

**Understanding self-employment –  
A report from a seminar held at  
Middlesex University Business  
School**

**ERC Insight Paper**

**July 2016**

## Understanding self-employment

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The Enterprise Research Centre is an independent research centre which focusses on SME growth and productivity. ERC is a partnership between Warwick Business School, Aston Business School, Imperial College Business School, Strathclyde Business School, Birmingham Business School and Queen's University School of Management. The Centre is funded by the Economic and Social Research Council (ESRC); the Department for Business, Innovation & Skills (BIS); Innovate UK and the British Business Bank. The support of the funders is acknowledged. The views expressed in this report are those of the authors and do not necessarily represent those of the funders.

## **ABSTRACT**

This Insight Paper presents the key findings of studies presented at the "Understanding Self-Employment" workshop organised by the Microbusiness Research Portal with the support of the Centre for Enterprise and Economic Development Research (CEEDR) at Middlesex University Business School on the 7th June 2016. The seminar explored the recent increase in self-employment in the UK, discussed the problems related to the definition of self-employment and presented the implications for policy development.

Ben Dello of the Royal Society of Arts (RSA) presented the results of a recent survey carried out in order to understand how to enable more people to enjoy the benefits of working for themselves. Wealth seems to be a decisive factor in determining whether people are able to enter into business and survive over the long-run. Drew Hird from the Department for Business Innovation and Skills (BIS) presented an overview of two recent BIS research reports based on the BIS's 2015 Self-Employment Survey. The survey explored why and how people choose to enter and remain in self-employment, how they view their situation, difficulties faced, and how they manage their life in self-employment. Nida Broughton of the Social Market Foundation (SMF) talked about the problems related to low-paid self-employment in the UK, with more than 1.7 million self-employed in the UK getting less than the National Living Wage. Finally, Professor Julia Rouse from Manchester Metropolitan University summarised the rights of the self-employed to maternity, paternity, adoption and shared parental care leave and pay and argued that key rights are still missing, contradictory or partial for self-employed.

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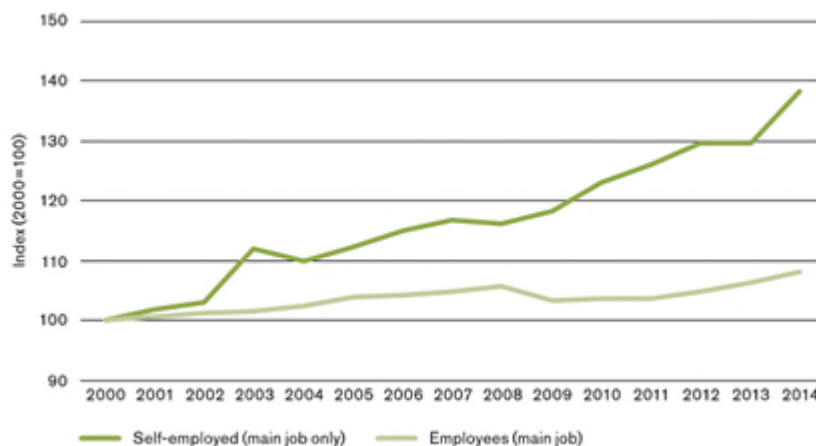
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## INTRODUCTION

Self-employment has grown rapidly in the last decade, especially since 2007, and has far outstripped the rise in conventional employment, as shown in Figure 1. The UK self-employed are a diverse group with shifting demographics, backgrounds, motivations and objectives. For instance, self-employment can represent a positive opportunity for many people, allowing flexibility and autonomy, potentially promoting greater economic dynamism and fostering creativity and innovation. At the same time, self-employment can fail to provide a reasonable alternative to unemployment, trapping individuals in low-wages and low-protection situations.

Figure 1 Growth rate of UK self-employed and conventional employees between 2000 and 2014.



Source 1 Labour Force Survey, July-September quarterly data 2000-2014 inclusive

In this Insight Paper we present the findings of a series of recent research reports presented at the "Understanding Self-Employment" workshop organised at the Middlesex University Business School to understand better the characteristics of the increase in self-employment in the UK. Although a growing literature has focused on the self-employment phenomenon, there is still a lively debate about the definition of this category and the challenges linked with the evaluation and measurement

of their performance.<sup>1</sup> Previous literature has failed to provide a comprehensive analysis of the growing self-employment phenomenon, mainly because of the lack of detailed data and the absence of a rigorous and shared definition of self-employment and entrepreneurship. One issue is that the definition of the self-employed population is far from obvious, depending on the classification based on earning self-employed income or the report of self-employment as main occupational activity. The legal characterization of this group also poses challenges related to under-declaring and fake self-employed employees, the differences between self-employed and entrepreneurs and the distinction between employing and non-employing self-employed. Finally, both administrative and survey data are scarce.

