New graduate employment within SMEs: still in the dark?

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In the UK public policy in relation to the deployment of new graduates within SMEs has been running blind in terms of a sound evidence base. This paper reviews research on the recruitment of graduates within SMEs since 2002. Weaknesses remain both in relation to information about the SME graduate labour market as a whole and comparative evidence of the utilisation of graduates within SMEs. A shift in the research agenda is also noted, towards graduate enterprise and start-up. The paper concludes with research and policy implications.

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Graduates are an important resource. The UK government has primarily justified the expansion and future funding of higher education on economic grounds. It is assumed that there is a growing demand for highly skilled workers. Yet graduate labour markets, in the UK and abroad, are experiencing change and upheaval. Both the supply of and demand for graduate labour is subject to considerable debate and evident tensions. In the UK commentators now speak of ‘new’ graduate jobs and a ‘non traditional’ labour market (see, for example Elias and Purcell (2003). Our purpose in this paper is to re-visit this ‘SME - graduate labour market’ relationship. We use the term ‘re-visit’ deliberately. During the course of 2001-2, and in the context of heightened interest in graduate employability, a significant piece of research for the UK government sought to take stock of how small and medium sized enterprises figured within this changing graduate labour market (Holden, et al. 2002). The research stemmed from rising concern amongst policy makers that after years of experimentation in stimulating graduate demand in SMEs there remained a lack of understanding about what impact this has on firms and how the relationships involved actually work. Drawing principally upon data and literature from the 1990s the research offered little encouragement to those looking for clear evidence to encourage more SMEs to recruit new graduates. This paper seeks to take stock of new graduate employment in SMEs four years on from this important ‘benchmark’ study.

The report to Government in 2002 indicated that SMEs were clearly playing an increasingly important role in the wider graduate labour market. However, the evidence base on patterns of recruitment, deployment and graduate contribution was weak and insubstantive. Two broad fields of research were identified as critical to generating a richer and more nuanced understanding of the graduate-SME relationship; without which, it was considered, policy makers would continue to be ‘running blind’ in rising to the challenges presented in
stimulating a stronger relationship between supply and demand in the graduate labour market. The first of these identified the need for information about the SME graduate labour market, its underpinning processes and diversity, and how it relates to the wider changes taking place in the economy in graduate supply and demand. The second pointed to the need for a richer picture of the recruitment and in particular the subsequent utilisation of graduates by SMEs. In this paper, therefore, we assess the extent to which research has effectively begun to fill some of these critical gaps in our understanding. We draw on research retrieved as a result of searches principally within two main sources: UK journals and research reports from bodies working, at least in part, within the graduate labour market field. The paper unfolds as follows: In the next section, we use a framework comprising the three key themes of the graduate labour market, recruitment and utilisation. We seek to present in each an overview of the state of understanding and a critical ‘update’. Our reading of the data suggests that whilst there may be some ‘glimpses of light’ serious deficiencies remain both in relation to information about the SME graduate labour market and comparative evidence of the added-value and wider contribution that graduates make to SMEs. In the final section of the paper we discuss the findings in the context of both methodological considerations and policy implications. We note the need to re-position the graduate-SME relationship within what would appear to be the new research ‘flavour of the month’: graduate enterprise and business start-up, and reflect upon the implications of this for our understanding of the non traditional labour market more broadly.

The SME graduate labour market

Our report to Government in 2002 (Holden, et al. 2002) argued that it was meaningful to talk of a distinctive SME graduate labour market operating in the UK. In other words it is a constituent part of wider graduate supply and demand relationships in the economy but with characteristics which set it apart from the operation of larger firms. In relation to the size of this market, we concluded that it was relatively small. There was a much lower than average uptake of graduates by SMEs compared to the economically active population with degrees (Williams and Owen 1997), and also compared to destinations of HE leavers (Connor and Pollard 1996). Importantly, though, the empirical base for such conclusions was weak. We were reliant on a limited number of estimates drawn from research samples and speculation on the basis of SMEs being the regarded as the engine of economic growth and thus providing increasing numbers of graduate job opportunities (Association of Graduate Recruiters (AGR) 1995).

