



Department  
for Business  
Innovation & Skills

# Understanding self-employment

BIS Enterprise Analysis research report



## Key findings

- The majority of those in self-employment considered it a positive choice compared with being an employee. The benefits reported most often were having flexibility, independence, and job satisfaction.
- This research did not find evidence of large numbers of people wanting to leave self-employment; less than a fifth planned to leave in the next 3 years and over half of those intended to retire.
- 84% thought their life overall was better in self-employment compared with being an employee and over half believe they are better off financially.
- While a third believe they are financially worse off, most of these people appear to have made a conscious choice to prioritise other factors with 74% of them saying their life was better overall.
- A minority of the self-employed reported facing big problems with lack of income when ill, saving for the future, and difficulties getting a mortgage.
- Relatively few of those who had left self-employment cited specific money problems, but more security and more money were the main benefits they saw of becoming an employee.



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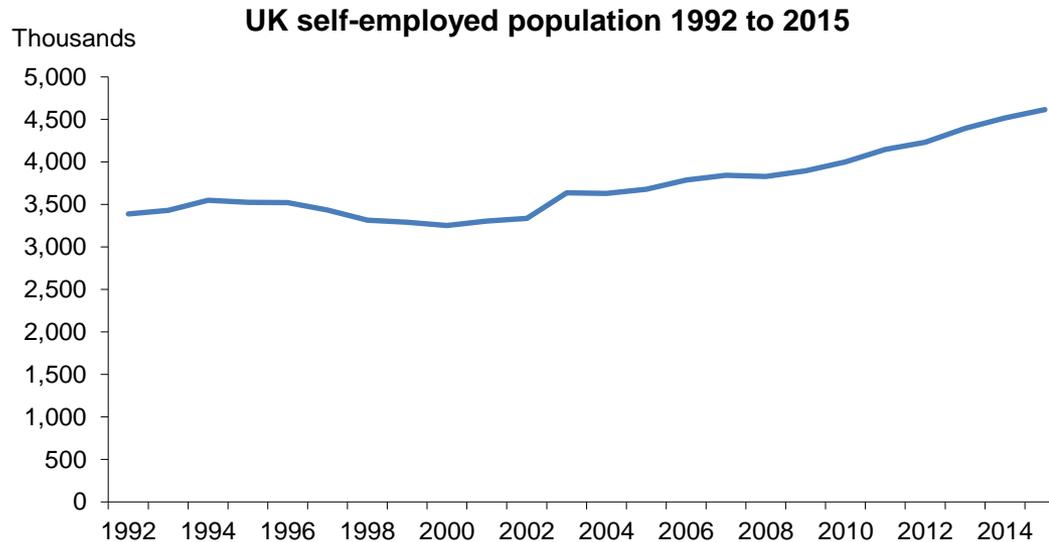
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## Introduction

- This report presents the findings of a survey designed to provide valuable new evidence about the self-employed population – 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.
- The number of self-employed people in the UK increased by over half a million between 2010 and 2015, accounting for over a quarter of the growth in total employment over that period<sup>1</sup>.



Source: ONS Labour Market Statistics, September to November quarters 1992 to 2015

- Previous research<sup>2,3</sup> has shown that self-employed people are a diverse group, so there are likely to be many reasons for their choice of being self-employed. We would like to understand the reasons for and the wider impact of this growth in self-employment.



## The research approach

- The survey was run with previous respondents to the Labour Force Survey, who had been self-employed in their main job when last interviewed.
- The fieldwork was conducted by ONS on behalf of BIS. 1,423 respondents gave complete interviews, 57% of the issued sample<sup>4</sup>.
- The questionnaire covered a range of issues but the 195 individuals who reported they were no longer self-employed in their main job were asked a shorter set of questions about the circumstances around this.
- To gain some insight about how self-employment compares with being an employee we asked respondents about their beliefs and opinions, and in some cases invited them to compare self-employment with a hypothetical 'similar' employee job.
- The survey responses were weighted to the number of self-employed people in the Annual Population Survey 2014 to make analyses more representative of the overall self-employed population.



## Section 1: The nature of self-employment and routes in

### **A positive choice for the majority**

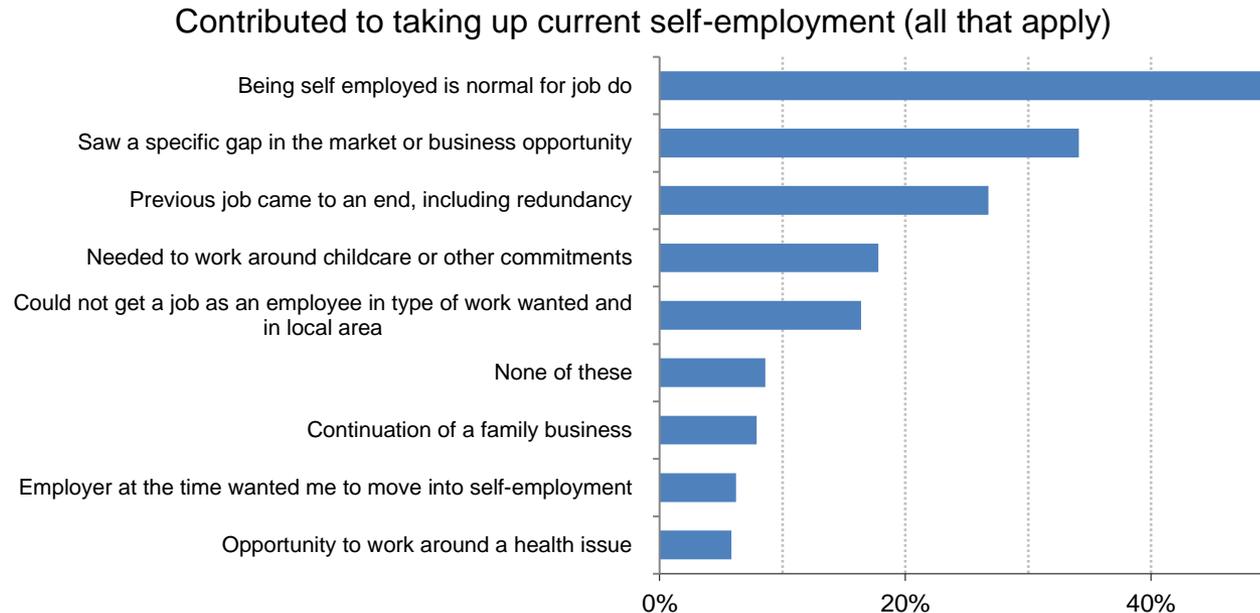
- People entered self-employment for a range of reasons, and there was often more than one factor contributing to their decision. Most mainly thought of themselves as someone who runs a business.
- The Global Entrepreneurship Monitor<sup>5</sup> suggests relatively few people are entrepreneurs out of necessity and the results of this research are similar – the most common circumstances for entering self-employment were people seeing a business opportunity and it being normal for the type of work.
- Reinforcing the findings of research by the Resolution Foundation<sup>6</sup> and the RSA<sup>7</sup> in 2014, we found the majority of those in self-employment said they had more flexibility, independence, and job satisfaction than they thought they would as an employee.
- Most self-employed people had several or many customers in a typical month, and were not dependent on a former employer when starting out.

### **But for some it is less of a proactive choice and can be precarious**

- Although this research suggests self-employment is generally a positive choice, the self-employed are not a homogenous group.
- Around 6% were encouraged into self-employment by their (then) employer, although only half of them relied on their former employer for work when actually starting.
- 16% said a contributing factor to their choice was not being able to get an employee role they wanted.



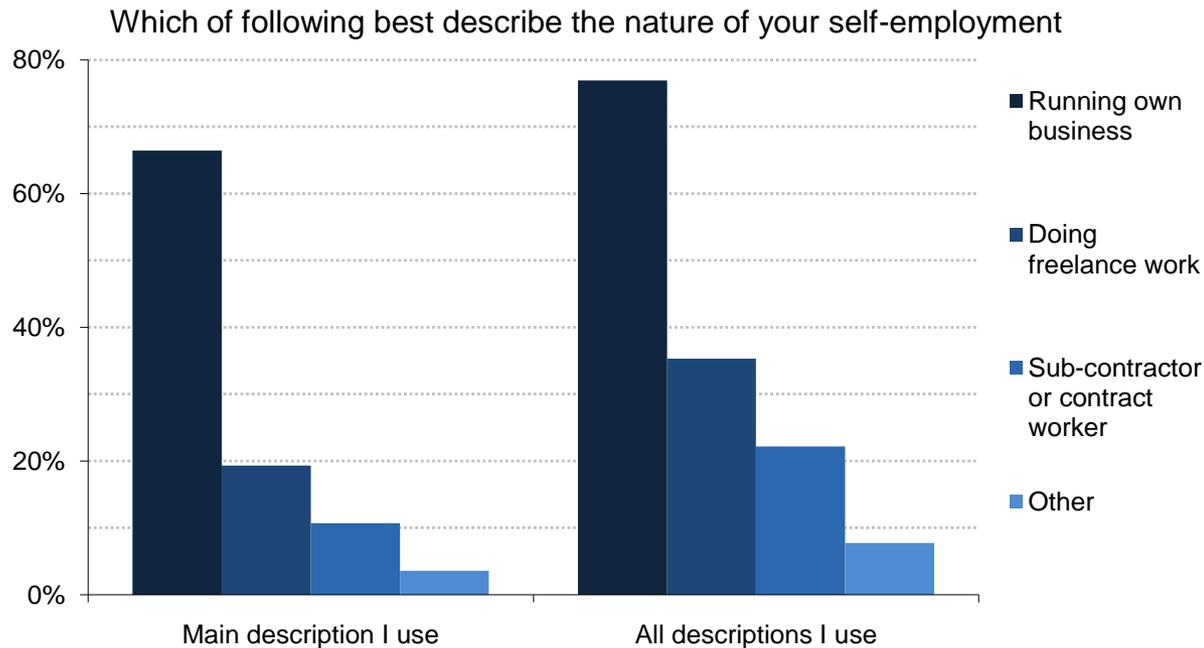
# The decision to enter self-employment is more likely to be driven by opportunity than necessity



- The most common circumstances that contributed to taking up self-employment were it being normal for the type of work, and people seeing a business opportunity.
- Further analysis shows that 49% said more than one factor contributed to their decision.
- 6% were encouraged into self-employment by their (then) employer, and further analysis shows that around half of them relied on their former employer for all or most of their work when actually starting.



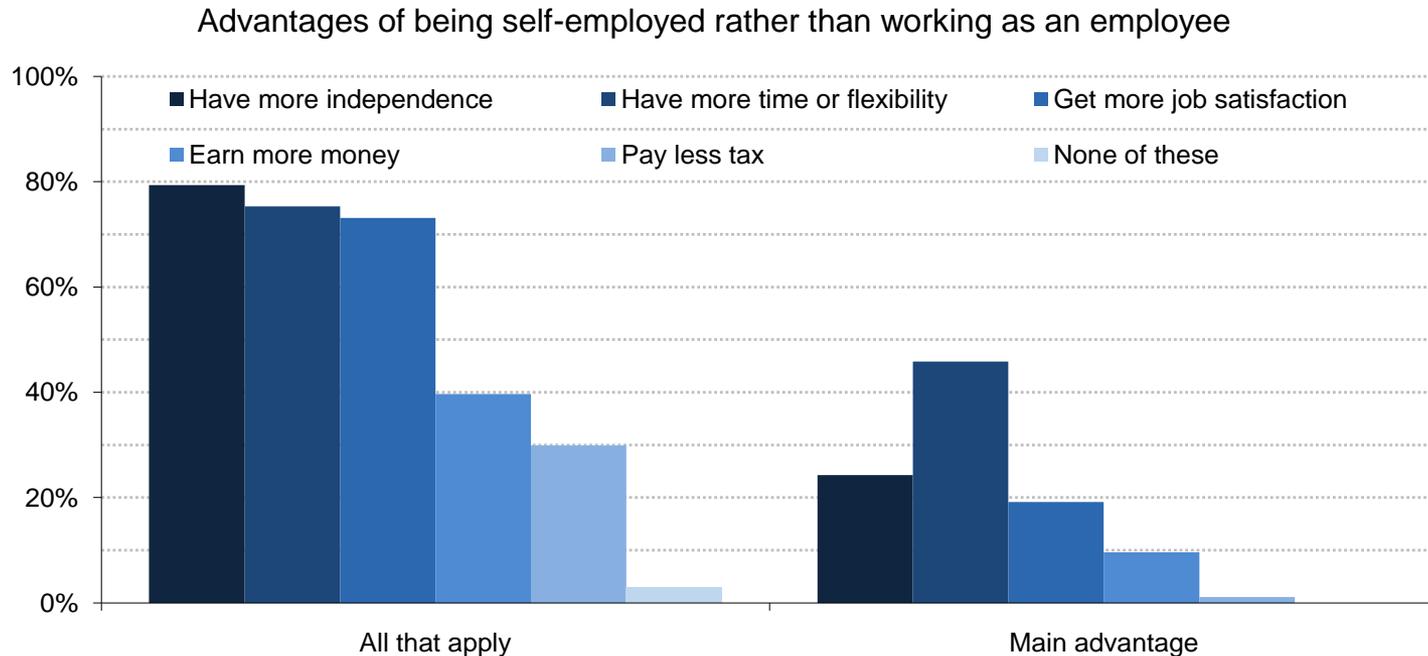
# Most of the self-employed view themselves as business people



- Most self-employed people viewed themselves as running a business: 66% said it was the “main” way they describe themselves, with a further 11% using this as a secondary description.
- In total around a third described themselves as doing freelance work, and just over a fifth as a contractor or sub-contractor. But these people were less likely to use this as the main description.



