

SUBMISSION FROM FEDERATION OF SMALL BUSINESSES

Introduction

The Federation of Small Businesses (FSB) is Scotland's largest direct-member business organisation representing around 19,000 members. The FSB campaigns for a resilient economy which allows small businesses across Scotland to grow and prosper.

The FSB welcomes the opportunity to respond to the Committee's inquiry into the labour market in Scotland.

Summary

- Scotland's economy is growing, but the post-recession recovery has been inconsistent and remains fragile. Business confidence is muted with the most recent Q2 2015 results revealing a 15.5 point dip on last year's figures,¹ with a knock-on effect on future recruitment intentions.
- Nevertheless, the job market held up well during the period of recovery. Small businesses and the self-employed have had a crucial role to play in the labour market,² employing just under one million people in Scotland.
- In the absence of an agreed measure of job quality,³ it is not possible to say whether this has changed for the better or worse since 2008. Certainly, the distinction between 'good' and 'bad' jobs could be seen to detract from a wider, more serious discussion about the complex changes in the labour market.
- Discussion about the labour market often focuses, rightly, on examples of poor and exploitative employment practice. More work is required, however, to better understand the extent of change in our labour market, the prevalence of bad practice and the changing needs of employers, including small businesses. For example, 93% of small businesses do not employ staff on zero hours contracts and 51% pay all employees the living wage or higher.⁴

Small Businesses and Employment

Small businesses account for almost all of the businesses in Scotland (98%) and collectively employ just under a million people.⁵ Two thirds of these firms are employers with the average business employing 10 staff, more than half of which are full-time permanent employees. Indeed, the diverse factors underlying and driving employment and recruitment in micro and small businesses is something the FSB has highlighted in recent years and this should be central to the Committee's inquiry.⁶

¹ "[Voice of Small Business Index: Scotland Q2 2015](#)", FSB Scotland, June 2015.

² "[Small Firms, Giant Leaps: Small Businesses and the Path to Full Employment](#)", IPPR, April 2014.

³ "[Work, Wages and Wellbeing in the Scottish Labour Market Submission](#)", Professor Patricia Findlay, Strathclyde University, July 2015.

⁴ "[The 'Voice of Small Business' Member Survey](#)", FSB Scotland, March 2014.

⁵ "[Businesses in Scotland 2014](#)", Scottish Government, November 2014

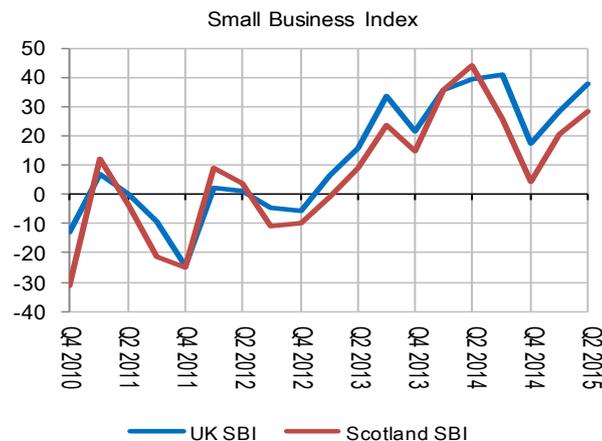
⁶ "[Micros Untapped: Realising the Employment Potential of Micro-Businesses](#)", FSB Scotland, November 2012.

The resilience shown by small firms during the recession is a key point worth stressing, particularly considering the contribution made by such firms in rural and remote areas.⁷ In the face of anaemic demand and expensive credit, the flexibility of the labour market enabled many small employers to keep their current workforce in order to retain their skills and experience – so-called ‘labour hoarding’.⁸ Undeniably this contribution – and the disproportionate role SMEs play in employing those furthest from the jobs market⁹ – prevented higher levels of unemployment:

“Between 2008 and 2011, 88% of individuals moving from unemployment into employment, and 95% of individuals moving from inactivity into employment found work in either an (UK) SME or self-employment.”¹⁰

However, as the Scottish Government highlights in its submission, the jobs market remains fragile. This is particularly the case for small businesses who continue to feel the after-effects of the recession, despite the national economy enjoying positive growth for the previous 11 quarters.¹¹ For example, confidence is increasing but remains below the level recorded in Q2 2014 and by UK businesses. Though the picture is improving, small firms have been running at below capacity for over a year. Also, recruitment intentions, while firming up, have not recovered to their pre-recession levels with a fifth of businesses expanding their headcount.

Scotland Q2 2015: Voice of Small Business Index (SBI)¹²



Questions

1. What makes a job 'good' or 'bad'?
2. Have jobs become better or worse since 2008?
3. What effect might low quality/low pay jobs on the economy?

⁷ SMEs account for 80% of private sector employment in remote, rural areas.

⁸ [“Productivity, Investment and Profits During the Great Recession: Evidence from UK Firms and Workers”](#), C. Crawford et al, Fiscal Studies 34(2), June 2013.

⁹ *Ibid.*, IPPR.