Very little was known of sectoral characteristics and contrasts and the impact of different occupational and technological contexts. Some research speculated that the graduate recruitment which does take place may reflect responses to new skill mixes across occupations. This seemed to be particularly significant for intermediate (rather than higher level jobs). The lack of a strong empirical base stemmed principally from the limitations in official data. The otherwise rich annual data on graduate first destinations was virtually worthless for understanding the SME graduate labour market.

Four years later we need to ask if this is still the case and if we are any better informed on both the broad features of the SME graduate labour market and in terms of any real insight into some of its distinctive features. Judging on research conducted, or commissioned, by RDAs, the importance of graduate labour in relation to the future growth and prosperity of their regions is still very much on the agenda. Whereas the North East study (Nixon, et al.
2005) places no emphasis whatsoever on the size of firm. This is not the case with the East Midlands. Booth (2004), for example, draws on a data gathering exercise which included interviews with employer representatives for different sectors and graduates services in the region. Although she reports useful sector comparisons and concludes that overall there are high level skills shortages amongst SMEs no detailed data is provided either on the numbers of graduates currently employed nor the recent / current flow of new graduates into small business.

Some studies have also meanwhile attempted to shed some light on the graduate-SME labour market. Harris and Reid (2005) make use of Labour Force Survey data to compare numbers of graduates in SMEs in Northern Ireland with other UK regions. Although useful, this data says little about first destination employment and is another example of the ‘data difficulty’. Pittaway and Thedham’s (2005) study is valuable in the sense that it outlines the importance of sector context, focusing on hospitality, leisure and tourism SMEs as well as providing a more sophisticated breakdown of firm size.

The work noted above is undeniably useful in providing more detailed evidence of graduate employment in small firms in particular circumstances and specific contexts. However, it will be recalled that the over-arching data deficiency identified in 2002 was the broad market context; data which tells us about all graduates in all sizes of firms in all sectors in all occupations. Given that the Government at that time already conducted a survey of leavers of HE, our report recommended the inclusion of a question which specifically addressed the size of organization joined by the graduate. Encouragingly the Higher Education Statistics Agency commenced this field of enquiry for the academic year 2002/3. This illustrates, for example, that in the region of 42%\(^1\) of graduates obtain first destination employment within firms with less than 250 employees, although this figure reduces to approximately 31% if the focus is only on ‘graduate-level\(^2\)’ employment. The depth of the data is such that it would be possible to identify, for example, how many female graduates, from a particular subject of study, joined a small firm in a management capacity. It is not the purpose of this paper to delve into the analysis of this data but rather, simply, to note its existence and its potential for assisting much needed research.

**Recruitment**

Our conclusions in 2002 suggested an immature market with specific processes for recruiting graduates only in very few firms. Indeed, much recruitment into SMEs was via schemes / initiatives with unclear indications as to the sustainability of such employment. On the demand side, research suggested that SME recruiters were not models in miniature of larger and more regular recruiters. SMEs tended to be portrayed as not engaging fully in the graduate recruitment process. Recruitment practices were less formal, and ‘milkround’ type engagement with HEIs practically non-existent. The limited evidence that was available

\(^1\) This figure is based on a total of 163,105 HE leavers in 2003/04 where firm size was known. Total number of leavers in 2003/04 was 238,243. The *HESA Destinations of Leavers from Higher Education (DLHE) target population* contains all United Kingdom (UK) and European Union (EU) domiciled students reported to HESA for the reporting period 1 August to 31 July as obtaining relevant qualifications and whose study was full-time or part-time (including sandwich students and those writing-up theses).

\(^2\) The graduate marker intends to provide an indication of whether a job can be classified as being a ‘graduate’ job. It is defined using four character SOC 2000 code groups, for details, see RP6 at: http://www2.warwick.ac.uk/fac/soc/ier/research/current/7yrs2/
suggested that SMEs were often characterised by other barriers stemming mainly from management inexperience (and sometimes suspicions) of harnessing new graduate skills. A further barrier was the perceived capability gap amongst new graduates.

Turning to the supply side, we noted research suggesting that graduates were either ignorant of SME employment opportunities, or that their decisions not to work in such firms was based on graduates’ perception of SMEs not offering as many opportunities (fringe benefits, higher salaries, career progression etc.) as larger firms (Belfield 1999, Westhead 1998). We also noted that notwithstanding the important role played by brokers and intermediaries in relation to schemes / initiatives the SME graduate labour market was poorly understood – or prioritised – by careers, placement and other services that effectively act as gatekeepers within the wider graduate labour market. This, as a result, had held back both an interest from graduate leavers and demand from SMEs.

