate and impenetrable. A survey conducted by the accountancy body ICAEW, for instance, found that seven in ten businesses were unfamiliar with the government’s ‘one in, two out’ policy on new business regulation. Fault may lie with the government for not doing enough to raise awareness of such measures. Yet part of the problem is that any messages must

People may report (and genuinely believe) that the prospect of taking on an employee is difficult in part because they intrinsically lack faith in their own ability

compete with a multitude of other demands on the attention of business owners. In an environment where we are saturated with information, the messages most likely to be absorbed are those that are particularly striking – in this case, negative stories related to taking on an employee.

Alongside exposure to distorted information, exaggerated fears may also be traced back to a lack of self-efficacy among business owners. Put simply, people may report (and genuinely believe) that the prospect of taking on an employee is difficult in part because they intrinsically lack faith in their own ability to grow their business. Although this may contradict the image of the confident entrepreneur held up in popular imagination, it is important to remember that the self-employed community is a highly heterogeneous group, with many who are naturally less confident in their skills than others. Our research also finds that different types of self-efficacy are required for different entrepreneurial tasks. While many business owners will have the necessary mindset to start up in business, the vision required to subsequently *grow* their venture may not be present. Moreover, types of self-efficacy appear to vary from country to country, with one study suggesting that business owners in the UK are more likely to demonstrate ‘conservative cognitions’ that dampen the appetite for risk-taking.

Unlike genuine pragmatic barriers, those related to mindsets require a different kind of response – one that does not rely heavily on incentives, but rather new kinds of information, messengers and stories. For example, rather than crank up the level of information channelled to business owners, there is a strong argument for appointing ‘information curators’ who could draw upon behavioural insights to improve the chances that existing messages are absorbed. Another measure would be to make better use of accountants as a new type of messenger, given they are widely trusted and come into contact with the self-employed on a regular basis. Finally, we suggest that business support practitioners adopt ‘story-editing’ exercises, which would involve helping business owners ‘reinterpret’ their personal narratives so they view their abilities and behaviours in a more positive light.

The third set of barriers relate to **cognitive biases**, which are systematic deviations in rational thinking. While we would like to think of ourselves as being guided by reason, for the most part our decisions are unwittingly led by intuition and emotion. Cognitive biases can have an impact on everything from the weight we give to our future health (myopia), to the way that actions taken by other people affect our own behaviour (social proof). It is therefore worth considering how cognitive biases might affect the decisions of business owners to grow their operations and take on employees. This report highlights four key areas where biases may impede employee recruitment, and suggests ways in which their impact could be softened:

- **Inertia** – One of the most important biases is loss aversion, which describes our urge to avoid losses more so than to make equivalent gains. The mere thought among business owners that they may lose their business by taking on an employee could trigger this bias and cause excessive inertia. Business owners may also be affected by the status quo bias, which speaks to our innate tendency to avoid change of any kind. One way to address these

barriers and overcome conservatism is to improve the salience of existing financial incentives, for example by paying a wage subsidy to business owners as soon as they hire someone, rather than asking them to claim their costs back at a later date. Another recommendation is to automatically allocate sole traders a pot of subsidies, which they would 'lose' were it not to be used for recruitment.

- **Control** – Several biases serve to heighten people's urge to control their business, often excessively so. This includes the planning fallacy, which describes how we overestimate the amount of work we can accomplish on our own, as well as biases relating to 'ownership', for instance the way we increasingly covet things the more effort we put into them – in this case a business. As a result of these biases, business owners are less trusting of would-be employees than perhaps they should be. One means of counteracting these effects is to tweak marketing campaigns that promote growth, such that they focus on the qualities of potential recruits. Another recommendation is to target more recruitment interventions at fledgling business owners, given their desires for control will have yet to harden.
- **Short-termism** – A lack of planning and foresight among some business owners may be fuelled by myopia, which refers to our inclination to overweigh the importance of the near future and underweigh that of the more distant future. Habits are another factor contributing to short-termism, with many business owners too caught up in the day-to-day running of their firm to think about their long-term trajectory. Fortunately, there are several ways to counteract these effects, for instance by establishing a 'growth pledge', whereby business owners are asked to verbally state or write down the process by which they plan to grow their venture. In addition, HMRC and banks could also prompt business owners to think about their growth intentions at pivotal moments in time, for example at the end of the tax year.
- **Social proof** – Social proof is a cognitive bias that describes how we mimic the behaviours and attitudes of people we interact with. Sole traders would arguably be much more likely to consider taking on staff were they to come into regular contact with other business owners harbouring growth ambitions. One recommendation to stimulate recruitment is therefore to organise randomised meetings between business owners in a given area, in the hope this would expose them to new opinions. Another proposal is to support the development of match-making services, which would help would-be entrepreneurs partner up with other business owners on new ventures.

As well as softening the impact of cognitive biases, a more fundamental measure would be to help business owners manage them on their own. In practice this would mean informing the self-employed about

the different kinds of cognitive biases that could affect their behaviour, and advising them on how to frame decision-making so as to ameliorate their impact. Previous RSA research on behaviour change suggests that teaching people about their behavioural frailties can be useful to them in tackling dilemmas and reflecting on areas of their lives they have found most problematic, for example in quitting smoking. Cognitive coaching of this kind is already beginning to emerge in the world of business training.

The report finishes with a call to be wary of relying on common sense when devising business support interventions. Our gut instinct, for instance, tells us that giving sole traders wage subsidies should lead them to take on more staff. Yet the experience of the Youth Contract suggests that crude financial incentives often do little to change people's behaviours. Likewise, there is a natural urge among policymakers to pump out more information in a bid to stimulate employee recruitment. But again, a growing body of evidence highlights the limitations of blanket communication exercises. The essential message of this report is that business owners should be treated as humans – with all the quirks and frailties that entails – rather than as calculating and hyper-rational individuals. Only by doing so can we hope to devise effective interventions that have a significant impact in stimulating employee recruitment and growth.

Box 1: Key figures on growth and recruitment

Our report highlights several key findings on employee recruitment:

- The number of self-employed people has increased by 30 percent since 2000.
- Only three percent of sole traders hired someone (and kept them) over the 5-year period from 2007–2012.
- Doubling this recruitment rate to six percent would result in an extra 100,000 more jobs being created (and sustained) over a 5-year period.
- 55 percent of the self-employed agree they would prefer to hire freelancers than recruit staff on payroll (15 percent disagree).
- 41 percent of the self-employed agree they would prefer to hire family and friends before anyone else (33 percent disagree).
- 39 percent of the self-employed are unaware of recruitment initiatives such as the National Insurance contributions (NIC) holiday and the Youth Contract (37 percent agree).

Box 2: Round up of recommendations

Below are a handful of the proposals put forward in this report:

- **Establish host employers** – Housing associations, FE colleges and other local institutions should be encouraged to legally ‘host’ employees on behalf of business owners, and help them to manage back-end HR tasks.
- **Promote employee sharing** – Employment agencies and business groups should co-ordinate and promote carousel employment models, whereby business owners with fluctuating demand are able to share employees.
- **Introduce freelance vouchers** – The government should consider subsidising the costs of fledgling business owners that wish to work with freelancers, possibly through the new Growth Vouchers programme.
- **Organise small business careers fairs** – Universities should work with business groups to establish small business careers fairs that raise awareness of their job opportunities among talented graduates.
- **Conduct more RCT evaluations of business support** – Government departments should carry out more randomised control trials (RCTs) of major business support interventions, possibly made obligatory for any scheme over a given cost threshold.
- **Appoint information curators** – Government departments (eg the Department for Business, Innovation & Skills (BIS), the Department for Work & Pensions (DWP) and HMRC) should appoint information curators who could improve the framing of messages directed at business owners.
- **Introduce a business adviser role for accountants** – Accountants should be encouraged to support their business clients with information and advice about growing their business, possibly enabled through a new business coaching module in their accountancy training.
- **Embed ‘story-editing’ techniques within business support** – Business support practitioners should use new story-editing techniques to help business owners reinterpret their personal narratives and improve their self-efficacy.
- **Introduce an automatic opt-in for wage subsidies** – As part of any new wage subsidy scheme, the government should automatically allocate business owners a pot of subsidies, which they would ‘lose’ were they not to use it.
- **Create a new ‘growth pledge’** – Business support practitioners should encourage business owners to verbally state and/or write their commitment to grow their business and take on staff (should they wish to do so).
- **Organise randomised meet-ups** – Business support groups and local authorities should co-ordinate randomised meet-ups between business owners, in a bid to expose them to different viewpoints.
- **Introduce ‘growth prompts’** – HMRC and banks should consider implementing a triggered system whereby business owners are automatically sent messages questioning their recruitment intentions as soon as their financial data indicates strong business performance.

The challenge

The rise of the one-person business

The UK economy is on the mend. Economic output has returned to its pre-recession level, our growth rate is one of the highest in the developed world, and rates of unemployment are at their lowest since the downturn began in 2008. Yet while the size of our economy may be returning to normality, its composition and make-up are not. One of the most notable and enduring economic stories of the past few years has been the rapid expansion in the number of microbusinesses, defined as firms with 0–9 employees. Today there are close to a million more microbusinesses than there were when the recession first began.¹ In contrast, the populations of all other firm sizes have experienced either static or negative growth.

The same phenomenon bears out in the self-employment figures. Our analysis of government data reveals that the number of people working for themselves has increased by close to 30 percent over the past decade, with the result that one in seven of the workforce now answer to themselves. These numbers look even starker when set against the rather modest increase in typical employment. Indeed, self-employment accounted for approximately 90 percent of all jobs growth between 2008 and 2013. Should these growth rates continue, the RSA predicts that the self-employed community could soon outgrow the size of the public sector workforce.²

Yet behind the topline figures lies a more significant trend: the rise of the one-person business. The number of firms with zero employees (ie just the owner) has expanded by around 70 percent since the turn of the century (see Figure 2). Put another way, virtually all the growth (95 percent) in the microbusiness population over the last decade is owed to the rise of non-employing firms. Interestingly, there has also been a decrease in the number of 2-person businesses, indicating that many business owners may have shed their sole staff member for economic reasons. According to government data, over a quarter of one-person businesses in 2012 had at some point in the *past* employed staff.³

While the RSA welcomes the increase in self-employment, the growth in the number of one-person businesses should prompt concern over jobs growth. Indeed, there is evidence to suggest a widespread reluctance among the newly self-employed to take on recruits. According to the latest results of the government's Small Business Survey, just nine percent of sole traders expect to employ someone in a year's time, despite 23 percent experiencing growth in annual turnover.⁴ Only three percent of

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1. See Dellot, B. (2014) *Salvation in a Start-up?* London: RSA.

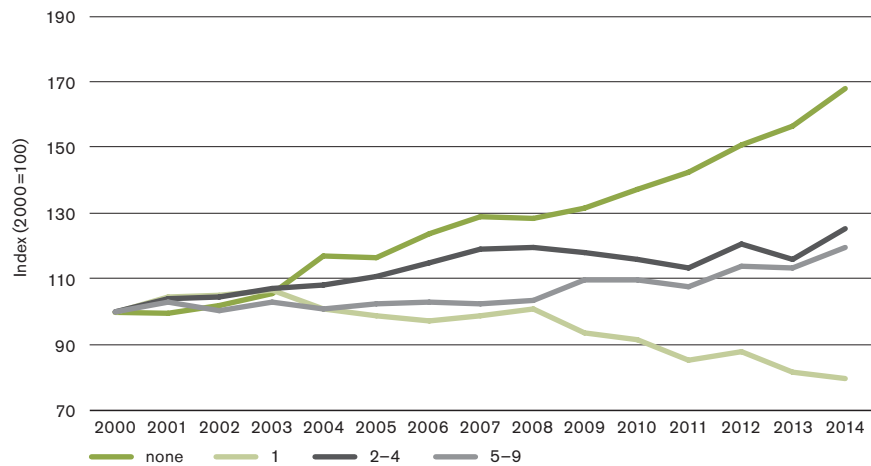
2. Ibid.

3. Allinson, G. et al. (2013) *Understanding growth in microbusinesses*. London: BIS.

4. BIS (2013) *Small Business Survey 2012: Businesses with no employees*. London: BIS.

non-employers took on staff (and kept them) over the 5-year period from 2007 to 2012 – a remarkably low number.⁵ In contrast, a fifth of businesses with 1–4 employees increased employment, suggesting that the real hurdle is not taking on staff as such but taking on a *first* employee.

Figure 2: Increase in the number of microbusinesses by firm size



Source: Business Population Estimates 2010–14 and BIS SME Statistics 2000–09

Stimulating recruitment among non-employers

That new business owners should be encouraged to grow and recruit staff is almost taken as a given, but it is worth unpacking the reasons why. The first and most obvious beneficiaries are **those looking for work**. Unemployment has fallen to its lowest level in years, yet there are still over 2 million people without jobs – a third of whom are in long-term unemployment lasting more than a year.⁶ Some commentators have suggested that unemployment could therefore be ‘solved’ if just half of all sole traders decided to employ someone.⁷ A more realistic target would be to double the aforementioned recruitment rate among non-employers from three percent to six percent, which would result in an extra 100,000 jobs being created and sustained over five years.⁸ Regardless of the target, it is clear that any attempts to reach a state of full-employment need to consider one-person businesses as a viable source of new jobs.