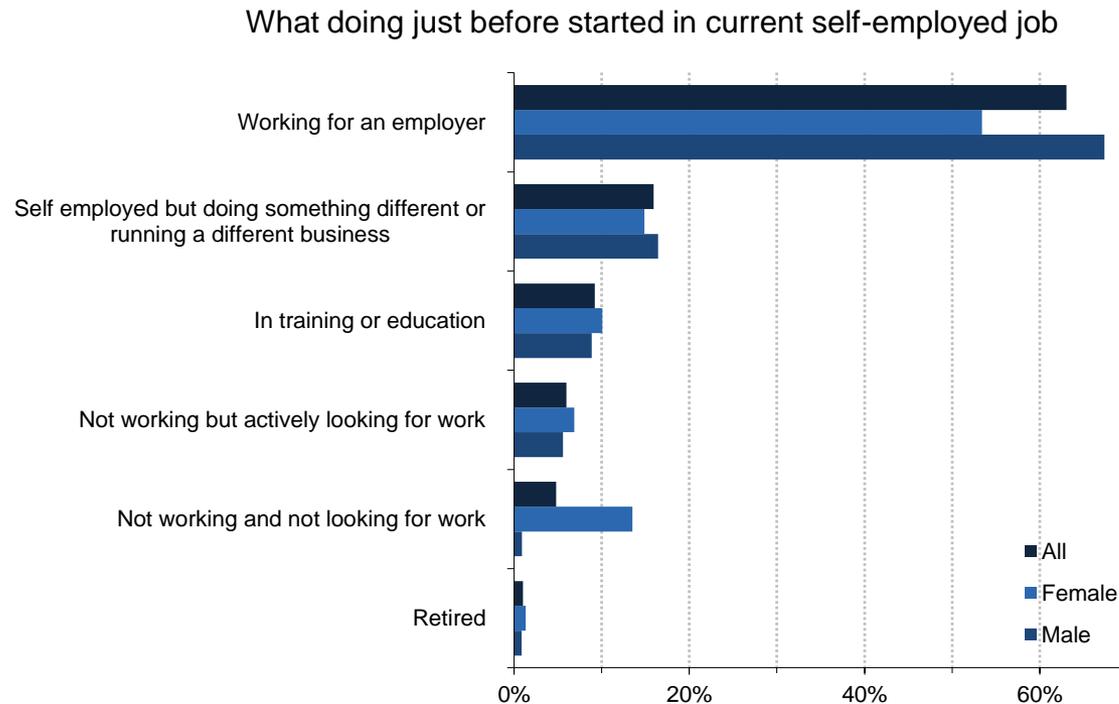
# The key motivations do not tend to be financial



- At the time they were starting out, most self-employed people saw a number of advantages over being an employee – on average people reported three benefits and 85% selected more than one.
- The benefits reported most often were having flexibility, independence, and job satisfaction.
- When asked about the main advantage, 46% said having more time or flexibility, with less than 10% saying earning more money.



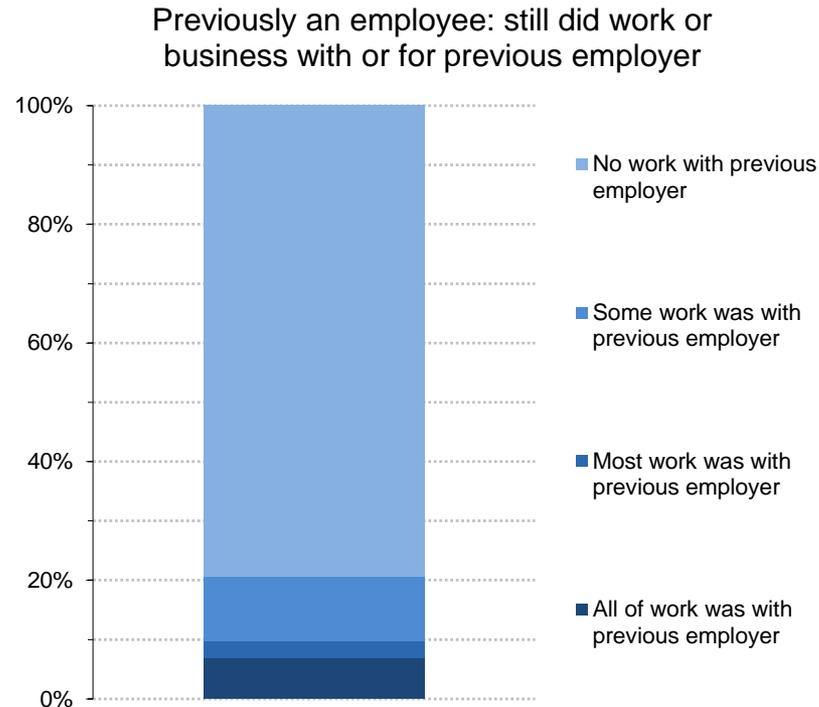
# Most of the self-employed previously worked as employees, or ran a different business



- 63% were paid employees immediately before they took up their current self-employment, while 16% were self-employed doing something else; 6% were not working and looking for work.
- Women were less likely to have been in work and more likely to have been inactive.



# The majority do not rely on their previous employer to help them get started

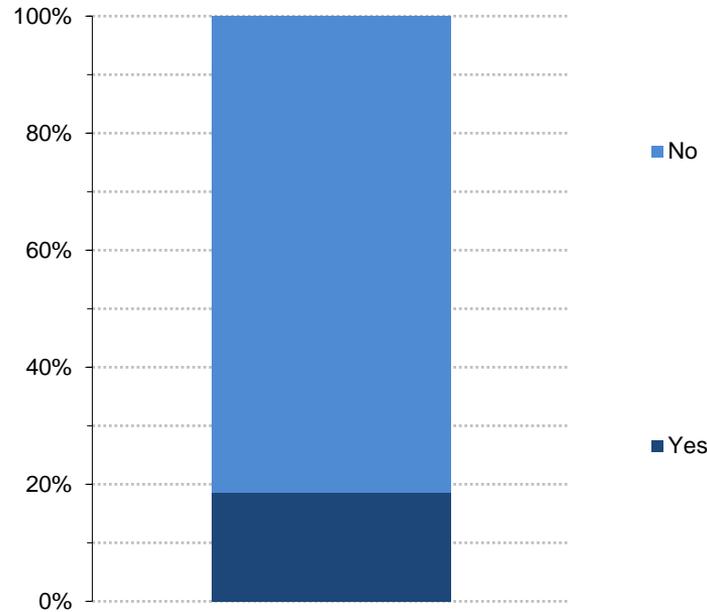


- 21% did work for their previous employer when they were starting out, with 7% doing all their work for their previous employer.
- Further analysis shows around half of the latter group had been encouraged into self-employment by their former employer.



# A fifth start in self-employment while working as an employee

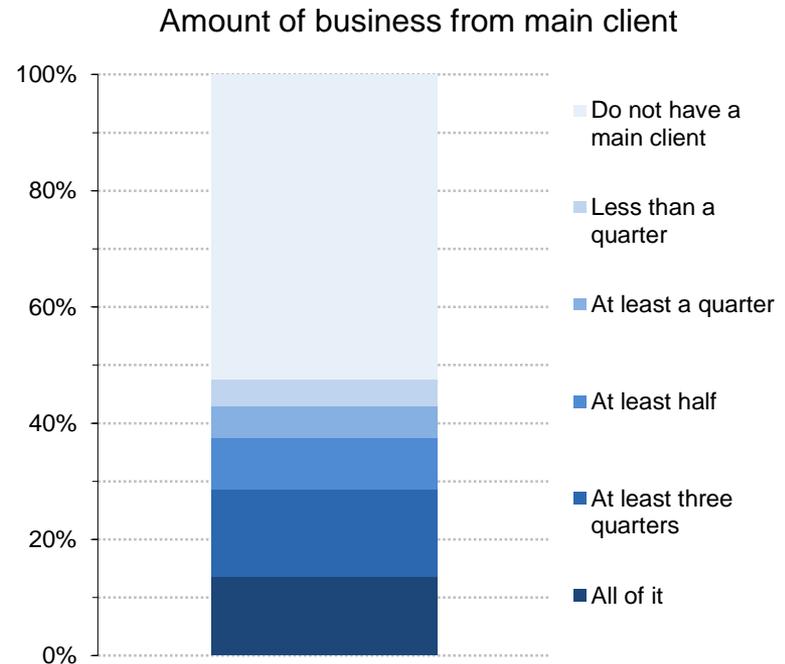
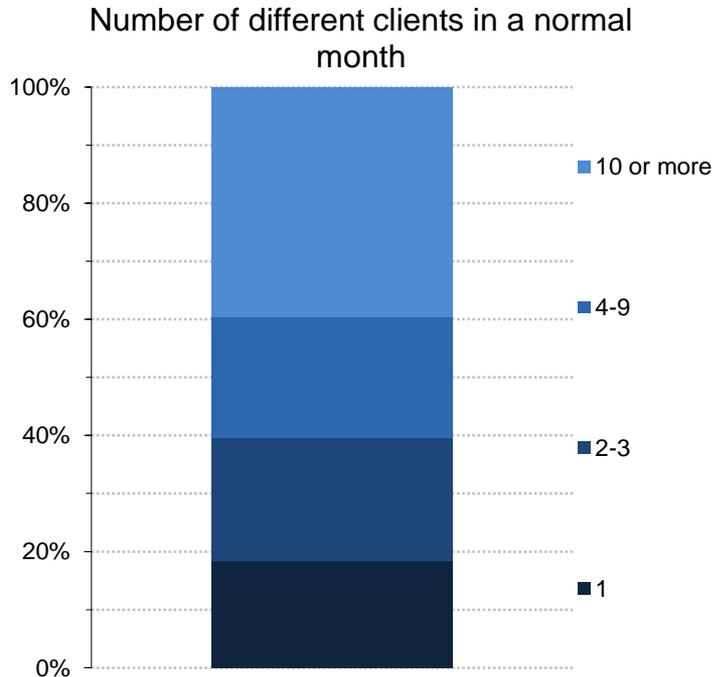
Previously an employee: earn money from self-employment whilst still working for employer



- 19% started earning from self-employment while they were still a paid employee.



# Most self-employed people have a range of customers in a typical month – a minority depend on a main client



- The number of clients self-employed people expected to have in a normal month reflects the diversity of roles they hold – over 80% expected to have more than one client.
- Less than 40% expected their “main” client to account for over half of their business in a month.
- 14% expected all of their business in a month to come from a main client.
- Further analysis shows 10% reported working exclusively for a single client – this group were no more likely to say they were financially worse off in self-employment.



## Section 2: Plans for the future

### **Most plan to stay in self-employment**

- Four fifths expected to be in self-employment for the next 3 years, with less than 1 in 10 planning to leave within a year.
- This is in keeping with BIS's previous analysis<sup>3</sup> of the LFS which shows only 5% of the self-employed are looking for a different or additional job – less than the equivalent 8% of employees.

### **The choice is not always between self-employment and an employee role**

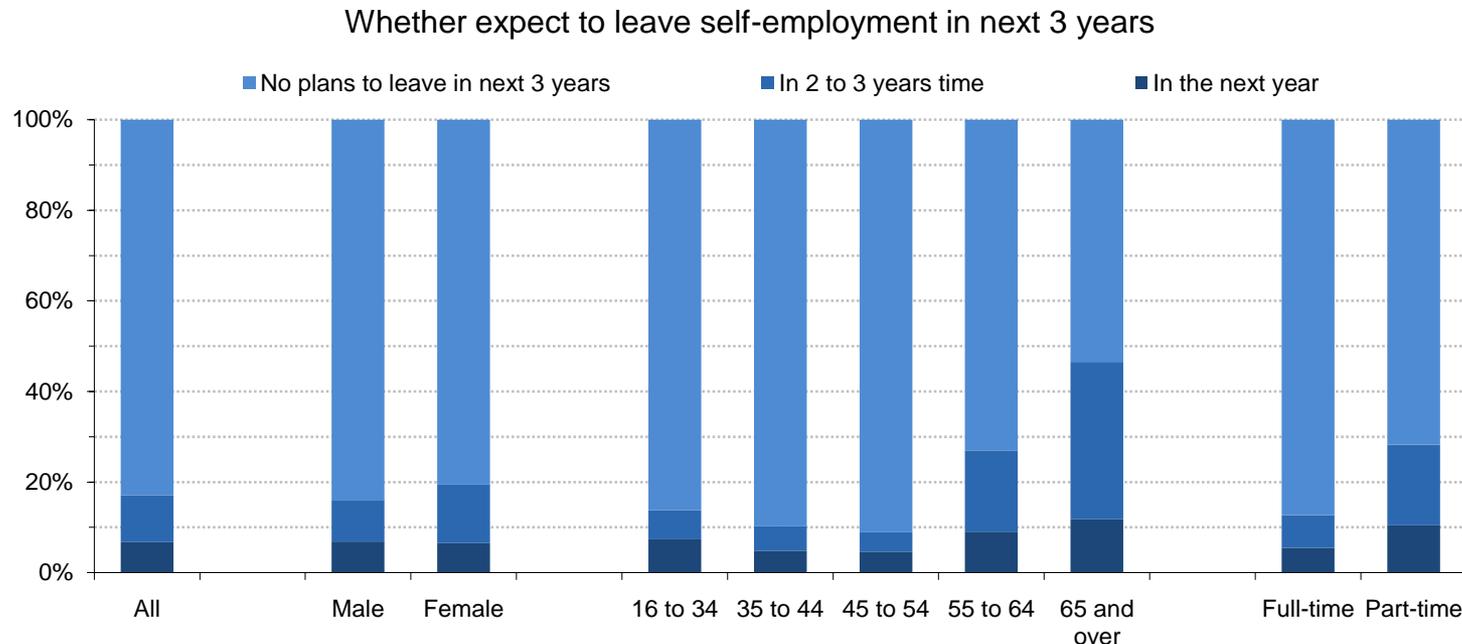
- Over half of those planning to leave in the next 3 years said they will retire.
- But around two fifths said they will seek an employee job – this is 6% of all those in self-employment.
- Many of those 6% wanted an employee job to get more security, and this group were more likely to say they were worse off in self-employment than they would be as an employee.

