



# RSA

Action and Research Centre

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## Salvation in a start-up? The origins and nature of the self-employment boom

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May 2014

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The RSA in  
partnership with

Etsy

## About the RSA

The RSA (Royal Society for the encouragement of Arts, Manufactures and Commerce) believes that everyone should have the freedom and power to turn their ideas into reality – something we call the Power to Create. Through our research and 27,000-strong Fellowship, we seek to realise a society where creative power is distributed, where concentrations of power are confronted, and where creative values are nurtured. The RSA Action and Research Centre combines practical experimentation with rigorous research to achieve these goals.

## About Etsy

Etsy is an online marketplace for handmade goods and vintage items. Founded in New York City in 2005, it allows people around the world to buy and sell unique goods directly from each other – anything from food to furniture. In 2012 alone, Etsy sellers sold nearly \$900m worth of goods and 10 million new members joined the marketplace, making their global community 25 million strong.

Etsy offers a meaningful and personal shopping experience to consumers and gives independent, creative businesses around the world the tools to be successful. Their mission is to reimagine commerce in ways that build a more fulfilling and lasting world.

# Acknowledgements

The RSA would like to thank Etsy for their support, without which the project would not have taken place. The author is very grateful to Adam Lent in particular for his help in guiding the research over the course of the project, as well as to Matthew Taylor, Julian Thompson, Luke Robinson, Howard Reed, Steve Broome, Jamillah Knowles (Etsy) and Nicole Vanderbilt (Etsy) for their useful feedback.

Beyond the RSA, thanks must go to Steven Toft for his insights, as well as to all the members of our steering group (see below) and the organisations that assisted us in identifying our interviewees. This includes PRIME, A4e, Enterprise Rockers, Find Invest Grow, Telford Enterprise Hub, Sunderland Council and the team at Goldman Sachs's 10,000 Small Business Programme. Last but not least, we are extremely grateful to all of the self-employed people that were willing to share their experiences with us, as well as to Chris Menzies at Populus and Gary Bennett from Logit Research for their assistance in undertaking the survey and segmentation.

Steering group: Jamillah Knowles, Nicole Vanderbilt, Kristina Glushkova, Steve Coles, Philip Coggan, David Nash, Howard Reed, Elizabeth Varley, Tom Hodgkinson, Victoria Hull, Mark Hart, Stuart Anderson, Tina Boden, Emma Jones, Jo Caseborne and Robert Blackburn.

Photographs taken by Toby Coulson (pp. 44, 45 and 49); Roberta Knox (p. 41); Ben Saffer (p. 43).

# Foreword

I stopped working in Downing Street a year ago to have a crack at starting my own business. That means I can admit something that everyone in Westminster knows, but isn't allowed to say: most policy reports are not only boring, but they're utterly pointless too.

This fantastic piece of work, I'm pleased to say, is neither.

It's not boring, because it tells the gripping story of Britain's entrepreneurial rebirth from the late 1970s onwards, as the number of small businesses in our country mushroomed from just 700,000 in 1979 to over 5m today.

And it's certainly not pointless, because this report utterly destroys the argument that the growth in microbusinesses is somehow a symptom of economic desperation – and something to be mourned, rather than celebrated.

As the Populus survey commissioned by the RSA reveals, less than one in five people started their own business because they had no other employment options – the overwhelming majority did so because they wanted to.

This survey data also shows that these wannabe entrepreneurs were absolutely right to trust their instincts, with around 85 percent of micro-business owners reporting that they are now more creative, autonomous and satisfied in their work.

Small wonder that less than one in ten self-employed people, according to the Populus data, plan on closing their business in the next five years. Once you start working for yourself, it's hard to go back to working for The Man, man.

Over and above these lifestyle factors, technology is playing a huge part in driving Britain's entrepreneurship boom. Online platforms mean that microbusinesses can reach a global market more cheaply and easily than ever before, while technology is also reducing transaction costs between businesses, enabling tiny companies to prosper and flourish in the modern economy.

Ultimately though, this huge growth in microbusinesses over the past 35 years – much like China's economic growth over the same period – is a welcome regression to the mean after a stultifying spell of top-down bureaucratic control and suffocating statism.

There can be no going back from here. For millions of people across the UK, entrepreneurship is the new normal – and with the number of self-employed people expected to exceed the headcount of the public sector by 2018, politicians and policymakers urgently need to keep pace.

Everywhere you look, things need to change. Our ruinously uncompetitive banking system continues to fail Britain's small businesses, entrepreneurs are discriminated against when renting or buying property, while almost every aspect of Whitehall activity – from consultations to procurement – is unfairly stacked against microbusinesses.

This is a golden age for entrepreneurship in Britain. If we can get the policy framework right to support our entrepreneurs, the future will be

very bright indeed. Thanks to this excellent report, Britain's micro-business owners now have a voice, and can start to campaign for a better deal. If that's not the opposite of boring and pointless, I don't know what is.

Rohan Silva  
*Co-Founder of Second Home*

# Executive summary

The UK is experiencing a boom in microbusinesses and self-employment. Today there are 600,000 more microbusinesses (firms with zero to nine employees) in existence than there were when the recession first began in 2008, and 40 percent more than at the turn of the century. Likewise, the number of people working for themselves has increased by around 30 percent since 2000, with the result that one in seven of the workforce are now self-employed. Nor does this trend show any signs of abating; 183,000 more people became self-employed in the first quarter of 2014.

This phenomenon throws up a number of important questions. What ‘types’ of microbusinesses are becoming more commonplace? What has caused the large increase in recent years? And what effect are they having on the economy and wider society? The RSA and Etsy have launched a new project, The Power of Small, which seeks to answer such questions and better understand this changing community. Future phases of the project will consider the broader macroeconomic implications of a growing number of microbusinesses, such as what it means for jobs growth, innovation and productivity. However, this report – the first of three – focuses in particular on the *individuals* involved, including why so many people are turning to self-employment and what this means for them personally.

Our analysis shows that the self-employed are a diverse group undergoing a gradual but important change. The number of people running microbusinesses is growing substantially, yet the real activity appears to be happening at the small end of small, with the part-time self-employed accounting for much of the business activity witnessed in recent years. There are also signs that certain demographic groups are increasingly turning to self-employment – most notably women, the over 50s and young people – and in doing so are disrupting entrenched stereotypes. This much is acknowledged by most commentators in the field. However, there is considerable disagreement over what has caused such changes, and whether the boom is part of a long-term recalibration of our economy or simply a cyclical blip.