However, it is not only the quantity of jobs that is important, it is also their *quality*. At first sight the prospects of working within a microbusiness are bleak. Employees within small firms are likely to earn less, receive fewer benefits and undergo less training than their counterparts in large firms. Yet perhaps surprisingly, studies have also shown that employees within small firms report higher levels of job satisfaction and fewer

5. Allinson, G. et al. (2013) Op cit.

6. ONS (2014) UK Labour Market, November 2014. London: ONS.

7. See for example Lord Heseltine (2012) *No Stone Unturned in Pursuit of Growth*. London: BIS.

8. This figure is derived by multiplying the current number of non-employing businesses by 0.03, which equates to just over 100,000 jobs.

instances of work-related illness.⁹ Part of the reason is because the material drawbacks of working in a small business are offset by what the Swiss economists Benz and Frey describe as their ‘procedural’ advantages.¹⁰ Someone working within a microbusiness is arguably more likely to see the fruits of their labour, be exposed to a greater variety of activities and tasks, and be involved in substantive decision-making. In contrast, work within a large business is more likely to be characterised by deep divisions of labour and a feeling that you are just one cog among many in a large machine.

To view the benefits of recruitment only through the eyes of the employee, however, would be to ignore the potential impact had on **the business owner**. A scan of the literature on business growth suggests that it would be unwise for sole traders to take the leap of hiring someone for the first time. One study found that business owners with employees are less satisfied with the hours they work and are more likely to feel exhausted and under pressure.¹¹ However, the same study reveals that the average self-employed person with employees has higher job satisfaction than their counterparts without staff. This is not to say that the difficulties facing first-time employers are trivial, but it is important to recognise that some people are willing to endure short-term personal discomfort for the more fulfilling experience of growing their venture. Indeed, deciding not to take on staff may prove to be a false economy that stores up greater problems over the long run.

The third beneficiary of a drive to stimulate recruitment among non-employers is **wider society**. In recent years it has become clear that one of the central roles played by small firms is providing employment to those on the social and economic margins. Microbusinesses are more likely to employ people with low or no qualifications, individuals with poor English language skills, parents with young dependents, the recently unemployed and members of particular ethnic groups.¹² They are also more likely to employ people outside of ‘prime age’ (25–49-year-olds) who tend to have difficulty finding work.¹³ Moreover, kick-starting recruitment among non-employers may prove beneficial to communities that are looking to end their reliance on a handful of large employers for jobs, given the impact that can be had in local areas when a major firm goes out of business.¹⁴

Targeting the middle of the spectrum

Taken together there is a strong rationale for encouraging and enabling more sole traders to hire their first recruit. However, it is important to recognise that it is not feasible for every business to grow in this way. Many self-employed people are fervently against the idea of taking on

9. See for example, Forth, J, et al. (2006) *Small and Medium Sized Enterprises: Findings from the 2004 Workplace Employment Relations Survey* cited in Urwin, P. (2011) *Self-employment, small firms and enterprise*. London: IEA.

10. Frey, B. S., Benz, M. and Stutzer, A. (2004) *Introducing Procedural Utility: Not only what, but also how matters*. Switzerland: University of Zurich.

11. Blanchflower, D. (2004) *Self-employment: More may not be better* [Working paper]. NBER.

12. Urwin, P. (2011) Op cit.

13. Ibid.

14. See for example Edmiston, K. (2007) *The role of small and large businesses in economic development*. Kansas: Federal Reserve Bank of Kansas City.

an extra pairs of hands for reasons of personal preference, with 41 percent of non-employers saying they have no desire to grow their business beyond providing a reasonable living.¹⁵ A large number start up on their own to achieve some semblance of independence – something they do not want to put at jeopardy by taking on an employee and establishing their own form of hierarchy. This is particularly true of freelancers, one of the fastest growing types of self-employed worker.¹⁶

Other sole traders will operate within occupations that are founded on a degree of authorship, and which therefore do not easily lend themselves to team work. This includes filmmakers, artists, consultants and tradesmen and women. Harvard professor Larry Katz argues that such ‘artisan’ work will become more commonplace in the future, and that this is likely to have notable implications for jobs growth.¹⁷ Moreover, an increasing number of sole traders operate on a part-time basis and therefore do not have the need to take on staff. The number of people working for themselves for less than 30 hours a week has increased by 65 percent since 2000, compared with a 20 percent growth in full-time self-employment.¹⁸ Even for those who do need and want assistance, many will consider unpaid help from friends and family to be their first port of call.

At the other end of the spectrum are business owners who are determined to grow their venture and therefore need little encouragement to hire employees. Think of those who run ‘gazelle’ businesses, a type of firm identified in Nesta research that is highly innovative and which experiences rapid growth in its early years.¹⁹ While these firms should of course be supported, there is a risk that too much assistance could lead to ‘deadweight loss’, whereby resources are spent encouraging business owners to hire staff they had always intended to. Put another way, it would be a case of preaching to the converted.

Interventions should therefore focus on one-person businesses that sit in the middle of the spectrum. A useful tool for pinpointing these individuals is the typology of business owners recently created by the RSA as part of our Power of Small project.²⁰ This reveals that most of the self-employed sit within one of six broad ‘tribes’, each of which will have different aspirations and motivations (see Figure 3). Efforts are more likely to have an impact when channelled at Classics and Locals – most of whom have some potential and desire for recruitment. In contrast, it is unlikely that interventions aimed at Dabblers will be successful, given they usually run their business as a part-time venture. Nor at Survivors, whose first priority is to stay afloat or wind down their business entirely.

To summarise, the UK is witnessing a significant expansion in its microbusiness population, yet one facet of this trend is particularly striking – namely the large growth in the number of non-employing businesses. Encouraging and enabling sole traders to employ others would not only serve to reduce unemployment, it may also create forms of

15. BIS (2013) Op cit.

16. D’Arcy, C. and Gardiner, L. (2014) *Just the job – or a working compromise?* London: Resolution Foundation.

17. Larry Katz cited in The Economist (2011) *The Return of Artisanal Employment* [article] 31 October 2011.

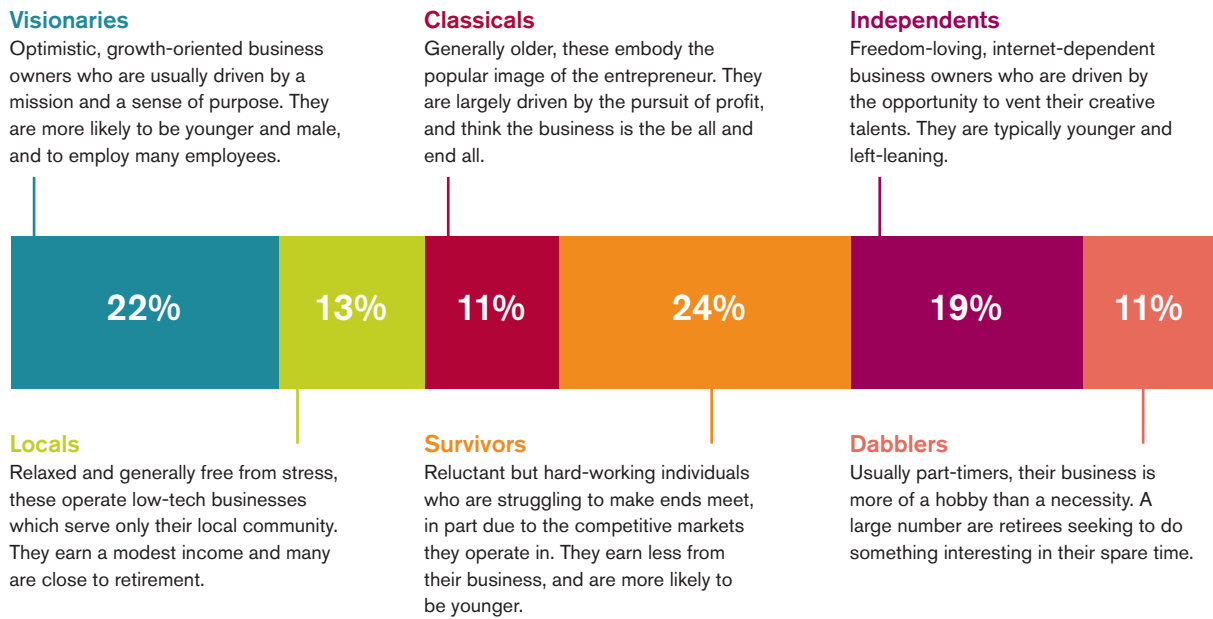
18. Dellot, B. (2014) Op cit.

19. Nesta (2009) *The Vital 6%*. London: Nesta.

20. Dellot, B. (2014) Op cit.

employment that are more meaningful and which provide opportunities to those on the economic margins. While not every self-employed person is well placed to employ and manage staff, this report argues that there is scope for stimulating recruitment among a greater number. The next chapter looks at past and present recruitment interventions, and poses the question of whether there is a need for fresh thinking in this area.

Figure 3: The six tribes of self-employment



Time for a fresh perspective

While it is too early to determine the impact of some government measures, we know that a number have fallen well short of their intended targets

Employment interventions past and present

Jobs growth is a perpetual priority for the government. While some issues wax and wane in their relevance, the task of creating more and better quality employment opportunities rarely strays from the policy agenda. The effect of the economic downturn in 2008 and resulting job losses only served to heighten the interest of policymakers in stimulating recruitment, particularly among smaller businesses. This was most clearly visible in the Coalition government's Business is GREAT initiative, which was tasked with helping microbusinesses to scale up.²¹ The government's enterprise advisor Lord Young also took pains to single out one-person businesses as a key target for growth support, describing the hurdle of taking on a first employee as 'the most important brake on growth'.²²

In practice, government interventions have concentrated on three areas: deregulation, information provision and access to finance. On the first, when entering office the government pledged to establish a 'one-in, two-out' rule for new regulations, and earlier this year committed to amending or entirely scrapping over 3,000 rules.²³ Information provision has also been subject to changes, with an overhaul of Business Link and new guides such as *Your First Employee* being introduced. Yet the most significant measures have come in the form of extra finance. The Youth Contract, for example, was set up in 2012 to subsidise the wages of young people taken on by employers. In a similar vein, NIC holidays have been enacted to make it less costly to hire a new recruit. Most recently the government launched the new Employment Allowance, which will cut the amount of NICs businesses pay for their employees by up to £2,000 a year.²⁴

While it is too early to determine the impact of some government measures, we know that a number have fallen well short of their intended targets. The NIC holiday, for example, had very low take-up rates, with just 6 percent of the expected number of businesses benefiting from the tax break.²⁵ Similarly, the wage subsidies provided by the Youth Contract were only used by a fraction of the businesses the programme was intended to reach.²⁶ Only

21. See www.greatbusiness.gov.uk/

22. Lord Young (2013) *Growing Your Business: A report on growing microbusinesses*. London: BIS.

23. See www.gov.uk/government/news/3000-regulations-to-be-reformed-or-slashed

24. See www.gov.uk/employment-allowance

25. Bennett, A. (2013) *George Osborne's National Insurance Holiday Plan Helped Just 24,000 Firms, Not 400,000* [article] 12th August 2013, Huffington Post.

26. DWP (2014) *Customers' Experiences of the Youth Contract*. London: DWP.

12,000 young people were supported into work against an original target of 160,000. Other schemes also appear to have had questionable results. For instance, the government's Shares for Rights initiative, which aims to stimulate recruitment by enabling employees to forgo rights in exchange for a stake in the company, has been met with a very lukewarm response. A survey of business owners found that less than 0.1 percent plan to introduce the scheme.²⁷

Another criticism of these measures is that they are too expensive. The Youth Contract came with a price tag of over £1bn (although in reality cost less due to low take-up rates). Similarly, it is estimated that the new Employment Allowance will cost £1.75bn. While it is true that the extra jobs created would have nullified other costs in the form of welfare, it is important to bear in mind the aforementioned problem of wasted resources through deadweight. A final concern is that many of these interventions are politically unpalatable, especially those relating to deregulation. A case in point is Adrian Beecroft's report into employment law, which was met with fierce opposition, both from trade unions and business groups, after it called for the introduction of 'no-fault dismissals' in order to stimulate jobs growth.²⁸ As with any discussion of deregulation, there is an implicit tension between protecting people already in work and helping those who are searching for it.

The promise of behavioural insights

While the aforementioned measures certainly have their faults, it would be unfair to conclude they are outright failures. Many of these interventions could be improved through relatively small adjustments, for instance by changing how they are marketed or by revising eligibility criteria. Yet taken together the disappointing experience of using finance, deregulation and information provision suggests notable limitations to the use of conventional policy levers in stimulating employee recruitment. Therefore in this report we argue for the application of a new lens to help us understand and address the barriers to taking on a first employee – namely the use of behavioural insights.