Moving forward four years, is the picture still as biased towards employment in large organizations? If one risks taking the East Midlands as being representative of development in the UK as a whole, then at least it can be said that an interest in placing graduates in SMEs is far from on the wane. A series of research inquiries (Booth 2004, Otter 2005, Pollard, et al. 2004) have generated much data of value on the graduate labour market generally within this region. However, with specific reference to the SME graduate labour market it is questionable if our understanding has advanced hugely. Booth (2004), for example, argues the need to generate a “mutual attraction and nurture confidence of both parties in their future together”. A number of ‘critical success factors’ are noted including, on the supply side, the need to change outdated perceptions of work in smaller companies and measures to ‘balance’ the ‘glossy brochures and presentations’ from larger companies. On the demand side she argues for the need for more information which demonstrates the value a graduate can add, together with assistance with the actual recruitment process. Here, for example, there is a suggestion that enhanced demand might result if companies can access skills (read: graduates) ‘at the moment they need to and in appropriate ways (e.g. via a dedicated web site). STEP Enterprise Ltd (2005) address graduate recruitment trends in the region. SMEs figure significantly within this. Based on interviews with 49 SMEs the research confirms much of what has been discussed earlier and elsewhere in terms of constraints and barriers which affect the SME graduate labour market. For example, a perceived lack of experience and immediate ‘work ready’ skills are noted as the main barriers cited by SMEs for not targeting graduates.

Outside of this regionally based research Bowen, Lloyd and Thomas (2004) draw similar conclusions. SMEs, they maintain, are reluctant to employ graduates and graduates are equally wary of SME employment. However, they note that SMEs were more likely to consider employing graduates after a year’s placement experience. Westhead and Matlay (2005), endeavoring to take a more ‘longitudinal’ perspective suggest that the Shell Technology Enterprise Programme (STEP) which arranges placements in SMEs in students’ summer holidays, fails to increase the likelihood of a STEP student entering a small firm two years after graduation. This, along with the finding that students who are prepared to trade lower wages for an executive position are also more likely to be employed in a small firm, lead the authors to conclude that ‘market forces’ rather than ‘ignorance’ shape the lower probability of graduates obtaining employment in a SME.

These contributions, taken as a whole, represent, we suggest, a somewhat generalized approach to the SME graduate relationship. By and large they broadly confirm a relationship
characterized by mutual unattractiveness whether as a result of ignorance or market forces and which only really offers very broad-based targets for policy development. We conclude this section, however, with reference to two pieces of work which in very different ways offer a glimpse of something new. Pittaway and Thedham (2005), in their attempt to explore the ‘gap’ between policy rhetoric and the reality of graduate recruitment, adopt a more rigorous delineation between SMEs of different sizes. Thus the authors conclude that in relation to employer perceptions regarding the usefulness of graduate skills, micro-business owners believed that: graduates would not like to work in the business; the business did not need graduate skills and that graduates would not fit within their workforce. Although Pittaway and Thedham’s (2005) work is sector specific, it may well be the case that micro firms in other sectors are an inappropriate context to recruit a graduate. This could inform policy decisions and avoid energy and investment being wasted targeting the ‘wrong’ size of firm.

Finally, we return to the East Midlands. Part of the IES study (Pollard, et al. 2004) focuses on what East Midlands’ graduates want from an employer. Respondents were asked to rank seven factors according to importance when choosing a job. Interesting/challenging work was seen as most important, and in fact, size of employer as least relevant. Nonetheless, a further, more direct question on the role of employer size on employment choice reveals some surprising results. The question itself asked students what size of company they would prefer to work in, in the first few months after finishing their course, and in three years’ time. The options given were small (number of employees < 50), medium (50 < n < 500), and large (n > 500). Almost twice as many leavers (who had studied full time) preferred to work in a small company than in a large company (41 per cent compared to 24 per cent). The research team interprets this as possibly indicating that new graduates may prefer to enter the labour market via smaller employers and via temporary work and it provides a note of some controversy on which to conclude this section, appearing on the face of it to be at odds with other research based in the East Midlands, the more conventionally held wisdom and, indeed, by implication, the research of Pittaway and Thedham (2005). We move now to our third and final theme, utilisation.