Our research identifies three myths in particular that have distorted the debate – the first being that most of the newly self-employed are there through no choice of their own. While levels of unemployment and self-employment are positively linked, this is only one part of the story. Our RSA/Populus survey finds that only 27 percent of those who started up in the recessionary period of the last five years did so to escape unemployment. A second myth is that most of the newly self-employed are low-skilled odd-jobbers scratching around for work. But look closer at the data and we see that the biggest increases in self-employment since 2008 have actually been in professional occupations (one of the highest skilled groups). Finally, there is the myth that the boom we are witnessing is a cyclical blip. Yet this ignores the fact that self-employment had been increasing long before the recession began.

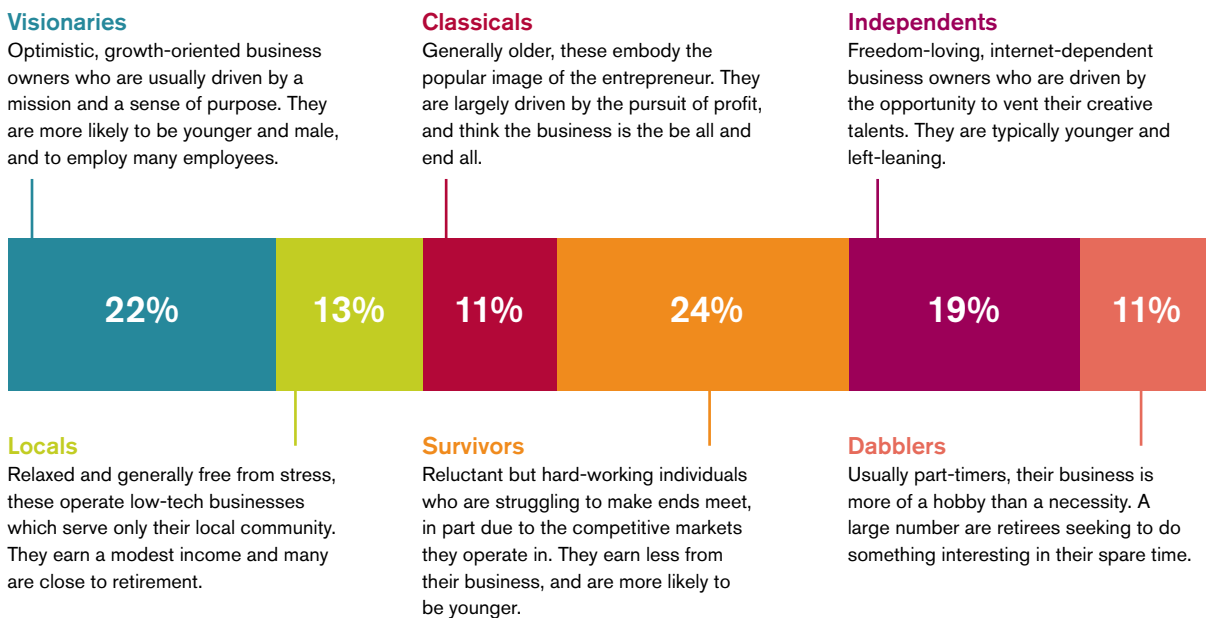
Taken together, this suggests that the growth in self-employment is as much to do with structural changes in our economy and society as with



short-term economic fluctuations. By their very nature, such long-term trends are difficult to pinpoint while they are unfolding. However, we have identified several key ‘ingredients’ that may help to explain this boom – yet which are often overlooked in mainstream debates. Demographic shifts, such as an ageing population and high levels of immigration may have served to bump up the numbers in self-employment, since these groups are more likely to start up in business. Similarly, a gradual shift from ‘materialist’ to ‘post-materialist’ values means that greater numbers of people now prize the freedom and meaning that comes with self-employment. Moreover, the emergence of new technologies – which we often take for granted – have sent the cost of doing business into freefall.

Each of these drivers tells us that the ‘push’ vs. ‘pull’ hypothesis that is commonly used to explain why people start up in business will no longer suffice. Indeed, the self-employed community is a heterogeneous one, with every person having a different set of circumstances, business styles and aspirations. For this reason, we used the data from our RSA/ Populus survey to segment the self-employed community into six tribes (see Figure 1). This ranges from Visionaries, who are optimistic, growth-oriented business owners driven by a particular mission, all the way through to Dabblers, who are more often than not part-timers engaging in business to do something more interesting in their spare time. Generating this typology is not an academic exercise. Rather, it is crucial to the ability of policymakers and others to create targeted interventions that go with, rather than against, the grain of people’s needs and wants.

**Figure 1: The six tribes of self-employment**



*\*Percentages refer to the proportion of the self-employed community who fall into these tribes*

The question remains, however, as to whether self-employment is really a good thing for those directly involved. Should we be enabling more people to start up in business, or should we be discouraging it? At first glance, life appears to be very difficult for the self-employed. Full-timers earn approximately 20 percent less than their employed counterparts, and real median weekly earnings have shrunk by around 10 percent since the turn of the century. They also seem to work longer hours – twice the number spend over 50 hours a week at work as employees – as well as to be at risk of isolation.

Yet look at this community more closely and we find that a paradox exists: they appear to be more content at work and happier overall in their lives. Our RSA/Populus survey found that 84 percent agreed that being self-employed meant they were more content in their working lives (66 percent completely or strongly so). The same story is borne out in a number of other studies. Part of the reason is because of the ‘softer’ benefits that self-employment can confer. Of those polled in our survey 82 percent said the work they do is more meaningful than that found in a typical job, and 87 percent that they have more freedom to do the things they want. Yet there are also many practical benefits gained from working for yourself. Over half of the people we surveyed said that being self-employed allows them to work around their own physical health conditions, and over a third to be able to care for older relatives.

Overall, there appears to be a subtle trade-off at play when people embark on a business – something that might be called a ‘**creative compromise**’. On average, full-time self-employed people earn £74 a week less than their employed counterparts, but many are willing to endure this sacrifice for the multitude of other benefits that come from working for yourself – namely greater freedom, meaning and control. Indeed, our survey indicates that a large number of the self-employed prioritise these ‘softer’ attributes of work over the ‘harder’ ones. Only a fifth (21 percent) of our respondents said high pay is a priority in their jobs, and only 17 percent a short working week. This finding suggests that many of the self-employed see the work as an end in itself and an inherently enjoyable activity (a concept that is still foreign to large parts of society).