Behavioural insights refer to new ways of thinking that draw upon the domains of psychology and neuroscience to explain what drives human behaviour. To date they have been used to address a number of social, financial and environmental challenges – from helping people to drive more safely, to increasing the consumption of healthier foods, to encouraging the prompt payment of car fines. One of the most successful applications of behavioural insights in the UK has been in boosting organ donations. As a result of exposing people to a carefully worded question when renewing a driving license, approximately 100,000 more people annually are expected to sign up to the donor register.²⁹ Another significant intervention was the decision by the government in 2012 to auto-enrol employees onto corporate pension schemes. As a result, the percentage of people paying into a workplace pension increased last year for the first time since 2006.³⁰

27. White, A. (2013) *British businesses shun 'shares for rights' scheme* [article] 26th November 2013, The Daily Telegraph.

28. www.gov.uk/government/news/beecroft-report-on-employment-law. FSB and EEF against.

29. Cabinet Office (2013) *Applying Behavioural Insights to Organ Donation*. London: CO.

30. ONS (2014) *Pension Trends – Chapter 7: Private pension scheme membership, 2014 edition*. London: ONS.

The appeal of using behavioural insights partly lies in the low price tag, but their popularity is also due to their impressive success rate in addressing problems that were once seemingly intractable. Moreover, they can often yield results in a short period of time relative to other interventions – something that is crucial for efforts to tackle ‘now-or-never’ challenges like climate change. These advantages have not escaped the attention of policymakers, many of whom have been heavily influenced by the work of Richard Thaler and Cass Sunstein, whose book *Nudge* became an international bestseller.³¹ Shortly after becoming Prime Minister, David Cameron decided to establish a Behavioural Insights Unit in the Cabinet Office, now known as the Behavioural Insights Team and based at Nesta. So enthusiastic was Cameron about behavioural insights that he made them the subject of his 2010 TED talk on the future of statecraft. One passage of his speech is particularly telling:

“Politicians will only succeed if they actually try to treat people as they are, rather than as they would like them to be... if you combine this very simple, very conservative thought – go with the grain of human nature – with all the advances in behavioural economics, I think we can achieve a real increase in wellbeing, in happiness, and in a stronger society, without necessarily having to spend a whole lot more money.”³²

Moral and pragmatic limitations

There is clearly a strong case for exploring how behavioural insights might be used to stimulate recruitment among sole traders, and to drive business growth more generally. Yet as with any approach to social policy there are several caveats and criticisms to contend with. The first is whether there is any meaningful scope for behavioural insights to be used in influencing such a significant decision as that of taking on an employee – not least because of the considerable risk it entails and the fact that the ‘action’ is spread out over time. Many of the aforementioned measures used nudge techniques to change basic behaviours, albeit ones that may have larger ramifications later in life. While this criticism is valid, it is important to recognise that interventions using behavioural insights can go beyond short-term ‘nudging’ to encompass the redirection of broader mindsets, helping people to interpret their behaviours in new ways. Recent RSA research has shown how these techniques might be used to improve educational attainment.³³

Another popular objection to the use of measures based on behavioural insights is that they are unethical, given that people’s behaviours are usually being shaped without them knowing. One of the most vocal critics is Gerd Gigerenzer of the Max Planck Institute in Germany, who describes the work of Daniel Kahneman and other social psychologists as presenting “an unfairly negative view of the human mind” and

31. Thaler, R. and Sunstein, C. (2009) *Nudge: Improving decisions about health, wealth and happiness*. Penguin.

32. Cameron, D. (2010) *The next age of government* [lecture] TED.

33. Spencer, A., Rowson, J. and Bamfield, L. (2014) *Everyone Starts with an ‘A’*. London: RSA.

propagating “the idea that people are dumb”.³⁴ Yet views such as these overlook the fact that people’s decisions are already being influenced on a day-to-day basis. A new approach to stimulating employee recruitment using behavioural insights would arguably be more progressive, given that it would treat business owners as humans guided not only by deliberation but also by intuition and emotional responses. Cass Sunstein and Richard Thaler have coined their approach ‘libertarian paternalism’ to reflect how nudges can be paternalistic while retaining a person’s freedom of choice to follow a different course of action (see Box 3).

Box 3: Libertarian Paternalism

Advocates of nudging have come under criticism for as long as their theory has existed. The primary objection is that it is immoral to change people’s behaviour without their immediate consent, even if the outcome were to improve their health and happiness. These concerns are rooted in John Stuart Mill’s Harm Principle, which argues that people should always be the final judge of what is best for them. While the majority of behavioural economists acknowledge these ethical caveats, their response is that people often make harmful decisions because they are not truly aware of the full consequences (eg failing to save for a pension). It is also impractical for people to make a decision by themselves every time one is needed – humans simply do not have the cognitive bandwidth. Another rebuttal is that our decisions are already being influenced on a daily basis, often in malign ways by marketing companies. Nudging should therefore only be seen as replacing an existing system of ‘choice architecture’ with something that is arguably more beneficial. Richard Thaler and Cass Sunstein summarise their philosophy as a combination of libertarianism and paternalism, an approach that seeks to blend the freedom of the former with the guidance of the latter.³⁵

A third notable criticism of behavioural insights is that they do not form a single discipline but rather constitute a patchwork of multiple theories, which are sometimes in contradiction with one another. Look up the phrase ‘cognitive bias’ on Wikipedia and you will be presented with over 100 different theories explaining our tendencies to behave in certain ways. The economist David Levine sees this as a major stumbling block for the application of behavioural insights, arguing that “the world doesn’t need a thousand different theories to explain a thousand different facts.”³⁶ Others like Richard Thaler argue that it is better to accept the complexity of human behaviour and live with multiple models of behaviour change than it is to try and form a neat unifying theory that can only explain a small array of behaviours.³⁷ This is the major drawback of the neoclassical model of rational human thought, which continues to be the basis for many social policies despite its obvious flaws.

34. Adams, T. (2014) *Nudge economics: Has push come to shove for a fashionable theory?* [article] 1st June 2014, The Guardian.

35. Sunstein, C. (2014) *Why Nudge? The politics of libertarianism paternalism*. Yale University Press.

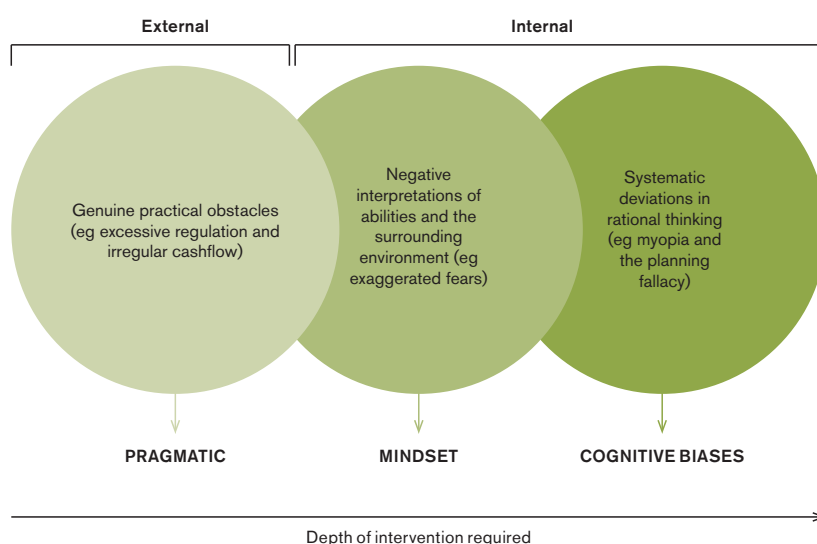
36. Harford, T. (2014) *Behavioural economics and public policy* [article] 21st March 2014, Financial Times.

37. Ibid.

Three barriers to recruitment

None of this is to say that conventional approaches to stimulating employee recruitment should be discarded and replaced by measures informed only by behavioural insights. Boosting access to finance, improving information provision and simplifying regulation are all important means of helping businesses to grow. Rather, the central message of this report is to treat behavioural insights as another tool with which to form and deliver policies and other interventions. In short, the role of behavioural insights is to deepen and strengthen our existing approach to business support rather than be a substitute for it. With this in mind, the paper will begin by examining the **pragmatic** issues that most people are familiar with, before going on to unpack two others types of barrier that are less well known – namely those associated with **mindsets** and **cognitive biases** (see Figure 4).

Figure 4: Barriers to recruitment and growth



Pragmatic barriers refer to genuine practical obstacles that discourage or prevent one-person businesses from recruiting employees, such as burdensome regulation, insufficient management skills and irregular cash flow. Mindset barriers relate to the ways in which business owners interpret themselves and develop narratives about their lives, which may hamper their desire and ability to grow their business. And the third set of barriers – cognitive biases – refer to thinking patterns which systematically differ from what would be expected in a more traditional model of human behaviour. This includes myopia (the propensity to over-discount the future), status quo bias (the tendency to dislike change) and the planning fallacy (the belief that we can do more than we are actually able to). While business owners and those supporting them are most attuned to pragmatic issues, the barriers relating to mindsets and cognitive biases are often so subtle as to be almost invisible. As such they require more thoughtful and carefully constructed interventions to address them.

In a bid to better understand the nature of these barriers, we carried out several interviews with business owners and undertook desk research on the topics of recruitment, business growth and behavioural insights. It was clear from the outset that little research has been undertaken to consider how behavioural insights could be used to stimulate business growth. Therefore within this report we pay particular attention to what might be learned from the way behavioural insights have been applied in other disciplines, most notably education but also environmental sustainability and public health. Not only is research more prevalent in these fields, it also tends to be of a higher quality, with multiple studies that have used randomised control trials to assess the impact of interventions.

The next chapter begins our exploration of the barriers to recruitment by looking at the pragmatic issues facing sole traders. As we shall explain, to make progress in addressing these challenges may mean rethinking the very meaning of recruitment and employment.

Pragmatic barriers

Cost, capacity and risk

In the rush to make sense of why people choose not to take on employees, it can be easy to overlook one of the foremost barriers: the **cost** of doing so. The government's Small Business Survey indicates that around a quarter of non-employing firms currently make zero profits or operate at a loss, while a fifth are anticipated to close in the next five years.³⁸ For financially precarious firms such as these, the cost of taking on an extra pair of hands is likely to be viewed as prohibitively expensive, if not entirely unnecessary. Not only do employers need to pay people's wages, they must also cover employer National Insurance contributions and, under the new auto-enrolment scheme, will soon be required to make payments into their employees' pension. One survey found that 33 percent of non-employers believe these new pension obligations will delay their decision to hire.³⁹

Alongside the immediate costs of taking on an employee, another barrier is a lack of **capacity** among the self-employed to manage staff. Central to this is the time and knowledge required to adhere to employment regulations. This includes registering with HMRC as an employer, purchasing Employers' Liability Insurance and setting up on PAYE to record employee earnings. The latter task has recently been made more time-consuming as a result of 'real-time reporting', a measure that requires employers to file payroll information about employee earnings as and when they are paid, rather than at the end of the tax year. A quarter of business owners who employ staff already spend more than two hours a week coordinating payroll.⁴⁰

Yet it is not only the technical and regulatory demands of recruitment that require extra capacity. The task of managing and nurturing employees can also be time consuming. By delegating tasks, providing guidance and responding to their workers' concerns, small business owners must effectively act as their own human resources department. Added to this is the physical space required to house employees. Around 70 percent of non-employers operate from their own homes, which raises the question of where a new recruit would work, as well as how professional and personal boundaries might be managed.⁴¹ Were the business owner to move into new premises in order to grow, they would likely be required to pay business rates on top of their standard rent.

The third pragmatic barrier relates to excessive **risk**. Nearly every prospective employer will fear that something could go wrong as a result

By delegating tasks, providing guidance and responding to their workers' concerns, small business owners must effectively act as their own human resources department

38. BIS (2013) Op cit.

39. Intuit. *One Giant Leap: The vital first step to becoming an employer*. Available at: <http://intuitglobal.intuit.com/delivery/cms/prod/sites/default/intuit.co.uk-blaze/pdf/one-giant-leap.pdf>

40. Ibid.

41. BIS (2013) Op cit.

of taking on a member of staff. There is the ever-present danger, for example, that their new employee will fall ill and require paid leave. All employers are obliged to pay Statutory Sick Pay (SSP) for a period of up to 28 weeks. Until recently, small firms were able to recover a small proportion of SSP expenses from the government, yet this scheme was abolished in early 2014. Similarly, business owners may be put off from hiring because of a fear they may have to cover the salaries of staff on maternity or paternity leave. Statutory Maternity Pay (SMP) is payable for up to 39 weeks, with the first six weeks levied at 90 percent of average earnings. Alongside the risk that their employees fall ill or leave to care for new-borns, many prospective employers worry they will be unable to let go of ineffective staff, or end up in a tribunal should they make any attempt to do so.

