The Behaviour of Graduates in the SME Labour Market: Evidence and Perceptions

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ABSTRACT. This paper uses three surveys of graduates' and undergraduates' evaluations and perceptions of the conditions of work in small and medium-sized enterprises (SMEs) in the U.K. The first survey addresses the relationship between the actual career profiles of graduates and their perceptions of work in small *vis-à-vis* large companies. The second survey is a large-scale national study of U.K. graduates' employment patterns. The third survey asked undergraduates how they expected working conditions might differ across firm size. The distribution of graduates across firm size is presented; this shows graduates to be disproportionately employed in larger firms. The work of graduates across firm size is then described in terms of earnings; work bargaining and fringe benefits; training and the internal labour market; and the work environment. For each facet, perceptions about work conditions are also explored. The evidence shows the working conditions for graduates are lower quality in SMEs and that graduates broadly perceive this to be the case. The implications for policies which overlook these conclusions are discussed.

1. Introduction

With a fall in the average size of enterprises, a high rate of new firm formation and self-employment, the small business sector is not only significant for economic growth and structural change in the U.K. (Atkinson and Storey, 1994; DTI, 1995; Bryson et al., 1997) but it also employs a major proportion of the labour force. Yet, despite receiving little attention, the operation of the labour market is of particular concern for small firms (Storey, 1985; Cromie, 1991; and DTI, 1991: for the U.S., Brown, Hamilton, and Medoff, 1990).[1] Recruitment, quits, tenure and absenteeism in SMEs are all likely to have a fundamental effect on both U.K. aggregate unemployment and small businesses' production functions. The behaviour of the labour market for SME jobs is therefore worth investigating further. Our research is on a subset of the labour market: undergraduates and recent graduates.

Graduates are disproportionately employed in large companies (see Bannock and Daly, 1994; and also the Tables below) and direct most of their employment search activities towards such corporations (Johnes, 1993). However, higher education is in part a "training of the mind" (Blaug, 1976), and so graduates might be most productive in organisations where autonomy, independence, and flexibility are prized. These qualities are needed in labour operations of all sizes. As well, graduates may spread their skills to other workers, so it is important that they do not work in enclaves. There is, *prima facie*, no productivity-based reason why graduate employment should be skewed with respect to firm size. There are three possible explanations. First, small firms do not participate in the graduate recruitment market. Yet, unless there are steep economies of scale in hiring graduates, if graduates are productive in all sizes of firm, this lack of participation would appear to be irrational. Hence we consider the other two explanations: either graduates are spurning work in SMEs because of misperceptions about job conditions or graduates are sub-optimally utilised in small firms and so job conditions are in fact worse.

These arguments suggest that graduates' (and undergraduates') patterns of job search are critical, patterns which are driven by their perceptions of the labour market (Nickell, 1990; Devine and

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Kiefer, 1991). Actual earnings functions have been modelled over time, gender, age, occupation and, notably, firm size (e.g. Abraham and Farber, 1987; Green, 1988; Shaw, 1989; Polachek, 1990; Kalleberg and van Buren, 1996), but little comparison has been made between the models' results and (graduates') perceptions. Other models typically examine the type of search undertaken rather than how that search is interpreted by workers (Lindeboom et al., 1994; Sicilian, 1995). This paper draws out the rationality of graduates' perceptions, i.e. the choice variables they use when comparing employment opportunities in SMEs with those in larger organisations. First we present evidence on graduates' employment in SMEs and then juxtapose these with graduates' perceptions.

Such perceptions may be accurately grounded on demonstrable and tractable aspects of labour markets, but this has not been established. Yet without any micro-foundations to the decision patterns of graduates, it is hard to see how these can be changed. For instance, if SME salaries are believed to be relatively low, small businesses might redirect their hiring campaigns to stress non-pecuniary rewards. If graduates perceive closed internal labour markets in SMEs, opportunities for graduates might be redefined to shorter term contracts. Such research could serve to disabuse perceptions that graduates have of the small business labour market.