### **Most self-employed people have no ambition to be employers**

- Just under a quarter said they had employees, which is similar to the wider business population.
- Just under a fifth expected to take on employees.
- Most of those without employees were just not considering it or said they don't have enough work – few of them mentioned more specific barriers.



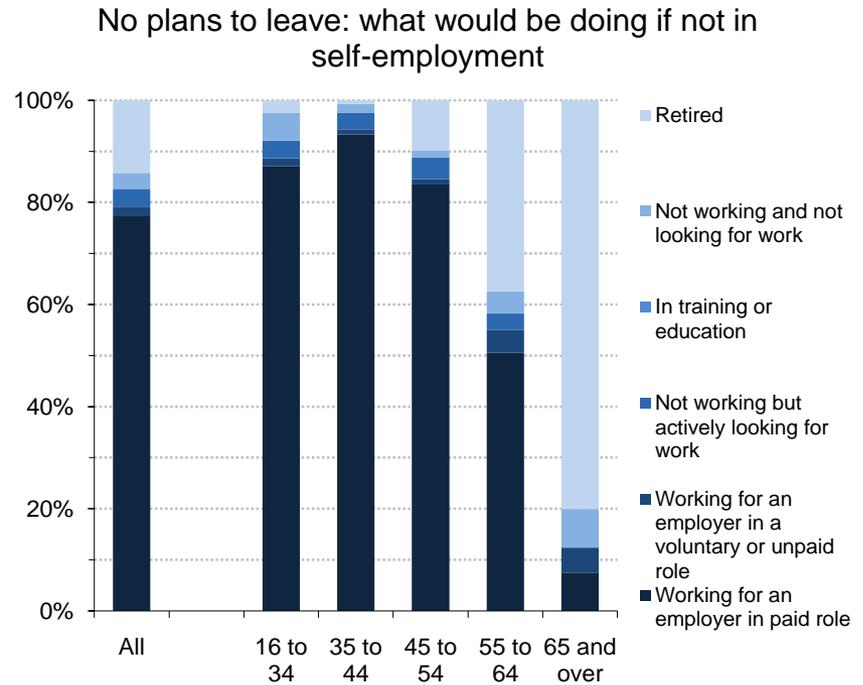
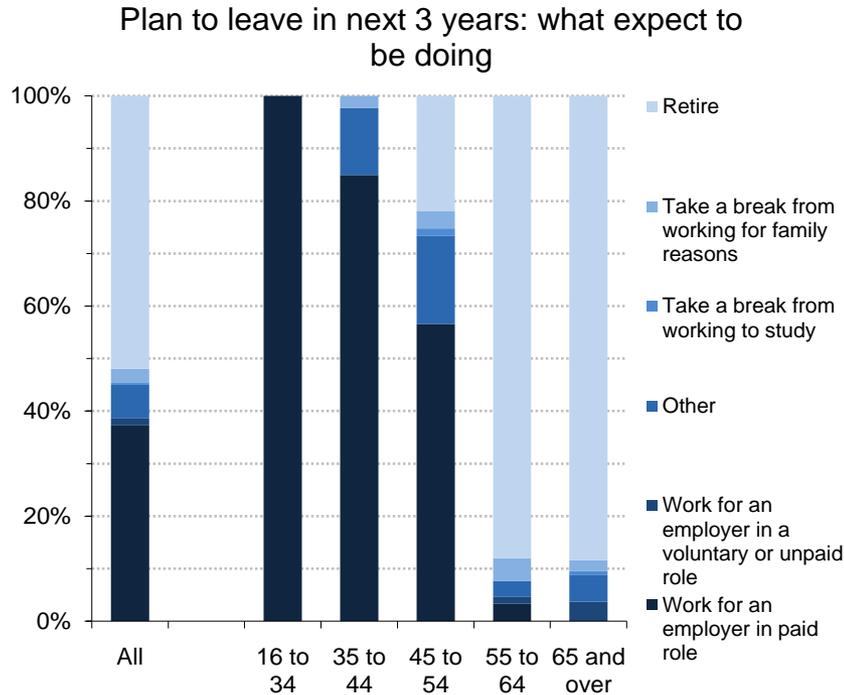
## Most people in self-employment plan to stay for now



- Over 80% of those surveyed expected to be in self-employment for at least the next 3 years, with less than 1 in 10 planning to leave within a year.
- Those aged 45 to 54 were least likely to plan to leave, and intentions increased with age past this point – but even amongst those aged 65+ less than half planned to leave within a year.
- People working part-time were much more likely to have plans to leave than those working full-time – this will be driven by the fact<sup>1</sup> that 45% of the part-time self-employed are aged over 55.



# And the majority of those planning to leave will retire

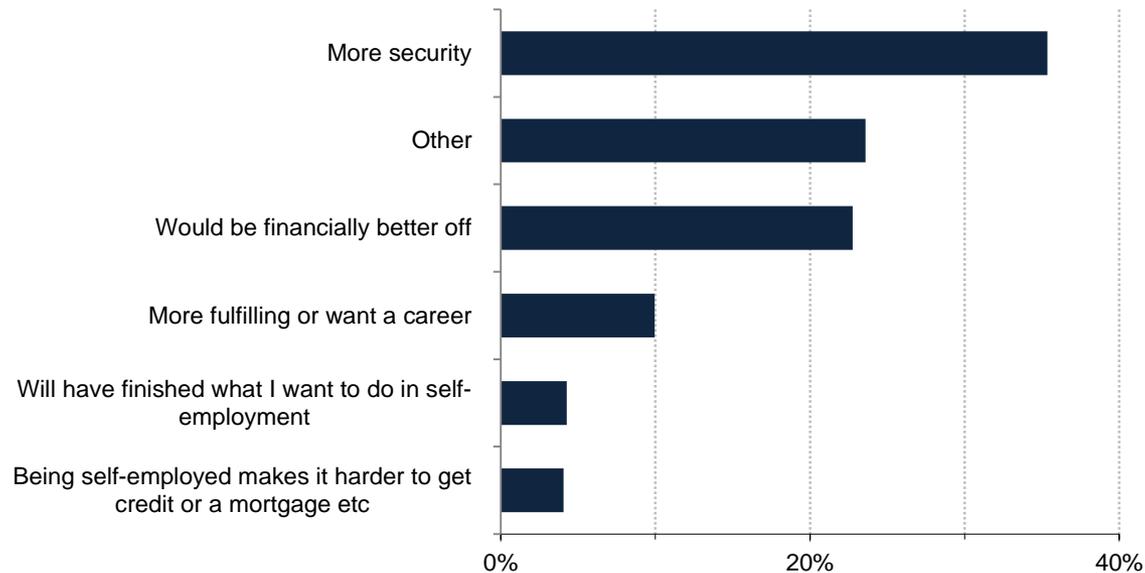


- More than half of those who planned to leave in the next 3 years said they will retire.
- Less than two fifths would be economically active – the 37% planning to leave and work for an employer represent 6% of all those in self-employment.
- The majority had no plans to leave but when asked to consider what they would do if they were not self-employed, almost four in five thought they would be an employee.
- However, 14% said they would be retired if they weren't self-employed – meaning a fifth of all those in self-employment either had firm plans to retire or would be retired if they did stop.



# The majority of those planning to become an employee are motivated by more security or higher earnings

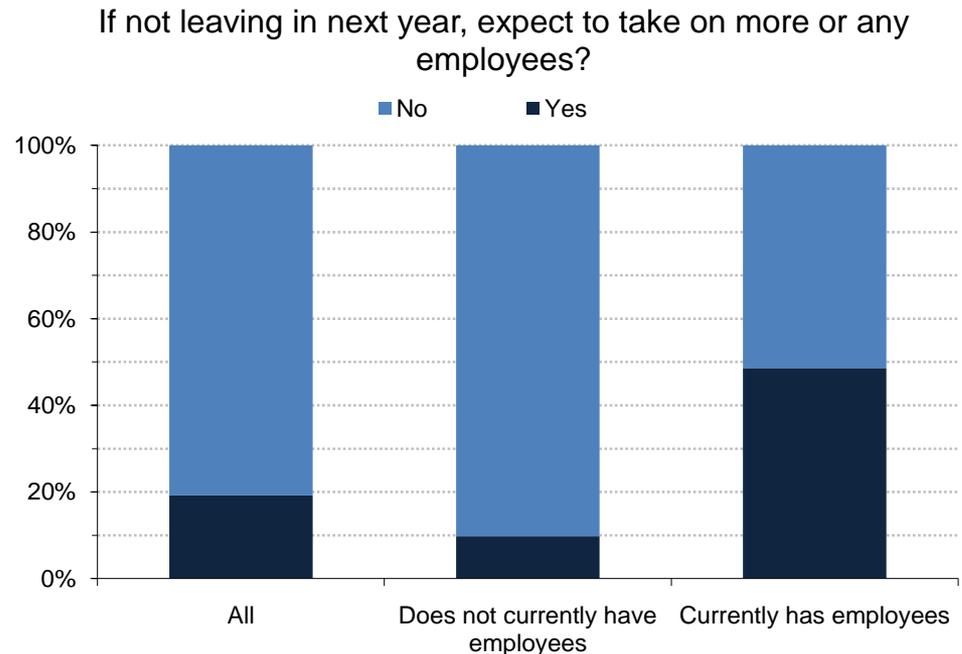
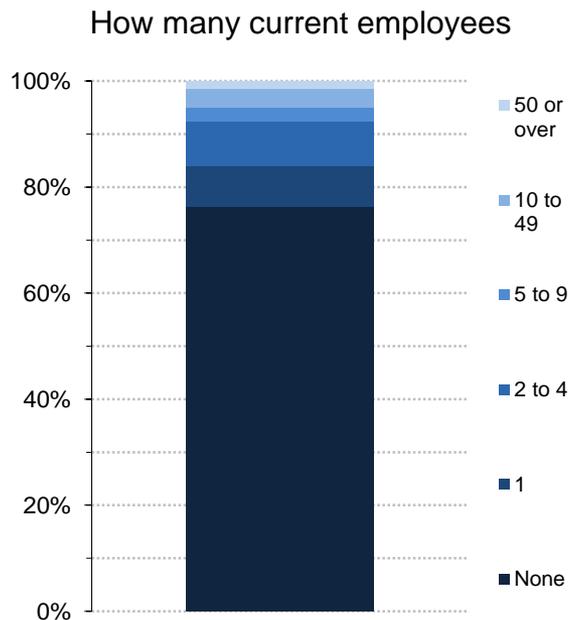
Leaving in next 3 years: main reason why going to work as an employee



- Looking further at the 6% of all self-employed who had plans to leave and take up an employee role, when asked for the main reason for this a third said they wanted more security and around a fifth because they would be financially better off.
- Further analysis shows around half of those planning to become an employee said they were financially worse off in self-employment – higher than the average of a third.
- And just under a fifth of those planning to become an employee said life in self-employment is worse overall, compared with less than 1 in 10 on average.



