

**SWP 47/91 "KEY STAFF RECRUITMENT IN SMALL FIRMS  
IN THE UK: A SURVEY BY  
CRANFIELD SCHOOL OF MANAGEMENT"**

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## CRANFIELD RESEARCH PROJECT

### Key Staff Recruitment in Small Firms in the United Kingdom

Cranfield School of Management is seeking to establish how small growing companies operate in certain key decision areas, with a view to identifying success characteristics. This research is principally to help improve the content and delivery of Cranfield's Business Growth Programme, which in turn helps owner-managers develop new growth strategies. We would also like to share that knowledge with others who are also concerned with the problems of growing young firms.

As an important part of this work, in Winter 1989/Spring 1990 Cranfield did a pilot study of 200 small growing businesses in the UK.

The views of the companies surveyed are of particular interest as they are for the most part successful, relatively young small businesses - mainly the product of the Thatcher years. Their average age is ten years, they employ around 25 people and turnover £2M per annum. Nearly three quarters have plans to grow in the near future, despite the uncertain business climate. The largest sector, 44% is in services but nearly 30% of those surveyed are in manufacturing.

Typically, they already employ between three and five key managers earning over £20,000 and over 95% of them would like to recruit between one and ten more.

In this pilot survey, we focussed on the problems associated with recruiting and retaining key staff. These were described as people earning over £20,000 per annum. We felt in companies of this size that typing the concept of key staff to particular titles would be largely meaningless and that salary was a better yardstick of a person's "importance", in this instance. We welcome comments from all organisations with an interest in this area. The responses we receive will be used to assist with further analysis and research.

#### The Survey

Cranfield distributed the questionnaires to a broad selection of businesses throughout the United Kingdom. They were asked:

- How big a problem is recruiting and retaining key staff
- What their recruitment plans were

- What recruitment methods they used, most recently
- How much they spent on that recruitment
- How successful they were at retaining key staff

## Key Findings

Several powerful messages have emerged from this pilot survey - which we hope our further planned research will throw further light on.

1. Eighty three per cent of businesses who responded rated employing key staff as one of their top two problem areas.  
They rated it nearly four times as important an issue as high interest rates, and more than twice as important as their second highest priority, finding customers. Retailers were the only business sector who rated employing key staff equally as important as high interest rates.  
There is a clear message that finding, retaining, motivating and managing key staff is the pivotal issue facing emerging companies.
  
2. Seventy per cent of businesses who responded employ key staff and 95% are planning to recruit over the next twelve months. Over half of those companies are looking to make more than three appointments and 10% are planning more than six.  
Companies in the manufacturing and wholesaling sectors were the most likely to both employ and be planning to recruit new key staff.  
Eight three per cent of retailers employed no key staff and 33% had no plans to do so. This sector was also the least concerned about employment problems as a whole and had the lowest number of companies with plans to grow their business significantly in the next eighteen months.  
The message here is that these companies have plans to embark on a major recruitment programme in the coming year or so. It is also clear that the retail sector has got the message concerning high interest rates and are scaling back their plans accordingly.
  
3. When it comes to finding key staff, some 50% of businesses who responded relied on personal contacts to fill their last key appointment. By far the most popular method. This is particularly true of the smallest companies, whom between seventy and ninety per cent favoured this approach. Thirty eight per cent recruited through their own advertisement and 20% promoted from within.  
  
Using the services of a recruitment agency was the least popular method by a very wide margin.

However there were a number of significant exceptions to this general observation.

Larger firms who responded, whether measured by employment or turnover, relied more on recruitment consultants than they did on personal contact or for that matter on internal promotion, when they made their last key appointment. For example only 15% of firms employing between 80 and 250 people favoured personal contact for recruitment, whilst executive search using a recruitment consultant was used by 23%.

A similar pattern emerges for small firms in the manufacturing sector.

The message here is that small companies increasing favour using personal contacts for the first stage of business growth i.e. up to £1M turnover or 10 employees. For example 65% of firms employing up to five people used personal contact to fill their last key appointment. This rose to ninety per cent for firms employing 6-10 people. But thereafter as employment increased, reliance on personal contacts for recruitment dropped sharply.

There was a corresponding increase in the use of recruitment consultants and to a lesser extent on internal promotions.

4. Sixty per cent of businesses who responded spent less than £1,000 on recruiting for their last key appointment. Only 11% spent over £5,000. Over a quarter of firms responding who either employed 80-250 people or had turnover's in excess of £5M (still with less than 250 employees), spent over £5,000 on making their last key staff appointment.

No retail firm responding spent over £1,000, but about a fifth of firms in manufacturing or the service sector, spent over £2,000.

Nearly 90% of firms responding felt the amount they had spent on this latest appointment was either about right or too high.

The message here is that most of these companies probably have unrealistically low recruitment budgets. It is also highly likely that they have failed to take into account the very high time cost involved in following up personal contracts. So

the cash cost may be low, but the opportunity of the proprietor having time to spend on other business issues, is probably quite high.

5. Nearly 60% of businesses who responded had made a key appointment that had failed in the past two years.
- Of those failures, nearly two-thirds occurred in under one year. This we felt could probably be attributed to a recruitment failure. Those failures that took place over one year we felt must be for other reasons, such as changes in company strategy.