This information is likely to be valuable for targetted initiatives to boost graduate employment. In the U.K., the Department for Education and Employment has a £8m Higher Education and Employment Development Programme which commenced in Spring 1998. A number of these projects are targetted at graduate employment in SMEs (one of the eight priority themes is Graduate Business Start-Ups) and so involve encouraging or devising incentives for graduates to work in SMEs. Our findings may be informative about the effectiveness of particular forms of incentive, for example.

This paper is in a similar vein to those of Dominitz and Manski (1996), who ask undergraduates about their earnings expectations at age 30 and 40, and Betts (1996), who examines variations across undergraduates' expectations. Here we link these few papers on expectations together with the actuality of graduate employment in the U.K., as it differs across firm size, in terms of: mean earnings; the full employment contract; opportunities either for training or within the internal labour market; and working conditions. By categorising firms by size, actuality and perceptions become tractable: what are graduate jobs actually like in SMEs? Do graduates perceive these jobs accurately?

2. Data

Three surveys are used here. The first survey [GUB] was of 2850 University of Birmingham graduates (known to be employed) between the years 1991–1994 (details are given in Belfield and Thomas, 1997). Graduates were asked about their careers and perceptions of both their work routine and tasks at work; they were also asked to hypothetically compare working patterns in small versus large firms. The second survey [HQW] was of over 12,000 graduates from over 20 Higher Education institutions across the U.K. These graduates were asked to describe their careers, including earnings, job satisfaction, periods of unemployment and sector of work (details are given in Belfield et al., 1997). Finally, a (quota sample) survey [UUB] of 600 undergraduates in their final years at the University of Birmingham in 1996 is used. A short questionnaire was administered to this group, asking about expectations of starting salaries; preferences in working condition; and the relative merits of SMEs versus large companies. These three surveys are rich in detail about the U.K. graduate labour market.

In distinguishing between sizes of firm, we use a variable based on the number of employees (although see the definitions of the Bolton Committee, 1971; Stanworth and Gray, 1991). This has the advantage of being a measure pertinent to the working experience and may be easily observed by prospective employees; it may therefore be linked to the perceptions of graduates about working conditions (Reid, 1994, p. 51, describes the SME as an "idealisation"). The results below are presented for four organisational sizes: those with less than 25, 25–99, 100–499 and over 500 employees (such firms may be classed as micro, small, medium and large).

Table I shows the distribution of graduates across size of organisation; looking at the numbers

TABLE I
Distribution of graduates across firm size

%[HQW]	< 25 employees	25–99 employees	100–499 employees	> 500 employees
Occupation				
Managers and administrators	13.5	11.3	20.2	21.6
Professional	56.8	67.7	54.7	51.6
Associate professional and technical	11.4	8.6	11.5	12.4
Clerical	3.4	2.9	3.7	4.5
Other	14.9	9.5	9.9	9.9
Sector				
Civil service and government bodies	3.0	5.3	6.9	9.0
Schools/FE/Higher Education	22.2	43.2	21.8	13.0
Local and other public authorities	9.3	10.5	11.8	22.9
Primary industries	3.8	2.9	6.2	5.4
Engineering and allied industries	4.3	4.8	10.3	8.0
Commerce and commercial services	11.3	8.5	12.0	13.4
Manufacturing and industrial services	3.0	3.6	8.5	7.2
Accountancy	2.7	2.4	2.5	3.2
Public utilities, transport, communications	1.5	1.7	3.6	6.6
Private practice	17.3	6.1	5.5	1.7
Other	21.6	11.0	10.9	9.6
Degree class				
First class	4.6	4.5	6.6	7.2
Upper second	24.8	24.1	28.7	28.8
Lower second	26.8	26.8	26.2	25.1
Third/Pass	10.5	10.2	8.5	8.4
Ordinary	13.6	12.6	9.1	10.1
Other	19.7	21.8	20.9	20.4
Subject of degree				
Medicine	11.0	5.3	5.4	11.3
Commerce	8.0	9.2	13.2	15.5
Law	4.4	4.2	4.4	2.8
Fine art	6.9	4.5	2.9	2.0
Science	13.7	16.8	21.3	21.3
Humanities	10.2	8.2	6.7	6.4
Maths and computing	6.0	9.9	10.4	10.8
Engineering	7.9	9.6	16.3	17.1
Education	14.8	18.8	6.5	2.5
Languages	8.7	9.3	8.5	6.2
Other subjects	8.5	4.2	4.3	4.1
Other qualifications				
Masters or Ph.D. degree	15.6	17.2	23.0	25.1
Professional qualification	26.1	24.9	28.7	32.2
Participation				
Full-time worker	81.6	87.9	91.7	92.6
In a job which requires a degree	43.0	50.7	53.9	52.6
Months employed since graduation	79.6	82.3	82.1	84.2
n	2586	2754	2625	5050