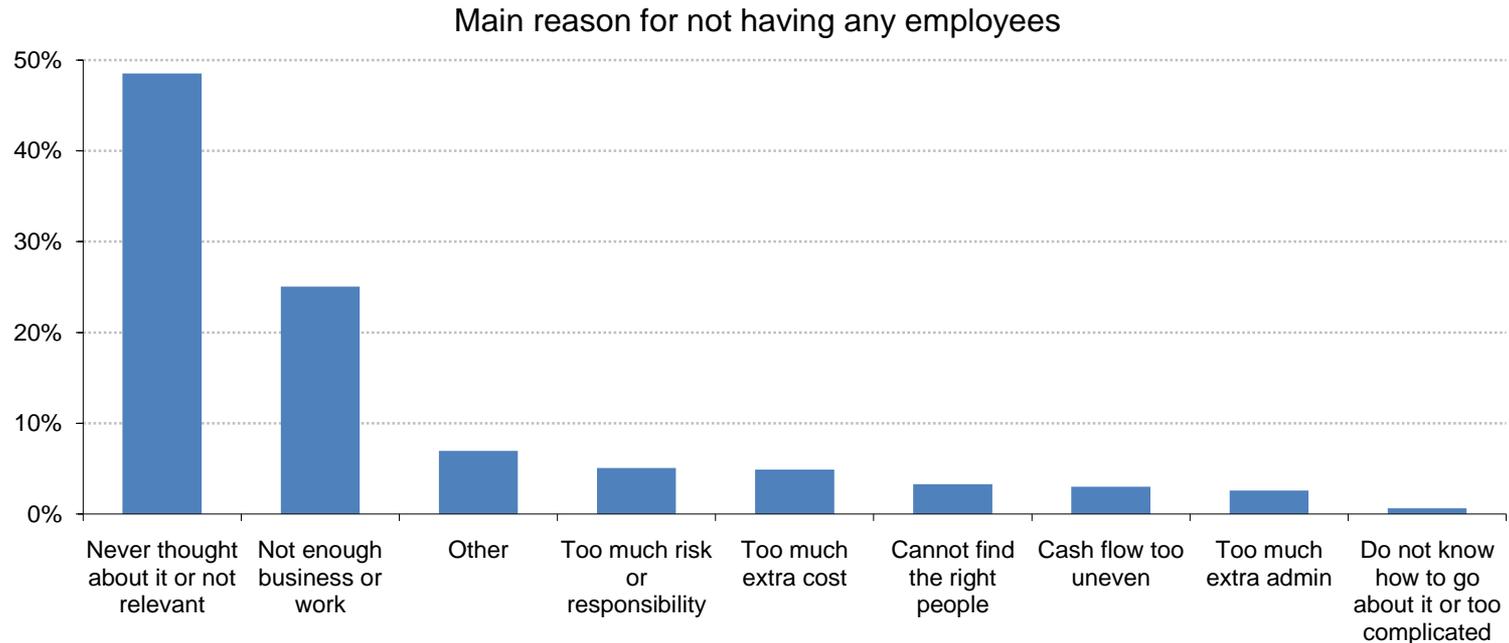
# Most self-employed people without employees do not plan to take any on



- Just under a quarter of those still in self-employment said they had employees, which is similar to the wider business population.
- One in ten non-employers expected to take on their first employee in future, while half of existing employers planned to take on more people.
- This research found that self-employed people were more likely to work together with other self-employed people or businesses than to take on employees – see Section 5.



# And many don't think being an employer is relevant to them



- When those without employees were asked what was the main reason for this, almost half said they had never thought about it or felt it wasn't relevant to them.
- A quarter said they did not have enough business.



## Section 3: The financial situation of the self-employed

### **The self-employed feel their lives are better overall and over half think they are better off financially**

- 84% thought their life overall was better in self-employment compared with being an employee and over half believe they are better off financially than they would be as an employee.
- While a third believe they are financially worse off, most of these people appear to have made a conscious choice to prioritise other factors with 74% of them saying their life was better overall.

### **Most self-employed people have additional sources of income**

- Three out of five self-employed people in this study had multiple income streams – excluding benefits and tax credits, but including a partner's income.
- Three quarters of those with additional income said it was not essential to them remaining in self-employment.

### **There seems to be acceptance that self-employment can be less remunerative for a minority**

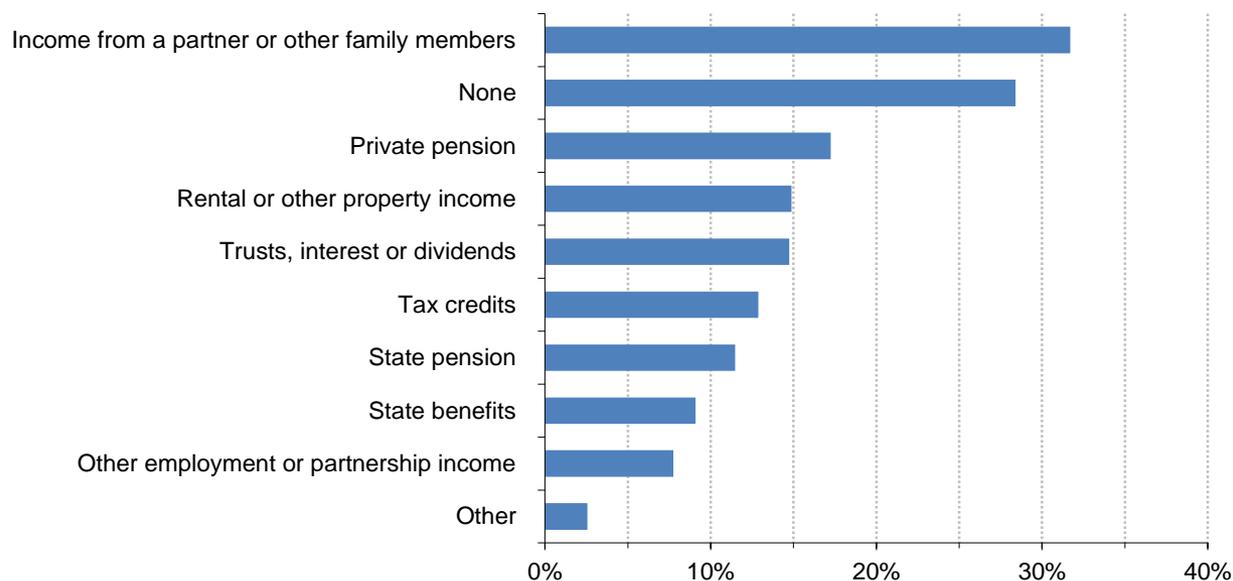
- Just over 30% indicated that their earnings from self-employment did not allow more than a basic standard of living – yet three quarters of these thought their life was better overall.

### **And for others the income seems to be relatively discretionary**

- Almost 30% said they either used self-employment to fund luxuries or did not rely on the income at all.
- A third of these people said they would be retired or inactive if not self-employed, or had specific plans to retire.

# Most self-employed people have additional sources of income

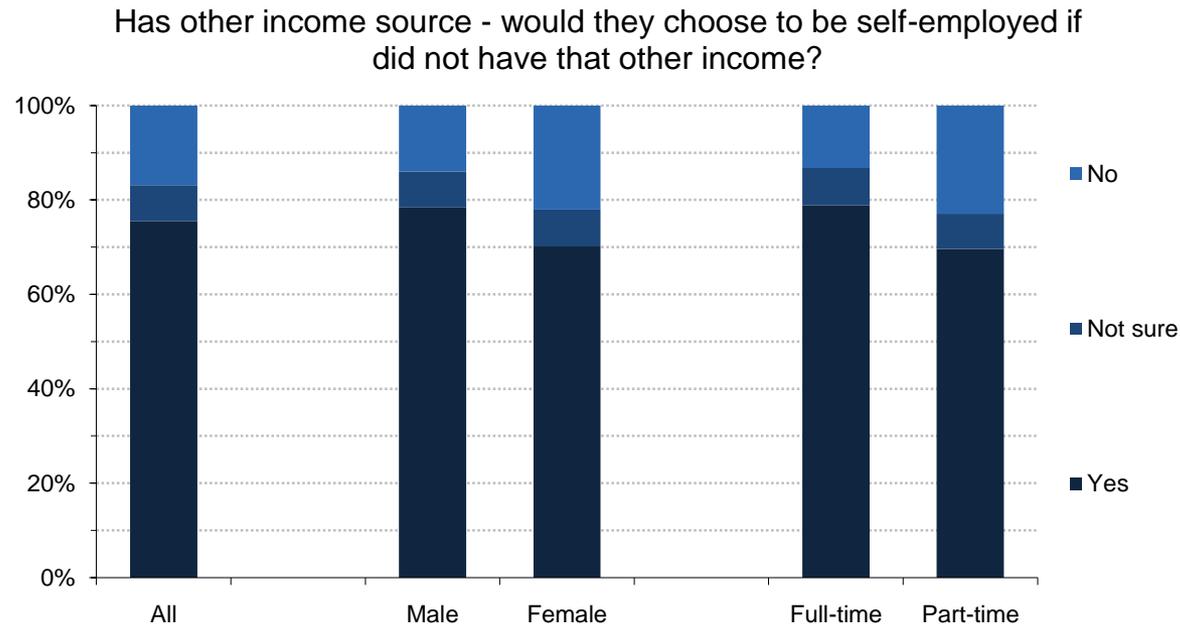
Sources of income besides self-employment earnings (all that apply)



- Further analysis of the multiple response data showed that 63% of self-employed people in this study said they had additional income streams – excluding benefits and tax credits.
- 43% had additional income besides their partner’s income, benefits or tax credits.
- For those aged 55 and above there was a substantial increase in the likelihood of having property income, interest/dividends, or pension income, whereas the likelihood of drawing tax credits/benefits or having income from a partner decreased.



# Most people with other income sources would still choose self-employment even if they didn't have them

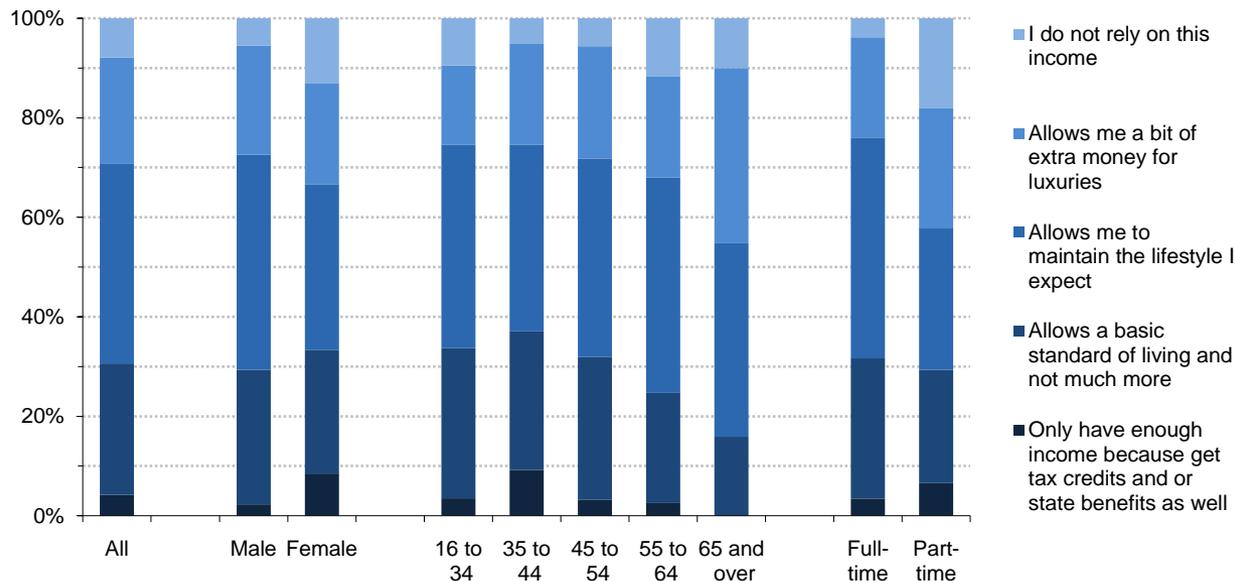


- Three quarters of those self-employed people with other sources of income said they would still choose to be self-employed even without that other income.
- 17% said they would not, rising to 22% amongst women and 23% amongst those working part-time.



# The income from self-employment appears to be relatively discretionary for some, but some don't have enough

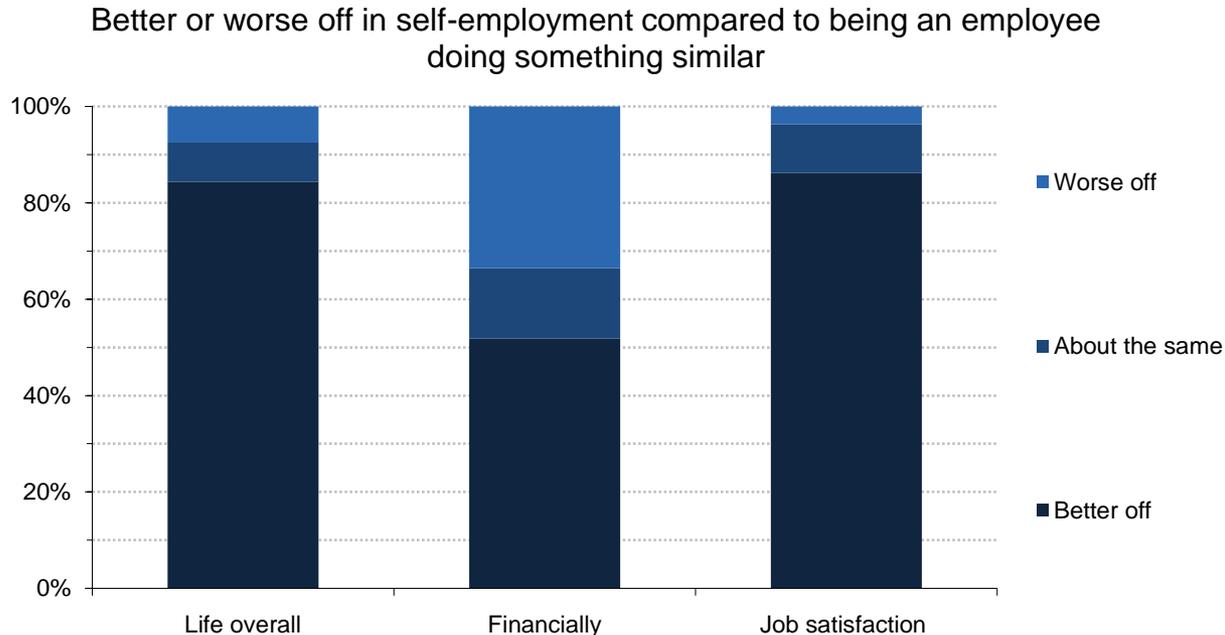
Extent to which I rely on my income from self-employment



- Almost 30% said they either used self-employment to fund luxuries or did not rely on the income at all.
- Further analysis shows a third of these people said they would be retired or inactive if not self-employed, or had specific plans to retire/become inactive.
- On the other hand, just over 30% indicated that their earnings from self-employment either do not allow more than a basic standard of living or that they were reliant on benefits or tax credits.
- Nonetheless, further analysis shows around three quarters of these people thought life overall was better for them in self-employment than it would be as an employee.



