



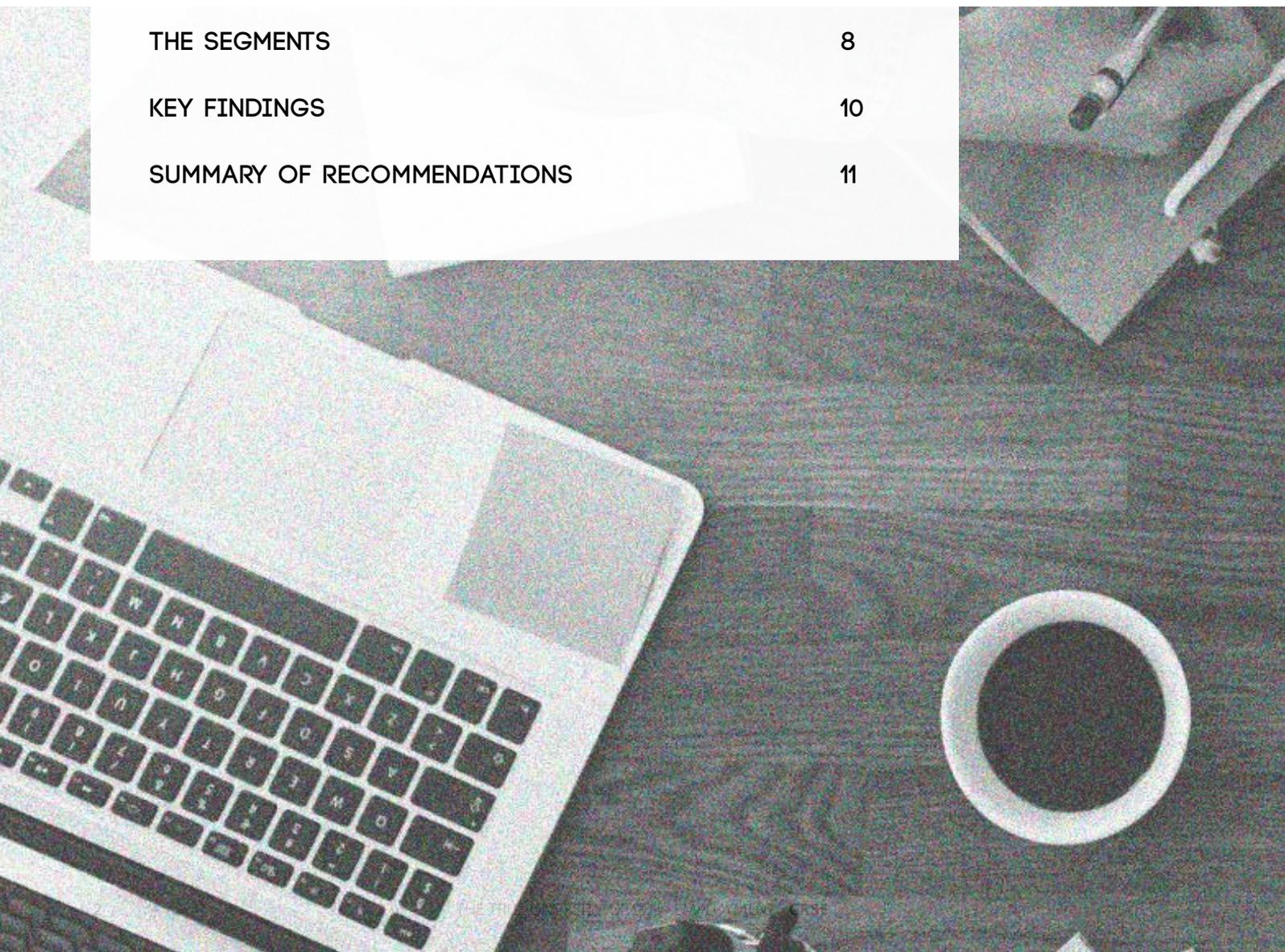
THE TRUE DIVERSITY OF SELF-EMPLOYMENT

Uncovering the different segments of the UK's self-employed workforce

EXECUTIVE SUMMARY

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THE AUTHORS

This report sets out the findings of a Centre for Research on Self-Employment (CRSE) research project carried out in conjunction with the Institute for Employment Studies (IES). The contributors to this report include Matthew Williams, Andrea Broughton, Nigel Meager, Kate Spiegelhalter, Suneeta Johal and Kayte Jenkins.