Each of these considerations – cost, capacity and risk – can act as a powerful brake on recruitment, as well as growth more generally. Moreover, the aforementioned issues disproportionately impact one-person businesses, most of which lack the infrastructure and experience that large employers have. Hiring your first employee is considerably more difficult than hiring your fourth or fifth. In the last chapter we unpacked some of the steps recently taken by the government to address these practical constraints. This includes attempts to cut burdensome regulation, channel extra finance to small firms and present more guidance and information on the steps necessary to take on a first recruit. However, we also noted that many of these initiatives have failed to live up to their expectations. Therefore in this chapter we attempt to set out more experimental approaches, some of which involve reconceiving what we mean by recruitment and employment. Table 1 at the end of the chapter summarises our four principles for the future.

From reducing risk to pooling risk

Policymakers have historically viewed the reduction of risk as the single most effective intervention that could be made to stimulate recruitment. In practice this has meant reducing the taxes employers must pay on employees, as well as eliminating regulations that place restrictions on how staff must be managed and cared for. Unsatisfied with progress to date, some economic commentators have called for even deeper tax cuts and deregulatory measures. Maurice Saatchi, for example, recently recommended that corporation tax for small businesses be abolished in the hope that it would spur a new wave of job creation.⁴² Others like the Adam Smith Institute have argued for the termination of the employers' NIC payment, and for measures to make it easier to fire employees for misconduct.⁴³

While such proposals are worthy of consideration, upon closer inspection they raise several concerns. Further deregulation could serve to take the UK closer to a low-wage, low-skilled economy, which is beneficial for neither employer nor employee over the long term. Indeed, there is a danger that small businesses become viewed as second-class workplaces, and therefore avoided by the most talented individuals. This was the response by some European business bodies to the EU's new Stoiber report, which proposes

42. Saatchi, M. (2014) *The Road from Serfdom*. London: CPS.

43. Vukovic, V. *Unburdening Enterprise: Reducing regulation for small and medium businesses*. Adam Smith Institute.

that small businesses be exempted from virtually all European rules governing business practices.⁴⁴ Similarly, further tax cuts would be a hard sell in the next parliament given the current state of the UK's finances.

In truth, we need to acknowledge that not all risk can be eliminated, and instead consider how it might be *managed* more effectively. Central to this is the idea of 'pooling' the risk of recruitment among a large number of business owners, so that the unfortunate minority who are affected by unforeseen incidents are protected by the majority who are not. In practice this might mean establishing a collective employee insurance scheme among the self-employed, as was recently proposed by IPPR and the Federation of Small Businesses (FSB).⁴⁵ At present, small businesses looking to take out insurance to cover unforeseen employee costs are faced with prohibitively expensive premiums, in part because there are multiple insurance schemes in place that lack economies of scale. A government-backed insurance scheme that enables small businesses to club together and pool risks could serve to reduce premiums to a more palatable level, and in turn encourage more employee recruitment.

Another way to spread risk is for civic institutions in a given area to 'host' employees on behalf of small businesses. This would mean organisations such as housing associations, FE colleges and other public service providers legally employing the individuals and managing the back-end HR and administrative tasks, such as coordinating payroll and dealing with HMRC. The benefit for the prospective employer is that they only need to be concerned with managing the employee on a day-to-day basis, and ensuring they have suitable cash flow to cover their salary and other costs. Should any disputes arise, the employer could ask their 'host' institution to help settle these through their existing HR department. There are already similar schemes operating in the apprenticeship market. Hackney Community College in London, for example, acts as host employer for several young apprentices that work with local start-ups under the new Tech City Apprenticeship.⁴⁶

From hiring workers to accessing workers

Up until a decade or so ago, the meaning of recruitment was to hire someone as a member of staff on payroll. Yet today recruitment can take many forms. Indeed, employing someone on a permanent contract is increasingly unattractive for small businesses. Moreover, an increasing number of the self-employed are part-time, and are therefore only ever likely to require ad hoc help when their business is unusually busy. Part-time self-employment has grown by 65 percent since 2000, compared with a 20 percent increase in the number of full-timers. For business owners such as these, it is better that they are able to *access* workers rather than hire them in the conventional sense.

One means of stimulating recruitment could therefore be to help sole traders 'share' employees with other likeminded business owners. The idea is that employers would benefit from having lower staff outgoings and a shared HR function, while the employee would have the opportunity to gain

44. Traynor, I. and Nelsen, A. (2014) *Bonfire of red tape proposed in 'bid to keep Britain in EU'* [article] 12th October 2014, The Guardian.

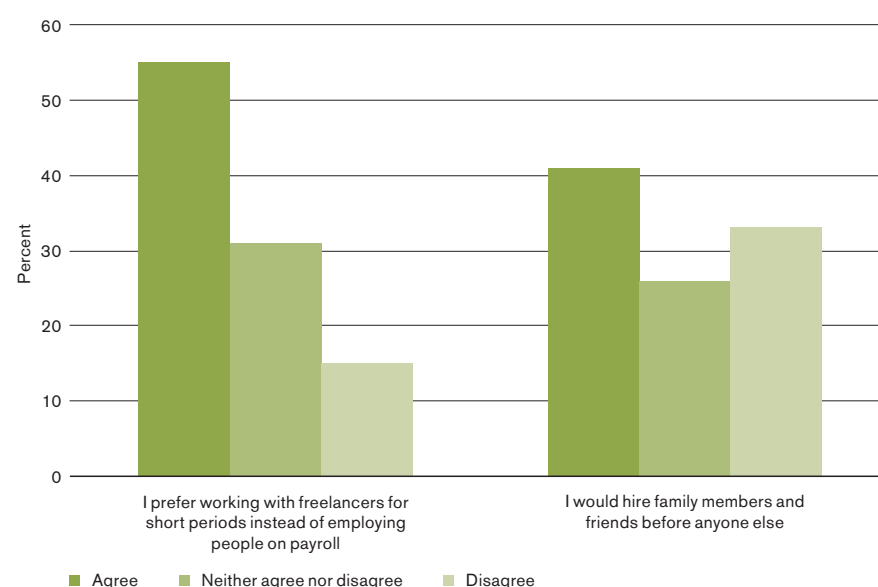
45. Thompson, S. (2014) *Small Firms, Giant Leaps*. London: IPPR.

46. For more information see www.techcityapprenticeships.com/

experience in two working environments. Such a carousel model would need to be carefully orchestrated, but experience of similar initiatives suggests that the outcomes would be worthy of the effort. Cockpit Arts, an incubator for creative businesses, recently set up its own scheme for sharing employees and found that many sole traders took on staff when they would otherwise not have been expected to.⁴⁷ Other initiatives offer less structured and more informal means of employee sharing. FLOOW2, based in Holland, is a sharing economy platform that aims to help businesses share workers.⁴⁸

Alongside helping sole traders access traditional workers, it is also important that we enable them to use the services of freelancers. A large number of those we interviewed said they regularly used freelancers when they were unexpectedly busy, or had a specialist task they needed extra help with, for example in designing a website. A survey the RSA conducted earlier this year with Populus found that 55 percent of the self-employed would prefer to work with freelancers than employ someone on payroll (see Figure 5). The implication is that if we wish to stimulate recruitment (in its broadest sense), it is critical that we remove unnecessary barriers that prevent freelancers from operating in the labour market. A good place to begin is by reconsidering the IR35 tax rule, which effectively means freelancers must pay a higher National Insurance rate than the conventional self-employed, but without receiving any more statutory protection from the state.⁴⁹ Another measure would be to incorporate ‘freelancing vouchers’ into the new Growth Vouchers programme, which would subsidise the costs of fledgling sole traders using freelancers for the first time. The aim would be to give people a genuine taste of what it would be like to employ someone, and thereby encourage them to take on staff on a longer-term basis.

Figure 5: Attitudes to recruitment among the self-employed



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

47. Cockpit Arts. *Creative Employment Programme Case Study*.

48. See www.floow2.com/

49. Ross, P. and Burke, A. (2014) *The freelancing agenda: A charter and policy proposals*. LFIG.

For many sole traders, finding someone with the right skills and attitudes for their business can be testing and time-consuming

From stimulating demand to boosting supply

The ‘recruitment problem’ facing sole traders is typically seen as one of limited demand, with too few self-employed people willing to take on staff. However, the flipside of this challenge relates to the inadequate *supply* of suitable recruits. For many sole traders, finding someone with the right skills and attitudes for their business can be testing and time-consuming. seventy-three percent of non-employers in the government’s Small Business Survey said that finding the right person was the biggest difficulty in taking on staff.⁵⁰ Many of those we interviewed reported specific problems finding recruits with whom they could have a “mutual understanding and set of expectations”, as one person put it. This may explain why 41 percent of the self-employed in our survey said they would hire family and friends before anyone else (see Figure 5). An important question, then, is not just how do we encourage small businesses to take on workers, but also how do we encourage the best workers to want to go into small businesses?

One place to begin is with higher education. Every year close to 400,000 people in the UK graduate from universities, yet less than 20 percent are recruited into businesses with less than 50 employees.⁵¹ This is partly because graduates believe small firms cannot offer the same benefits as large ones, both in terms of salary and prestige. Only 16 percent of students in an NUS survey said their long-term career prospects are better with a smaller employer.⁵² The limited presence of small businesses on campuses and at careers fairs has meant that such perceptions have gone unchallenged. One means of addressing these attitudes would therefore be for universities to organise specific careers fairs dedicated to raising awareness of opportunities within smaller businesses. These could potentially be funded using part of The National Association of College & University Entrepreneurs’ (NACUE) grant from the government. Another idea – advocated by the RSA’s City Growth Commission – would be to form partnerships between the major graduate employers and smaller firms, so that unsuccessful candidates in a graduate recruitment scheme are directed to opportunities in a smaller firm in the same sector.⁵³

Another area in need of attention is the work of Jobcentre Plus (JCP), which supports the ‘short-term unemployed’ into work. In theory JCP should act as the main port of call for small businesses looking to take on staff. Yet despite being a match-making service that is effectively free to use, according to the FSB only 20 percent of small and medium sized enterprises use their local branch.⁵⁴ Of those who have, 38 percent rate it ineffective for their needs. Jobcentre Plus recently took the positive step of establishing a Small Business Recruitment Service specifically to support smaller employers. However, a study by the Centre for Social Justice found that more than 80 percent were unaware of it.⁵⁵ One way of addressing this problem of communication is to ensure there is a named contact in each branch who is specifically tasked with forming relationships with

50. BIS (2013) Op cit.

51. SFEDI (2012) *Graduate recruitment to SMEs*. London: BIS.

52. GTI (2013) *Graduates and SMEs: Making the links and making the breakthrough* [slides].

53. RSA City Growth Commission (2014) *Universities: The knowledge to power UK metros*. London: RSA.

54. FSB. *The job centre is not working*. London: FSB.

55. The Centre for Social Justice (2013) *Up to the Job?* London: CSJ.

local firms. It is also important to recognise and amplify the work of other intermediaries that could play a connecting role. Swarm, for example, is a social enterprise that creates a tight-knit network of schools, businesses and government services in a given area, so that prospective employers have more channels through which to find suitable recruits.

Box 4: Innovations in business and employment support

- **Task Squad** – Developed in 2012 by vInspired, Task Squad is a platform that helps businesses fill short-term staffing needs by linking them with young people willing to take on micro-jobs – from half-a-day to a week’s work. The core aim is to help young people gain experience of employment, but a secondary benefit is that it fills a gap in the market for businesses that are only looking for minimal assistance. vInspired essentially acts as an agency, taking care of most of the administrative burden and only charging employers a minimal stipend on top of the amount they pay the young person. Task Squad was one of 10 finalists in the European Social Innovation Competition.⁵⁶
- **Trading Times** – In a similar vein to Task Squad, Trading Times is an online platform that aims to connect local people searching for small amounts of work with small businesses that have ad hoc needs. It focuses especially on older people, family carers and single parents – all working groups that have underutilised skills but who want to avoid full-time employment. Trading Times charges a one-off £35 connection fee, which allows businesses to see the full profiles of suitable candidates. Having started with a six-month pilot in Barnet, there are now plans to take the initiative to other places around the country.⁵⁷
- **FLOW2** – FLOW2 is a new online platform that aims to expand the sharing economy into the world of business. Based in the Netherlands, it seeks to connect businesses that have unused assets with other firms that could use them for short periods – whether that is machinery, vans, office supplies or even workers. FLOW2 currently has 25,000 business assets listed on its website; most from construction companies but also from businesses in the fields of healthcare, marketing and publishing, among others.⁵⁸

From expanding support to consolidating support

There is a temptation for policymakers to respond to the challenge of employee recruitment by introducing a multitude of new schemes. However, instead of expanding support there is a strong argument for consolidating it, not least because austerity is likely to constrain public spending in the years ahead. There are also legitimate concerns that the present system of business support is already bloated, with several services duplicating the same offer. One study identified 891 public sector initiatives in place, while another suggested that government expenditure on small firms amounts to £8bn a year (more than the amount spent on the police force).⁵⁹ In a sign that the government recognises the need for consolidation, the Small Business Minister Matthew Hancock earlier this year called for publicly funded support schemes to be “streamlined” or shut down if they are not

56. See tasksquadhq.com/

57. See www.tradingtimes.org.uk/

58. See www.floow2.com/

59. Federation of Small Businesses (2013) *Enterprise 2050: Getting UK enterprise policy right*. London: FSB, and Mazzucato, M. (2013) *The Entrepreneurial State*. Anthem State.

delivering value for money.⁶⁰ In the same vein, Labour have pledged to establish a Small Business Administration (SBA), akin to the one in the US, which would coordinate business support on behalf of the government.