Within those averages there are some significant variations.

- Companies responding with less than 80 employees, when compared with those employing more, are: about equally likely to promote from within or use press advertising themselves to find key staff; about a third as likely to use executive search and nearly four times as likely to rely on personal contacts. The result is that there are nearly twice as likely to have had the appointment of a key member of staff fail within twelve months, as the larger company.
- Companies responding with turnover below £5M p.a. were about one seventh as likely to use executive search, as compared with those with a turnover in excess of £5M. They are also three times as likely to have used personal contacts for their last key appointment. The result is that they are more than one and a half times as likely to have experienced a failed key appointment within a year, as the larger company.
- Manufacturing companies responding were the most likely business sector to have used executive search and they have the lowest likelihood of experiencing a failed appointment within a year of making that appointment.
- Retail companies responding were the business sector least likely to have used executive search and the most likely to have a key appointment fail within a year.

The message here seems to be that relying on personal contacts to make key appointments becomes an increasingly ineffective method of recruitment as a

firm gets larger. Firms relying on personal contacts seem to have a much higher failure rate than do those who use a recruitment agency to do the search for them.

The underlying reasons are probably because:

Using personal contacts relies on an informal job description which can be infinitely varied to suit the candidates that surface. This must lower the chances of the owner/manager finding a good match between the job and the candidates.

The reasons for owner/managers preferring this recruitment method lie buried somewhere in the following myths.

- That they are themselves excellent judges of quality and character
- That the chemistry must be "right" and that is more important than any other factor in picking key staff
- That psychometric testing or any interviewing technique cannot be more effective than common sense or good judgement (largely because they don't understand these techniques - once introduced to them, as they are on the Business Growth Programme, they become zealous converts, perhaps even too zealous!)
- That recruitment consultants get them to do all the work in preparing a job description - so why pay someone just to do their job for them!
- That recruitment consultants just put in advertisements and do no serious research
- That recruitment consultants are prohibitively expensive
- If the appointment fails there is no come back on the consultant - worse than that he can expect another fee for doing the job again
- Recruitment consultants are no more likely to pick a winner than the owner/manager is themselves

## THE SURVEY

Cranfield School of Management is working to identify practical ways to help growing firms develop and implement successful business strategies.

In this survey we have focussed on the problems associated with recruiting and retaining key staff in small firms.

As Stage 1 of our work, Cranfield have completed a survey of owner-managers of a broad selection of UK companies, asking them:

- How they rated recruiting and retaining key staff as a business problem, when related to other problems such as interest rates, raising new finance, finding customers or dealing with red tape
- How many key staff they currently employed and how many they planned to recruit over the next twelve months
- How they went about finding the person for the last key appointment - via internal promotion, direct press advertising, using a recruitment consultant or by personal contact.
- How much they spent on recruiting for this last key appointment
- Whether or not they had made a key appointment that had failed in the last two years, and if so how soon after appointment did that failure occur

These last three questions were deliberately concentrated on recent experience as in our experience small companies do not keep reliable historic data on these subjects.

This paper presents the main findings from this survey of the small business community.

Stage 2 will involve a survey using a larger sample to look in more detail at how firms generally go about recruiting and retaining key staff, in terms of such matters; the preparation of job descriptions; reporting structures; salary, bonus and incentives; career and personal development programmes; and management style and control systems. We will at the same time survey recruitment consultants to get their views on the key issues raised from Stage 1.



These surveys will be conducted during 1990.

Stage 3 will be a report based on an analysis of the results of these surveys, containing significant messages founded on the common ground between small business and the recruitment sector. It will set out the fundamental issues and the actions we believe are needed to tackle the constraints limiting the success of small firms in their efforts to recruit and retain key staff. An issue we believe to be fundamental to successful business growth for small companies.

Table 1

**Business Sector**

Sector	Percentage
Wholesale	7.1
Retail	9.5
Manufacturing	28.7
Service	44.1
Other	<u>10.6</u>
Total	100%

**The Response****Business Sector**

- Just under a third of the survey replies came from those in manufacturing industry
- 44.1% from the service sector
- 7.1% from wholesaling
- 9.5% from the retail sector
- Companies were listed as "other" if their principle activity was given as exporting or importing for example, or if they straddled more than one business sector

Table 2

**Age of Business**

Age	Percentage
5 yrs & under	21.3
6 - 10 yrs	29.4
11 - 20 yrs	28.0
Over 20 yrs	<u>21.3</u>
Total	100%

**Age of Business**

- Around 50% have been in business for under 10 years, a similar number have been around for a good bit longer
- Nearly 60% of firms responding were aged between 6 & 20 years
- Just over 21% were aged five years and under

Businesses were asked to describe their main needs from business support agencies by ranking the following services by degree of need:

- business information and advice
- assistance with premises
- direct financial help (loans, grants, rate relief, etc.)
- financial advice and/or help with access to commercial funding
- assistant with training
- marketing and promoting local business
- Other

Figure 2 illustrates the responses received

The highest priority was direct financial assistance, such as grants or loans; 26% of businesses ranked this as their greatest need.