of respondents (and given existing U.K. labour force proportions) many more graduates are employed in the largest firms. A much larger proportion of graduates working in the larger firms are in managerial and administrative occupations, although professional occupations are well-represented in all firm sizes. The sectoral distribution of graduates differs by firm size: a disproportionate number of graduates working in either commerce or manufacturing are employed by large firms (many graduates in smaller firms are in public sector units or in private practice). The academic scores of graduates in smaller firms are lower – proportionately fewer have First or Upper Second class degrees. SMEs do not appear to attract Commerce, Science or Engineering graduates as well as the larger companies. Fewer graduates in SMEs have professional qualifications or higher degrees, compared to graduates in larger firms. Finally, participation rates and work intensity by graduates in SMEs are lower: a smaller percentage work full-time; SME graduates are less likely to be in work which requires a degree; and SME graduates have worked fewer months since graduation (and so are less experienced).

Overall, Table I shows not only fewer graduates in SMEs, but that those graduates have lower degree scores and fewer academic credentials; are more likely to be found in the public sector; and have a more intermittent labour market participation. This paper attempts to shed some light on this labour market pattern and our investigation has three strands. First, we establish whether or not there are, across firm size, actual job differences. We draw on extant literature as well as our three surveys to support our findings on graduate earnings; wage bargaining and fringe benefits; training and the internal labour market; and the work environment. Second, for each finding we establish whether or not graduates perceive, and undergraduates expect, differences across firm size (using the [GUB] and [UUB] surveys). Third, based on this comparison between evidence and perceptions, we draw policy inferences for the labour market and for targetted initiatives to help SMEs.

3. Graduate earnings

Surveying the evidence, Polachek and Siebert (1993, p. 261) conclude that "generally . . . large firms pay more for observationally equivalent workers than do small firms" and this firm-size wage gap is well-documented by others (Morrissette, 1993; Miller and Mulvey, 1996; Kalleberg and van Buren, 1996). The data given in Table II, taken from the General Household Survey (GHS, 1994) and the [GUB] survey, show the average salary of those in firms with more than 500 workers is 36% (37%) higher than those in micro-enterprises and 28% (36%) higher than those in enterprises with 26–99 workers. To adjust for confounding factors, the log of earnings was regressed on occupation, sector of work, prior schooling, degree class, region, subject of degree, marital status, fringe benefits and hours of work using the [HQW] survey.[2] Even when these variables are adjusted for, the firm-size wage gap between micro and large firms remains at 8% (20%) for our samples of 6390 (6643) female (male) graduates. This gap is significant and stands as one obvious reason why graduates do not seek work in SMEs. Any attempts to encourage graduates to work in small businesses must first acknowledge and then address this earnings deficiency.[3]

TABLE II
Salaries of graduates aged 23–28 by firm size (1996 prices)

	< 25 workers	26–99 workers	100–499 workers	> 500 workers
Mean salary				
GUB	13656	14476	16871	18556
n	165	222	167	573
GHS	12657	12779	14625	17318
n	27	32	29	36
Median salary				
GUB	13500	13500	13890	19000
n	165	222	167	573
GHS	13726	14235	13573	17704
n	27	32	29	36

Source: Survey data; General Household Survey (1994).