It is unlikely that the heated debates around this phenomenon will cool anytime soon. If anything they are likely to grow as the magnitude of the changes dawns upon more of us. Yet this should not prevent us from starting a vital conversation regarding how we should adjust to the ‘new normal’. In this report, we outline a number of imperatives for the future. The first is to **rewrite the narrative** on self-employment. At present, there is a real danger that the term self-employment becomes synonymous with drudgery and on a par with zero-hour contracts. The findings of this report point to the need for a more balanced narrative on self-employment – one that does not drown in the hyperbole that can surround ‘entrepreneurship’, nor one that treats self-employment as a sink for the desperate and needy. A good starting point would be to formulate a common definition of ‘self-employment’, as well as to improve our measurement tools so they more accurately capture the changes in this community.

The second imperative is to **agree a new settlement**. Despite the vast majority enjoying their self-employed status, we cannot ignore the various

financial pitfalls that accompany this way of working. Not only are the self-employed paid less, they are also known to contribute less to pensions and be at an acute risk of falling into debt. Such issues are particularly problematic for those identified in our segmentation as Survivors. The task for the government and others is therefore two-fold: first, to help those for whom self-employment really is a ‘last resort’ into a conventional job; and second, to improve the livelihoods of the vast majority of people who genuinely want to continue working for themselves. In doing so, we should be mindful of the different needs and wants of the six tribes we identified in our segmentation.

Our RSA/Populus survey indicates that at present, the self-employed largely feel as though they are overlooked by the state. Only 14 percent of respondents agreed that the government adequately supports people like them, and only 11 percent that the welfare system is fair to those who want to work for themselves. Part of the reason seems to be because the self-employed are occasionally treated as an afterthought in the design of policy initiatives – Universal Credit being a major case in point. This highlights the need for an urgent review of government policy on self-employment – from welfare and taxes, all the way through to education and housing. One possible outcome is the development of a flexible National Insurance system, with the self-employed able to decide on their level of contributions depending on how much they want to receive back in social security.

Yet it would be improper to leave everything up to the state, not least when the welfare system is undergoing a significant retrenchment. Therefore we should also aim to **harness the crowd**. A good place to start is by encouraging the trade unions to support the self-employed, given that they not only lobby on behalf of their working members but also assist them in legal cases and provide cost-effective insurance schemes. Inspiration can be taken from the Freelancers Union based in the US, many of whose 230,000 members have signed up to access benefits ranging from retirement plans to liability insurance. The development of new collaborative ventures that see the self-employed band together – like the BEC co-operative in France – may also be highly effective in ensuring this community achieves more than the sum of its parts.

Finally, it is imperative that we **stimulate growth and recruitment**. If the increase in self-employment is to be permanent then it spells major implications for the economy – particularly in terms of job creation. Indeed, very few of the self-employed that started up in the last five years have gone on to take on employees. The government has implemented several initiatives designed to encourage job creation among microbusinesses, for instance through a National Insurance Contribution holiday. Yet these have had remarkably low take-up rates. This indicates the need for a fresh approach – one that does not rely exclusively on clunky policy levers but which instead recognises people’s behavioural quirks and frailties (the RSA will report on the psychological barriers to recruitment later this year).

No doubt the debates around this phenomenon will continue long into the future – and indeed they should. Yet whatever people’s viewpoint on the growth in self-employment, most would agree that it is essential we begin searching for effective interventions and policy solutions that will improve their livelihoods. With one in seven of the workforce now self-employed, we can’t afford not to.

### **Box 1: Key findings from our RSA/Populus survey**

The RSA commissioned Populus to run a survey of 1,006 microbusiness owners between 26 February and the 12 March 2014. Our results show that:

- Over a third (37 percent) agree that being self-employed means they are less able to take holidays and breaks, and 40 percent that they feel more isolated
- 84 percent agree that being self-employed means they are more satisfied in their working lives (66 percent completely or strongly agree)
- 82 percent agree that the work they do is more meaningful to them, and 87 percent that they have more freedom to do the things they want at work
- Two-thirds (66 percent) think that working for themselves is important for being able to live where they would like; 54 percent for working around their own physical health conditions; and 37 percent for being able to care for older relatives
- Over three quarters (79 percent) look for freedom and flexibility most in their personal work; half (54 percent) for the chance to use their talents to the full; and 44 percent for meaningful work
- In contrast, 21 percent look for high pay, 17 percent for a short working week, and 12 percent for security
- Despite the majority (61 percent) agreeing that the economy is getting better and the country is heading in the right direction, only 14 percent agree that the government adequately supports the self-employed and just 11 percent that the welfare system is fair to people in their position

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# A fertile crisis

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## The fallout of the great recession

The UK economy is on the road to recovery. Economic growth rates are returning to their pre-recession levels, the number of people in employment has reached a record high, and consumer confidence is more upbeat than it was a year ago.<sup>1</sup> Yet this should not disguise the fact that we have experienced one of the most seismic crashes and prolonged economic downturns in living memory – topped only by the Great Depression of the 1930s.

Our economy remains smaller than it was when the recession began in 2008, and the destruction wrought by the economic crash continues to be felt in every corner of the country. Public spending cuts are of a magnitude not seen at any point since the Second World War, with well over £178bn to be shaved off government spending.<sup>2</sup> However painful the austerity package appears so far, the cuts enacted to date amount to less than half the fiscal consolidation planned in the coming years.<sup>3</sup>

It is easy to become preoccupied by abstract figures, but there is a very human cost to a shaken economy and shrinking state. Living standards for low-middle income households are set to be 15 percent lower in 2020 than they were in 2008,<sup>4</sup> and the Institute for Fiscal Studies (IFS) calculate that between 2008 and 2013 real wages fell by more than in any other five-year period.<sup>5</sup> This has helped to create a perverse situation where in-work poverty now outstrips poverty in workless households.<sup>6</sup>

Nor does it appear that the pain will be over anytime soon. The economy is on the mend, but the recovery is by no means certain. Financial commentators from both sides of the political spectrum have raised concerns that the economic growth witnessed in the last year is built on unsustainable consumer spending, rather than business investment – exactly the kind of imbalance that first precipitated the crisis.<sup>7</sup> There are also worries that the economy is not creating the type of high-skilled jobs necessary to win back higher standards of living.