INSTITUTE FOR EMPLOYMENT STUDIES

IES is an independent, apolitical, international centre of research and consultancy in employment policy and HR management. It works closely with employers in all sectors, government departments, agencies, professional bodies and associations. IES is a focus of knowledge and practical experience in employment and training policy, the operation of labour markets, and HR planning and development. IES is a not-for-profit organisation.

CENTRE FOR RESEARCH ON SELF-EMPLOYMENT

The CRSE is the leading international think tank working to improve the understanding of the self-employment sector and its impact on the economy. It delivers leading-edge, robust and multidisciplinary research in collaboration with academics from around the world who are at the forefront of self-employment studies.

ACKNOWLEDGEMENTS

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DISPELLING THE MYTH OF UNIFORMITY

Foreword by Andrew Burke,
Chair of the Centre for Research on Self-Employment
and Dean of Trinity Business School, Trinity College, Dublin

For years now, the self-employed sector has been overshadowed by a myth. Looking for simple stories, the media have portrayed this diverse and complex sector as all the same – a homogeneous mass. The reality has been oversimplified until it has been almost replaced by the myth of uniformity.

In fact, the myth has spread so far that now, when the public read of exploitation in the gig economy or any other small part of the self-employed sector, they believe it applies across the board – to everyone from IT contractors to designers. And this puts pressure on politicians to apply simple, one-size-fits-all solutions which, although they may work for one part of the sector, can do significant damage to others.

The CRSE commissioned this report to dispel the myth of uniformity and explore the true diversity of self-employment in the UK. We used a range of indicators to measure the breadth and variety of the self-employed: from earnings and job security to work/life balance and opportunities for growth. It is a comprehensive study that should help to move policymakers away from a broad-brush, often harmful approach to the self-employed.

As well as discouraging a harmful approach, this report will also open up opportunities for positive policies – particularly in terms of vulnerable workers. For example, it shows that the highest concentrations of insecure, self-employed workers are in predominantly low-skilled sectors, while the best performing self-employed are in high-skilled sectors. That suggests that the best way to distinguish the vulnerable self-employed from the rest may actually be by skills and education. And because previous research has shown that the same applies to the employed sector, it seems that ‘self-employed status’ may often be wrongly diagnosed as the cause of vulnerability, when actually a lack of skills is the real problem.

Of course, while this far-reaching report does include a range of recommendations, the main idea is not to define policies, but to detail the true diversity of the self-employed sector. We are here to dispel the myth, not shape the reality behind it. We hope, however, that by mapping out the true variety of self-employment across the UK, we will open the door for policymakers to adopt a much more segmented, targeted and, ultimately, beneficial approach to this crucial and growing sector.

EXECUTIVE SUMMARY

THE CASE FOR SEGMENTATION

In recent years there has been a fundamental shift in the make-up of the UK labour market. The driving force behind this is the rise in the number of self-employed people which currently stands at 4.8 million – 15 per cent of the total UK workforce.

Partly as a result of the growth in self-employment, there has been a lively debate in policy and research circles about whether and to what extent this is a positive development for the economy and the labour market. At one polar end of the debate are those who argue that growing self-employment is a positive feature of a dynamic, entrepreneurial and flexible economy. At the opposite end of the debate are those who fear that it is creating a labour market segment of precarious, unstable, insecure and poorly-remunerated work.

Despite the rapid growth of self-employment, this burgeoning sector remains remarkably under-researched, which has led to numerous policy challenges. Not least because, without proper examination of its constituent parts, the sector is too often seen as homogeneous.