## **DEMOGRAPHICS OF UK SELF-EMPLOYMENT**

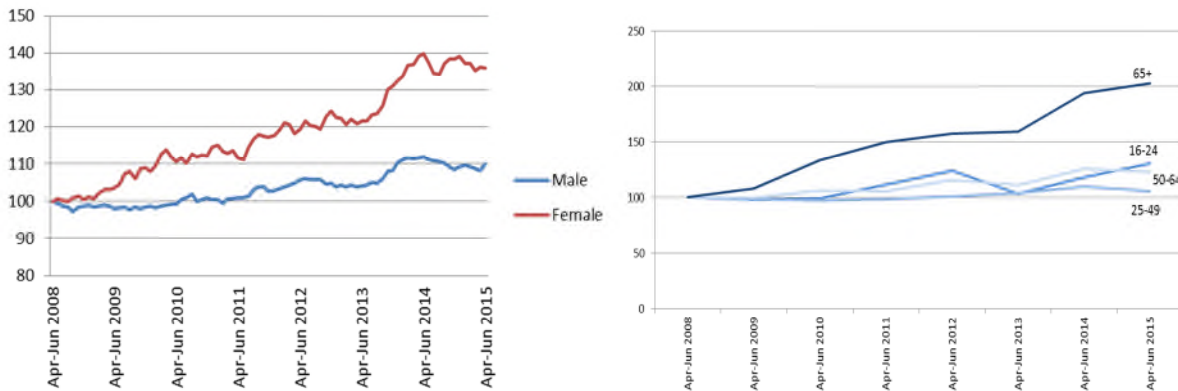
A recent survey carried out by the UK Department for Business Innovation and Skills (BIS) looked at the composition, motivations and welfare situation of the self-employed in the UK. The study interviewed almost 1,500 respondents to the Labour Force Survey who reported self-employment as their main job, weighting the responses to the number of self-employed people in the Annual Population Survey 2014, and asking beliefs and opinions of surveyed individuals in order to compare self-employment with a hypothetical similar employee job.

From a quick analysis of the data in Figure 2 it is clear that women's share of self-employment has increased from 27% in 2008 to almost 32% in 2015, a growth in numbers of more than a third, compared with 10% for men in the same period.

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<sup>1</sup> Parker S.C. (2004), *The Economics of Self-Employment and Entrepreneurship*, Cambridge University Press, Cambridge (UK).

Figure 2 Increase in UK self-employment by gender and age group between 2008 and 2015



Source 2 BIS self-employed survey 2015

Another stylised fact emerging from the data is the sharp increase in the number of the self-employed who are over 65. This group accounted for 10% of the total in 2015, almost doubling since 2008, and representing a third of total growth. In addition, the 50-64 group accounted for 40% of the total increase, although the 25-49 group remains the largest group throughout this period. Also, from 2008 to 2015 there has been an increase in the number of self-employed working fewer hours or on a part-time basis, with direct effects on their average earnings.

## MOTIVATIONS AND OBJECTIVES

The main objectives for people moving into self-employment are opportunity rather than necessity, mostly related to independence and satisfaction. In fact, for the majority of those interviewed by the BIS survey, the shift to self-employment has been a positive choice not dictated by necessity, mainly to pursue an unexploited business opportunity or to achieve a personal ambition. In addition, research by the Resolution Foundation and the RSA in 2014 suggests that the majority of people move to self-employment in order to have more flexibility (more than 46%), achieve independence and higher degrees of job satisfaction. For less than

10% of respondents the financial motivation of earning higher income was a key reason. However, although self-employment is generally a positive choice, the self-employed are not a homogenous group, and for some the move to self-employment has been less proactive and more precarious. Around 6% of those interviewed were encouraged into self-employment by a previous employer, and for almost 16% of them a main contributing factor to their choice was not being able to get the employee role they wanted.

Other key factors characterising the self-employed are their objectives and plans for the future. Most respondents, almost four fifths, expected to be in self-employment in the following 3 years, with less than 1 in 10 planning to leave within a year. Moreover, the decision is not always between self-employment and a more conventional employee role. In fact, over half of those planning to leave self-employment in the next 3 years said they would probably retire. In addition, most self-employed people seem not to have any ambition to be employers or to increase the scale of their operations in the near future. Less than a fifth of the individuals in the BIS sample expected to take on employees, mainly because of the lack of scale or other specific barriers.