1. See for example, Deloitte's Consumer Tracker: [www.deloitte.com/view/en\\_GB/uk/news/news-releases/0391571ffa275410VgnVCM1000003256f70aRCRD.htm](http://www.deloitte.com/view/en_GB/uk/news/news-releases/0391571ffa275410VgnVCM1000003256f70aRCRD.htm)

2. Emmerson, C., Johnson, P. and Miller, H. (2014) *IFS Green Budget*. London: IFS.

3. Ibid.

4. Resolution Foundation (2012) *The final report on the Commission on Living Standards*. London: RF.

5. Institute for Fiscal Studies (2013) *Workers keep their jobs but one third faced nominal wage freezes or cuts*. London: IFS.

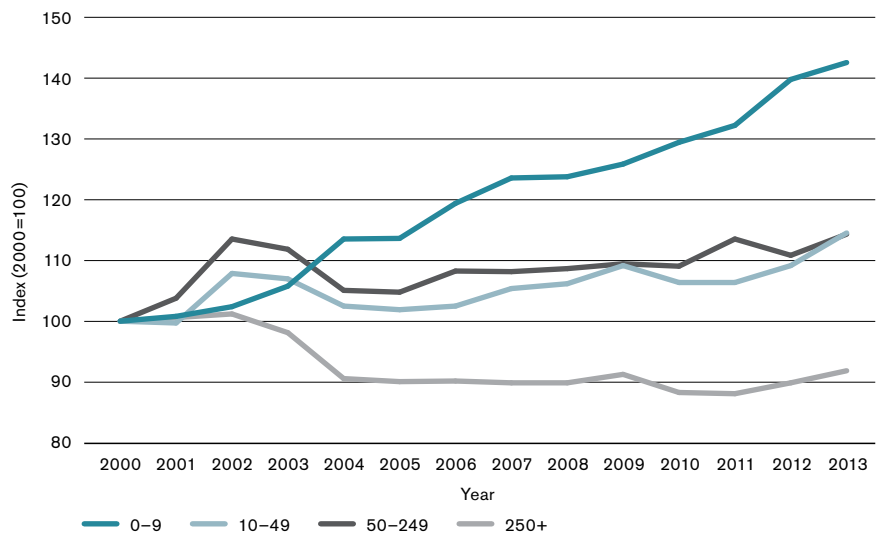
6. Joseph Rowntree Foundation (2012) *Monitoring Poverty and Social Exclusion*. London: JRF.

7. Office for Budget Responsibility (2013) *Economic and fiscal outlook*. London: OBR.

## The silver lining to a dark cloud?

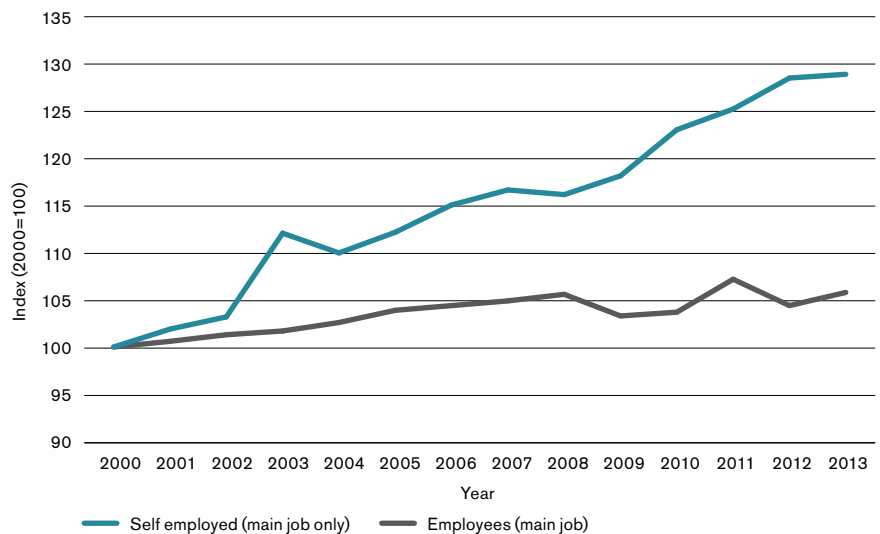
Amidst the economic doom and gloom, however, there is a transformation occurring in our economy that may change people's lives for the better – namely the sharp rise in the number of microbusinesses (defined as firms with zero to nine employees). Today there are 600,000 more microbusinesses in existence than there were when the recession first began in 2008, and 40 percent more than at the turn of the century (see Figure 2). In contrast, all other business types have experienced static or negative growth. The implication is that microbusinesses today make up over 95 percent of all private sector businesses and a third of private sector employment.

**Figure 2: Increase in the number of businesses by firm size**



Source: Business Population Estimates 2010–13 and BIS SME Statistics 2000–09

**Figure 3: Growth in employment versus self-employment**



Source: Labour Force Survey, July–September quarterly data, 2000–2013 inclusive

The same story can be seen in the self-employment figures. According to the Labour Force Survey, the number of people working for themselves has increased by around 30 percent since 2000. This means that close to 15 percent of the workforce are now self-employed – the highest figure in living memory. This trend looks even starker when set against the rather modest increase in typical employment (see Figure 3). Indeed, self-employment accounted for 90 percent of the new jobs added since the economic downturn in 2008. Nor does this trend show any signs of abating. The number of people who work for themselves increased by over 183,000 in the first quarter of 2014 – one of the biggest jumps seen in years.

These shifts have led some commentators to speculate that the UK is experiencing a new wave of ‘creative destruction’, as small firms begin to challenge larger incumbents. Some economists have argued that the economy is moving from a Schumpeter Mark II regime, where production is centralised in a handful of firms, to a Schumpeter Mark I regime, where production is distributed and small firms are the main engine of economic growth and innovation.<sup>8</sup> More recently, the social theorist Moises Naim has suggested that the power of large firms is being challenged evermore by small firebrands.<sup>9</sup> Witness the multinational firm Kodak being pushed into bankruptcy in the same year as the 24-month old Instagram sells for \$1bn.