The other needs referred to most frequently were:

	% Ranking as greatest need
Direct financial assistance	26%
Business information and advice	17%
Assistance with premises	16%
Assistance with training	16%

Table 3

## Number of people employed

No. of People	Percentage
5 people or less	12.0
6 - 10	13.3
11 - 20	28.0
21 - 80	29.4
80 or more	<u>17.3</u>
Total	100%

## The Response

## Number of people employed

- 47% of those responding employed more than 21 people
- 12% have fewer than five employees
- 17% have more than 80, but less than 250 employees
- 41% employ between 6 - 20 people

Table 4

## Turnover Level

Turnover	Percentage
less than £500K	29.3
between £500K & £1M	21.3
£1M to £2M	21.3
£2M to £5M	13.3
£5M & greater	<u>14.7</u>
Total	100%

## Turnover Level

This is a relatively crude measure of size as a service sector company, such as a graphic design studio, would be quite substantial if its turnover were £1M, whilst a boat builder with that turnover would be a relative minnow

- Half of companies responding a turnover under £1M p.a.
- Just under a quarter had sales of between £1M and £2M p.a.
- Just over a quarter had sales in excess of £2M p.a.
- Nearly 15% had an annual of above £5M

**Number of Employees Analysis**

**Percent Placing Problem in Top-Two Priority Positions**

No. of Employees	Problem				
	Employing Key Staff	Finding Customers	Raising New Finance	High Int. Rates	Dealing with Red Tape
5 or less	56%	44%	50%	50%	38%
6 - 10	100%	30%	40%	20%	10%
11 - 20	86%	48%	33%	10%	10%
21 - 80	75%	84%	5%	16%	16%
80 or more	92%	58%	17%	17%	17%
<b>TOTAL ALL</b>	<b>83%</b>	<b>59%</b>	<b>31%</b>	<b>27%</b>	<b>21%</b>

**Employment Category**

Firms employing five or less ranked employing key staff, raising new finance and high interest rates as equally important problems.

All the firms responding employing between six and 10 people rated employing key staff as either their first or second most important problem.

Firms employing between twenty one and eighty people viewed finding customers a more important problem than employing key staff.

**Turnover Analysis**

**Percent Placing Problem in Top 2 Priority Positions**

Turnover	Problems				
	Employing Key Staff	Finding Customers	Raising New Finance	High Int. Rates	Dealing with Red Tape
under £0.5M	53%	36%	48%	29%	24%
£0.5M - £1M	81%	56%	21%	19%	19%
£1M - £2M	80%	73%	27%	13%	7%
£2M - £5M	80%	75%	0%	25%	0%
£5M +	90%	60%	10%	20%	20%
<b>TOTAL ALL</b>	<b>83%</b>	<b>59%</b>	<b>31%</b>	<b>27%</b>	<b>21%</b>

**Turnover Analysis**

Firms with turnover below £0.5M per annum saw employing key staff and raising new finance as similarly important problems, above the other problems.

Firms with turnover above £1M per annum broadly saw finding new customers as more important problems than the smaller firms in the sample.

Firms with turnover below £2M saw raising new finance as a much more important problem than the larger firms in the sample.

**Business Sector**

**Per cent Placing Problems in Top Two Priority Positions**

Sector	Problems				
	Employing Key Staff	Finding Customers	Raising New Finance	High Int. Rates	Dealing with Red Tape
Wholesale	80%	60%	40%	20%	0%
Retail	50%	17%	33%	50%	17%
Manufacturing	83%	61%	11%	17%	17%
Service	84%	59%	22%	22%	13%
Other	56%	44%	33%	0%	33%
<b>Total All Sectors</b>	<b>83%</b>	<b>59%</b>	<b>31%</b>	<b>27%</b>	<b>21%</b>

**Business Sectors**

Wholesalers, manufacturers and service companies all ranked employing key staff as their most important problem.

Retailers ranked employing key staff and high interest rates equally high, as problems.

Retailers ranked finding customers their joint lowest priority problem, alongside "red tape".

Overall

<b>Problem</b>	<b>% Ranking as Top Problem</b>	<b>% Ranking as one of Top Two Problems</b>
<b>Employing Key Staff</b>	<b>41</b>	<b>83</b>
<b>Finding Customers</b>	<b>25</b>	<b>57</b>
<b>Raising New Finance</b>	<b>13</b>	<b>31</b>
<b>High Interest Rates</b>	<b>11</b>	<b>27</b>
<b>Dealing with red tape</b>	<b>10</b>	<b>21</b>

Ranking of Business ProblemsOverall

Eighty three per cent ranked employing key staff as their number one or two problem.

Forty one per cent ranked it as their single most important problem.

Employing key staff is viewed as the most important problem facing nearly four times as many firms, as is high interest rates.

Finding customers is the top priority problem for twenty five per cent of those responding.

Raising new finance is viewed as a top problem by only thirteen per cent.