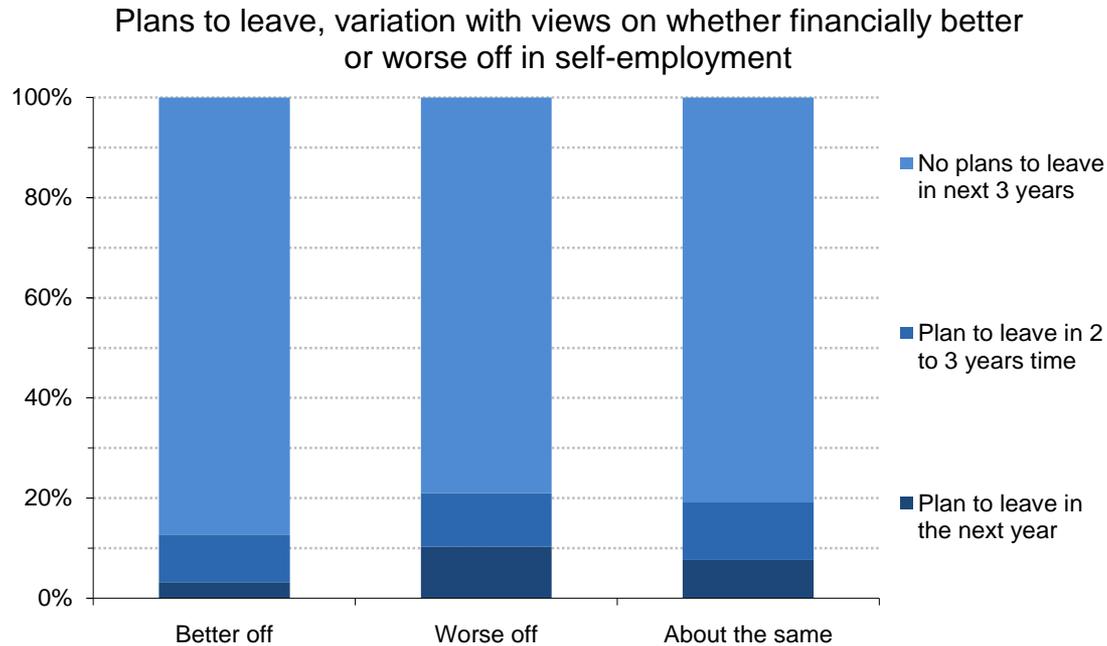
## Most think life overall is better in self-employment



- 84% thought their life overall was better in self-employment compared with being an employee, with 7% saying they were worse off.
- 86% thought they had more job satisfaction, and 4% thought they had less.
- Just over half thought they were financially better off, with a third saying they were worse off.
- Further analysis shows that amongst those who thought they were financially worse off 74% thought their life overall was better.



# Most of those who are financially worse off still have no plans to leave...



- 4 in 5 of those who thought they were financially worse off in self-employment still had no plans to leave in the next 3 years.
- However, around 1 in 10 were planning to leave in the next year and this is around 3 times higher than for those who thought they are better off.



## Section 4: Challenges of self-employment

### **Some do experience big problems but they are not universal**

- Concerns have been raised that people in self-employment may be struggling with a lack of success or wider challenges that employees do not face.
- 56% experienced a 'big problem' in at least one area.

### **The areas where more people report big problems tend to relate to planning**

- Overall 30% said that not getting paid when ill or taking time off was a big problem, and 26% had a big problem with not being able to save enough for the future.
- A fifth of respondents said not having enough customers or work was a big problem.

### **But the majority do have some plans**

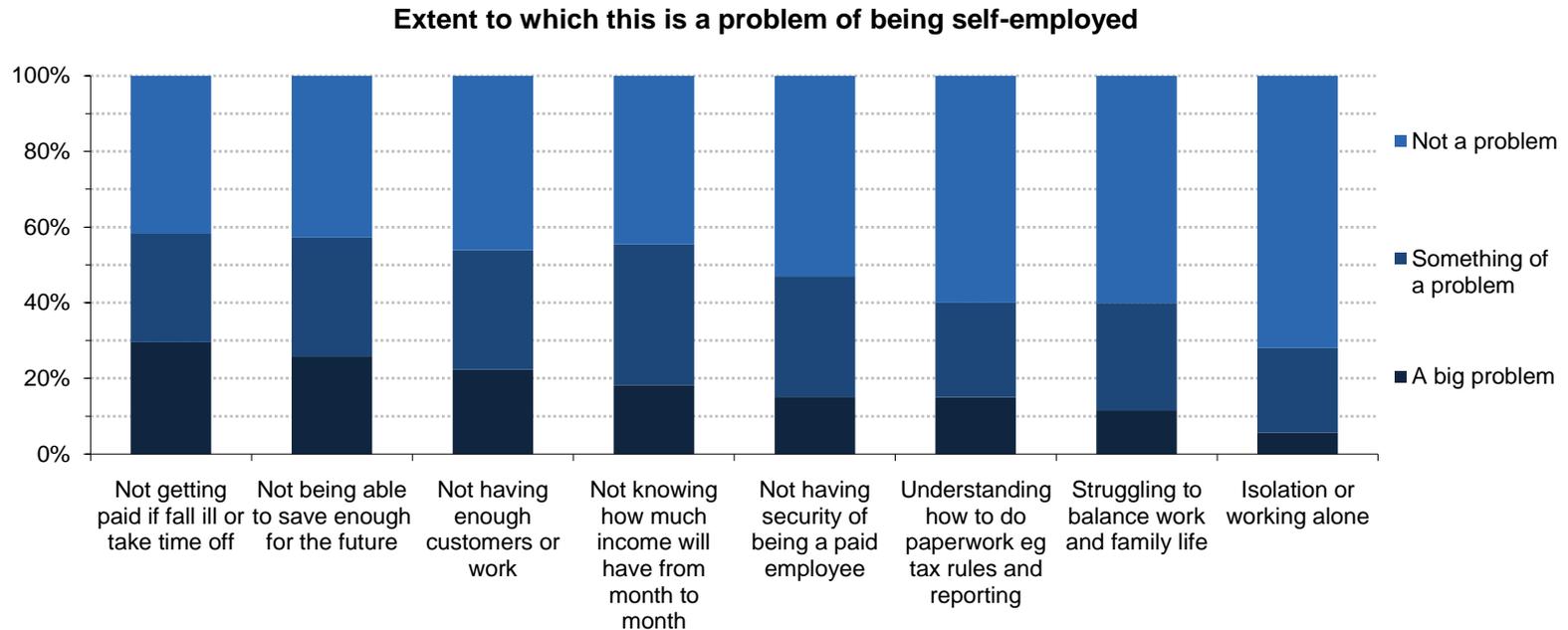
- Most had plans to cope with not earning when ill, but 15% do nothing besides try not to take time off.
- 30% said they had a pension they were paying into while self-employed, similar to the RSA's analysis<sup>8</sup> which also showed around half of employees were paying in to a pension.
- Four in five said they had at least one source of income for retirement other than a state pension.

### **The most common issues when applying for financial products are around mortgages**

- The RSA and others have raised particular concerns about the extent to which being self-employed may be making it difficult for people to get mortgages.
- This research found that around half of those applying for a mortgage in the last 5 years felt that being self-employed caused difficulties with their application.
- The survey did not identify the nature or extent of these difficulties, nor whether the self-employed empirically experience more problems than employees, and further research may be needed here.



## Some do experience big problems but they are not universal

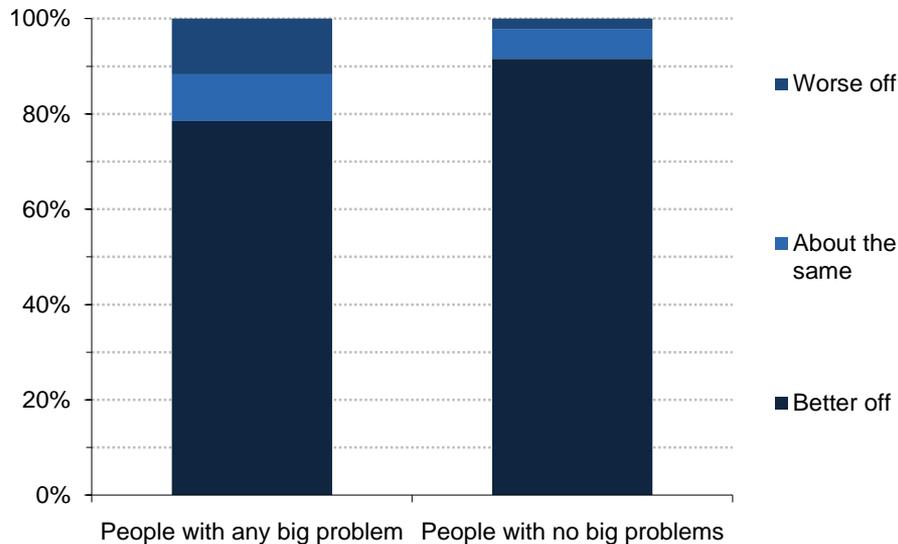


- None of the issues that respondents were asked about was a big problem to more than 30% of the self-employed. However, further analysis shows 56% experienced a 'big problem' in at least one area.
- The areas where more people report big problems tended were not getting paid when ill or taking time off (30%), and not being able to save enough (26%).
- Further analysis is required to explore whether big problems in certain areas can cause wider issues – for example, what is the impact of not having enough customers?
- It would also be helpful to explore the extent to which employees also have some of these problems.

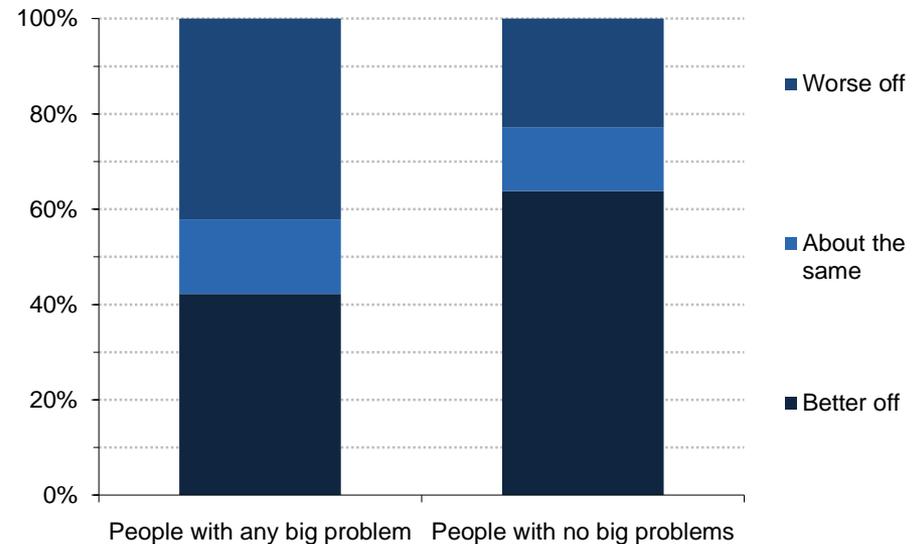


# Most people who say they have big problems still feel they are better off in self-employment

Life overall in self-employment compared to being an employee, those with and without big problems



Financial situation compared to being an employee, those with and without big problems

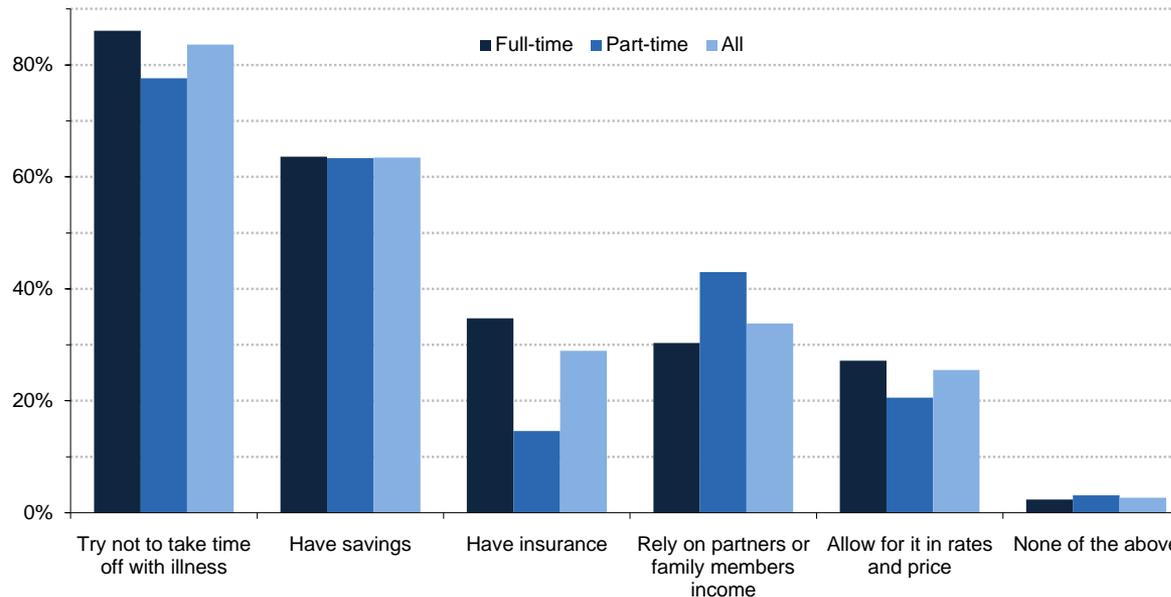


- Of the 56% who said they had at least one big problem, only around one in ten felt that life overall was worse in self-employment – however, this was a higher rate than those without problems.
- Around 40% of the group with at least one big problem thought they were financially better off, with a similar number thinking they were financially worse off.
- Further analysis showed having at least one big problem did not affect how likely people were to plan to leave within the next year.