### **Embracing the zeitgeist**

Just as the number of microbusinesses has grown, so too has the enthusiasm for them in broader popular culture. Only a few decades ago running your own business was a relatively obscure form of work that many saw as a last resort. Yet fast forward to the present day and it is more likely to be associated with creativity, innovation and risk-taking endeavours (whether or not that is true for everyone involved). Indeed, this is the new zeitgeist. Magazines like *Inc.* and television shows such as *Dragon’s Den* are part of a multi-million pound industry that has grown in response to people’s heightened interest in all things entrepreneurial. Nearly every university now has a scheme to help their students start-up in business, and it is increasingly common for larger organisations to talk of stimulating ‘intrapreneurship’ among their employees.

Microbusinesses and the self-employed have also found themselves in the political spotlight. David Cameron very recently described small businesses as “the lifeblood of our economy”, and promised early on in his tenure to take on “the enemies of enterprise.”<sup>10</sup> Likewise, Ed Miliband recently pledged to “go into the next election as the party of small business and enterprise.”<sup>11</sup> Conversely, he has made tackling predatory capitalism among big business a major plank of Labour’s One Nation policy agenda. Nor are these sentiments limited to the UK. In his 2010 State of the Union address, Obama used the terms “small business” and “enterprise” 14 times

8. See, for example, Thurik, R. (2003) ‘Entrepreneurship and unemployment in the UK’ in *Scottish Journal of Political Economy*, Vol 50 (3).

9. Naim, M. (2013) *The End of Power: From boardrooms to battlefields and churches to states: Why being in charge isn’t what it used to be*. Basic Books.

10. See [www.bbc.co.uk/news/business-25909235](http://www.bbc.co.uk/news/business-25909235)

11. Sparrow, A. (2013) *Ed Miliband depicts Labour as champion of small businesses* [article] *The Guardian*, 6 December 2013.

– his recent predecessors on average mentioned them just twice.<sup>12</sup> The EU has also become an evangelist, seeing self-employment as a way to tackle stubbornly high levels of youth unemployment across the continent.

The UK government has matched its rhetoric with several practical measures to help more people start and grow their own business.<sup>13</sup> This includes initiatives such as Business is Great, a campaign to encourage people to think about working for themselves; StartUp Loans, a programme that has to date channelled over £20m in low interest loans to more than 3,500 fledgling businesses; and the New Enterprise Allowance, which provides loans and mentor support specifically to help the unemployed start their own business. On the other side of the political spectrum, Labour has supported Small Business Saturday, a movement to promote the products and services of smaller traders, and has also mooted that it would like to create a Small Business Administration similar to that seen in the US.

### **Honing in on self-employment**

It is clear then that microbusinesses (and the people who run them) are becoming a powerful force to be reckoned with. Yet there is still much that we do not know about them. What ‘types’ of microbusinesses exist? What has caused the large increase in recent years? What effect are they having on the economy and wider society? And, perhaps most importantly, how can we enable them to achieve their full potential? In a bid to answer these questions, the RSA and Etsy have launched a new research project, The Power of Small, which seeks to better understand this growing community and what it means for all of us.

Future phases of the project will consider the broader macroeconomic implications of this phenomenon, such as what it means for jobs growth, innovation and productivity. However, this report – the first of three – will focus in particular on the *individuals* involved, including why so many people are turning to self-employment and what this means for them on a personal level. Much has been written recently about the rise in self-employment, and it is clear that there are just as many sceptics as there are advocates. For the latter, this trend is proof of a resurgent entrepreneurial spirit in the UK, and as such should not only be welcomed but actively promoted. For the former, however, the fact that so many people are turning to self-employment is merely a symptom of a stagnating labour market and a deeper malaise in the UK economy.

The heated debate taking place between these two sides is not an academic or abstract one. It matters considerably because the outcome determines whether or not we believe the rise of self-employment to be a good thing, and therefore what our policy response to it should be. Should we be enabling more people to work for themselves, or is it better to discourage it? The answer will have profound implications for the one in seven of the workforce who now count themselves as self-employed, as well as for younger generations considering their future employment trajectories.

12. Ransom, D. (2012) *How ‘small business’ and ‘entrepreneur’ fare in the state of the union addresses* [article] Entrepreneur, 25 January 2012.

13. For more information see [www.gov.uk/government/policies/making-it-easier-to-set-up-and-grow-a-business--6](http://www.gov.uk/government/policies/making-it-easier-to-set-up-and-grow-a-business--6)



Despite the gravity of the issue, however, at present the arguments made by both proponents and challengers still appear to be based largely on hunches or educated guesses. The starting point for this report is to cut through the rhetoric and offer a much clearer account of why this community is growing and what it really means for those involved. It is for this reason that we have drawn upon a variety of research techniques to aid us in this project, from a major survey of over 1,000 self-employed people, to in-depth qualitative interviews, to a detailed and highly original segmentation exercise (see Box 3 for more detail).

We begin the next chapter by setting out the most important trends in the who, what and when of self-employment and microbusiness growth.

### **Box 2: Definitions of microbusinesses and the self-employed**

Microbusinesses are classed as firms with zero to nine employees, and are a subcategory of the 'SMEs' group, which spans firms with 0–249 employees. The Business Population Estimates, which is the best source of information on this community, pools information from several sources to calculate their number. The process is complex, but the important point is that they seek to account for businesses of all sizes, including those where people haven't registered with HMRC for VAT or PAYE.

The definition of 'self-employment' is more contested and open to debate, in part because no legal definition exists. HMRC have formed a set of working behaviours, which should help to indicate when someone is self-employed, for example that they can decide how, when and where they work. The Labour Force Survey primarily leaves it up to the respondent, who can decide whether they fall into a number of subcategories that come under the banner of 'self-employment'. This includes 'running a business', 'doing freelance work' and 'working for yourself' (respondents can choose more than one option).

We are somewhat constrained by such methods when analysing the 'self-employed', but for the purposes of this project (and our survey and interviewee sampling) we have broadly defined them as individuals who spend a significant amount of time working for themselves, and who generate a meaningful amount of revenue through their business activities. A caveat to note is that our primary research has excluded the self-employed that run firms with *more* than nine employees – even if it is a very small minority in the whole community – but the existing government datasets we draw on may not have done.

### **Box 3: Research methodology**

The Power of Small project has purposefully drawn on both quantitative and qualitative research to paint as detailed a picture as possible of microbusinesses and the self-employed community. We began with a review of existing literature in this field (including academic papers, government reports and studies by other research organisations) and a mining exercise of available datasets (including that of the Labour Force Survey, Business Population Estimates and the Family Resources Survey). We avoided datasets that were less reliable, such as that from Companies House.