Any attempts to streamline the business support ecosystem must be founded on a solid understanding of ‘what works’ in stimulating growth and recruitment. This sounds like an obvious proposition, but evidence is seldom used to inform the development of initiatives. One notable exception is the new Growth Vouchers programme, which is being trialled and tested under an RCT. In future it is important that the government extends the use of RCTs and other means of evaluation to more kinds of business support efforts, whether that be mentoring, finance or deregulation. One useful measure would be for the EU to establish a repository of evidence-based government interventions, which policymakers around Europe could add to and draw upon. Closer to home, there is a strong rationale for creating a ‘What Works’ centre that is dedicated to helping non-governmental business support organisations evaluate their activities and share their learning with one another.⁶¹ Inspiration can be taken from Project Oracle, a programme that has sought to help youth projects in London evaluate their work.⁶² At the very least the government should commit to undertaking RCTs on any scheme costing above a certain threshold.

As well as improving the content of business support, another way to stimulate employee recruitment would be to target interventions more narrowly. As noted in the introductory chapter, support for recruitment is more likely to yield results when aimed at those we call Visionaries and Classics, rather than Dabblers and Independents (see Figure 3). There is also an argument for targeting efforts at people in the early stages of their business, as these are more likely to express aspirations to grow than their more seasoned counterparts.⁶³ Moreover, we also need to raise awareness of the existing support to which people are entitled. There is little use in improving schemes if few business owners are aware of them. A report by the Public Accounts Committee earlier this year criticised the government for doing too little to market its finance support packages to business owners.⁶⁴ One solution is to allocate a given proportion of an intervention’s budget to marketing. Finally, there needs to be some consideration of how to maintain continuity in business support schemes. With every new government comes a fresh set of measures, yet this churn can create confusion among the self-employed about what is on offer.

The key message of this chapter is that we need a fresh approach to addressing the pragmatic barriers relating to cost, capacity and risk. Whether it is championing the use of freelancers, turning public institutions into ‘host’ employers or devising collective insurance schemes, it is critical that we begin experimenting with new ideas that could stimulate recruitment. More than this, we need to learn which interventions are

60. Martin, D. (2014) *Minister hints at cull of failing government business support schemes* [article] 4th July 2014, Business Zone.

61. Nesta currently operate What Works centres to collate evidence on a number of different issues, from old age to local economic growth. See www.gov.uk/what-works-network

62. See project-oracle.com/

63. Allinson, G. et al. (2013) *Op cit.*

64. Torrance, J. (2014) *MPs criticise government small business lending schemes* [article] 21st January 2014, Real Business.

most effective, and to subsequently disseminate the lessons of evaluations so that we do not continue to tread old ground and repeat past mistakes. In the next chapter we will turn our attention to the mindsets of business owners, and consider how people’s interpretations of themselves and the world around them may create psychological stumbling blocks to growth. As we shall see, addressing these will require as much imaginative thinking to overcome as those detailed in this chapter.

Table 1: Four imperatives for the future

From minimising risk	To pooling risk
<ul style="list-style-type: none"> ▪ Eliminating taxes and regulation ▪ Dealing with risk in isolation ▪ Treating the business as the main employer 	<ul style="list-style-type: none"> ▪ Learning to live with taxes and regulation ▪ Dealing with risk collectively ▪ Working with local institutions to act as host employers
From hiring workers	To accessing workers
<ul style="list-style-type: none"> ▪ Focusing on the needs of full-time business owners ▪ Accommodating staffing needs that are regular ▪ Overlooking the role of freelancers 	<ul style="list-style-type: none"> ▪ Supporting the needs of part-time business owners ▪ Accommodating staffing needs that are irregular ▪ Capitalising on the potential of freelancers
From stimulating demand	To boosting supply
<ul style="list-style-type: none"> ▪ Targeting interventions at employers ▪ HE and FE focusing on the staffing needs of big businesses ▪ Treating JCP as the only intermediary 	<ul style="list-style-type: none"> ▪ Targeting interventions at employees ▪ HE and FE focusing on the staffing needs of small businesses ▪ Treating JCP as one of many intermediaries
From expanding support	To consolidating support
<ul style="list-style-type: none"> ▪ Improving support through quantity ▪ Undertaking occasional evaluations ▪ Enacting blanket interventions 	<ul style="list-style-type: none"> ▪ Improving support through quality ▪ Undertaking regular evaluations ▪ Enacting targeted interventions

Box 5: Summary of key recommendations

- **Establish host employers** – Housing associations, FE colleges and other local institutions should be encouraged to legally ‘host’ employees on behalf of business owners, and to help them to manage back-end HR tasks.
- **Promote employee sharing** – Employment agencies and business groups should explore the potential for carousel employment models, whereby business owners with fluctuating demand are able to share employees.
- **Introduce freelance vouchers** – The government should consider subsidising the costs of fledgling business owners that wish to work with freelancers, possibly through the new Growth Vouchers programme.
- **Organise small business careers fairs** – Universities should work with business groups to establish small business careers fairs that raise awareness of their job opportunities among talented graduates.
- **Conduct more RCT evaluations of business support** – Government departments should carry out more randomised control trials (RCTs) of major business support interventions, possibly made obligatory for any scheme over a given cost threshold.

Mindset

More than half of those questioned in the government's Small Business Survey said that growing their venture by taking on staff was a 'highly risky strategy'

Unfounded fears?

In the last chapter we highlighted several significant risks facing would-be employers. This includes the danger that an employee may take them to a tribunal, or that a poorly performing recruit would become a burden on the business and difficult to remove. More than half of those questioned in the government's Small Business Survey said that growing their venture by taking on staff was a 'highly risky strategy'.⁶⁵ Yet to what extent are these fears well-founded? Comparing the attitudes of non-employers with those who have been through the process of hiring staff is particularly telling. For example, while only 22 percent of non-employers said the prospect of recruitment was very easy, the figure was over half for respondents who were *current* employers – those who have actually been through the process of hiring someone.⁶⁶

The same divergence in opinion is mirrored in other views on recruitment, including the perception of how expensive it is to take someone on. Non-employers in the aforementioned survey judged recruitment costs to be considerably more expensive than current employers (£17,000 versus £7,000). Likewise, while 47 percent of business owners not registered for VAT thought it would be difficult to operate their business past the threshold, this compares to just 13 percent of registered businesses looking back in hindsight. To be sure, some of these more seasoned respondents will have rose-tinted memories that mean they overlook past difficulties. However, the evidence as a whole suggests that at least several barriers to recruitment are more perceived than real.

Indeed, several international studies confirm that the UK provides a comparatively friendly environment for entrepreneurship. The World Bank consistently ranks this country as one of the easiest places in which to do business, ahead of Germany, Japan, France and many other developed countries.⁶⁷ Similarly, the OECD reports that the UK has the third least regulated labour market in the world.⁶⁸ The government also continues to enact measures that make the labour market more flexible for the benefit of employers. Last year saw the introduction of new fees of up to £1,200 that workers would need to pay in order to make a tribunal claim. As a result, Citizens Advice estimates that cases presented by dissatisfied employees have already fallen by 73 percent.⁶⁹

65. BIS (2013) Op cit.

66. Allinson, G. et al. (2013) Op cit.

67. See www.doingbusiness.org/rankings

68. See OECD. *OECD Indicators of Employment Protection*.

69. Doward, J. (2014) *New fees lead to drop in employment tribunal cases* [article] 27th July 2014, The Guardian.

Box 6: How much of a problem is finance?

Access to finance has dominated discussions around business support in recent years, largely because it is seen as the biggest stumbling block to business growth, investment and job creation. This has led the government to launch several initiatives designed to improve the flow of finance, including a new British Investment Bank, the Start-up Loans scheme and the Funding for Lending programme. Although the majority of economic commentators welcome these efforts, there are some who dispute the degree to which finance is a critical issue. A recent report by the think-tank Demos, for example, suggested that only one in 25 SMEs are refused credit, leading the author to conclude that “it hardly seems the stuff of frantic national debate.”⁶⁹ Separate RSA research with young entrepreneurs found that many were keen to rely on their own savings rather than run the risk of taking out a loan they might be unable to pay back.⁷⁰ Though finance was clearly an obstacle for many of those we interviewed for this report, perhaps more important was the irregularity of cash flow. This suggests that the government should direct as much attention to encouraging clients to pay invoices on time as it does to improving access to bank loans (though of course the two challenges are related).

A cascade of concern

None of this is to dismiss concerns over the real barriers that prevent people from taking on staff, especially their first employee. Rather it is to highlight that *some* fears are founded on inaccurate beliefs, and that these misperceptions can be as powerful a constraint on growth as genuine obstacles. As a report from the Department of Business, Innovation and Skills (BIS) put it, ‘the mindset of the owner and its capacity to deal with external obstacles are as important as the external factors themselves’.⁷² This presents the important question of why these fears exist in the first place, as well as what we can do to address them.

One explanation for misperceptions surrounding recruitment is that business owners are presented with too little information, or with guidance that is inaccurate. A survey conducted by the accountancy body ICAEW, for instance, found that seven in 10 businesses were unfamiliar with the government’s ‘one in, two out’ policy on new regulation.⁷³ Likewise, few of the business owners interviewed in a recent BIS study knew that the rules relating to unfair dismissals had been relaxed in 2012, or that the government had plans to increase the cost for employees of entering an employment tribunal.⁷⁴ Our own RSA/Populus survey found that 39 percent were unaware of government initiatives such as the NI holiday and the Youth Contract (see Figure 6). Fault may lie with the government for not doing enough to raise awareness of these measures. Yet part of the problem is that any messages must compete with a multitude of other drains on the attention of business owners. A study by McKinsey found that the typical person is confronted with more than 100,000 words in daily communication.⁷⁵

70. Freeman, A. (2013) *Finance for Growth*. London: Demos.

71. Dellot, B. and Thompson, J. (2013) *Disrupt inc*. London: RSA.

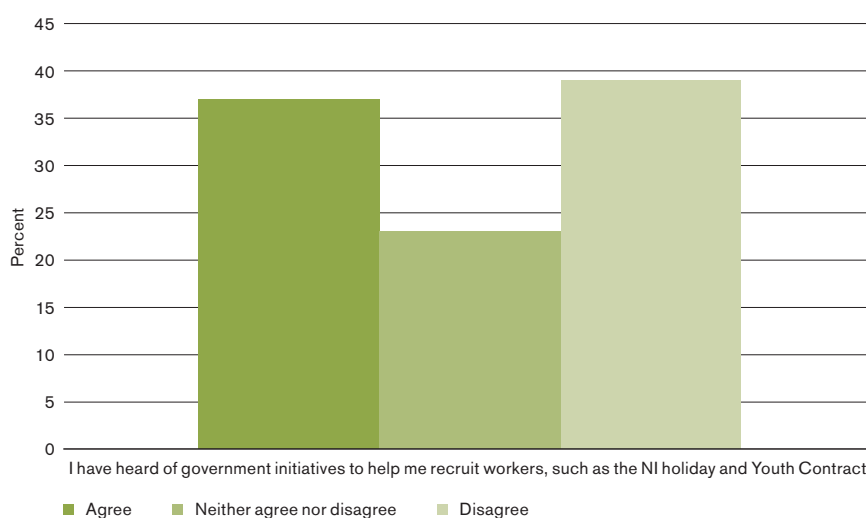
72. BIS and Sheffield University (2013) Internal report on the psychological barriers to recruitment.

73. ICAEW (2013) *UK businesses yet to feel benefit of deregulation efforts*.

74. BIS and Sheffield University (2013) Op cit.

75. See The Economist (2012) *Wordy Goods* [article] 22nd August 2012 cited in Pink, D. (2013) *To Sell is Human*. Canongate Books.

Figure 6: Awareness of government initiatives supporting recruitment



Source: RSA/Populus survey of microbusiness owners (26 February - 12 March 2014)

In such an environment, the only messages fully absorbed are those that are the most salient and easily retrievable – in this case, negative stories related to taking on an employee. It is easy for a business owner to recall an episode of a firm being damaged by a nightmare worker, and to picture him or herself suffering the same fate, in part because the prospect is so memorable. The fact that there is only a very slim likelihood of this happening is almost disregarded. As the psychologist Paul Slovic put it, humans have an innate tendency to focus on the ‘numerator’ rather than the ‘denominator’ when judging risks.⁷⁶ Several intriguing studies in the field of decision-making have shown that the fear of an impending shock in some situations has little correlation with the probability of it happening.⁷⁷ The mere possibility – however small – can trigger a full-blown response to the risk, as though there were a 95 percent chance of it occurring.