This idea has been intensified by emerging evidence that the diversity of self-employment may be increasing, with more types of work affected, new contractual arrangements appearing (e.g. in the so-called 'gig economy') and the workforce including different types of people working in different ways (e.g. growing numbers of women, older workers and people doing self-employed work on a part-time basis or in multiple jobs).

Against this background, the expansion of self-employment has fostered a tension between:

- Those highlighting economic benefits, arguing that policy should support and encourage the growth of self-employment; and
- Those highlighting precariousness, insecurity and low incomes, arguing that policymakers should regulate to protect workers in this part of the labour market and discourage/eliminate forms of ('false') self-employment believed to share the dependency of wage employment without offering the benefits and protections associated with employee status.

To resolve this tension there must be greater clarity about the heterogeneity of self-employment, as well as a better understanding of the size and nature of the different segments of the self-employed workforce. Without a clear distinction between the different segments of the sector, there is a danger that authorities and policymakers will take a broad-brush approach to the treatment of self-employed workers.

The CRSE has undertaken this research to help tackle these challenges, by identifying and giving clear definition to the different segments of the self-employed workforce.

The aim of the research is not only to clearly define the value, demographics and earnings of the various segments of the self-employed workforce, but also to clearly distinguish (as far as the existing data allows) between genuine and false self-employment and between insecure and secure self-employment.

METHODOLOGY

The research for this project comprised two parts: a review of the available literature on the subject of segmenting the self-employed workforce, including academic, policy and practical reports that focus on the definition and characteristics of self-employment. The literature review has been used to inform our understanding of the self-employed, but it has not been used to directly shape any of the outcomes or conclusions of this report.

The second part involved the analysis of three datasets: the Labour Force Survey, the Family Resources Survey and Understanding Society. The definition of self-employment for the purposes of this study includes those who work on their own account without employees, and who are therefore known as the 'solo' self-employed. Given the difficulties of taking account of the differences between employers and the solo self-employed, using the existing datasets, it was decided to focus on the latter in the present study.

To allow for comparisons between different data sources, the analysis has been conducted at the level of sections of the self-employed that encompass particular 'jobs'. The 'jobs' themselves are defined according to a number of industry/occupation combinations which, between them, account for the majority of the self-employed.

To create a framework for segmenting different types of self-employment, key indicators from across the three datasets were selected which relate to:

- **Economic wellbeing:** much of the current debate about self-employment, its growth and how it might be better regulated, centres on how well-off they are in economic terms. Hourly earnings is used to standardise across different working patterns and helps to segment the self-employed into different categories of economic wellbeing.
- **Whether the work is independent or dependent (close to employee status):** examining the degree of autonomy/control of work, number of clients, whether the self-employed person views themselves as having a job or a business, as well as whether they have separate bank or business accounts helps to build a picture of their overall independence. This dimension addresses the debate about false self-employment – where individuals are labelled as 'self-employed,' but in reality work in a similar way to employees. These workers may lose out on the protections offered by employment, while not benefiting fully from the autonomy offered by self-employment.
- **The extent to which the work is secure or insecure:** this is linked to the debate about the working conditions and job quality of the self-employed, and how these relate to their subjective wellbeing and job satisfaction. Examining whether they are looking for alternative work, as well as private pension provision, are useful (albeit partial) measures of the extent to which the person is self-employed by choice and whether the work provides long term security.

This report examines those who work on their own-account without employees, therefore known as the 'solo' self-employed. The solo self-employed account for 84% of the entire self-employed workforce in the UK.