Business SectorPercent Placing Problem in Top Two Priority Positions

Sector	Problem				
	Employing Key Staff	Finding Customers	Raising New Finance	High Int. Rates	Dealing with Red Tape
Wholesale	80%	60%	40%	20%	0%
Retail	50%	17%	33%	50%	17%
Manufacturing	83%	61%	11%	17%	17%
Service	84%	59%	22%	22%	13%
Other	56%	44%	33%	0%	33%
<b>Total all Sectors</b>	<b>83%</b>	<b>59%</b>	<b>31%</b>	<b>27%</b>	<b>21%</b>

Number of Employee AnalysisPercent Placing Problem in Top Two Priority Positions

Number of Employees	Problem				
	Employing Key Staff	Finding Customers	Raising New Finance	High Int. Rates	Dealing with Red Tape
5 or less	56%	44%	50%	50%	38%
6 - 10	100%	30%	40%	20%	10%
11 - 20	86%	48%	33%	19%	10%
21 - 80	75%	84%	5%	16%	16%
80 or more	92%	58%	17%	17%	17%
<b>Total all Sectors</b>	<b>83%</b>	<b>59%</b>	<b>31%</b>	<b>27%</b>	<b>21%</b>

Turnover AnalysisPercent Placing Problem in Top Two Priority Positions

Turnover	Problem				
	Employing Key Staff	Finding Customers	Raising New Finance	High Int. Rates	Dealing with Red Tape
under £0.5M	53%	36%	48%	29%	24%
£0.5 - 1M	81%	56%	21%	19%	19%
£1M - 2M	80%	73%	27%	13%	7%
£2M - 5M	80%	75%	0%	25%	0%
£5M	90%	60%	10%	20%	20%
<b>Total all Sectors</b>	<b>83%</b>	<b>59%</b>	<b>31%</b>	<b>27%</b>	<b>21%</b>

## **Growth and Recruitment Plans**

### **Growth Plans**

Businesses were asked if they had plans to grow significantly over the next eighteen months.

#### **Overall**

- 75% of respondents had plans to grow their business significantly in the next 18 months.
- 25% had no plans for significant growth.

#### **By Sector**

- The highest proportion of respondents planning to grow their business significantly lay in the wholesale sector.
- The retail sector had the lowest proportion of companies with plans for significant growth - just 50%.
- 72% of manufacturers had plans for significant growth, which put them in the median position.

#### **By Turnover**

- 82% of firms responding with a turnover below £0.5M per annum had significant growth plans. The highest proportion by turnover band.
- 64% of firms with over £5M per annum turnover had significant growth plans. The lowest proportion by turnover.

#### **By Number of Employees**

- 81% of respondents employing between 11-20 people had significant growth plans.
- 63% of respondents employing between 21-80 people had significant growth plans.

#### **By Age of Business**

- 63% of respondents employing between 21-80 people had significant growth plans.

### **By Age of Business**

- 86% of respondents whose firm was between 6 and 10 years old had significant growth plans.
- 63% of respondents whose firm was over 20 years old has significant growth plans.

### **By Turnover**

- 55% of companies responding with annual turnover below £0.5M, employ one or more key staff. 91% are planning to recruit.
- 44% of companies with annual turnover between £0.5M - £1M, employ one or more key staff and 100% plan to recruit.
- 81% of companies with annual turnover between £1M - £2M employ one or more key staff and 94% plan to recruit.
- 90% of companies with annual turnover between £2M - £5M employ one or more key staff and 90% plan to recruit.
- 100% of companies with annual turnover above £5M currently employ one or more key staff and 100% plan to recruit.

### **By Number of Employees**

- 67% of companies responding, who employ less than five employees, have one or two key employees. 89% plan to recruit more.
- 60% of companies who employ between 6 and 10 people, have between 1 and 5 key staff. 100% plan to recruit more.
- 52% of companies who employ between 11 and 20 people, have between 1 and 10 key employees. 95% have plans to recruit more.
- 73% of companies who employ between 20 and 80 people, have more than one key employee. 59% have more than 3 and 9% have more than 10. 91% have plans to recruit more, and 44% expect to recruit between 3 and 10 more key staff.

- All companies employing between 80 and 250 people both have and plan to recruit for key staff. 54% of them currently have more than 10 key employees and 9% are looking to recruit 10 or more additional key staff.

### By Age of Company

- 62% of companies under 5 years old employ one or more key staff and 94% plan to recruit. 13% are looking for 6 or more.
- 64% of companies between 6 and 10 years old employ one or more key staff and 100% plan to recruit. 10% are looking for 6 or more.
- 67% of companies between 11 and 20 years old employ one or more key staff and 90% plan to recruit. 15% are looking for 6 or more.
- 87% of companies over 20 years old employ one or more key staff. 38% of them employ more than 6. 94% plan to recruit. 60% are looking for 6 or more.

### Key Messages

- Smaller or younger firms, or those in wholesaling were most optimistic about their growth plans.
- Larger or older firms, or those in retailing were the most pessimistic about their growth plans.
- A significant number of nearly all sizes and ages of firms and all business sectors intended to recruit key staff in the next year.
- Retailers were the least likely to be looking for key staff.