To focus only on the individual, however, would be to ignore the role of the wider community in stoking misperceptions. National headlines such as ‘Small firms hit by £713 extra red tape bill’ and ‘UK tangled up in 13m words of EU red tape’ may inadvertently serve to exacerbate the fears of taking on a member of staff.⁷⁸ Likewise, calls among politicians to reduce regulation may draw attention to it and make bureaucracy appear a bigger issue than it is. Cass Sunstein and the economist Timur Kuran describe how such fears can snowball through an ‘availability cascade’, whereby a few media reports of a relatively minor problem grab the attention of a handful of individuals, which in turn results in even more media coverage and finally a political response.⁷⁹ Worse still, anyone seeking to allay these fears is seen as unsym-

76. Rottenstreich, Y. and Hsee, CK. (2011) *Thinking, fast and slow*. Allen Lane.

77. Y. Rottenstreich and CK Hsee (2001) “Money, kisses and electric shocks: on the affective psychology of risk” in *Psychological Science* 12 (3).

78. See www.businesszone.co.uk/topic/finances/small-firms-hit-713-extra-red-tape-bill/57302 and www.cityam.com/article/1381722020/uk-tangled-13m-words-eu-red-tape

79. Kuran, T. and Sunstein. C. (1999) “Availability cascades and risk regulation” in *Stanford Law Review* 51.

pathetic to the problem. It is not difficult to see how this same phenomenon plays out in debates around employee recruitment and business growth.

The self-efficacy illusion

Alongside exposure to distorted information, another factor that lies behind exaggerated fears over recruitment is ‘confirmation bias’ (we will explore more biases in the next chapter). This refers to the human tendency to ignore information that runs counter to our pre-existing beliefs. In an attempt to maintain some semblance of continuity, our minds focus only on information that supports our current viewpoint. In this case it means only absorbing the views and facts that suggest growing a business and taking on an employee would be a grave mistake. Confirmation bias leads us not only to reject potential future actions, but also to rationalise past ones to make them seem appropriate. One study suggests that many business owners are susceptible to ‘post-decisional reinforcing’, whereby they exaggerate the attractiveness of a decision once it has been made – namely that of not expanding their business.⁸⁰ Indeed, people will go to extreme lengths to maintain a positive self-image – business owners included.

But what is the source of these ‘pre-existing beliefs’? One hypothesis is that they are rooted in low feelings of self-efficacy, which the psychologist Albert Bandura describes as ‘a person’s belief in his or her ability to perform a task’.⁸¹ Put simply, people may report (and genuinely believe) that the prospect of taking on an employee is difficult in part because they intrinsically lack faith in their own ability to do so. Self-efficacy is important for all areas of life, but particularly so in the arena of business. The trait has been linked to a higher propensity for risk-taking, greater perseverance in tasks and – perhaps surprisingly – more fine-tuned antennae for spotting business opportunities.⁸² Professor Timothy Wilson, a psychologist from the University of Virginia, warns that people who lack self-efficacy can become trapped in self-defeating cycles, whereby poor performance leads to a perception that they lack ability, which in turn leads to further disappointing results.⁸³ It is easy to see how this same cycle might occur among business owners and their attitudes to growth.

The notion that the self-employed lack self-efficacy, however, rubs against the mainstream cultural image of them as being heroic, confident, risk-taking individuals. To a large extent these stereotypes do bear out in reality. Several studies have shown that people who run businesses are more likely to be confident and optimistic about the future than their counterparts in typical jobs.⁸⁴ In one famous US study, researchers found that over 80 percent of business owners believed their likelihood of success was at least 70 percent, while a third said their chance of failing was zero.⁸⁵ This is despite the survival rate for firms being just 35 percent at the time the research was reported. Others

Self-efficacy is important for all areas of life, but particularly so in the arena of business

80. Cooper, A. C., Woo, C. Y. and Dunkelberg, W. C. (1988) “Entrepreneurs’ perceived chances for success” in *Journal of Business Venturing* 3 (1).

81. Bandura, A. (1997) *Self-efficacy: The exercise of control*. Worth Publishers.

82. Krueger, N. F. (2003) “The Cognitive Psychology of Entrepreneurship” in *International Handbook Series of Entrepreneurship* (1).

83. Wilson, T. (2013) *Redirect: Changing the stories we live by*. Penguin.

84. Simon, M. and Houghton, S. (2002) “The relationship among biases, misperceptions, and the introduction of pioneering products: examining differences in venture decision contexts” in *Entrepreneurship Theory and Practice* 27 (2).

85. Cooper, A. C., Woo, C. Y. and Dunkelberg, W. C. (1988) Op cit.

studies have shown that business owners are more likely to attribute success to their own work while laying the blame for failures at the feet of an external force, for example the government or fluctuations in the market.⁸⁶

Yet to consider business owners as one homogeneous group would be to ignore the nuanced differences that separate subsections of this community. Just as typical employees will vary in their feelings of self-efficacy, so too will business owners, with some who are more predisposed to risk-taking than others. Men and those with parents who were also self-employed are more likely to be in this latter group.⁸⁷ It is also clear that different *kinds* of self-efficacy are required for different entrepreneurial tasks. A group of researchers from the US have argued that while ‘opportunity-identification’ self-efficacy is critical for starting up in business, the presence of ‘relationship’, ‘managerial’ and ‘tolerance’ self-efficacy is more important for growing a venture and employing staff later down the line.⁸⁸ While the first type may be in abundance among business owners, the latter set may be absent in large parts of the community.

Moreover, self-efficacy appears to vary from country to country. One study found that business owners in the UK were more likely than those in other countries to have ‘conservative cognitions’, a type of mindset that predisposes individuals to be less willing to take risks.⁸⁹ This may be one reason why business owners in the UK appear to have lower growth ambitions than those in other developed nations.⁹⁰

Addressing mindset barriers

To recap, it appears that at least some of the barriers to recruitment may be exaggerated in the minds of business owners. While many of these fears may be due to a lack of useful and accurate information, they can also be traced back to low feelings of self-efficacy – in short, to negative perceptions among some business owners that they have the ability to grow their venture. Although this may contradict the image of the confident entrepreneur held up in popular imagination, it is important that we acknowledge these human frailties if we are to devise interventions that have any notable impact. Indeed, unlike the genuine pragmatic barriers mentioned in the previous chapter, barriers related to mindset require a different kind of response – one that does not rely heavily on incentives, but rather new kinds of information, messengers and stories. The good news for the business support community is that these measures are typically less expensive than conventional interventions. Here we unpack what these might look like.

86. Schade, C. and Koellinger, P. (2007) “Heuristics, biases, and the behaviour of entrepreneurs” in M. Minniti et al. *Entrepreneurship, the engine of growth*. Westport: Praeger Vol. 1.

87. Henley, A. (2003) Job creation by the self-employed: The roles of entrepreneurial and financial capital in *Small Business Economics* 25 (2).

88. Barbosa, S. D. (2007) “The role of cognitive style and risk preference on entrepreneurial self-efficacy and entrepreneurial intentions” in *Journal of Leadership and Organisational Studies* 13 (4).

89. Mitchell, R. K. et al. (2002) *Are entrepreneurial cognitions universal? Assessing entrepreneurial cognitions across countries*.

90. Levie, J., Hart, M. and Bonner, K. (2014) *Global Entrepreneurship Monitor: United Kingdom 2013 Monitoring Report*. University of Strathclyde Business School, Aston Business School, GEM.

New information

There is a natural temptation to try and correct misperceptions by increasing the amount of information people receive. This is why, for instance, the Minister for Small Business sent a letter to every self-employed person telling them that the health and safety obligations for employing somebody are in fact minimal, and that some fears over red tape are unfounded. Yet the problem with this approach is that it assumes business owners consider every piece of information they receive. In reality, many struggle to digest even the most important messages, in large part because they are bombarded with thousands of pieces of news every day that compete for their attention. And as noted previously, it is the ‘bad news’ that is more likely to stick. A good example comes from one of our interviewees, who could not recall receiving the letter of health and safety reassurance from the government, but who could remember reading a memorandum from the local council warning her not to employ illegal immigrants.

In an information-saturated environment, our approach to allaying fears should therefore not simply be to crank up the level of communication, but rather to rethink how existing messages are presented. As the psychologist Robert Cialdini put it, “successful influence is increasingly governed by context rather than by cognition, and by the psychological environment in which such information is presented.”⁹¹ For example, studies show that perceptions of risk are more accurate when put in relative frequencies rather than abstract percentages (eg 1 in 100 instead of one percent). We also know that wording highlighted in bold is taken more seriously, and that messages put in simpler language are seen as more credible.⁹² Likewise, merely repeating the same phrase over and over can lead to a feeling of familiarity with the message – something known as the ‘mere exposure effect’.⁹³ Finally, there is evidence to suggest that using visual imagery can lead to greater empathy among the viewer.⁹⁴ One suggestion is therefore that government departments appoint ‘information curators’ who can draw upon behavioural insights to improve the delivery of messages to the self-employed.

Alongside improving how the government and others present their information, another useful measure would be to help business owners make better sense of their own data. One of the reasons why people exaggerate the expense of taking on an employee is that they do not have an accurate understanding of how much this would cost over the long-term. Yet the advent of new technologies mean it is increasingly easy for small businesses to keep track of past expenditure and accurately forecast future costs. Business owners could relatively easily calculate the total cost of taking on a worker for a given period (adding up wages, NI contributions and insurance) and set this against their average revenue and cash flow in order to make an informed decision as to whether they should hire someone. The government could support the development of ‘quantified venture’ apps that perform such functions, for instance accountancy platforms like Xero. This can store a business owner’s bills and invoices,

91. Martin, S., Goldstein, N. and Cialdini, R. (2014) *The small BIG: small changes that spark big influence*. Profile books.

92. See Kahneman, D. (2011) Op cit.

93. Ibid.

94. See Pink, D. (2013) Op cit.

as well as tap into data from their different bank accounts, to present them with real-time information on their financial situation. It is also set up to manage employee payroll and connect with the government's new real-time reporting (RTI) system.

New messengers

Just as we need to rethink how information is presented to business owners, so too do we need to reconsider who delivers those messages. At present, guidance on how to grow a business and take on staff is typically provided by the government, whether that is HMRC providing a '10-step' guide to recruitment or BIS commissioning a series of adverts promoting growth. Business support organisations like the Prince's Trust also play a role, albeit to a lesser extent. While these bodies may provide useful support, the problem is that many self-employed people rarely come into contact with such formal institutions. The most recent results from the government's Small Business Survey reveal that around 40 percent of non-employers had not sought advice or information in the past two years, with an even smaller proportion seeking strategic guidance.⁹⁵

Yet there is at least one group in the business support sphere to whom many people turn: accountants. The aforementioned survey found that 38 percent of non-employers who had taken advice in the last 12 months did so from an accountant, with only 11 percent approaching business networks and 6 percent the internet.⁹⁶ This suggests that accountants could be a major asset in efforts to bust myths and stimulate employee recruitment. The accountancy body ICAEW, for example, could embed an element of business coaching in its training programmes, or work with the government to encourage accountants to spread the word of new support initiatives to their clients.

Alongside accountants, business owners are also likely to value the opinions of other entrepreneurs who have been through similar experiences to them, particularly if they know them personally.⁹⁷ This begs the question of how we might connect more non-employers with seasoned business owners who have already been through the process of taking on staff. Mentoring initiatives are one option, but these typically require a substantial commitment from both sides. A more informal and useful arrangement could be to establish randomised meetings between business owners in a given locality. Already trialled with success in organisations like BIS and the RSA, the aim would be to expose the self-employed to different opinions and open their eyes to the possibilities of growing their business.

New stories

So far we have discussed options for how business owners might be presented with more useful information about the true risks of taking on a member of staff. Yet as has already been argued, there is only so much that new and better messages can do if business owners continue to lack a fundamental sense of self-efficacy. One of the biggest impediments to taking on a first member of staff is a feeling among the self-employed that they do not have an innate ability to grow their venture, and these beliefs

95. BIS (2013) Op cit.

96. Ibid.

97. Simon, M. and Houghton, S. (2002) Op cit.

are wound up in negative stories and narratives about the ‘type of person’ they are. The psychologist Timothy Wilson believes that we effectively live out these stories in such a way that they become self-reinforcing, even if they are originally falsehoods. Thus, if a business owner believes they cannot succeed through growth, they are likely to continue operating as a small entity, which will in turn serve to further embed this mindset.

Wilson argues that one of the best ways of changing such beliefs is through a technique called ‘story-editing’.⁹⁸ Based in part on the work of Kurt Lewin in the 1940s, this approach involves helping people to ‘reinterpret’ their personal narratives so they view their abilities and behaviours in a more positive light. In practice this could mean encouraging people to undertake a ‘best possible self’ writing exercise, whereby they write about how their life might play out in the future in order to have a clearer sense of how their personal qualities might help them get there. A similar technique was used by the Behavioural Insights Team in their recent project with unemployed people using Jobcentre Plus.⁹⁹ The rationale was that by regularly writing in a diary about their personal strengths, job seekers would become more confident in their abilities and in turn more able to secure work (opportunities allowing). It is not difficult to imagine business support practitioners – or accountants for that matter – using the same method with the business owners they interact with.