**4.7 MILLION*
SELF-EMPLOYED
PEOPLE IN THE UK:**



16%

SELF-EMPLOYED WHO
EMPLOY OTHERS

84%

SOLO
SELF-EMPLOYED

*Source: LFS, Jul-Sep 2015 to Apr-Jun 2016, four quarter average

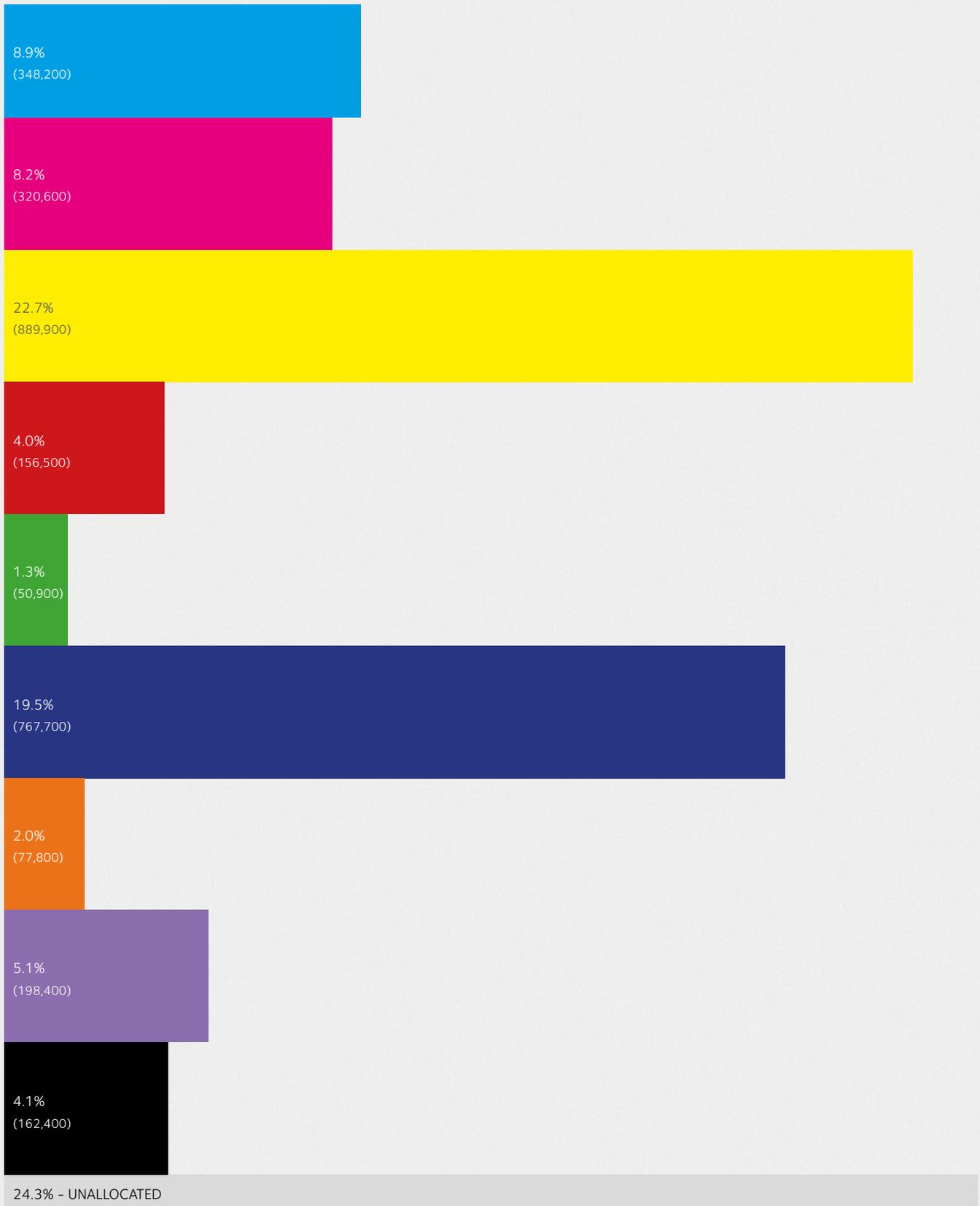
THE SEGMENTS

The research identified nine segments of the solo self-employed in total, which were distinguished by key indicators including economic wellbeing, independence and security. The segments range from low-paid, dependent and insecure, through to high-paid, independent and secure.