**Growth Plans****Table 1**

<b><u>Overall</u></b>	<b>YES</b>	<b>NO</b>
	75%	25%

**Table 2**

<b><u>Sector</u></b>		
Wholesale	100%	0%
Service	78%	22%
Manufacturing	72%	28%
Other	67%	33%
Retail	50%	50%

**Table 3**

<b><u>Turnover</u></b>		
Under £0.5M	82%	18%
0.5 - 1M	75%	25%
1M - 2M	69%	31%
2M - 5M	80%	20%
5M	64%	36%

**Table 4**

<b><u>Number of Employees</u></b>		
5 or less	78%	22%
6 - 10	80%	20%
11 - 20	81%	19%
21 - 80	63%	37%
80+	77%	23%

**Table 5**

<b><u>Age</u></b>		
Under 5 years	81%	19%
6 - 10	86%	14%
11 - 20	86%	33%
20+	63%	37%

**Key Employment both Actual & Planned Recruitment by Sector**

Sector	% Key Staff Employed now/planning to Recruit				
	None	1 - 2	3 - 5	6 - 10	10+
Wholesale	20%/0%	40%/80%	20%/20%	20%/0%	0%/0%
Retail	83%/33%	0%/50%	17%/17%	0%/0%	0%/0%
Manufacturing	22%/0%	22%/56%	28%/39%	11%/6%	17%/0%
Service	22%/3%	34%/34%	28%/47%	3%/16%	13%/0%
Other	33%/8%	22%/44%	22%/22%	0%/8%	22%/8%
Total all Sectors	31%/5%	25%/45%	27%/39%	5%/9%	12%/1%

**Key Employment both Actual & Planned Recruitment by size of business as measured by Turnover**

Turnover Band	% Key Staff Employed now/planning to Recruit				
	None	1 - 2	3 - 5	6 - 10	10+
Under £0.5M	45%/9%	45%/64%	5%/23%	5%/5%	0%/0%
£0.5 - £1M	56%/0%	25%/63%	19%/31%	0%/6%	0%/0%
£1M - £2M	19%/6%	25%/25%	50%/50%	0%/19%	6%/0%
£2M - £5M	10%/10%	10%/20%	60%/70%	10%/0%	10%/0%
£5M	0%/0%	0%/36%	18%/36%	18%/18%	64%/9%
Total all Sectors	31%/5%	25%/45%	27%/39%	5%/9%	12%/1%

**Key Employment both Actual & Planned Recruitment by Size of businesses as measured by number of Employees**

Number of Employees	% Key Staff Employed now/planning to Recruit				
	None	1 - 2	3 - 5	6 - 10	10+
5 or less	33%/11%	67%/56%	0%/33%	0%/0%	0%/0%
6 - 10	40%/0%	30%/50%	30%/40%	0%/10%	0%/0%
11 - 20	48%/5%	29%/52%	19%/33%	5%/10%	0%/0%
21 - 80	27%/9%	14%/36%	45%/45%	5%/9%	9%/0%
80+	0%/0%	8%/38%	23%/38%	15%/8%	54%/9%
Total all Sectors	31%/5%	25%/45%	27%/39%	5%/9%	12%/1%

**Key Employment both Actual & Planned Recruitment by Age**

Age	% Key Staff Employed now/planning to Recruit				
	None	1-2	3-5	6-10	10+
0 - 5	35%/6%	31%/31%	25%/50%	0%/13%	6%/0%
6 - 10	36%/0%	23%/50%	32%/41%	5%/9%	5%/0%
11 - 20	33%/10%	24%/48%	24%/29%	5%/10%	14%/5%
20	13%/6%	25%/50%	25%/38%	13%/6%	25%/0%
Total all Sectors	31%/5%	25%/45%	27%/39%	5%/9%	12%/1%



### Most recent Recruitment Methods

Businesses were asked how they went about recruiting for their last key appointment.

#### Overall

- The most popular most recent recruitment method was personal contact - adopted by 49% of all respondents.
- 38% advertised themselves.
- 20% promoted from within.
- Between 9% and 11% used one of the three services provided by recruitment consultants.

#### By Sector

- Wholesalers made equal use of personal contact and direct press advertising, as their principle recruitment method. (50% in each case). 20% of them also advertised through recruitment consultants, but used none of their other services. They made no internal promotions.
- 83% of retailers used personal contact as their principle recruitment method. No retailer used a recruitment consultancy.
- 39% of manufacturing firms advertised directly themselves for key staff - their most popular method. This was followed by 33% who used personal contacts; between 11% and 22% who used recruitment consultancy services; and a further 11% who promoted from within.
- 56% of service sector firms recruited using personal contacts. This was followed in importance by direct press advertising, 41%; internal promotion, 28%; and between 3% and 16% who used recruitment consultancy services.

### **By Turnover**

- 57% of companies with below £0.5M per annum turnover used personal contacts to recruit for their last key appointment. This was followed in importance by direct press advertising, 24%; internal promotion, 10%; and between 9% and 10% used the basic services of a recruitment consultant.
- 67% of companies turning over between £0.5M - £1M recruited using personal contacts; 57% used direct press advertising; 19% promoted from within; and between 7% and 20% used the services of a recruitment consultant.
- 63% of companies turning over between £1M - £2M recruited using personal contacts; 25% were promoted from within; a further 25% used direct press advertising. Up to 13% used the one or other of the services of a recruitment consultant.
- 20% of companies turning over between £2M - £5M used personal contact for this recruitment, whilst 60% advertised directly themselves. 20% promoted from within and 10% used one service from a recruitment consultancy - file search.
- 18% of companies turning over more than £5M, used personal contacts to recruit; 38% used executive search via a recruitment consultant; 37% promoted from within; and 34% advertised direct.