Another technique called ‘story-prompting’ takes a more direct approach to redirecting people’s narratives. One intervention involves using new labels to describe people. It has been shown, for example, that labelling people as ‘neat’ can result in them displaying tidier behaviour.¹⁰⁰ The same effect could occur for business owners, such that labelling them as ‘innovators’ or ‘entrepreneurs’ instead of ‘self-employed’ within correspondence might lead to greater growth aspirations. Another story-prompting intervention consists of exposing people to stories of similar individuals who overcame difficulties to succeed in some area of their life. In one RCT experiment led by Wilson, university students were shown a video of recent graduates who described how they struggled with academia at first, but eventually succeeded with effort. Despite just being 30 minutes in length, all the students who watched the video experienced a *sustained* improvement in their grades.¹⁰¹ Many would balk at the idea of business owners participating in similar exercises, yet there is no reason to believe they would not benefit as much as anyone else.

This chapter has sought to highlight some of the barriers that exist in the mindsets of business owners. While these issues may be psychological in nature, they are close enough to the surface of consciousness that people are dimly aware of their existence. Many business owners, for example, would privately recognise that they lack confidence in their ability to grow. In the next chapter, we go deeper to examine the ‘cognitive biases’ that play out in the background of people’s minds – barriers they may not be aware of, but which have just as much of an impact on their decision-making as those detailed so far.

98. Wilson, T. (2013) Op cit.

99. The Behavioural Insights Team (2012) *New BIT results: helping people back into work* [blog] 14th December 2012.

100. Wilson, T. (2013) Op cit.

101. Ibid.

While these issues may be psychological in nature, they are close enough to the surface of consciousness that people are dimly aware of their existence

Box 7: Isn't story-editing just positive thinking?

At first glance, the story-editing techniques advocated by Timothy Wilson and his colleagues appear very similar to exercises in positive thinking. The latter are based on the notion that if you just want something strongly enough you can have it, whether that is getting a promotion or finding the love of your life. One of the best known self-help books is *The Secret* by Rhonda Byrne, which has sold around 20m copies and been translated into 46 languages. Pre-empting these comparisons, Wilson takes pains in his own book, *Redirect*, to set clear dividing lines between his approach and that of positive thinking. There are several passages dedicated to highlighting the flaws in Byrne's theory, such as its tendency to make people feel as though they are to blame for their misfortunes. But what is the difference between a business owner completing the 'best possible self' writing exercise and them repeatedly telling themselves that 'I am a successful entrepreneur'? Wilson argues the critical distinction is that the former prompts people to focus on the *process* of achieving goals and thereby encourages them to think about how they will get there. In contrast, the latter singles out only the *outcome* and fails to trigger any useful reflection.

Box 8: Summary of key recommendations

- **Appoint information curators** – Government departments (eg BIS, DWP and HMRC) should appoint information curators who could improve the framing of messages directed at business owners.
- **Introduce a business adviser role for accountants** – Accountants should be encouraged to support their business clients with information and advice about growing their business, possibly enabled through a new business coaching module in their accountancy training.
- **Embed 'story-editing' techniques within business support** – Business support practitioners should use new story-editing techniques to help business owners reinterpret their personal narratives and improve their self-efficacy.
- **Support the development of 'quantified venture' apps** – The government and business support groups should promote new apps that enable business owners to collect and make sense of data about their venture, including the projected costs of taking on an employee.

Cognitive biases

Taking account of Systems 1 and 2

Cognitive biases are systematic deviations in rational thinking. In short, they describe our tendencies to think in a particular way that can run counter to our best interests. In the last chapter we touched upon one such thinking pattern called confirmation bias, which describes how we are predisposed to filter out information that would contradict our existing beliefs. These and other biases form part of what Daniel Kahneman and other psychologists call our System 1 mode of thinking.¹⁰² Whereas System 2 involves rational, slow and effortful mental activities, System 1 is characterised by emotional, fast and effortless thought processes. Sometimes called the automatic system, this latter form of thinking is used for behaviours that happen with some regularity, for example undertaking routine tasks at work or greeting a neighbour in the street. These kinds of activities are made effortless precisely because of the cognitive biases that serve as useful short cuts in our mental infrastructure.

While many of us would like to think of ourselves as being guided by our rational System 2, for the most part our decisions are unwittingly led by System 1 – even those we do not consider to be routine. For example, cognitive biases can have an impact on everything from the concern we have for our future wellbeing (myopia), to the emphasis we give to actions taken by other people (social effect). It is therefore worth considering how biases might affect the decisions of business owners to grow their operations and take on employees. Indeed, business owners may be more susceptible than most people to cognitive biases, in part because the busy nature of their work leaves them cognitively depleted and thus more reliant on effortless modes of thinking.¹⁰³ Non-employers are perhaps even more vulnerable to biased thinking, given the heavy demands placed upon them to run all aspects of their business – from creating the product, to liaising with customers, to devising plans for the future.

Despite the role that biases play in the decision making of entrepreneurs, most of the efforts made by government and others to stimulate recruitment have been System 2-centric. In other words, they have sought to appeal to the rational minds of business owners. Calls for greater deregulation and tax cuts, for example, are premised on the notion of business owners as inherently calculating individuals who systematically weigh up costs and benefits before making every decision. Yet as this chapter shows, people who are self-employed – just like the population as a whole – are predisposed to behave in ways that may ignore such

¹⁰². Kahneman, D. (2011) Op cit.

¹⁰³. See for example Allinson, C. W., Chell, E., and Hayes, J. (2000) “Intuition and entrepreneurial Behavior” in *European Journal of Work and Organizational Psychology* 9 (1).

incentives. Understanding the extent to which biases affect business owners is therefore not an academic exercise. Rather it is fundamental to the ability of policymakers and support organisations to design interventions that stimulate growth and employee recruitment. In the words of business scholar Norris Krueger, understanding cognitive biases would help us ‘open up the black box of entrepreneurship’.¹⁰⁴ Below we highlight four key areas where biases may impede employee recruitment, and suggest ways in which their impact could be softened.

Inertia

One of the most well-known biases is **loss aversion**, which refers to our innate preference to avoid a loss much more than our desire to gain an equivalent amount. Ask someone whether they would bet £100 in a coin toss for the chance to win £150 and your offer would more than likely be turned down, despite the odds being equal.¹⁰⁵ This is partly due to a fear we could feel a sense of regret at a wrong decision; an emotion that we strongly want to avoid. The end result is that people often take no action whatsoever, and as such fall into a state of inertia. In the context of employee recruitment, the need to change roles and hand over certain tasks to a newcomer may translate into a sense of ‘loss’ in the minds of business owners. In one study by Strathclyde Business School, many of those who had grown their venture and taken on staff said they occasionally ‘yearned’ for their old, hands-on role.¹⁰⁶ The same feelings were raised in our own interviews, with one person saying they were ‘reluctant to lose the variety’ of their current position.

Another trait that serves to produce inertia is **status quo bias**, which describes our inherent dislike of change in itself. This can be seen in everyday behaviours such as the way we sit in the same position at work, or purchase the same products when we shop for food. Yet status quo bias also manifests itself in the decisions of business owners. In his work on disruptive innovation, the Harvard Business School Professor Clayton Christensen describes how leaders within incumbent businesses are prone to excessive conservatism, meaning they fail to innovate and are subsequently damaged by competition from newcomers.¹⁰⁷ The same sense of caution was shown among many of the business owners we spoke with. When asked why they were put off from employing people, several referred to the ‘unknown’ consequences of doing so, and that they far preferred the ‘certainty’ of sticking with the current state of affairs.

As with many cognitive biases, however, those that induce inertia can also be bent in such a way as to stimulate employee recruitment and growth. One option for policymakers would be to tweak existing financial incentives so they appeal to our preference to avoid losses rather than our desire to secure gains. For example, rather than ask business owners to sign up to wage subsidy schemes such as the Youth Contract, they could instead be automatically allocated a pot of money that they would ‘lose’

104. Krueger, N. F. (2003).

105. Kahneman, D. (2011) Op cit.

106. Cope, J. (2008) *The ‘juggling act’ of entrepreneurship: Developmental entrepreneurial learning and the concept of focal commitment*. University of Strathclyde.

107. Christensen, C. (2013) *Innovator’s Dilemma*. Harvard Business Review cited in Potts, J. and Morrison, K. *Nudging Innovation*. Nesta.

were it not to be used for recruitment. This sum could be made visible to business owners within their correspondence with HMRC, for example at the point when they complete their self-assessment returns. At the very least, prospective employers could have their wage costs reimbursed up front, rather than having to claim them back at a later date, which currently serves to heighten the feeling of loss.

Another option is to make gains from financial incentives more salient, for instance by paying subsidies to employers at more regular intervals, as opposed to once or twice during a scheme. This is the premise of the successful ‘Dollar a Day’ teenage pregnancy programme in the US, whereby girls are paid a dollar for each day they remain out of pregnancy.¹⁰⁸ Another intervention that could overcome inertia is the use of defaults, which involves signing people up to a given choice but allowing them to opt out should they wish. This method has been used to encourage a variety of behaviours, from organ donation to pension savings. One way defaults could be used to stimulate recruitment is by automatically signing up business owners to free training exercises, or to local business networks such as the Chambers of Commerce, as was suggested in a recent report by BIS.¹⁰⁹

Control

Just as inertia has its roots in cognitive biases, so too does the need for control. According to the government’s Small Business Survey, 27 percent of non-employers believe they would lose control of their business were they to grow it, suggesting this is a key impediment to taking on staff.¹¹⁰ One of the biases stoking these feelings is the ‘**planning fallacy**’, which describes how people systematically overestimate the amount of work they can accomplish on their own. Thus, they retain a tight grip on their business operations because they believe they can do everything themselves. One of our interviewees also suggested that some business owners have a ‘fortress mentality’, whereby they eschew outside help in case it makes them appear weak. Other relevant biases relate to our innate desires for **ownership**, whether that is of a product, a house or – in this case – a business. Unsurprisingly, the more effort we put into creating something, the more we value our ownership of it – something the behavioural economists Dan Ariely and Mike Norton call the ‘Ikea effect’.¹¹¹ This is one reason why the desire to recruit staff gradually diminishes the longer someone has been running their business.¹¹²

While some biases relate to how business owners perceive themselves, others affect how they view other people – namely prospective employees. The flip side of business owners thinking they are able to accomplish more than they can on their own is believing that potential employees would not be able to match their abilities. This feeling came out particularly strongly within our interviews, with one business owner saying that “many employees simply don’t understand the business from our perspective”. Another lamented that “it’s hard to find someone you can

108. Wilson, T. (2013) Op cit.

109. Allinson, G. et al. (2013) Op cit.

110. BIS (2013) Op cit.

111. Ariely, D. (2009) *Predictably Irrational: The hidden forces that shape our decisions*. HarperCollins.

112. BIS (2013) Op cit.

The view of some business scholars is that entrepreneurs display an excessive amount of control, which may be partly rooted in status anxiety

trust. Your brand feels very personal when you're a microbusiness owner and you want to protect it." Of course, it is natural for people to feel protective over what they have put effort into creating. Yet the view of some business scholars is that entrepreneurs display an excessive amount of control, which may be partly rooted in status anxiety.¹¹³

People's inherent desire for control may seem too deep a barrier to address through straightforward interventions. However, there are several measures that might be taken to at least counteract these biases – including those that discourage people from trusting others. For example, rather than display images of entrepreneurs in growth and recruitment campaigns (eg the Business is Great adverts that encourage business owners to expand), it may prove more beneficial to include images of potential recruits, as well as to focus in detail on particular aspects of their character such as age or gender. This technique has been found to elicit a greater degree of behaviour change, in part because drawing attention to specific details of a person can stoke empathy. In one intriguing study, doctors looking at CT scans were more likely to offer caring and attentive treatment when the patients' photos were made visible.¹¹⁴ Another measure would be to target interventions at those who are in the very early stages of running their business, promoting the idea of employee recruitment before the desire for control becomes hardened.

Short-termism

Alongside inertia and the desire for control, another hurdle to employee recruitment is short-termism among business owners. That is, the tendency not to think enough about the future and how their venture will develop. One of the reasons for this short-sightedness is the presence of **habits**, which are actions repeated with such regularity as to be almost invisible. According to Duke University, around 40 percent of the tasks we perform everyday are deeply ingrained habits, rather than unique decisions.¹¹⁵ Whether it is creating a product or service, liaising with clients or winning over new customers, after time the tasks of running a firm can become routine (though not necessarily effortless). While this has clear advantages in making tasks predictable and straightforward, it means business owners often fail to take a step back and reflect on where their business is going. Put simply, habits mean they are caught working *in* their business rather than *on* it.