TYPES OF OCCUPATIONS

1	<p>Low pay, dependent, insecure</p> <p>People in this segment are generally less qualified than other groups. It has the highest proportion of people who became self-employed because they could not find other employment (13% compared with 6% across all segments). They report lower than average levels of autonomy and control over their work. The average hourly earnings are below other segments and their employed equivalents.</p>	Drivers and cleaners
2	<p>Low pay, independent, insecure</p> <p>This segment is highly qualified (35% are graduates, compared with the 29% average across all segments) and only seven per cent have no qualifications at all. Self-employment was an overwhelming choice for this group with only three per cent doing so because they could not find other employment. They have lower than average earnings compared with the average across all segments, and around half the amount earned by employees in these jobs.</p>	Shopkeepers, artistic occupations and car mechanics
3	<p>Low pay, independent, secure</p> <p>A predominantly male segment (87% compared with the 70% average across all segments) with a below average proportion of those with a degree (24% to 39%). This group exhibits a relatively high degree of autonomy and control over their work. Median hourly earnings of this segment are close to the average across all segments, but once qualifications, type of self-employment and other factors are controlled for, their earnings are below average. They are also below the average for employees in comparable jobs.</p>	Farm workers, builders, traders and tutors
4	<p>Mid pay, dependent, insecure</p> <p>Only 14 per cent of people in this segment are graduates and there is an above average proportion that became self-employed because they could not find other work (11% compared with 6% across all segments). They have below average levels of autonomy, particularly relating to work manner and hours. This group has the lowest median hourly earnings, but once other factors such as qualifications and type of self-employment are controlled for, the earnings differences are not statistically significant. Only 12 per cent have a private pension. However, the people in this segment report the highest levels of job satisfaction.</p>	Childminders and carers, and building labourers
5	<p>Mid pay, dependent, secure</p> <p>Workers in this group have low qualification levels (16% with above A-levels, compared with the 39% average across all segments). People in this segment report below average autonomy for many aspects of work. They earn above average compared to other segments, but less than their employed counterparts do. Job satisfaction in this segment is close to the average across all segments but higher than among employees in similar roles.</p>	Building operatives/drivers
6	<p>Mid pay, independent, secure</p> <p>There is a relatively high proportion of graduates (36%) in this segment. This group reports the highest levels of autonomy relating to job task, work pace, task order and work hours. Median earnings are similar to the average across all segments, but much lower than employees in similar roles. The people in this segment have higher job satisfaction than both the average across all segments and employed counterparts.</p>	Trainers and coaches, IT and related professionals, financial advisers, business associate professionals, manufacturing managers, hair and beauty workers, skilled makers, gardeners, and restaurant and B&B owners
7	<p>High pay, regulated, secure</p> <p>A highly qualified segment (87% with degrees) with only two per cent becoming self-employed due to a lack of employment opportunities. The highest proportion (36%) became self-employed because of the nature of their job. This group is likely to have low levels of control and autonomy due to regulatory processes and practice hours. Median hourly earnings are significantly higher than the average across all segments, but similar to employees. The people in this segment have greater levels of job and life satisfaction than employees in similar roles.</p>	Medical professionals
8	<p>High pay, mid-independence, secure</p> <p>This group is highly qualified, though a relatively large proportion became self-employed following redundancy (12% compared to the 8% average). Most professions in this segment have average levels of control and autonomy, although this depends on the regulatory processes of each profession. People in this segment earn above the average of other segments, but less than their employed counterparts. They are more likely to have a private pension and report higher levels of job satisfaction than employees.</p>	Functional managers, construction and property managers, book-keepers, and TV/film technical roles
9	<p>High pay, independent, secure</p> <p>This segment is highly qualified and 24 per cent became self-employed for better working conditions or job satisfaction. This group shows relatively high levels of autonomy and control. It is the highest paid segment, at similar hourly rates to their employed counterparts. This group is more likely to have private pension and they are more satisfied than employees in similar professions.</p>	Legal and business professionals

SIZE OF THE SOLO SELF-EMPLOYED SEGMENTS



Source: LFS, Jul-Sep 2015 to Apr-Jun 2016, four quarter average

KEY FINDINGS

SHEDDING LIGHT ON THE ISSUES

One of the key benefits of this research is that it provides data which helps in understanding a number of public policy challenges arising from false self-employment and the exploitation of vulnerable workers. It does this both by shedding light on the scale of these problems and by detailing the composition of the segments where these issues are most prevalent.