The pay gap may explain why graduates are more likely to accept jobs in large firms, but expectations about pay need to be investigated. *A priori*, we would be surprised if graduates did not perceive such a significant pay discount for working in small firms and hence sort into larger size firms, although Dominitz and Manski (1996) find significant uncertainty among graduates about expected pay and Betts (1996) finds the median (mean) student error to be approximately 20% (6%).

The evidence from Table III shows responses on whether or not small firms (less than 100 employees) were more or less likely to pay higher wages (or the wages would be the same). The evidence shows that over half of all graduates and undergraduates expected that small firms would pay less than large firms, with graduates being more certain of the pay differential.[4] This result is more positive than Betts (1996, p. 42), who finds only limited evidence that undergraduates can accurately perceive relative wages. Graduates think small firms pay less (Table III) and they are correct to do so (Table II). This perceptiveness suggests that the onus is on small firms to raise their pay offers, should they wish to employ graduates. There is no obvious market failure here. For policymakers, a subsidy to establish wage parity across firm sizes, for example, would appear to be prohibitively high. Similarly, drawing graduates' attention to jobs in the SMEs will only be a first step in changing the distributions of workers across firm size.

TABLE III
Opinions on pay

	Graduates [GUB]	Undergraduates [UUB]
Small firms		
More likely to pay higher wages	12%	17%
More likely to pay lower wages	57%	52%
About the same wages	31%	31%
n	2280	596

Source: Survey data.

4. Work bargaining and fringe benefits

Of course lower earnings may be offset by other gains in the work bargain or by fringe benefits. The work bargaining procedure includes procedures for formal dismissal and appointment mechanisms, wage setting and unionisation. Fringe benefits include pension, health and travel schemes as well as merit-based pay and profit schemes.

SMEs may have fewer formal mechanisms in place to dismiss and sanction workers – arbitration procedures may be less refined or regulated in SMEs, with fewer procedures of vacancy notification, search and then selection of employees (for a critical picture, see Rainnie, 1989). SME recruitment is often informal with absorption of trainee apprentices and SMEs may more frequently lay workers off when they demand pay increases. However, the level of disputation is very low in SMEs; Scott et al. (1986, p. 18) find only 10% (of 397 SMEs surveyed) had ever had a worker dispute. In contrast, Miller and Mulvey (1993) find small firms attract more unstable workers.

Graduates were asked about wage bargaining and fringe benefits; the distribution of responses by firm size is given in Table IV. Again, the evidence is strong: formal dismissals, appointments and pay bargaining procedures are less common in smaller firms. As well, fringe benefits (ranging from pension scheme to merit-related pay) are significantly more common in large firms than small. In the majority of cases, the relationship is monotonic in firm size: the larger the firm, the greater the array of benefits. The distribution of these bargaining practices and fringe benefits exacerbates the salary differentials observed above (see also Dolton, Makepeace and Inchley, 1990). The evidence on wage bargaining may explain why disputation differs across firm size; the evidence on fringe benefits may help explain higher quit rates or, because some of these benefits are future-loaded, shorter tenure in smaller firms.