### **By Number of Employees**

- 63% of companies responding employing less than 5% recruited via personal contact. 13% advertised directly themselves and between 11% and 13% used the basic services of a recruitment consultant.
- 90% of companies employing between 6 - 10 people recruited via personal contacts and 20% used direct press advertising. 10% used the executive search services of a recruitment consultant.
- 52% of companies employing between 11 - 20 people recruited via personal contact. 43% used direct press advertising. 24% promoted from

within. Between 5% and 19% used one of the services of a recruitment consultant.

- 43% of companies employing between 20 - 80 people recruited via personal contacts. 55% advertised direct themselves and 32% promoted from within. Between 5 and 10% used one of the recruitment agency services.
- 15% of companies employing over 80, but under 250 people, recruited via personal contacts. 31% advertised directly themselves and 23% promoted from within. Between 8 and 25% used the services of a recruitment consultant.

#### By Age of Company

- 75% of companies under 5 years old recruit via personal contacts. 38% advertise direct themselves and 19% promote from within. Between 6 and 25% use the various services of a recruitment agency.
- 48% of companies between 6 and 10 years old recruit via personal contacts. 29% advertise direct themselves and 10% promote from within. Between 5% and 19% use one of the services of a recruitment agency.
- 50% of companies between 11 and 20 years old recruit via personal contacts. 43% advertise direct themselves and 19% promote from within. Up to 10% use one of the services of a recruitment agency.
- 25% of companies over 20 years old recruit via personal contacts. 44% advertise direct themselves and 38% promote from within. Between 6% and 19% use the services of a recruitment consultant.

#### Key Messages

- Personal contact is the most important recruitment method, over all, in small firms - adopted by half of all respondents. 83% when considering retail firms.

- The older or bigger a company is, the less likely they are to rely on personal contacts. Companies employing between 50 and 250 people, for example only relied on personal contacts in 15% of cases, compared with an average of 50% for all small firms.
- Bigger companies, whether measured by turnover or number of employees are not much more likely to have used the services of a recruitment consultant, than smaller ones, until their turnover exceeds £5M, or they employ more than 80 people.

Recruitment Method(s)						
Sector	Internal Promotion	Direct Press Advert.	Recruitment Advert.	Consultants Exec Search	File Search	Personal Contact
Wholesale	0%	50%	20%	0%	0%	50%
Retail	17%	33%	0%	0%	0%	83%
Manuf.	11%	39%	22%	17%	11%	33%
Service	28%	41%	3%	6%	16%	56%
Other	33%	33%	13%	13%	0%	25%
<b>TOTAL</b>	<b>20%</b>	<b>38%</b>	<b>10%</b>	<b>9%</b>	<b>11%</b>	<b>49%</b>

How did you recruit for your last Key Employee

Recruitment Method(s)						
Turnover Band	Internal Promotion	Direct Press Advert.	Recruitment Advert.	Consultants Exec Search	File Search	Personal Contact
- £0.5M	10%	24%	9%	0%	10%	57%
£0.5M-1M	19%	56%	7%	7%	20%	67%
£1M - 2M	25%	25%	0%	13%	7%	63%
£2M - 5M	20%	60%	0%	0%	10%	20%
£5M +	37%	34%	35%	38%	9%	18%
<b>TOTAL</b>	<b>20%</b>					

Number of already	Recruitment Method(s)					
	Internal Promotion	Direct Press Advert.	Recruitment Advert.	Consultants Exec Search	File Search	Personal Contact
5 or less	0%	13%	11%	0%	13%	63%
6 - 10	0%	20%	0%	10%	10%	90%
11 - 20	24%	43%	10%	5%	19%	52%
21 - 80	32%	55%	5%	10%	5%	43%
80 +	23%	31%	20%	25%	8%	15%
<b>TOTAL</b>	<b>20%</b>	<b>38%</b>	<b>10%</b>	<b>9%</b>	<b>11%</b>	<b>50%</b>

How did you recruit for your last Key Employee

Age	Recruitment Method(s)					
	Internal Promotion	Direct Press Advert.	Recruitment Advert.	Consultants Exec Search	File Search	Personal Contact
0 - 5	19%	38%	6%	19%	25%	75%
6 - 10	10%	29%	9%	5%	19%	48%
11 - 20	19%	43%	5%	10%	0%	50%
20 +	38%	44%	19%	6%	0%	25%
<b>TOTAL</b>	<b>20%</b>	<b>38%</b>	<b>10%</b>	<b>9%</b>	<b>11%</b>	<b>50%</b>
under 10	14%	32%	8%	11%	22%	59%
over 10	27%	43%	11%	8%	0%	39%

## Spending on Recruiting

Businesses were asked how much they had spent on recruiting for their last key appointment, and whether or not they felt that cost was about right, too high or too low.