Taking into consideration their motivations and the main objectives, the RSA has tried to categorise the self-employed into subcategories that stretch beyond the conventional classification based on industry, age, gender and financial distribution. According to the RSA self-employment survey, one of the main groups of self-employed are the *visionaries*, optimistic, growth-oriented business owners who are usually driven by a mission and a final purpose. They are usually younger and male and more likely to move to becoming employees. A second group includes the *locals*, relaxed and generally free from stress. These entrepreneurs usually operate low-tech businesses which serves their local community, usually operating in the lower tail of the distribution of income and in the upper tail of the age distribution. A third group, the *classicals* are generally older and embody the popular image of the self-made entrepreneur, despite representing only 10% of the self-employed. They are usually driven by the pursuit of profit, and think the business is the final aim and objective of their



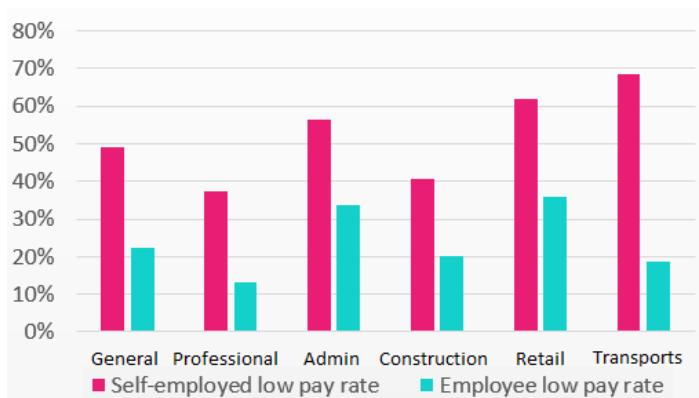
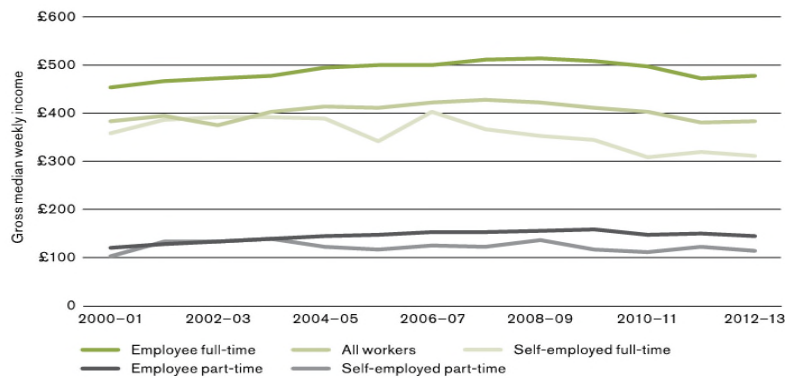
activity. Another large category is the *independents*, younger freedom-loving and internet-dependent business owners who are generally driven by the opportunity to vent their creative talent. The *dabblers* are usually part-timers, mainly retirees seeking to do something interesting in their spare time, following their business more as a hobby rather than a necessity. Finally, the largest category representing almost 25% of self-employed is that of the *survivors*, reluctant but hard-working individuals who are struggling to survive in the market, mainly because of the tough competition. They usually earn relatively little from their business and are more likely to be younger operating in mature and saturated markets.

## FINANCIAL SITUATION AND JOB SATISFACTION

The BIS Survey on Self-Employment investigated the financial situation of the self-employed and their overall job/life satisfaction in comparison to conventional employees. Most of the respondents (84%) feel their lives are better overall and over half of them think they are better off financially than they would be as an employee. Although, almost a third of the self-employed believe they are financially worse off, most having made a conscious choice to prioritise other factors. On average the self-employed earn a third less than full-time employees, even if their income grows significantly faster over time. A recent analysis by the Social Market Foundation (SMF) in 2016 suggests that around half of the self-employed are in the low pay category, compared to just over a fifth of employees. With low paid self-employment growing over time in the last years, the SMF estimates that almost 1.73 million self-employed in the UK will be paid below the national living wage (NLW). Most of these low-paid self-employed are in a few sectors, such as the construction sector, administrative services, transports, professional, scientific and technical services and the retail sector. In addition, using data from the “Understanding Society” survey, the SMF analysed the development of low-paid self-employed over time, finding that on average 89% of them are still in work after one year. Of those who remain in work, around a third escape from low pay one year later, a similar rate for low-paid employees, but those who escape are more likely to become an employee, usually

thanks to training programs or other kinds of public support.