A SECURE AND INDEPENDENT SECTOR

The majority (53%) of the solo self-employed workforce exhibit high levels of independence and security. This covers people across segments 3, 6, 7, 8 and 9.

People in these segments are, by and large, much happier in their work than employees in similar roles, and have a high degree of control over their working practices.

The two largest groups in the solo self-employed sector, segments 3 and 6, showed high levels of independence and security. These groups total approximately 1,657,000 people – 42 per cent of the solo self-employed workforce. They include groups like tutors, builders, financial advisers, IT professionals and restaurant owners.

While solo self-employed workers in these two segments are largely satisfied and secure, earnings across these groups are in the low to medium range relative to the whole self-employed earning spectrum, and substantially lower than employees in comparable roles.

AN UNCERTAIN MINORITY

Our research also delineated three segments (1, 4 and 5) – accounting for about 15 per cent of the solo self-employed total – where the self-employment status is unclear due to low levels of autonomy. The segments of the solo self-employed workforce that fall into this category include drivers, cleaners, childminders and carers, as well as building labourers and operatives/drivers.

THE INSECURE COHORT

One in five (21%) solo self-employed workers – amounting to over 825,000 people – have been classified as being in insecure work. Spread across segments 1, 2 and 4, they are the UK's cleaners, drivers, carers and labourers, as well as those in artistic occupations.

The people in this group tend to be less qualified, with limited autonomy. They are also much less likely to have financial security, such as a private pension.

There may be a need for a particular policy focus on segments 1 and 4 because people in these segments have low degrees of both independence and security.

SUMMARY OF RECOMMENDATIONS

SECURE THE FREEDOM OF THE SELF-EMPLOYED

Policymakers must recognise that while it is important to improve the position of dependent and insecure workers, it is also essential that any policies introduced do not put at risk the independence, autonomy and job satisfaction enjoyed by the legitimately self-employed.

Nor is it just protecting the freedom of the legitimately self-employed: they should also be encouraged. One way to do this would be to improve access to training and professional development opportunities. Introducing this support would ensure that self-employment remains a positive career choice, with room for growth and progression.

CLEAR THE STATUS CONFUSION

Clarifying self-employed status would help to ensure the genuinely self-employed maintain their independence. Because, while 'employee' and 'worker' are both defined in UK law, there is no comparable statutory definition of self-employment. A statutory definition would give the genuinely self-employed the legitimacy they deserve.

SUPPORT THE INSECURE

Our report highlighted a section of the self-employed workforce who have only a limited amount of security compared with the rest. This group urgently needs support through incentives for pension uptake and reforms to the welfare system.

IMPROVE THE QUALITY OF WORK THROUGH TRAINING

The research has highlighted that there is a proportion of low-earning segments which need support to help achieve higher pay. One way of doing this could be to provide better access to training and skills development opportunities. Skills development may help improve pay prospects, and could allow the less autonomous self-employed either to move into more independent roles or build themselves a broader base of clients.

To address this issue, the government should look into the tax treatment of training for the self-employed and explore ways to collate online training information, making it more accessible. As well as this, further research into ways to enable people in lower-paid segments to enhance their earnings is also required.

DIFFERENTIATED POLICY FOR A DIVERSE SECTOR

Ultimately, this report has highlighted that the self-employed workforce is not a homogeneous group. On the contrary, our research has shown that it is made up of numerous, diverse segments, and policymakers should recognise that a one-size-fits-all approach will not effectively serve the self-employed.

Instead, to properly address any challenges that arise in this area, policymakers must develop policies that recognise the varied needs of this sector's many constituent segments.



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