### Overall

**Table 9**

**How much spent per Key Employee recruited**

Amount Spent	Percentage
Under £1000	59.7
£1001-£2000	21.0
£2001-£5000	8.7
Over £10000	<u>4.6</u>
<b>Total</b>	<b>100%</b>

**Table 10**

**How did you feel about cost of recruiting Key Employees**

Felt the Cost	Percentage
Too low	10.7
About right	73.6
Too high	15.7

- Over 80% spent £2,000 or less on recruiting the last £20,000+ appointee, barely 10% of salary.
- Nearly 60% spent under £1,000. (It must be said that these figures relate to external expenditure only. At least one proprietor we know has spent over five week-ends and a score of evenings chasing up contacts to find sales staff. If he had costed that time into his recruitment expenditure, his "bill" would have been several times higher).
- The vast majority, 73.6%, felt that they were paying about the right sum for recruiting key staff, with only 10% thinking they had been a bit mean and 15% a bit generous.
- This view is in sharp contrast to that taken by "big business", who would reckon to spend 30%-50% of the first year's salary recruiting staff at this level. One public sector body recently spent more than a year's salary in recruiting someone at a salary of £19,500 p.a.

### By Sector

- Retailers generally spent the last on recruitment, and had the highest proportion of people who either felt the costs were about right, or too

high. They were also the most likely to have had a key person leave within twelve months of being appointed.

- Manufacturers were the second highest spenders on recruitment, had the second highest proportion of respondents who felt they weren't spending enough. They were the least likely to have had a key person leave within twelve months of being appointed.

### By Turnover

- Companies with turnover in excess of £2M spent significantly more on recruitment than, those with a lower turnover. They were much more likely to think they were paying too much for recruitment, than were smaller firms.
- Companies with turnover in excess of £5M significantly outspent smaller companies on recruitment, 27% of them had a key person leave in the last twelve months compared with 45% of companies with a lower turnover.

### By Number of Employees

- Companies employing more than 80, but under 250 staff, spent significantly more on recruitment than companies with fewer employees.
- 23% of them had a key person leave within 12 months of being appointed, whilst 41% of companies with less than 80 employees were likely to have shared that experience.



Sector	Spending on Recruitment of Key Staff			Feelings about that cost			% with a failed Key appointment					
	under £1,000	£1,001 - £2,000	£2,001 - £5,000	£5,001 - £10,000	Over £10,000	Too Low	About Right	Too High	Overall	6 months under	1 year	2 years
Wholesale	0%	80%	20%	0%	0%	25%	75%	0%	60%	25%		
Retail	100%	0%	0%	0%	0%	0%	80%	20%	67%	33%		
Manufacturing	44%	33%	11%	11%	0%	18%	53%	29%	67%	22%		
Service	63%	23%	3%	3%	8%	3%	93%	3%	53%	19%		25%
Other	71%	0%	14%	0%	14%	0%	100%	0%	63%	22%		11%
Total all Sectors	60%	21%	9%	6%	4%	10%	74%	16%	60%	23%		18%

Turnover Band	Spending on Recruitment of Key Staff				Feelings about that cost			% with a failed Key appointment			
	under £1,000	£1,001-£2,000	£2,001-£5,000	£5,001-£10,000	Over £10,000	Too Low	About Right	Too High	Overall	6 months - 1 year	under 6 months
Under £0.5M	75%	20%	0%	0%	5%	11%	89%	0%	43%	10%	24%
£0.5M - £1M	88%	12%	0%	0%	0%	7%	80%	13%	94%	44%	13%
£1M - £2M	67%	13%	7%	7%	7%	7%	86%	7%	50%	25%	13%
£2M - £5M	44%	33%	22%	0%	0%	12%	63%	25%	70%	30%	20%
£5M +	10%	40%	20%	20%	10%	0%	70%	30%	45%	9%	18%

		Spending on Recruitment of Key Staff										Feelings about that cost		% with a failed Key appointment			
Number of Employees	under £1,000	£1,001-£2,000	£2,001-£5,000	£5,001-£10,000	£10,000-£10,000	Over	Too	About	Right	High	Overall	6 months	- 1 year	2 years	6 months	under	
																	Too
5 or less	75%	13%	0%	0%	12%	0%	100%	0%	0%	38%	13%	13%	30%	13%	38%	13%	13%
6 - 10	70%	30%	0%	0%	0%	38%	62%	0%	0%	70%	10%	10%	30%	10%	70%	10%	30%
11 - 20	75%	15%	5%	0%	5%	0%	88%	12%	0%	67%	14%	14%	24%	14%	67%	14%	24%
21 - 80	65%	20%	10%	5%	0%	11%	79%	10%	11%	73%	45%	14%	14%	73%	45%	14%	14%
80 +	25%	33%	17%	17%	8%	0%	69%	31%	0%	38%	15%	8%	8%	38%	15%	8%	8%
Total All											60%	23%	18%	60%	23%	18%	18%

Age	Spending on Recruitment of Key Staff										Feelings about that cost	% with a failed Key appointment
	under £1,000	£1,001-£2,000	£2,001-£5,000	£5,001-£10,000	£10,000	Over £10,000	Too Low	About Right	Too High	Overall		
Less than 5 years	75%	13%	6%	6%	0%	20%	73%	7%	56%	38%	2.4	
6 - 10	65%	20%	15%	0%	0%	83%	17%	73%	67%	5.0		
11 - 20	70%	10%	5%	5%	10%	82%	12%	70%	48%	3.0		
20 +	6.0	36%	50%	0%	7%	7%	80%	13%	31%	25%	0.67	
Under 10 Years									67%	43%		
Over 10 Years									50%	38%		

### How successful are small firms retaining Key Staff

Businesses were asked whether they had made a key appointment that had failed in the last two years. they were further asked if that person had been in they employ for under, or over a year.