Utilisation

We noted in 2002 the extensive debate concerning the kind of skills SME owner/managers think graduates need. We recorded at least one (Holden and Jameson 1999) study where, paradoxically, managers had complaints about the lack of skills in the graduate labour market, yet under-utilisation of graduates was also regarded a problem. The main capability gaps for SMEs appeared to stress the generic and transferable skills of new graduate entrants. The more robust studies (Conway and Baines 2000, Harvey, et al. 1997, Rajan, et al. 1998, Williams and Owen 1997) pointed to an observed lack of initiative, weak interpersonal skills, low levels of business awareness and poor team working skills). We were unable to conclude whether this was accounted for mainly by supply factors or a demand effect stemming at least in part from inappropriate matching of entrants to jobs. It could also be the case that this was due to ill-framed or unrealistic expectations of managers. Overall, though, the evidence on graduate contribution to SMEs was positive but predominantly drawn from anecdotal and snap-shot assessments often after only short periods of graduate engagement. This said, when graduates found themselves either temporarily (scheme or initiative) recruited to an SME or permanently recruited, few studies showed graduates ‘failing’. Satisfaction amongst employer and employee (AGR 1995) was high and on this evidence fears and assumed risks that seem
to hold back more SMEs from recruiting new graduates (Harvey, et al. 1997) appeared to have little foundation.

We detected few departures from the skills discourse. One notable exception was Holmes’ (2001) work on graduate identity. Their ethnographically-based investigation into graduate organisational entry painted a more positive picture of employment in SMEs, with graduates indicating high levels of responsibility and autonomy.

The question is, to what extent have we now, in 2006, a more robust evidence base upon which to develop our understanding of graduate utilisation in SMEs? Our reading of available research suggests little progress. Data on the Department of Trade and Industry’s flagship Knowledge Transfer Programme, is the only published research which seeks to assess, in economic terms, the contribution of graduate labour within an SME. Over 85% of KTPs are based in SMEs. The 2004/5 Annual Report claims on average, a one-off increase in profits of nearly £50,000 from participation in the partnership (Department of Trade and Industry (DTI) 2005). A remaining difficulty, though, is that of attribution to the recruitment of the graduate. Interestingly the report also notes that the percentage of Associates staying with their company after completing their contract is fairly stable at around 50%.

Elsewhere, we note the work of Arnold and colleagues (Arnold, et al. 2002) exploring graduate experience of work in small organizations in the UK and Netherlands. Whilst their research is oriented more to the issue of transition than strictly utilisation, Arnold et al. (2002) broadly confirm pre 2002 data and more recently the KTP reports. The small firms in the sample seemed to offer graduates considerable autonomy and possibly as a consequence, to develop their skills. Whilst the authors make some important points about our understanding of issues like ‘responsibility’ (see also below) their conclusion is that ‘on the whole graduates were quite pleased with their experiences of working in small organizations, both in absolute terms and relative to expectations.’

McLarty (2005) has been working with data obtained from 18 graduates employed in SMEs in East Anglia for a number of years (see for example McLarty 2000). The work is important because it is based on more than just ‘snapshot’ data. Each graduate was interviewed at least twice, and managers of SMEs opinions were also sought. This latest analysis highlights the likelihood of a tension between a graduate’s initial perceptions of what skills they can bring to the SME with actual employment experience. Teamwork, for example, drops in perceived significance over time leading McLarty (2005) to suggest that this may be overrated in both the literature and within the HE capability agenda. He concludes, that higher education needs “to focus more defining experiential generic skills rather than relying on core skills and transferable skills which may be too inconsequential to be effective in SMEs”, yet the precise implication of this conclusion remains obscure.