This was followed by a series of semi-structured interviews with over 50 expert stakeholders and microbusiness owners (see Box 2 for definitions). The latter were identified with the help of several partners (including PRIME and Enterprise Rockers), and were chosen in such a way as to ensure we heard the views of people from a wide variety of backgrounds – from a plumber in Yorkshire, to a social enterprise consultant in London, to someone running club nights in Bristol. The interviews with the self-employed were vital for shedding light on messy questions with no simple answer – such as why people choose to start-up in business – as well for highlighting the ‘unknown unknowns’. That is, issues which we were not aware of at the outset of the project.

We also commissioned Populus to interview a random sample of 1,006 microbusiness owners, which took place between the 26 February and the 12 March 2014. Interviews were conducted across a variety of different business sectors and Populus only surveyed senior individuals who were responsible for leading the business. In keeping with our aim to hear from individuals from a variety of backgrounds, our survey sample was formed of respondents from both the business and the consumer panel. The implication is that we did not exclude people who hadn’t necessarily put themselves forward as ‘business owners’ when first approached by Populus to take part in their surveys. That said, there will always be limitations with any survey, for instance the ability of migrants with language difficulties to complete a questionnaire.

The survey was also used to generate a segmentation of the self-employed. This was formed based on answers to a large number of ‘dual statement’ questions, whereby respondents have to choose the extent to which they agree with two opposing answers. For example, we asked respondents the extent to which they primarily serve a local market versus an international one, and whether survival or growth is the key priority.

In addition to the above, the RSA is working with Etsy to undertake a major survey of their UK sellers. This survey is still ongoing, but we reveal some preliminary findings within this report. The full results will be published in the summer of 2014.

For more detail on the methodology please contact the author at [benedict.dellot@rsa.org.uk](mailto:benedict.dellot@rsa.org.uk)

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# A booming community

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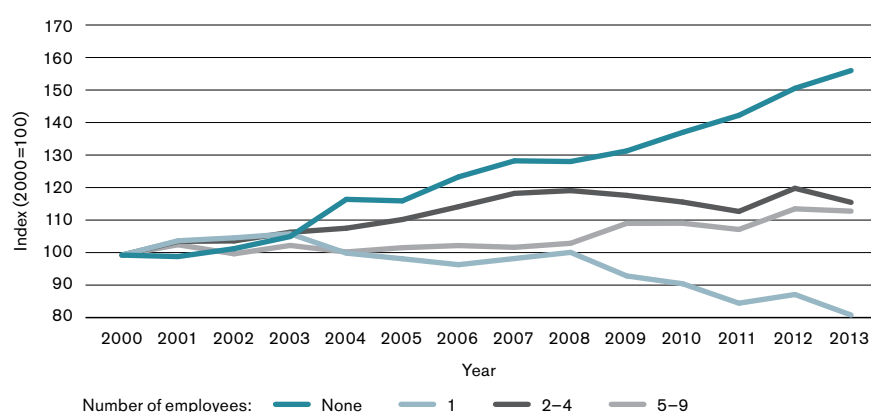
The UK business landscape is changing. In the early 1970s there were approximately 820,000 firms in existence, but today the figure is closer to 5 million.<sup>14</sup> Instead of a Department of Trade and Industry, there is now one for Business, Innovation and Skills. And whereas trade union membership for industrial workers numbered 12.2 million in 1980, the figure is now less than half that. Shifts such as these are in large part due to the rise of microbusinesses and self-employment. But what types of microbusinesses are growing the most, where are they springing up, and who is starting them?

## Trend #1 – The rise of the one-person business

The first trend to highlight is that one-person businesses are growing rapidly while two-person businesses are shrinking in number. Figure 4 below shows that the number of businesses with zero employees (ie just run by the owners) has increased by close to 60 percent since the turn of the century. In contrast, the number of firms with one employee (in addition to the owner) has fallen by 20 percent. To put this another way, virtually all the growth (95 percent) of microbusinesses in the last 10 years has been down to the rise of non-employing firms. In fact, one government study found that only around three percent of non-employers in 2007 increased employment over the five year period to 2012.<sup>15</sup>

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**Figure 4: Increase in the number of microbusinesses by firm size**



Source: Business Population Estimates 2010–13 and BIS SME Statistics 2000–09

14. Lord Young (2013) *Growing Your Business: A report on growing microbusinesses*. London: BIS.

15. Department for Business, Innovation and Skills (2013) *Understanding Growth in Microbusinesses*. London: BIS.

This is partly about *individual* firms not growing in size, but it is also about firms shrinking. Signs indicate that many employing firms may have shed staff and moved into the category of a non-employer during the period of the economic downturn. Since the crash in 2008 there has been a marked decrease in the number of two-person businesses, and a small but noticeable acceleration in the growth of one-person businesses. According to analysis by the Department for Business, Innovation and Skills, over a quarter of one-person businesses in 2012 had at some point in the past employed staff within that business.<sup>16</sup>

#### **Box 4: The barbellisation of industries**

Much of the data suggests that microbusinesses are the only type of firm that is becoming more prevalent in our economy. Perhaps more accurate, however, is that we are seeing what McKinsey has called barbell-like transformations in many industries, with very small firms *and* extremely large ones capturing a greater proportion of output and turnover at the expense of medium-sized ones. A closer look at government data – not from the Business Population Estimates but the Inter-Departmental Business Register – shows that the two business types with the fastest growing populations are those with 0–4 employees and 1,000 plus employees. An interesting example is the brewery industry, where very large firms are buying out their modest counterparts at the same time as small craft producers boom in number.

#### **Trend #2 – The proliferation of part-time self-employment**

The second trend worth observing is the rise in the number of people in part-time self-employment. Figure 5 illustrates that the amount of people who work for themselves but for less than 30 hours a week has grown by almost 65 percent since 2000, compared to a 20 percent growth in the number of full-time self-employed. ‘Nanobusinesses’ of this kind account for close to half the rise in self-employment since the turn of the century, and over 60 percent of that since the economic crash. The result is that around a third of the self-employed community can now be classed as part-time (around the same proportion as that of employed workers). This, combined with the growth in the number of one-person businesses, indicates that some of the most significant changes in the UK’s commercial composition are occurring at the smaller end of the small business spectrum (although see Box 4 for an important caveat).