As above, we can compare actuality with expectations, with Table V showing perceptions of both wage bargaining and fringe benefits. Generally, the undergraduates correctly intuit that small firms will offer them fewer employee services and fringe benefits. In contrast, graduates

TABLE IV
Wage bargaining and fringe benefits by firm size

%	< 25 workers		26–100 workers		100–499 workers		> 500 workers	
	[GUB]	[HQW]	[GUB]	[HQW]	[GUB]	[HQW]	[GUB]	[HQW]
Wage bargaining								
Formal dismissal procedures	56	–	78	–	95	–	95	–
Formal appointment procedures	55	–	77	–	89	–	94	–
Formal pay bargaining procedures	17	–	26	–	36	–	50	–
Union representation	–	18	–	46	–	33	–	34
Fringe benefits								
Pension scheme	29	29	53	67	66	74	78	83
Health scheme	12	7	19	15	33	28	38	28
Profit share scheme	11	7	13	13	30	23	41	26
Travel scheme	11	–	8	–	13	–	12	–
Merit/bonus-related pay	19	–	26	–	32	–	42	–
n	336	2250	454	2858	357	2724	1237	5257

Source: Survey data.

TABLE V
Opinions on wage bargaining and fringe benefits by firm size

	Graduates [GUB]		Undergraduates [UUB]	
	More likely	Less likely	More likely	Less likely
Wage bargaining				
% thinking SMEs would offer employee services (counselling, arbitration, hiring)	43	44	32	40
Fringe benefits				
% thinking SMEs would offer company fringe benefits	43	39	31	43
% thinking SMEs would offer healthcare and pension plans	37	38	25	38

Source: Survey data.

thought that small firms were as likely as large firms to offer attractive pay-setting terms; offer health and pension plans; and offer fringe benefits generally. Those graduates in work appear, from the evidence in Table IV, overly generous to small firms. There is no evidence that graduates are unfairly shunning work in SMEs.

5. Training and the internal labour market

Training may be a desirable aspect of employment at work, increasing capacity earnings as well as being linked to job satisfaction. For graduates, training may provide fundamental vocational skills to supplement their academic knowledge; Higher Education, as well as being direct knowledge transfer, may also cultivate the “ability to learn” and this ability may be fostered through training. Oosterbeek (1998), for example, finds that the educated are more likely to volunteer for training courses. Bosworth (1989, p. 59) notes less training per employee in SMEs and that such training may be less productive than in larger firms (for counter evidence, see Wynarczyk et al., 1993). SMEs may also use informal rather than formal training; and where formal training is undertaken, it often has a lower “firm-specific” content because it is extramurally provided. Training may be based less on the acquisition of new skills and more on either the application of existing skills or the spreading of skills already existing around the firm (tasks are more likely to be characterised as workplace induction; task familiarisation, extension and rotation). SMEs may rely on recruitment rather than training to fill their needs, buying in ready-trained labour. These facts suggest that SMEs may find it hard to attract graduates and, moreover, may under-utilise those they do employ because training levels are sub-optimal.

In addition, workers may be interested in their age-earnings profile rather than current earnings. A strong internal labour market may offer reduced turnover, steady promotion, known training to standards, greater worker learning and experience of both tasks and the firm organisation, which translate into steeper age-earnings profiles and "career jobs" (Siebert and Addison, 1991). However, because they have fewer workers, SMEs may have smaller and less effective internal labour markets (Atkinson and Meager, 1994, p. 83) although informal networks may offset this. Scott et al. (1986) note stronger inter-firm labour linkages between SMEs (on promotion, see Stanworth and Gray, 1991). The key issue here is retention/promotion: graduates may be interested in "career jobs" and see larger firms as being more able to offer these.

Graduates were asked about the incidence of training (thus the frequency of such training can be assessed, but not the quality) and this is given by firm size in Table VI. Graduates in SMEs are getting less training, have lower expectations for training and feel that their firm is less likely to encourage extra qualifications. (However, this result does not hold for the accreditation of training; and the result is not consistent over firm size. As well, training is difficult to measure, see Barron, Berger and Black, 1997.) For internal labour markets, Table VI suggests that opportunities in small firms are constrained in terms of career advancement and the possibility of changing jobs within the firm, although (consistent with Scott et al., 1986) not for career-related contacts outside the firm. In general, there is evidence that SMEs are likely to under-exploit graduates' potential, which effective policy interventions may ameliorate.