Again, as with recruitment, we would suggest there has been an incremental move forward in our understanding of the relationship between graduates and SMEs. However, overall there has been little that attempts to enter new territory. A partial exception is the work of Pittaway and Thedham (2005) who broadly accept the argument that, within the UK at any rate, there is a lack of management and leadership ability in SMEs but then seek specifically to assess the role that graduate labour may have in filling this gap. Of particular note is their evidence which suggests that graduates in micro firms are more likely to be underutilized compared with other sizes of firms in the SME sector. As far as medium-sized business owners were concerned they believed that graduates would improve business
performance and their skills would be needed and they would fit with the workforce. To an extent this offers a slightly different picture to that reported by Holden et al. (2005) who through survey data on the employment and use of graduates by SMEs raise serious questions concerning graduate underutilisation largely independent of firm size or growth. Even amongst growth firms and in firms where the owner manager had a positive attitude to employing graduates, graduates were being used in a predominantly non-managerial capacity. In both, though, a remaining uncertainty is whether under-utilisation, wherever it occurs is principally a supply side or a demand side problem. A further problem is exactly what do owner managers mean when they use such terms as ‘managerial’ and ‘operative’ (see also Arnold et al., 2002, below).

Nevertheless, conceptually, methodologically and indeed in terms of potential policy development, we can begin to see some progress in this more recent research. It is further aided by the potentially helpful conceptual considerations produced, for example, by Purcell et al. (2004) and Otter (2005) in relation to the wider graduate labour market. Purcell et al. (2004) work with a five-fold classification of graduate occupational typology (traditional graduate, modern graduate, new graduate, niche graduate and non-graduate) whilst Otter (2005), based on work with graduate placements in SME suggests a four fold typology re the grad engagement with SMEs (high tech businesses with knowledge transfer needs; businesses in a supply chain subject to pressure to increase efficiency / quality; businesses offering services which have been outsourced from larger businesses and ‘the rest’). Such work will surely help focus attention on a more nuanced understanding of the SME graduate labour market. This is helped further by the lessons we can learn from Arnold et al.’s (2002) work in relation to slippery issues such as graduate ‘responsibility’ within an SME. As Arnold et al. (2002) suggest, it is inappropriate to speak of responsibility without specifying what the responsibility is for. There is an important point here for studies of the graduate-SME relationship that use overly simplistic survey designs to measure complex concepts.

Discussion

It was difficult in 2002 to escape the conclusion that research had failed to provide anything like a sound evidence base upon which to consider and develop public policy in relation to the SME graduate labour market; whether principally interventionist or non-interventionist. To what extent, then, four years on from the ‘benchmark’ SBS report (Holden, et al. 2002) are we emerging from the gloom of a fairly damning report on the state of understanding about the SME graduate labour market?

Clearly a major deficiency in terms of robust data on the first destinations of graduates in relation to size of organization is now in the process of being remedied. Issues about the extent to which such data provide an accurate picture of specifically graduate-level employment in SMEs will remain, but its significance should not be under-estimated. Critically, this data should provide a much more illuminating reference, or starting point, in terms of addressing particular areas of apparent tension and interest and enable research to be appropriately and accurately framed to tackle such issues. Beyond this statistical development progress remains essentially somewhat disappointing. We have little more insight into the apparent paradox of ‘mutual suspicion’ on behalf of graduates and SME owner-managers yet apparent ‘satisfaction’ once engaged, however that engagement is procured. And, if we add the research of Pollard et al. (2004) suggesting SMEs are in fact the first choice of many graduate leavers, we have further complication and ambiguity. In respect
of the utilisation of new graduate labour within SMEs, research is still largely dominated by a, not always fruitful, skills discourse. We have a continuing tension between the research from an established initiative such as KTP, with its claims of significant added value as a result of graduate employment, and nagging concerns about under-utilisation. In many ways this is unsurprising because, taken as a whole, the research is still struggling to escape from an ambiguity about just what it is seeking to measure and how it is seeking to undertake such measurements. Conceptual and methodological problems, therefore, would appear to be major obstacles to further progress. There are exceptions. In this respect, for example, the approach of Pittaway and Thedham (2005) offers a glimpse of a more nuanced and appropriate research design by segmenting the small firms sector by size.

It is pertinent at this juncture to note the work of Grant and Perren (2002). The authors argue that small business research has been dominated by a functionalist paradigm and that the health and future development of research requires a broadening of perspectives. We have some sympathy with this view. We noted in 2002 the need for in-depth, qualitative research to effectively counter the useful, but limited, survey-style research that had dominated the skills discourse within this particular field of small business research. Similarly Holmes’ (2001) work on identity and graduate employment in SMEs fits comfortably within Grant and Perren’s (2002) call for alternative research paradigms. It is important to note that other than the partial exception of Holden and Harte (2004) (full research not yet published) there has been no development of this work, flagged by Holmes (2001), in terms of the paucity of a wholly skills based approach.