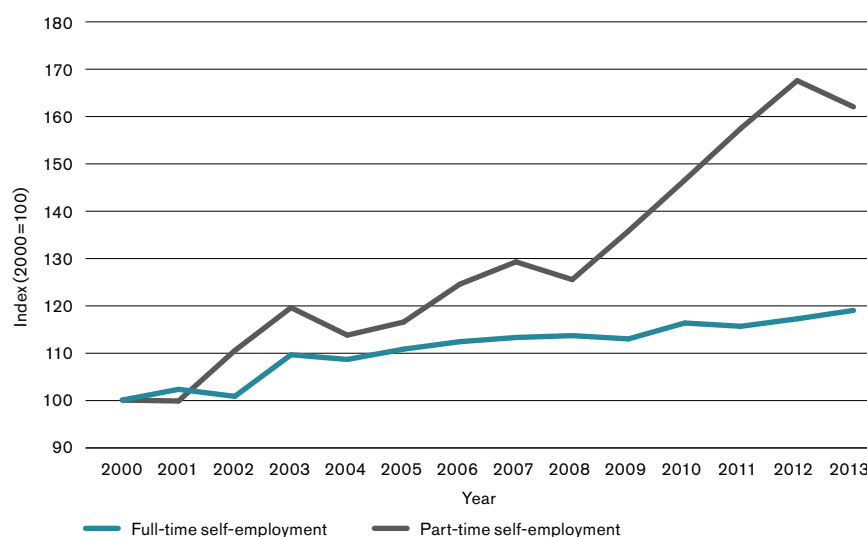
A small but growing number of these people appear to be running their part-time business alongside paid employment. Data from the Labour Force Survey shows that the number of people who work for themselves in addition to being a conventional employee has increased by 31 percent since 2000. The same trend has also been highlighted in other surveys. Recent polling by Populus and RBS found that one in five adults use their spare time to earn extra income, while our own survey of sellers on Etsy – an ecommerce marketplace for craft makers – found that 20 percent work in a full-time job in addition to managing their creative business.<sup>17</sup> The Labour Force Survey data also shows there has

<sup>16</sup>. Ibid.

<sup>17</sup>. RBS Group (2013) *RBS Enterprise Tracker, in association with Unltd.*

been a marginal increase in the number of people who are *primarily* self-employed but who also work as an employee on the side.

**Figure 5: Growth in full-time and part-time self-employment**



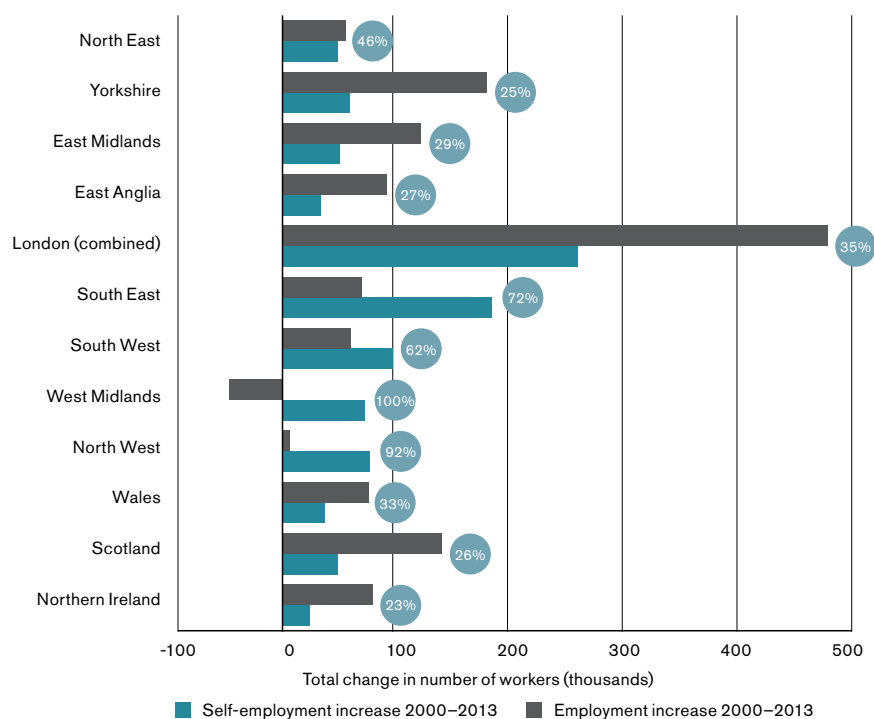
Source: Labour Force Survey, July–September quarterly data, 2000–2013 inclusive

### Trend #3 – The growing importance of self-employment outside London

Another striking feature of the growth in microbusinesses and self-employment relates to its geographic spread. At first sight, the regional distribution of the increase in the last few years appears to mirror the north-south economic divide of the UK. In both London and the South East there has been a jump of around 160,000 microbusinesses since 2001, whereas the North East has only seen an increase of 40,000. Yet cut the data by the percentage growth rate – rather than absolute growth rate – and the picture flips. The North East has experienced a 42 percent rise in the number of microbusinesses since 2001, whereas London and the South East have growth rates of closer to 25 percent. In fact, the four fastest growing microbusiness populations are all to be found in the north (North East, Yorkshire & Humber, North West and Scotland).

A similar story is borne out in the self-employment figures. While London and the South East have experienced the biggest jumps in self-employment since 2000, the increases in some other regions have accounted for a larger *proportion* of their overall changes in employment (see Figure 6). For example, 92 percent of the increase in employment in the North West since the turn of the century is accounted for by a rise in self-employment, while the figure is 62 percent in the South West. In the West Midlands, conventional employment actually fell and was only just offset by a rise in the number of people working for themselves. In every single region, no less than one in five of the extra jobs added since 2000 can be traced back to self-employment.