Figure 3 Change in median weekly income and share of low-pay rates by sector for self-employed and employees



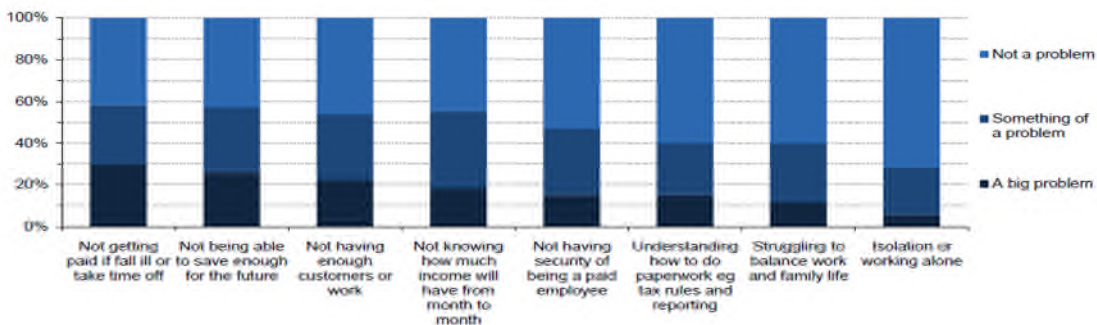
Source 3 Labour Force Survey and Family Resources Survey (2014)

## CHALLENGES AND SUPPORT FOR SELF-EMPLOYMENT

The problems faced by the self-employed are not limited only to low-incomes. In particular, concerns have been raised that people in self-employment may be struggling with problems linked to the lack of success or wider challenges that employees do not face. Almost 56% of the sample included in the BIS “understanding self-employment” survey reported having experienced at least one major problem in the last year, in particular

related to planning the future. One of the most common problems is related to the poor social security protection of the self-employed. Over 30% of individuals reported that not getting paid when ill or that taking time off represents one of their main problems, followed by not being able to save for the future and getting access to mortgages and credit. In fact, welfare rights for self-employed are mostly partial or completely missing, especially regarding illness, retirement and parental leave.<sup>2</sup> Most of those interviewed by the BIS survey try to cope with these problems, enrolling into private pension schemes or using at least one source of income for retirement other than a state pension.

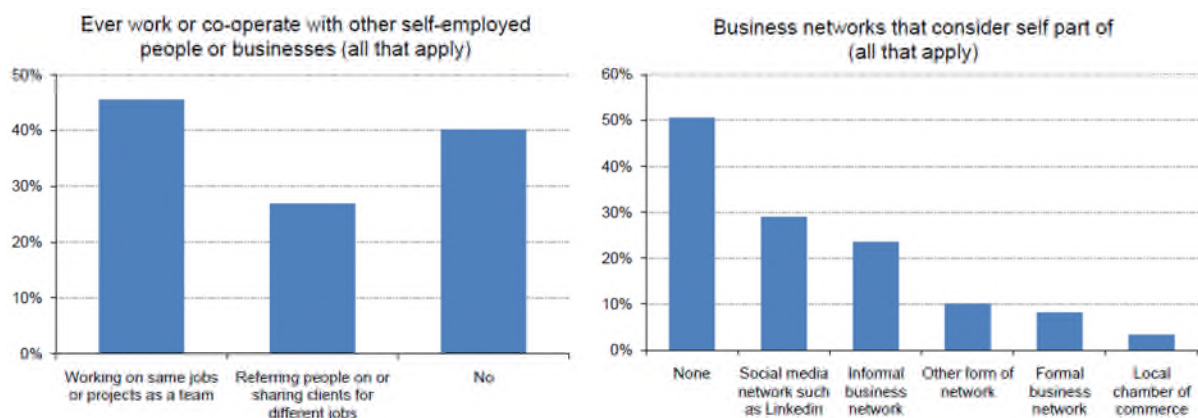
Figure 4 Extent of main problems in self-employment



Source 4 BIS self-employed survey 2015

Despite the many challenges faced by the self-employed, help does not appear to be needed by the self-employed. Most of the sample in the BIS “understanding self-employment” survey never looked for support and the minority who did look for additional support found financial or practical to help from family and friends.

Figure 5 Extent of co-operation with other self-employed people



Source 5 BIS self-employed survey 2015

## CONCLUSIONS

A series of recent reports and studies presented at the "Understanding Self-Employment" workshop organised by the Centre for Enterprise and Economic Development Research (CEEDR) provide some new perspectives on UK self-employment.

- The self-employed population has grown rapidly in the last decade in the UK and has far outstripped the rise in conventional employment. There has been a particular growth in the number of self-employed women up by more than a third and a sharp increase in the number of self-employed over 65.
- The main motivations for entering self-employment are opportunity rather than necessity, mostly related to independence and satisfaction and not financial pressures.
- 80% of respondents to the BIS "understanding self-employment" survey expect to be in self-employment in the following 3 years, however most self-employed people seem not to have any ambition to be employers or to increase the scale of their operations in the near future.
- Most of the self-employed feel their lives are better off overall than they would be as an employee. However, full-time self-employed earn on average a third less than full-time employees, estimating that almost 1.73 million self-employed in the UK will be paid below the national living wage (NLW).
- Almost 56% of the self-employed report having experienced at least one major problem, in particular related to planning, the poor social

security protection, not being able to save for the future and lack of welfare rights.

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