Another driver of short-termism is **myopia**, a cognitive bias that refers to our inclination to overweigh the importance of the near future and underweigh that of the more distant future. People are more likely to opt for £100 today than wait until tomorrow for £105, but would probably be happy to wait the extra day if the gift was due to be given in a year's time. The psychologist Dan Gilbert and colleagues believe this is because we view the near future through a concrete lens but perceive the distant future

113. See for example Kets De Vries (1996) *The anatomy of the entrepreneur: clinical observations*. Fontainebleu: INSEAD.

114. Turner, Y. N., and Hadas-Halpern, I. (2008) *The effects of including a patient's photograph to the radiographic examination* [conference paper] Radiological Society of North America.

115. Verplanken, B. and Wood, W. (2006) "Interventions to break and create consumer habits" in *Journal of Public Policy and Marketing* 25 (1).

through an abstract one.¹¹⁶ The implication for business is that entrepreneurs will tend to overvalue tactics (short-term planning) and undervalue strategy (long-term planning).¹¹⁷ Over a quarter of non-employing businesses say they are poor at or do not develop business plans.¹¹⁸ One of our interviewees running a tech start-up firm described how they were “winging it every day”, while another said they were often just “cobbling the business together”. In such a myopic environment it is easy to see why so few business owners are inclined to take on an employee.

Fortunately, there are several ways to counteract the effects of short-termism. One measure that has been used with success in other settings is to ask people to commit to a particular change in the future by either writing the goal down or verbally stating it. Better still if the participants explain the *process* by which they plan to complete the task. In their work with the Jobcentre Plus, the Behavioural Insights Unit asked that the following question be posed to job seekers: “What activities will you undertake in the next fortnight that could help you to secure a job?” As a result of being asked to list their steps in detail, participants were 20 percent more likely to be off unemployment benefits after 13 weeks than their counterparts in the control group.¹¹⁹ It is not difficult to imagine how a similar technique could be applied by business support advisers or accountants to stimulate employee recruitment. An easy step towards creating a ‘growth commitment’ would be to request that business owners unpack within their business plan (if they have one) when and how they might take on employees.

A similar but more straightforward intervention would simply be to ask business owners whether they plan to hire an employee. Known as the ‘mere-measurement effect’, the very act of posing a question about intentions can often trigger a positive effect on behaviour (as long as the behaviour is already seen in a positive light). In one US study, people who were asked whether they would vote on election day were found to be 25 percent more likely to do so.¹²⁰ Other studies show that the same phenomenon bears out when people are asked whether they plan to eat healthier, or purchase a car.¹²¹ To have the greatest effect, these mere measurement questions could be posed to business owners by HMRC at the end of the tax year, since this will be a time when they are already in a period of reflection and their habits most amenable to change. In the same vein, banks could automatically prompt business owners to think about their employee recruitment intentions as soon as their financial data shows the firm to be exhibiting strong signs of growth.

Social proof

Social proof is a cognitive bias that refers to our propensity to mimic the behaviours and attitudes of those we come into contact with. While we would like to think of ourselves as resolute and independent-minded, the reality is that we are all affected by the decisions other people make.

116. Wilson, T. and Gilbert, D. T. (2003) “Affective Forecasting” in *Advances in experimental social psychology* 35.

117. Potts, J. and Morrison, K. *Nudging Innovation*. Nesta.

118. BIS (2013) Op cit.

119. Martin, S., Goldstein, N. and Cialdini, R. (2014) Op cit.

120. Ibid.

121. Ibid.

Social proof has an impact on everything from how much we eat, to the effort we put in at school, to whether or not we engage in criminal activity.¹²² As previous RSA research has shown, the effect of people's behaviours can also be contagious and reverberate throughout social networks.¹²³ A friend of a friend who smokes will in turn have an influence on whether or not we smoke. The same effect even holds true for the emotions of happiness and loneliness.¹²⁴ While social proof is partly grounded in descriptive norms – people's perceptions of how others actually behave – it is also rooted in injunctive norms – people's perception of whether a particular action is approved or disapproved of.¹²⁵

Just as social proof plays a role in people's personal lives, so too does it impact upon the decisions that business owners make about their firm. Indeed, one study from the Kauffman Foundation in the US suggests that entrepreneurship may be contagious.¹²⁶ Someone with a parent in business is around two or three times as likely to become self-employed than those without.¹²⁷ Yet social norms may be just as influential on people's decision to *grow* a business as they are on their desire to start one. Non-employers would arguably be much more likely to consider taking on staff were they to come into regular contact with business owners harbouring growth ambitions. The concern, however, is that too few non-employers are exposed to such opinions. Part of the problem is that many of the self-employed work from home and therefore rarely come into contact with other business owners, particularly those with strong desires for growth. This is exacerbated by the natural human tendency to float towards people who are already 'like us'.¹²⁸

In the last chapter we proposed the idea of establishing a system for coordinating random meetings between business owners, which would be one way of introducing them to new opinions. Another measure would be to encourage people to start up in business with someone else, given this would immediately expose them to new ideas and connect them to unfamiliar networks. Businesses with multiple owners are more likely to employ staff than those with a single owner.¹²⁹ Several match-making services already exist, for example Founders Hive at Google Campus, which invites people to pitch their business ideas to an audience of potential partners.¹³⁰ But local authorities and city regions could develop their own versions that are focused on a particular locality or sector, whether that be food, fin-tech or farming.

Interventions could also play on the power of social effect by drawing the attention of non-employers to the number of other businesses in their locality taking on staff, for example through a letter sent by the

122. Thaler, R. and Sunstein, C. (2009) Op cit.

123. Rowson, J., Broome, S. and Jones, A. (2010) Op cit.

124. Cacioppo J. and Patrick W., (2008) *Loneliness: Human Nature and the Need for Social Connection*. WW Norton and Co.

125. Martin, S., Goldstein, N. and Cialdini, R. (2014) Op cit.

126. Kedrosky, P. (2013) *Getting the Bug: Is (growth) entrepreneurship contagious?* Kauffman Foundation.

127. Hout, M. and Rosen, H. (2000) 'Self-employment, family background and race' in *The Journal of Human Resources*, Vol 35 (4) cited in Blanchflower, D. and Shadforth, C. (2007) 'Entrepreneurship in the UK' in *Foundations and Trends in Entrepreneurship*, Vol 3 (4).

128. Rowson, J., Broome, S. and Jones, A. (2010) *Connected Communities: How social networks power and sustain the Big Society*. London: RSA.

129. BIS (2013) Op cit.

130. See www.thefoundershive.com/

government or a prominent local business person. The aim would be to normalise the idea of employee recruitment by showing people that there are others like them who have taken the leap of hiring staff. Using the same technique, HMRC were able to increase their tax compliance rates from 67 to 79 percent – solely by highlighting the numbers of people who usually paid their dues on time.¹³¹ Of course, the challenge in this case is that most business owners do not take on staff, meaning that any wording would probably have to centre on the proportion with an *aspiration* to do so.

Learning to live with cognitive biases

The message of this chapter is that business owners are just as vulnerable to the effects of cognitive biases as everyone else. As such we must recognise that the decision to take on an employee will be guided to a large extent by intuition and emotion, which often run counter to rational thinking. Cognitive biases such as myopia, status quo bias and the endowment effect have evolved to make our lives easier and effortless, but in the world of business can occasionally do more harm than good. While we have set out several ways in which support interventions could soften the impact of these frailties, a more fundamental measure would be to help business owners manage them on their own.

In practice this would mean teaching the self-employed about the cognitive biases that affect their behaviour, and advising them on how to frame decision-making so as to mollify their impact. Also known as ‘**metacognition**’, these thinking-about-thinking exercises could help business owners to spot habits, identify where they are being influenced by others, and monitor the extent to which they underweigh the future. Ultimately the aim would be to enhance what the Harvard scholar Robert Kegan calls ‘mental complexity’, which in essence describes the extent to which we experience events as subject or object.¹³² In other words, whether or not we are able to gain some distance from our social surround and be aware of our own intuitions. A study by the OECD found that only one in five people have the necessary mental complexity to operate successfully in the modern era.¹³³

It should be noted that some leading psychologists are pessimistic about the chances of people being able to manage their thinking in this way. Daniel Kahneman, for example, has said that “constantly questioning your own thinking would be impossibly tedious”. Yet there are others like Dan Ariely who believe that we can become more vigilant to our irrational behaviour, in part because it is so predictable.¹³⁴ Previous RSA research has shown that informing people about their behavioural frailties can be useful to them in tackling dilemmas and reflecting on areas of their lives they have found most problematic, for example in quitting smoking.¹³⁵ Moreover, cognitive coaching of this kind is already spreading into the world of business training, for instance with a new EU-backed course called Realising Your Potential that teaches business owners how to manage their emotional and intuitive thinking. A recent evaluation of the programme indicates that

... we must recognise that the decision to take on an employee will be guided to a large extent by intuition and emotion, which often run counter to rational thinking

131. Martin, S., Goldstein, N. and Cialdini, R. (2014) Op cit.

132. Kegan, R. (1995) *In Over Our Heads*. Harvard University Press.

133. Rowson, J. Mezey, M. and Dellot, B. (2012) *Beyond the Big Society*. London: RSA.

134. Ariely, D. (2009) Op cit.

135. Grist, M. (2010) *Steer: Mastering our behaviour through instinct, environment and reason*. London: RSA.

participants felt better equipped to make important decisions and exhibited greater self-efficacy. There may therefore be a case for training business support practitioners in cognitive coaching.

Box 9: Calling time on common sense

Policymakers pride themselves on being guided by common sense, and will often chide one another for not using it. Yet how useful is conventional wisdom in the world of business support? A number of studies indicate that the most obvious answers to social problems may actually lead to the worst results. Take the example of the Restoring Inner City Peace (RIP) programme, which sought to reduce violence perpetrated by young people by shocking at-risk teenagers with visits to prisons and mortuaries. The approach seems intuitively sensible, yet a randomised control trial of the scheme found that participants were actually *more likely* to engage in criminal activity because they became normalised to the violence.¹³⁶

The same misuse of common sense may occur in the world of business support. Our gut instinct, for instance, tells us that giving business owners wage subsidies should lead to them taking on more staff. Yet new research in behavioural psychology shows that financial incentives may in fact backfire by undermining intrinsic motivations.¹³⁷ The subsidy may lead the business owner to believe they are hiring staff just for the money, and as a result terminate their employment when the support is removed. This phenomenon was revealed in a study of a school that handed out fines to parents who were late in picking up children after class. The fines actually led to more cases of tardiness, in part because it allowed the parents to justify their behaviour in terms of market norms rather than social norms.¹³⁸

The lesson of these examples – and a message that is threaded throughout this paper – is that common sense does not always prevail. Therefore we need to be mindful of applying business support interventions across the nation without thorough testing. Evaluation may be a dry matter, and hardly a vote-winning topic for politicians to espouse, but it is fundamental to our capacity to help businesses – and ultimately our economy – prosper.

Box 10: Summary of key recommendations

- **Introduce an automatic opt-in for wage subsidies** – As part of any new wage subsidy scheme, the government should automatically allocate business owners a pot of subsidies, which they would ‘lose’ were they not to use it.
- **Create a new ‘growth pledge’** – Business support practitioners should encourage business owners to verbally state and/or write their commitment to grow their business and take on staff (should they wish to do so).
- **Organise randomised meet-ups** – Business support groups and local authorities should co-ordinate randomised meet-ups between business owners, in a bid to expose them to different viewpoints.
- **Create match-making services** – The government and business support groups should support the development of match-making services that help would-be entrepreneurs partner up with other people on new ventures.
- **Introduce ‘growth prompts’** – HMRC and banks should consider implementing a triggered system whereby business owners are automatically sent a message questioning their recruitment intentions as soon as their financial data shows strong business performance.

136. Wilson, T. (2013) Op cit.

137. See for example Ariely, D. (2009) Op cit.

138. Gneezy, U. and Rustichini, A. (2000) “A Fine is a Price” in *The Journal of Legal Studies* 29 (1).

Conclusion

Self-employment has grown substantially in recent years. On current growth rates, we estimate that the number of people who work for themselves could soon outgrow the size of the public sector workforce. While the RSA broadly welcomes this trend, we are concerned that few of the newly self-employed are likely to take on employees, which could have worrying implications for jobs growth. The government has sought to address low recruitment rates with several new initiatives, yet few have had any meaningful impact. Our report has argued that this is because they do not speak to the full set of barriers that prevent people from taking on staff. This includes not just the pragmatic barriers of cost, capacity and risk, but also those relating to mindsets and deeply embedded cognitive biases.

The essential message of this report is that business owners should be treated as humans – with all the quirks and frailties this entails – rather than as calculating individuals. Only by doing so can we devise interventions that have a significant impact in stimulating employee recruitment and growth. Whether it is setting up public institutions as ‘host’ employers, enabling accountants to take on a business adviser role, or encouraging business coaches to use story-editing techniques, we need more imaginative thinking in the arena of business support. The proposals outlined in this paper require more time to be fully unpacked, but the RSA is keen to work with other organisations that might be willing to trial them in their areas – whether business support groups, government departments, local enterprise partnership or local authorities.

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