Perceptions of training are given in Table VII. Respondents were asked whether or not SMEs would be more, less or equally likely to offer training opportunities. The most common answer to this question was that small firms were less likely to offer more training opportunities; only 12% (20%) of all the graduates (undergraduates) considered that small firms were more likely to offer more training opportunities. These perceptions accord with the evidence. They suggest that an important reason why graduates are predisposed against searching for work in SMEs is because they perceive, rightly as Table VI shows, that such companies are less likely to offer training opportunities.

Respondents were also asked for a relative judgment on whether or not small firms were more, less or equally likely to offer higher and or faster promotion prospects than large firms. For undergraduates, the most common answer was that small firms would be less likely to offer either

TABLE VI
Training and internal labour markets by firm size

% affirmative	< 25 workers	26–100 workers	100–499 workers	> 500 workers
Training	[GUB]	[GUB]	[GUB]	[GUB]
Actual training over the past 4 weeks	43	48	51	57
Training leading to a qualification	40	28	33	33
More job-specific training felt needed	56	70	71	67
Firm encourages extra qualifications	44	46	61	62
Internal labour markets	[GUB]	[GUB]	[GUB]	[GUB]
Opportunities for career advancement	50	66	73	82
Possibility to change jobs within the firm	35	34	53	71
Career-related contacts outside the firm	45	44	44	43
n	336	454	357	1237

Source: Survey data.

TABLE VII
Opinions on training and internal labour markets

	Graduates [GUB]		Undergraduates [UUB]	
	More likely	Less likely	More likely	Less likely
Training				
% thinking SMEs would offer training opportunities	12	50	20	43
Internal labour markets				
% thinking SMEs would offer higher promotion prospects	28	51	32	41
% thinking SMEs would offer faster promotion prospects	42	38	36	42

Source: Survey data.

higher (41%) or faster (42%) promotion prospects conforming to the evidence. Graduates thought small firms would offer lower yet faster promotion prospects, undermining any straightforward inferences. The issue of retention/promotion appears not to be an important disparity across firm size; no clear distinction emerges.

6. Work environment

Finally, the work environment is investigated as there may be compensating differentials for SME workers. Two aspects are examined: the culture of the firm and the nature of the work routine (see Wynarczyk et al., 1993). The firm culture may include its competitiveness (1) and cost-consciousness (2). The work routine is described by the rigidity of status roles (3); pressure in the workplace (4); worker harmony (5); and the level of responsibility (6).

Graduates may have higher job satisfaction in small firms (for evidence on all workers, see Scott et al., 1986), although the evidence is not conclusive and varies widely. Atkinson and Storey (1994, p. 11) conclude that "according to most measures, the job quality provided by small firms is lower than that in larger firms" (see also Bosworth, 1989, p. 59; for Germany, see Wagner, 1997). For graduates, our research suggests that job satisfaction is neutral in relation to firm size but significantly positively related to self-employment (Belfield and Harris, 1998).

Table VIII gives the percentages responding "not at all" to the relevant aspects of the firm culture and work routine. Smaller enterprises are, in general: more competitive (1) but not significantly more cost-conscious (2). For the work routine, supervision (3) and the level of pressure (4) were neutral across firm size but greater harmony (5a), employee-friendliness (5b) and independence of thought (6) for tasks were found to be higher in larger firms. Work conditions for U.K. graduates appear to be better in large firms.

However, the perceptions of respondents about the work environment given in Table IX clash with the actuality. For the firm culture, graduates and undergraduates do not expect there to be much of a difference in competitiveness (1), yet the evidence shows it decreasing with firm size. Both groups expect SMEs to be more cost-oriented (2) in approach even though the evidence suggests no difference across firm size. For the work routine, both groups expect less rigid status (3), more crises (4) and greater harmony (5), yet the evidence suggests no difference across firm size. Finally, the greater scope for responsibility (6) expected in SMEs contrasts with the evidence for greater independence of thought in larger companies.