**Table 11**

How many made a Key Staff Appointment that has failed in the last two years

YES	59.7%
NO	40.3

- Nearly 60% of companies surveyed had made a key appointment in the last two years that has failed
- 40% claim to have had no disappointments with recruiting key staff

**Table 12**

How long for above in post

Time Period	Percentage
less than six months	28.8
six months to one year	37.0
one year - two years	<u>34.7</u>
TOTAL	100%

- In nearly two thirds of cases of a failed appointment, that failure occurred in under a year. In this survey we have taken those to be largely the product of poor recruitment and selection
- Just over a third of those failed appointments occurred after year 1, but before year 2. This we attribute to all reasons other than recruitment

**By Sector**

Sector	% with a failed key appointment	
	in last 2 years	in under one year
Wholesale	60%	50%
Retail	67%	50%
Manufacturing	67%	33%
Service	53%	44%
Other	63%	33%

- Retailers in this survey are 51% more likely to have had someone have a key appointment in under a year, than those in manufacturing

**By Turnover**

under £0.5M	43%	34%
£0.5M-£1M	94%	47%
£1M - £2M	50%	38%
£2M - £5M	70%	50%
£5M +	45%	27%

- Very small companies with turnover under £0.5M or larger small companies with turnover over £5M, are significantly less likely to have someone leave a key appointment in under a year, than are those in turnover bands between £0.5M and £5M

**By Employee**

5 or less	38%	26%
6 - 10	70%	40%
11 - 20	67%	38%
21 - 80	73%	59%
80 - 250	38%	23%

- Companies employing fewer than 5 or over 80 are significantly less likely to have someone leave a key appointment in under a year, than are co's employing between 6 & 10 people

**By Age of Company**

under 5 yrs.	56%	38%
6 - 10	73%	67%
11 - 20	70%	48%
20 +	31%	25%

- Companies under 5 yrs old and over 20 yrs old are less likely to have someone leave a Key appointment in under a year, than companies aged 6 - 20 years

### **Key Messages**

- The majority of companies surveyed had made a key appointment that had failed in under two years, so this is an important problem area for small firms.
- In two-thirds of those failures, key staff left their jobs in under a year. This is a clear sign of problems with recruitment and selection and retention.
- Very small, or very young companies have a relatively low occurrence of key staff leaving in under a year, as is the case with larger or older small companies. They seem to be better at recruiting, selection and retaining key staff.
- The middle bands, whether by age, turnover or by staffing levels tend to have much higher occurrences of key staff leaving in under a year. These companies seem to be relatively poor at recruiting, selecting and retaining key staff.
- Companies in retail have a much higher incidence of key staff leaving in under a year, than in all other sectors. Retailers seem relatively poor at recruiting, selection and retaining key staff.
- Most small firms would benefit from advice and assistance with the recruitment, selection and retention of key staff.

It was not the purpose of this Report to establish why small firms lose Key Staff, particularly when they leave in under a year. But it is apparent from the survey data that some groupings are relatively much worse at selecting, recruiting and retaining key staff than others.

Selection, Recruitment, Retention - Success Rates

	Recruitment Method(s) Used				% with a failed key staff appointment in under 1 yr.
	Internal Promotion	Direct Press Advertising	Search thro' recruitment	Personal Contact	
Less than 80 employees	20%	39%	7%	57%	44%
Over 80 employees (maximum 250)	23%	31%	23%	15%	23%
Under £5M pa Turnover	17%	38%	5%	55%	43%
Over £5M pa Turnover	36%	36%	36%	18%	27%
Small Retailers	17%	33%	0%	83%	50%
Small Manufacturers	11%	39%	17%	33%	33%



- Companies employing less than 80 people, when compared with those employing over 80 (under 250) are:
  - \* Equally likely to promote from within, or use press advertising.
  - \* A third as likely to use Executive Search (which we felt to be the only one of the three Agency Services that offered full advice, rather than just cost savings).
  - \* Four times as likely to rely on personal contacts to fill key posts.
  - \* Nearly twice as likely to have a key employee leave within a year of being appointed.
  
- Companies with turnover below £5M were; compared with those above were:
  - \* Three times as likely to rely on personal contacts to fill key posts.
  - \* Equally likely to use direct press advertising.
  - \* Twice as likely to promote from within.
  - \* Seven times as likely to use Executive Search.
  - \* One and a half times as likely to lose a key employee within 12 months of appointment.

It should also be borne in mind that larger companies, whether measured by turnover or number of employees, tend to have significantly more key staff in post, than do smaller companies. So the fact that they lose so few when compared with smaller firms is doubly significant.

- Manufacturing, companies responding were the most likely, by sector, to have used an executive search least likely to have relied on personal contacts and the least likely to have lost a key employee in under a year.
- Retailers were the least likely to have used executive search, the most likely to have used personal contacts and the most likely to have lost a key employee in under a year.

This is by no means conclusive - it simply suggests that some groups are doing better at recruiting and retaining key staff than others and they seem to place less reliance on personal contacts and more on using recruitment agencies.