# Most do have a proactive plan for when they might be ill

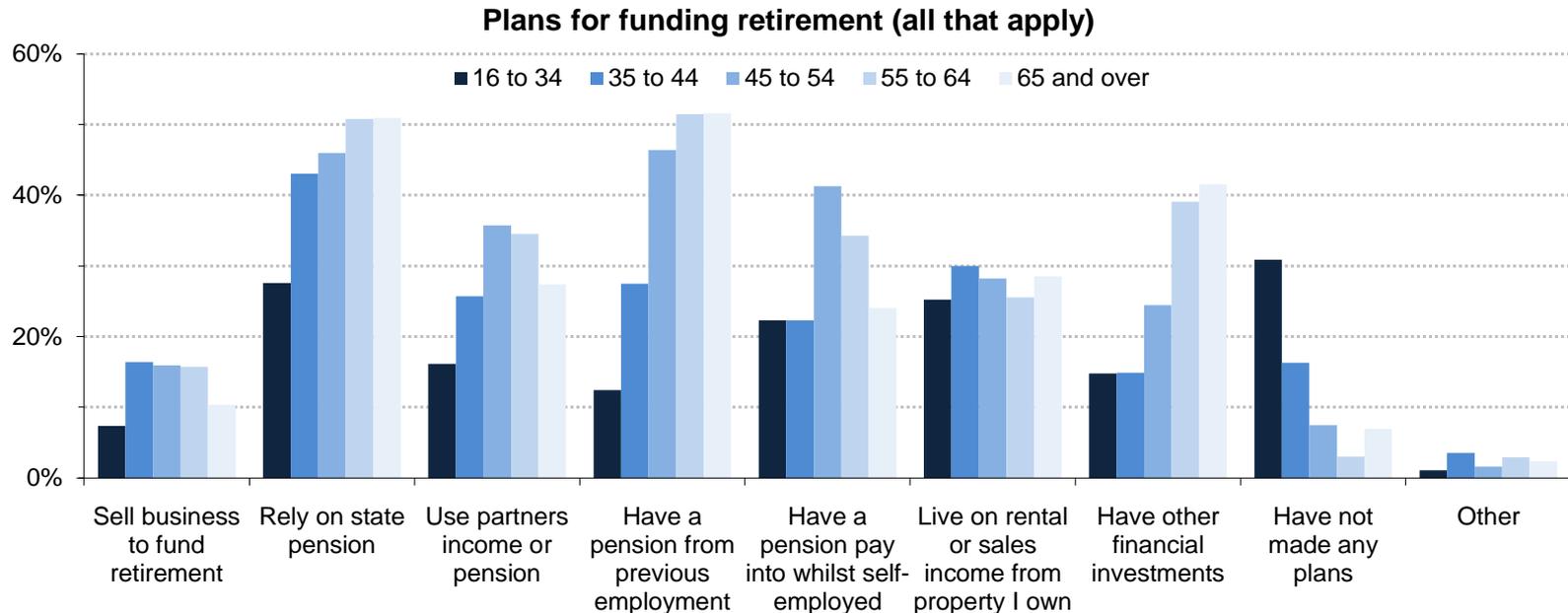
How plan for a potential drop in income when may be too ill to work (all that apply)



- While most self-employed people say they try not to take time off with illness, more detailed analysis showed that for 15% this was the only thing they do.
- Overall 63% said they had savings to draw on.
- 35% of full-time people had insurance, compared with 15% of part-time people.
- 43% of part-time people said they would rely on a partners income, compared with 30% of full-time people.



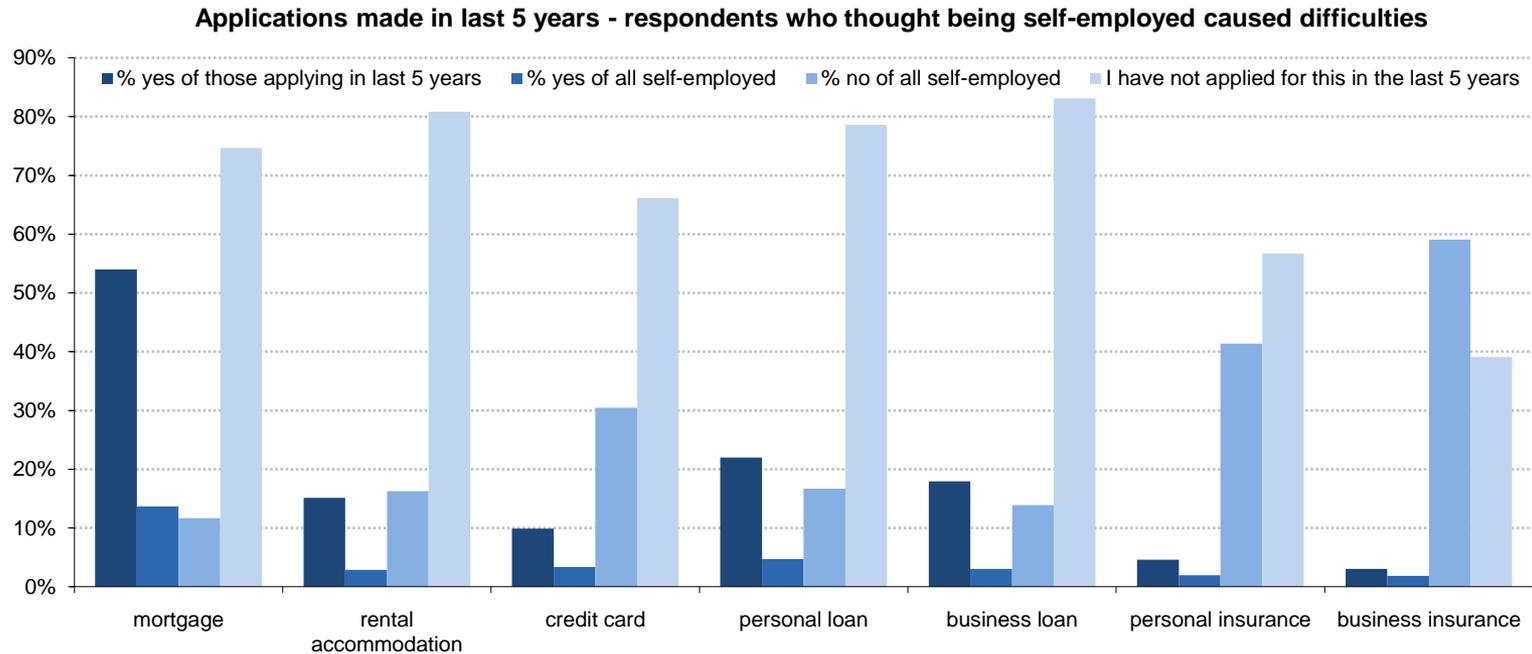
# Most people have some plans for retirement that do not solely rely on a state pension



- There was considerable variation in retirement planning activity by age – generally speaking the oldest self-employed people were more likely to already have investments but less likely to be currently paying in. Younger people were much more likely to say they were doing nothing at all.
- Across all age groups 30% said they had a pension they were paying into while self-employed.
- More detailed analysis showed that 21% had made no plans beyond relying *solely* on a state pension.
- This is clearly a complex area and further research is needed to establish whether the overall value of all the arrangements people make will allow them to be comfortable.



# The most common issues when applying for financial products are around mortgages



- Over half of those applying for a mortgage in the last 5 years felt that being self-employed caused difficulties with their application.
- And around 1 in 5 of those applying for personal or business loans felt being self-employed caused difficulties.
- The survey did not identify the nature or extent of these difficulties, nor whether the self-employed empirically experience more problems than employees, and further research may be needed here.



## Section 5: Support needs of the self-employed

### **There does not appear to be a problem with support to set up in self-employment**

- The responses show that many people felt they already knew what they need to and the minority who did look for support found something to help them.

### **The responses suggest that support from family and friends can be important at certain times**

- Around 30% had relied on financial support from family and friends at key times, such as when starting, and around a quarter on non-financial help.
- Help with childcare was quite common, as it will be for those with employee jobs, but some self-employed people had also received help with running the business.

### **And there are small groups reliant on frequent financial and non-financial help**

- 4% rely on frequent financial help and 7% on frequent non-financial help.

### **Working or co-operating with other self-employed people and businesses is common**

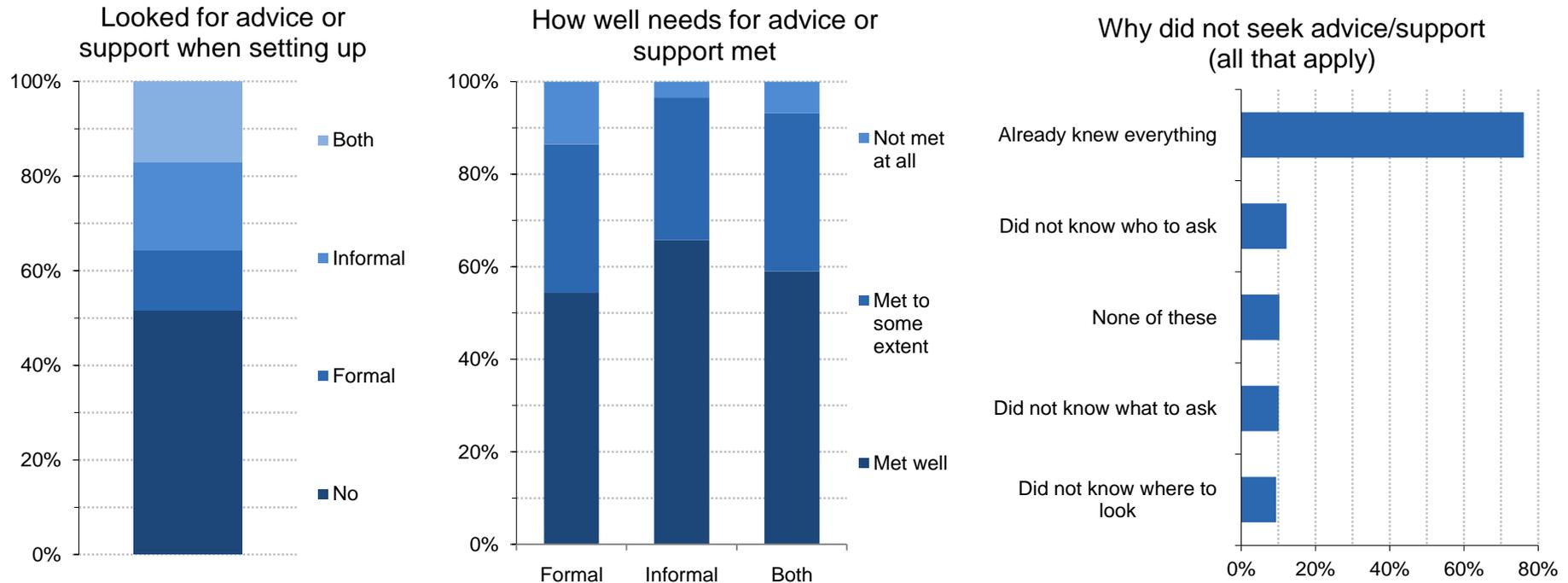
- Working or co-operating with others was widespread – 60% either worked as a team with others or referred/shared clients with peers.
- Just under half said they belonged to a network of some sort – these were mostly informal networks or social media.

### **Awareness of Automatic Enrolment is fairly high amongst employers**

- Over four fifths of the self-employed who were employers said they were aware of Automatic Enrolment, but less than 1 in 10 were unsure whether it affected them.
- Of the 38% overall who thought it did affect them, a fifth (or 8% of employers) expected it to be a big problem.