Across appraisals of the work environment, expectations and evidence agree only infrequently, with graduates and undergraduates appearing generous to SMEs. No systematic compensating differentials are found. However, few studies of compensating differentials have yielded conclusive evidence of differences across types of job (Eberts and Stone, 1985). The best we can say here is that there is no compelling evidence that the discounted SME earnings are offset by premia on job conditions.

TABLE VIII
Graduate evaluations of the work environment by firm size

% answering not at all	< 25 employees	25–99 employees	100–499 employees	> 500 employees
Firm culture				
1. Highly competitive	30	35	40	47
2. Cost-conscious	56	59	57	61
Work routine				
3. Closely supervised	8	9	6	9
4. Pressured	49	66	57	59
5a. Harmonious	34	21	22	17
5b. Employee friendly	49	40	36	29
6. Requires independent thought	82	78	72	71
n	356	475	385	1309

Source: Survey data.

TABLE IX
Opinions on the work environment

% thinking SMEs	Graduates [GUB]		Undergraduates [UUB]	
	More likely	Less likely	More likely	Less likely
Firm culture				
1. More competitive work environment	29	25	30	28
2. More cost-oriented approach	46	10	35	17
Work routine				
3. Less rigid status in roles at work	63	15	55	14
4. Face crises at work	45	7	32	10
5. More harmonious working relationship	55	6	60	9
6. Greater scope for responsibility	71	7	59	11
n		2850		596

Source: Survey data.

7. Conclusion

Conditions of work for U.K. graduates in the 1990s across firm size have been described above. These actual conditions have been compared with what graduates perceive them to be. Rarely do graduates and undergraduates seem wrong in their appraisals of the labour market, although they appear to sometimes have inaccurate perceptions. In most cases, these inaccuracies tended to be generous to (how current research stylises) SMEs. Hence we cannot reject the stark conclusion that the rewards for and the utilisation of graduates in SMEs are sub-optimal compared to those in larger companies. As a result, the skewed distribution of graduates by firm size appears to be a rational outcome which cannot be redressed simply by encouraging (or subsidising) SMEs to participate more in the graduate labour market. Moreover, government labour market policies to redeploy graduates into SMEs are likely to be ineffective if either they overlook these evident disparities or are predicated on the assumption that such disparities are trivial. Significant and well-targetted incentives, either from firms or from government, would appear to be needed to encourage graduates into SMEs.

Notes

[1] SME financing, SME districts and innovation, for example, have been explored extensively (see Reid, 1996; Bagnasco and Sabel, 1995; and Thurik, 1996). Employment forecasting has been considered by Ashworth et al. (1998).

[2] Details of the regression are available from the author on request.

[3] These measures in levels may mask differences in the pay structures of SMEs: survey evidence has not uncovered, when overtime and other bonuses and perks are included, significant dissatisfaction with wages in SMEs; individualised rates of pay, which might be considered fairer, might be more common; and wage profiles may vary more across sectors (for greater detail of all these facets, see Scott et al., 1986, pp. 62–70; Curran and Storey, 1993; and Dobson and Gerrard, 1989). Yet overtime and other payments as compensation for lower wages are most common in manufacturing SMEs; such payments are not likely to be substantial for white-collar workers (Idson and Feaster, 1990), who might not then be able to redress lower basic pay. Responses to a question about whether or not the individual felt he or she would be better off financially in one year's time revealed significantly less security amongst graduates in SMEs.

[4] Because graduates are revealing their preferences about firm size by which firm they choose, an over-representation of large firm employees would automatically produce a result predisposed toward large firm jobs. To combat this, the expectations figures have been weighted across firm size.

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