Of course, it is only four/five years since the research was undertaken which culminated in the report to the Small Business Service. It might be argued that this is an unrealistically short period of time to undertake the ‘update’ which has been our purpose in this paper. At first blush this might seem a fair complaint. We would counter this suggestion by drawing on our observation of a shift in the prevailing orthodoxy in respect of what it is important to research in terms of the graduate labour market. The change we identify is away from the graduate SME labour market as such and towards that of graduate start-up and graduate entrepreneurship. A powerful indicator of this shift, we would suggest, is the establishment of the NCGE, the Centres for Excellence in Teaching and Learning (CETL) initiative and, related to this, the fact that if it is ever possible to speak of readily available research funding, then it is tied to this research focus. This is not a disingenuous argument. Our concern is that the research in this field of graduate start-up and entrepreneurship may be characterized by similar problems and deficiencies to those we have discussed above. It is not the purpose of this paper to review the research and literature on graduate start-up. We would suggest, though, that our understanding of the body of work emerging under this research umbrella, (see for example Nabi et al. 2006) is characterized by:

- an impoverished database in terms of flows of graduates into start-up/self employment
- a conceptual ambiguity in terms of graduate entrepreneurship, graduate start-up
- a quantitative methodological bias most evident in the burgeoning ‘intent’ type surveys
- a failure to address a longitudinal dimension, assessing the extent to which intent is actually translated into action and the nature of this journey

If our reading of this shift in the research ‘flavour of the month’ is broadly accurate it confirms and reinforces the significance of the non-traditional labour market (within which SMEs, self employment sit alongside other employments contexts) in terms of fully employing the ever increasing numbers of graduate entering the labour market. At the same
time, though, it surely alerts us to the dangers of this research agenda floundering in similar ways to that evident in respect of the graduate SME labour market. Hence, in this respect this review is, we would venture, not only legitimate but very timely in terms of its critique and conclusions.

Conclusion

Four years on it would be churlish to suggest nothing has changed. There are glimpses of light. The HESA statistics provide one such positive development. There is also a growing recognition and acknowledgment of the need to address size and sector diversity. Indeed, research differentiated along broad size / sector lines may be also too crude. The newly available statistics may help frame even more appropriately differentiated studies.

This said, and in terms of a research agenda which in 2002 stressed the importance of a richer picture of the recruitment and in particular the subsequent utilisation of graduates by SMEs, we are not much further forward. Critical questions remain unanswered. For example, how do the particular characteristics of SME employment impact upon graduates’ notions of graduateness and their ability to make the transition from student to effective employee within an SME? Are the processes whereby graduates ‘learn the company’ significantly different in an SME vis-à-vis a large company or indeed between different types of SMEs? How do graduates draw on their capabilities in their existing tool bag and seek to generate new ones or improve those deemed deficient? Whilst we can identify voices arguing for alternative and more sophisticated research which might, for example, seek to explore how over time a graduate learns his/her new role in an SME or provides a real understanding of impact in terms of issues such as responsibility, leadership, strategic decision making, it would seem that this agenda has yet to see the light of day.

In 2002 public policy had clearly recognized the value of expanding SME demand for new graduates. It simply was ill equipped to base any decision making on a sound evidence base. This is still the case. The problems of ensuring that a supply of graduates meets demand or that demand soaks up the supply of graduates have not disappeared. However, the politics of 2006 whilst not relinquishing an emphasis on the small business sector as the nation’s engine of growth, nevertheless has seen a new favourite emerge. The enterprising graduate and the potential for more new graduates to start their own business and contribute in this way to the development of prosperity, economic success, and appropriate deployment of ‘graduate’ labour. Thus, our conclusions are twofold. Not only does this review remind us of the need for more nuanced and sophisticated research in this small, but growing slice of the non-traditional graduate labour market it also send a message, in a modest way, to those leading the grad start-up research agenda. “Research in terms of the relationship between grad and SME is still in the semi-dark. Don’t get stuck down your own dark alley.”

References


Formerly The Teaching Company Scheme, the KTP involves the employment of an Associate (recently qualified graduate) for a project lasting one to three years.

A number of the recently established CETLs focus specifically upon equipping students in HE with enterprising and entrepreneurial skills.