# Most people can find support to set up if they need it

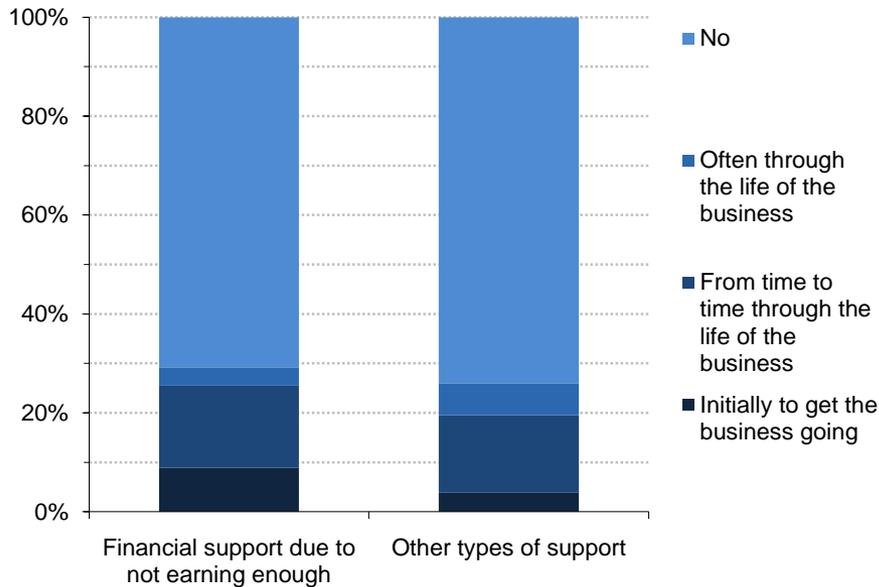


- Less than half of self-employed people looked for support, and less than a third for formal support.
- Most of those who didn't look for support felt they already knew everything they needed.
- Less than a quarter didn't look because they didn't know who or what to ask.
- On average less than 1 in 10 felt their support needs were not met at all.

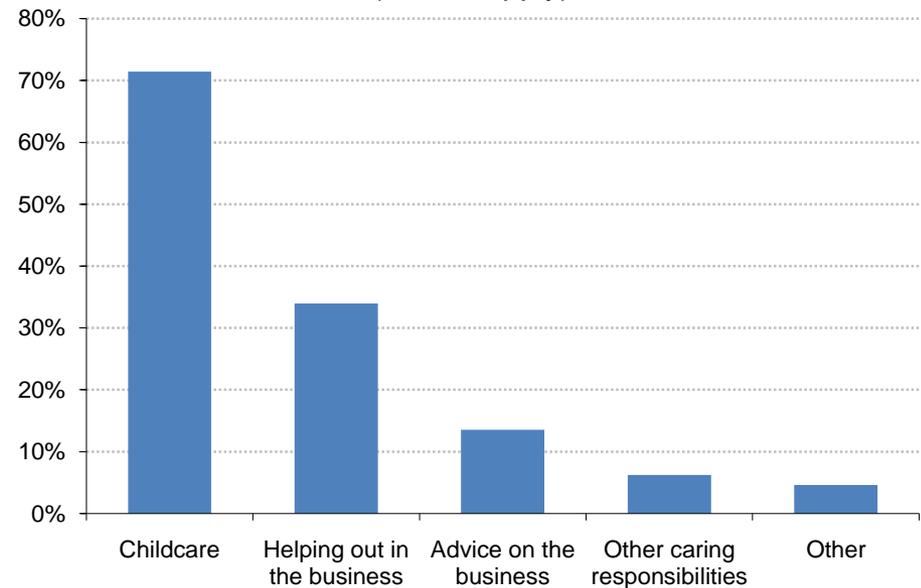


# Support from family and friends can be important at certain times

Reliance on support from friends and family to keep business running



Type of non-financial support from friends and family (all that apply)

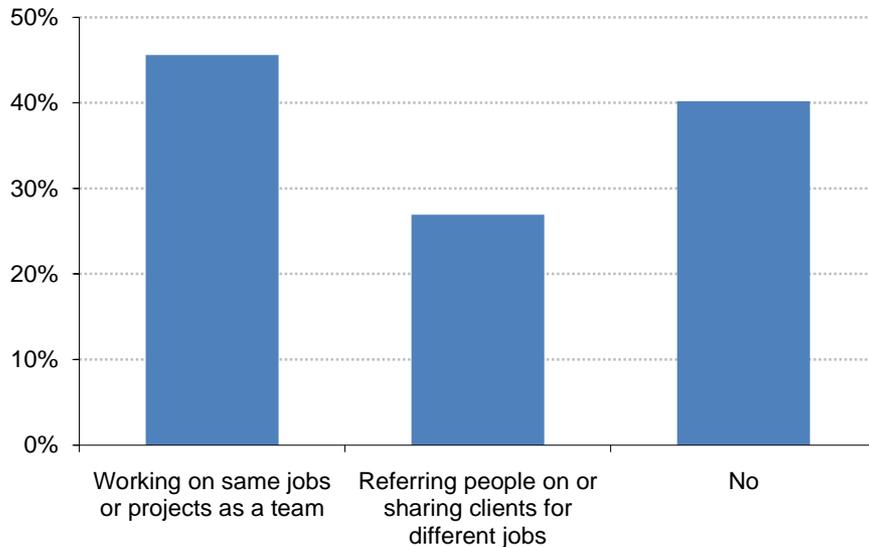


- Around 30% had relied on financial support from family and friends at key times, such as when starting, and around a quarter on non-financial help.
- Within this 4% said they often relied on financial help, and 7% often relied on other help.
- Of those taking non-financial support, 71% had help with childcare (which is also likely to be common for people with employee jobs), while 34% received help with running the business.

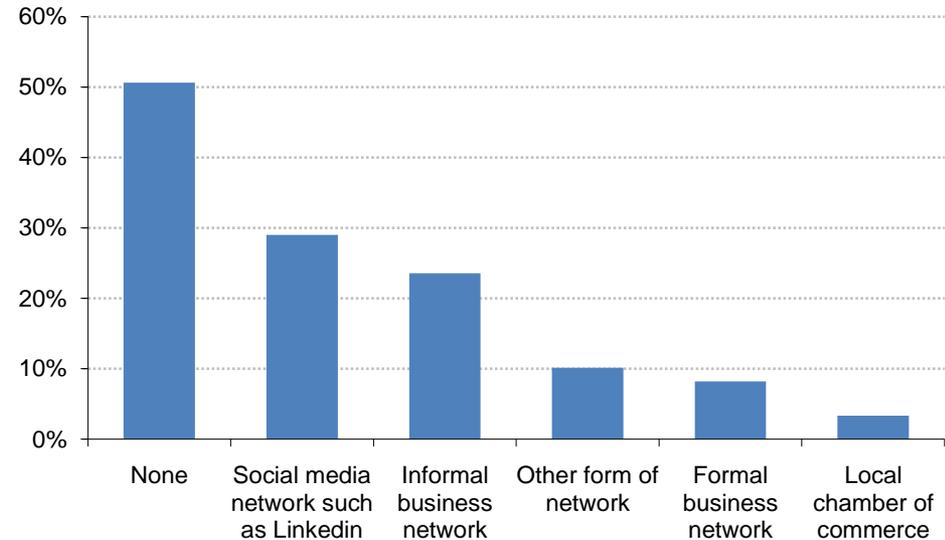


# Working or co-operating with other self-employed people and businesses is common

Ever work or co-operate with other self-employed people or businesses (all that apply)



Business networks that consider self part of (all that apply)

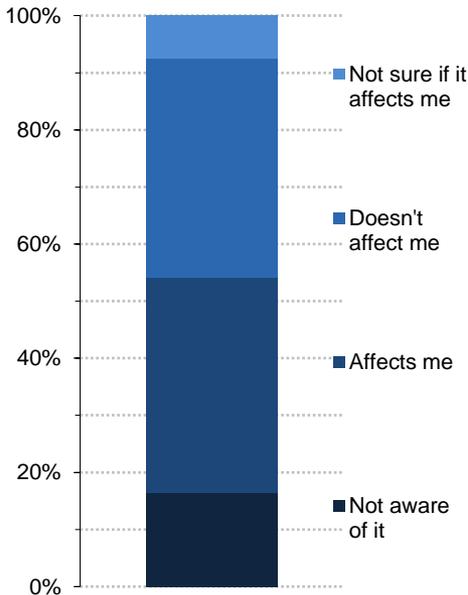


- While only a quarter of self-employed people said they had employees (see Section 2), working or co-operating with other self-employed people was widespread: 60% said they did this in some form.
- 46% said they worked on jobs as a team, and 27% referred people on or shared clients.
- Just under half of all self-employed people said they belonged to a network of some sort with these tending to be more informal.
- Around 1 in 10 were part of a formal business network or chamber of commerce.
- In contrast 29% used a social media network and 24% were part of an informal business network.

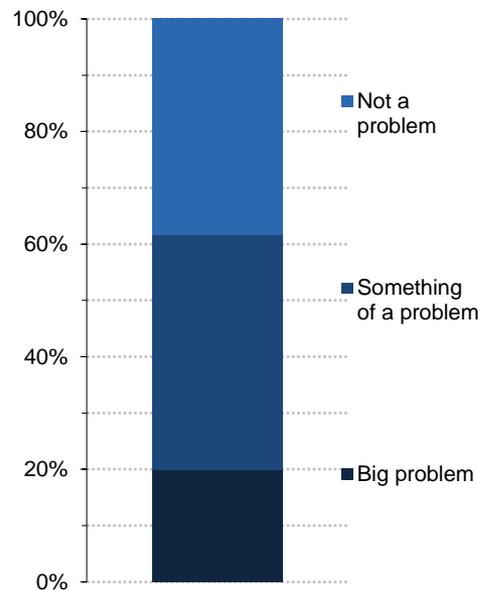


# Awareness of Automatic Enrolment is relatively high, but there are concerns about the potential impact

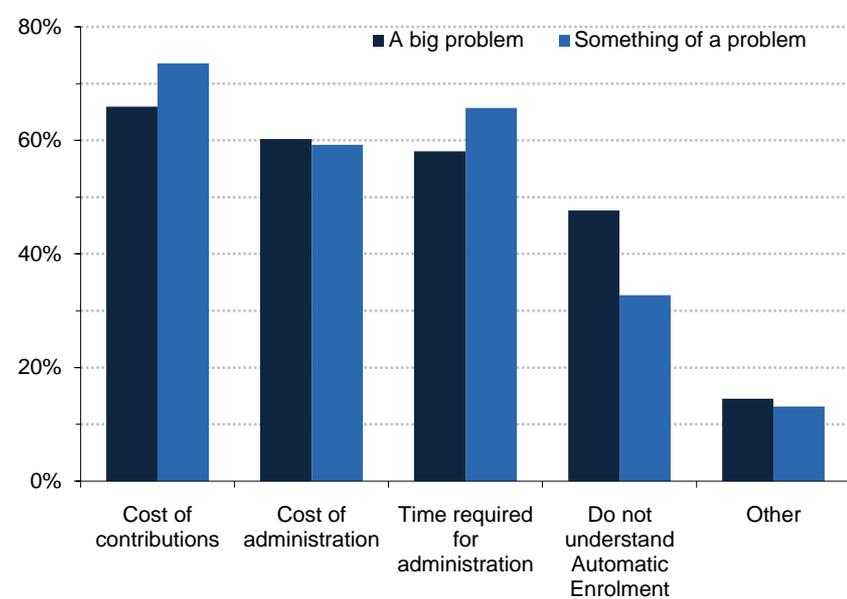
Automatic Enrolment awareness amongst employers



Extent to which Automatic Enrolment will be a problem



Extent to which Automatic Problematic areas (all that apply) - by extent to which Automatic Enrolment will be a problem



- Less than a sixth of those self-employed who were employers said they were unaware of Automatic Enrolment for pensions, and less than 1 in 10 were unsure whether it affected them.
- Of the 38% overall who at this stage thought it would affect them, a fifth (or 8% of employers) expected it to be a big problem.
- 2 out of 5 expected it to be something of a problem – this is 16% of all employers.
- Those who expected it to be a problem tended to have more than one concern.



## Section 6: Leaving self-employment

### Coverage

- 215 of those interviewed for this study were not longer self-employed in their main job, having changed their situation since their last LFS interview in 2014.
- Just over half of this group were now in employee jobs, a quarter were retired, 13% inactive, and 4% were not working but actively looking.

### Relatively few of those who had left self-employment cited money problems

- Just over 1 in 10 said they were not making enough money (or the business was failing).
- Conversely, 15% said they didn't need the income.

### But more money or security were still the main attraction for those who had become employees

- 28% said the main reason for becoming an employee was to be financially better off.
- 19% said they wanted more security.

### It was fairly common to take an employee role with a former client

- Almost a third of those now in employee roles were working for a business they had counted as a client when self-employed, and 14% had left self-employment because of being offered a job on the payroll by one of their clients.

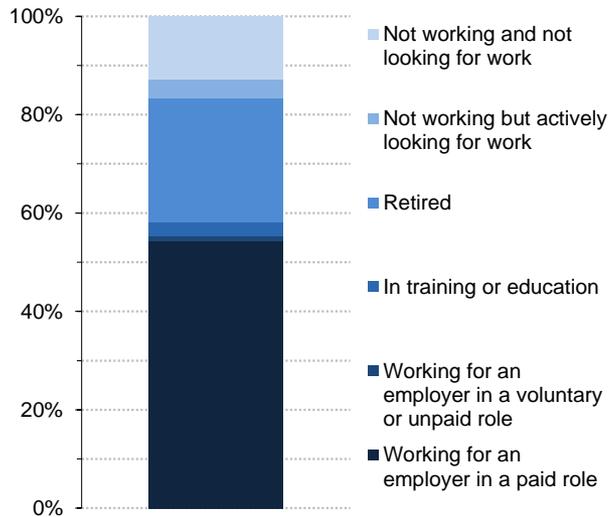
### Those who left were more negative about problems, and tended to have more income sources

- The people who had left self-employment were somewhat more likely to say they had big problems than those who had stayed.
- Very few said they had no income after leaving.