¹⁰ *Ibid.*

¹¹ *Ibid.*, Voice of Small Business Index Q2 2015.

¹² *Ibid.*, “Voice of Small Business Index”, FSB Scotland.

The labour market has changed considerably since 2008 and a discussion about ‘good’ and ‘bad’ jobs risks over-simplifying what are complex changes. Such a distinction could even be counter-productive to improving job quality because of the divisive nature of the debate and the lack of agreed measures to make objective judgements.

Considering job quality, the Scottish economy will always require a range of jobs across differing skills and pay levels and a proportion of these will likely be at the lower end of the remuneration scale. The diversity of small businesses in our economy means that they work across this skills and pay spectrum – from the independent retailer servicing local demand to the software developer exporting apps in the digital, global economy – and many operate in low-margin, competitive sectors often characterised by relatively low pay. What they all have in common is the resilience shown to survive the recession and largely protect their workforce. The current debate about job quality does not always capture this reality and risks undermining the contribution they made in turbulent economic times.

It is also worth noting that effectively tackling issues around youth unemployment or the long-term joblessness of those furthest from the Labour market will require an increase in the number of entry-level jobs in the economy.

However, it is outwith the scope of this submission to cover all of the changes that have taken place in the jobs market. Instead, we would highlight a number of specific changes.

The first is the growth in self-employment in recent years, which as research by the Resolution Foundation pointed out, is often unfairly labelled as ‘an option of last resort’.¹³ Indeed, the increase in business start-ups had an overwhelmingly positive impact at a time when employment opportunities were scarce. Between 2008 and 2013, over 54,000 people became sole-traders and created jobs for 272,360 people.¹⁴ To put that into context, only 41,735 people became self-employed in the first two terms of the Scottish Parliament.

Whilst there are disagreements about the causes of this increase, the self-employed are, on average, more satisfied and happier than employees with their work and life.¹⁵ The same applies to micro-business owners and their staff. A recent RSA report¹⁶ outlined that despite higher instances of pay restraint and less staff training:

“...micro-business employees are the most satisfied group of workers in the labour market, scoring highest on several indicators such as job control, influence in decision-making, loyalty to the business and even satisfaction with pay.”

According to recent Scottish Government statistics,¹⁷ the growth in self-employment is decreasing. Nevertheless, it is highly likely that this group will become a permanent feature of our economic landscape. In other words, being self-employed or working for a micro business is increasingly likely to be the employment experience for many in

¹³ [“Laura Gardiner Interview on Self-Employment”](#), Resolution Foundation, May 2014.

¹⁴ *Ibid.*, Scottish Government

¹⁵ [“Salvation in a Start-Up?”](#) RSA, May 2014.

¹⁶ [“The Second Age of Small”](#), RSA, June 2015.

¹⁷ *Ibid.*

Scotland. As a result, we need to ensure that discussions about employment consider this new perspective, instead of relying on models of the past. However, we also need to know more about this section of the economy and we therefore welcome the UK Government's review into self-employment.

In addition, it might also be useful for the Committee to examine technology and the digital economy. The FSB is currently exploring the impact digital disruption will have on Scottish small businesses. Initial findings highlight that no industry or company is immune from the threat of digital disruption: one study predicts that 47% of jobs are open to automation¹⁸ while others are more cautious about the impact rapid technological change will have.¹⁹ The key point we would make is that greater utilisation of technology by industry and other sectors of the economy is, and might increasingly, have an impact on the labour market which must be a consideration in relation to the changing nature of employment.

4. What the health impacts of low quality jobs might be?

We are not best placed to answer this question.

5. What can the Scottish Government and public policy makers do to improve job quality in Scotland?

It is worth stressing that the challenges facing the labour market are not radically different from those Scotland faced pre-2008. Prior to the recession, levels of entrepreneurship were no better than ordinary; several groups faced barriers to work including young people and those with fewer qualifications;²⁰ and many post-industrial communities were struggling to adapt to a service-led economy. The difference today is that concerns about job quality have become more acute.

In our view, the debate about job quality should be strategic and evidence-based and not disproportionately driven by high-profile concerns about employment practices used by some employers. An essential first step is establishing a robust and accepted measure of job quality, as recommended by Professor Findlay and others, to better understand the characteristics of the labour market. Secondly, and linked to this point, it is important that the needs and requirements of Scotland's diverse range of employers are examined alongside those of employees; and that we develop a more nuanced and comprehensive approach to better understand how firm size, industry sector, geography or demographics (age, gender, ethnicity and so on) impact on job quality.²¹

¹⁸ "[The Future of Employment: How susceptible are jobs to computerisation?](#)", Frey and Osborne, University of Oxford, September 2013.

¹⁹ "[Robots for the People](#)", Diana Coyle, August 2015.

²⁰ "[Education Working for All!](#)", Commission for Developing Scotland's Young Workforce, June 2014.

²¹ We would direct the Committee to a report we published on how micro-businesses approach recruitment. See ref 6.