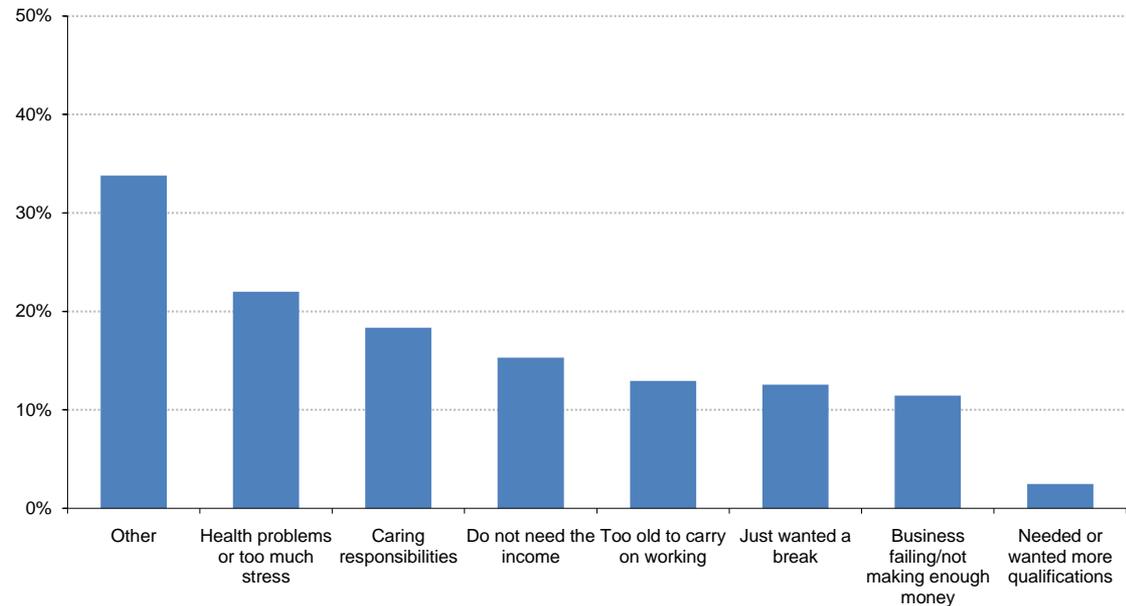


# Half of those no longer self-employed had become employees, and relatively few cited money problems

Main activity now not self-employed



For those not now an employee, why no longer self-employed (all that apply)

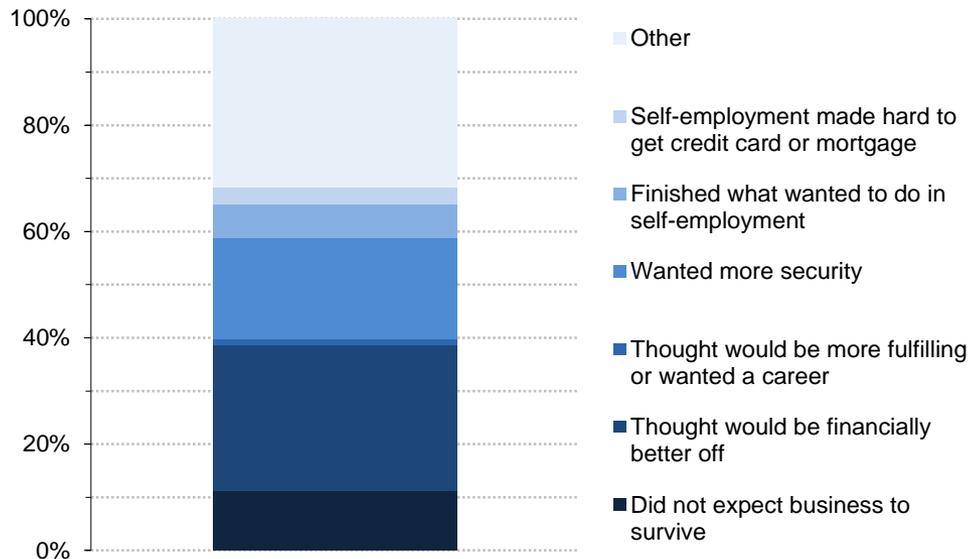


- Just over half of this group were now in employee jobs, a quarter were retired, and 4% were not working but actively looking.
- Just over 1 in 10 said they were not making enough money (or the business was failing).
- But 15% said they didn't need the income.

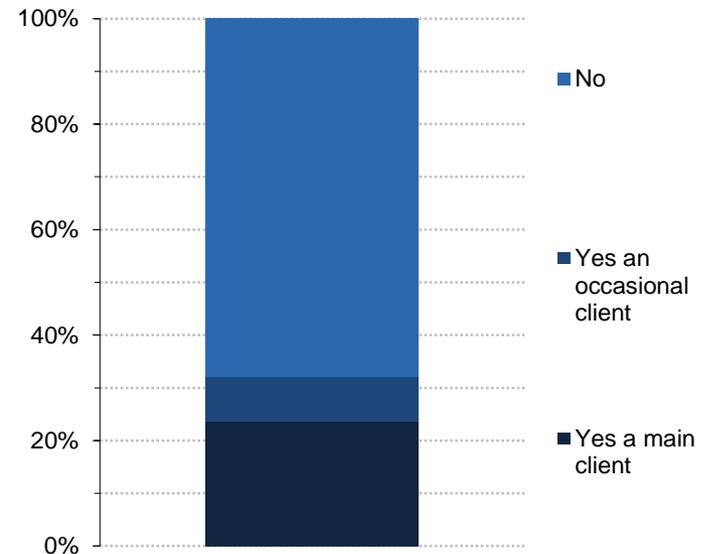


# But more money or security are the main attractions of becoming an employee

Reasons for leaving self-employment for an employee job



When self-employed was organisation now work for a client or customer

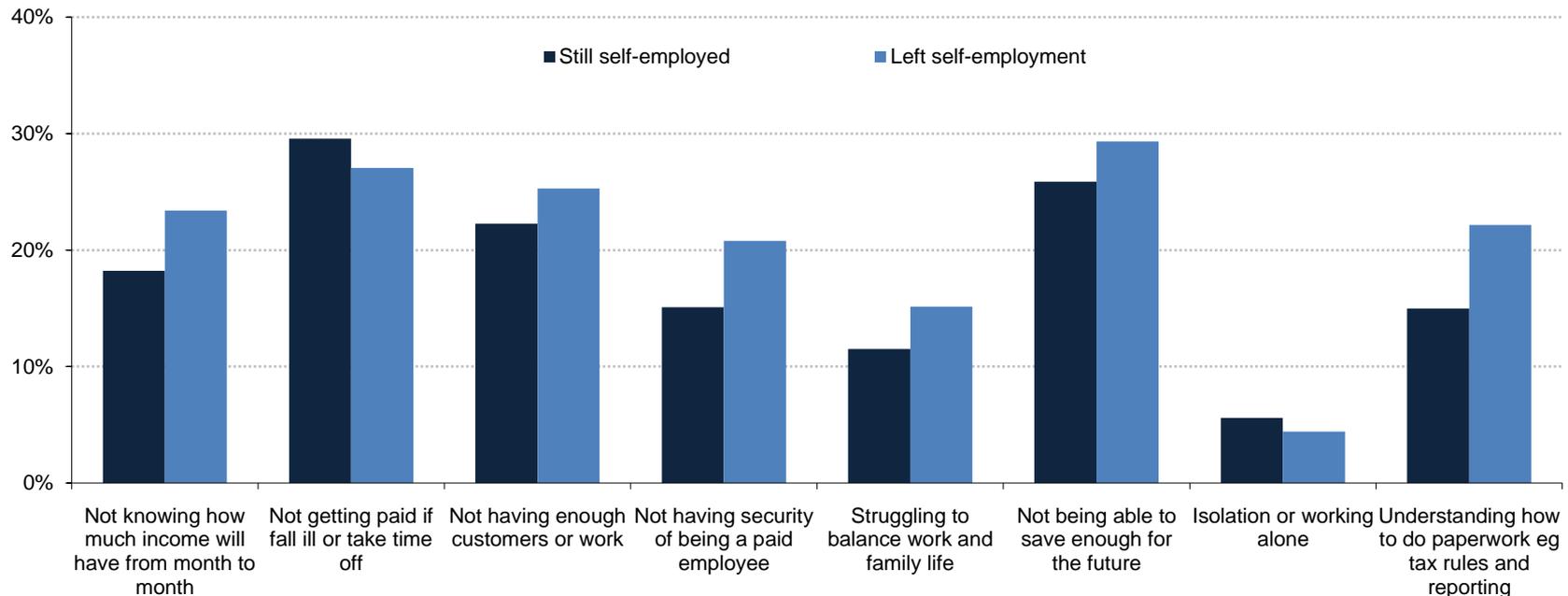


- 28% said the main reason for becoming an employee was to be financially better off.
- 19% said they wanted more security.
- Further analysis shows 14% had left self-employment because of being offered a job on the payroll by one of their clients.
- And overall almost a third of those now in employee roles were working for a business they had counted as a client when self-employed.



## Those who leave self-employment were slightly more likely to report big problems than those who stay

Extent to which this is/was a big problem of being self-employed

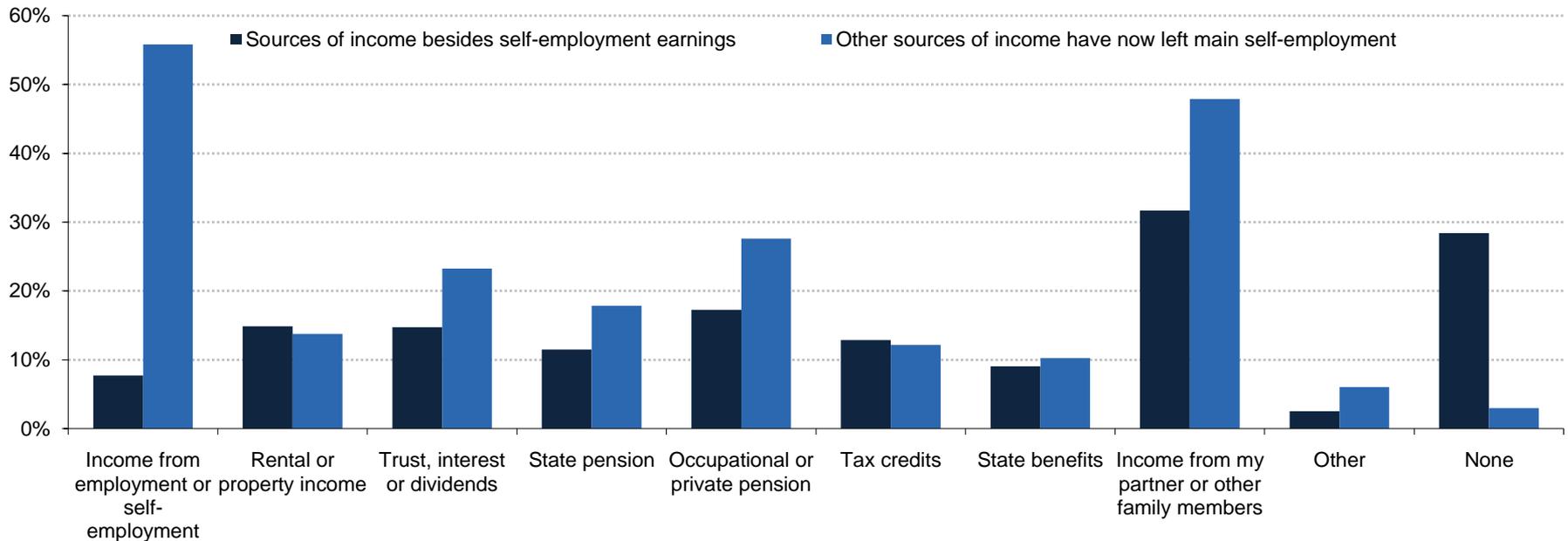


- Generally, the people had left self-employment were slightly more likely to say they had big problems than those who had stayed.
- The largest difference was in the percentage saying handling paperwork was a big problem – this may indicate that this is a group for whom self-employment ‘trade-off’ did not work.
- Unsurprisingly in light of the reasons given for entering employee jobs, security and knowing they had enough income were also seen as big problems more often.



# Very few said they had no income after leaving self-employment

Sources of income for those still self-employed in main job and those who have left (all that apply)



- The majority of people leaving had income from employment (or second job self-employment).
- Overall those no longer in self-employment were more likely to report having other income sources than those who were still self-employed – far fewer said they had no other income source.



## References

1. [Labour Market Statistics](#), ONS
2. [Self-employed Workers In The UK](#), ONS (2014)
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6. [Just The Job Or A Working Compromise](#), Resolution Foundation (2014)
7. [Salvation In A Start-up](#), RSA (2014)
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