**Figure 6: Self-employment growth as a proportion of all employment changes (2000–2013)**



Source: Labour Force Survey, July–September quarterly data, 2000–2013 inclusive

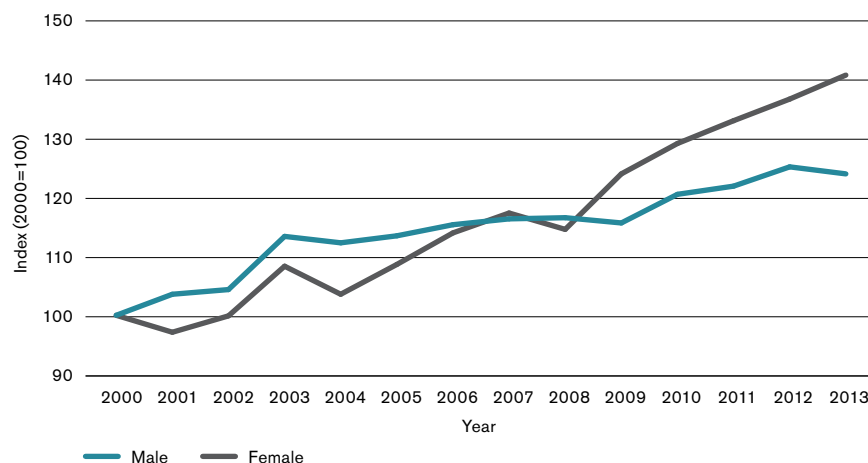
#### **Trend #4 – The emergence of new types of business owners**

For many years the popular image of a business owner has usually been that of a middle-aged man. Yet this stereotype is being chipped away as several other demographic groups become more prominent. One of the most marked trends of recent years has been the increase in the number of **women** who are self-employed. As Figure 7 shows, over 40 percent more women have become self-employed since the turn of the century, which is almost twice the growth rate witnessed among men. Indeed, women account for around 60 percent of the increase in self-employment since the economic downturn in 2008. Although half of women in self-employment work part-time, this proportion has not changed markedly since 2000. In fact, the most significant increases in part-time self-employment have been among men.

Self-employment is also becoming more commonplace among the **over 55s**, 1.2m of whom are now self-employed. Figure 8 shows that the number of people aged 55–64 in business has increased by around 40 percent since 2000, while the number of 65 year-olds who are working for themselves has increased by 140 percent. These trends have continued throughout the recession, meaning that over half the increase in self-employment since 2008 can be accounted for by the over 55s. Other surveys also show a similar pattern. The Global Entrepreneurship Monitor, for example, finds that the number of over 50s in the process of starting a business has doubled since 2008.<sup>18</sup>

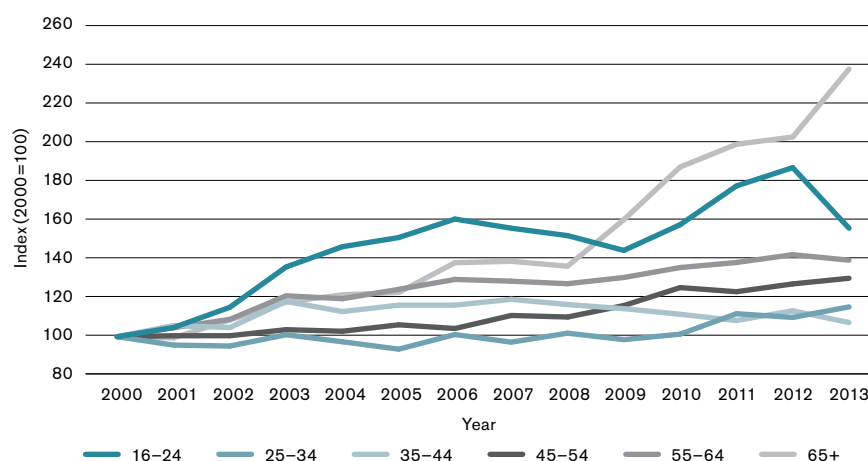
18. Levie, J. and Hart, M. (Forthcoming) GEM UK 2013 findings.

**Figure 7: Growth in self-employment by gender**



Source: Labour Force Survey, July–September quarterly data, 2000–2013 inclusive

**Figure 8: Growth in self-employment by age group**



Source: Labour Force Survey, July–September quarterly data, 2000–2013 inclusive

Self-employment is also growing among **young people**. Despite a recent dip, the number of under 25s starting up in business has increased by close to 55 percent since the turn of the century (see Figure 8). This figure is even more striking when you consider that the number of young people in typical employment has fallen over the same period (it has risen or remained more or less static for nearly every other age group). In other words, self-employment has become more important as a source of employment for this demographic. Unlike women and the over 55s, we cannot say that the under 25s account for a major *share* of the increase in self-employment – the fact that many are in education means they will never account for a large proportion of this community – but their growing preference for self-employment could be seen as a sign of what the workforce of the future will look like.

Taken together, these findings suggest that the microbusiness and self-employed communities are undergoing a steady but notable change. The

number of such firms is growing substantially, yet the real changes appear to be happening at the small end of small, with the part-time self-employed accounting for much of the business activity witnessed in recent years. There are also signs that certain demographic groups are increasingly turning to self-employment – most notably women, the over 55s and young people – and in doing so are disrupting entrenched stereotypes. Moreover, there is a sense that self-employment is becoming a much more important source of work for those living in the regions outside of London.

This begs the question of what has caused such shifts, and indeed whether this phenomenon is part of a long-term recalibration of our economy or simply a cyclical blip. Before exploring in more detail the origins of boom, the next chapter examines three myths in particular regarding the newly self-employed.

### **Box 5: Is the trend happening elsewhere?**

The OECD's data suggests that we are alone in experiencing such a large increase in self-employment. Between 2007 and 2012, the UK saw the largest percentage increase in the number of self-employed jobs, ahead of France, Germany, Canada and the US (although it is only the latter that saw a decrease).<sup>19</sup> What explains this divergence is not as yet clear, though there are likely to be particular social and economic drivers of self-employment in the UK that are not present elsewhere. This ranges from our high rate of immigration to the tax and deregulatory measures taken by the government to ease the process of doing business (we explore these drivers in more detail below).

### **Box 6: Summary of microbusiness and self-employment changes**

Data from the Labour Force Survey and Business Population Estimates point to several interesting trends:

- The number of microbusinesses has grown by 40 percent since 2000, equating to an extra 1.4m firms
- Microbusinesses now account for 95 percent of all private sector businesses and a third of all private sector employment
- Self-employment accounted for 90 percent of the new jobs added since the economic downturn in 2008
- 95 percent of the growth in microbusinesses since the turn of the century is owed to an increase in one-person businesses, not employing firms
- The number of people in part-time self-employment has grown by close to 65 percent since 2000, compared to 20 percent in full-time self-employment
- An increase in self-employment accounted for 92 percent of jobs growth in the North West and 62 percent in the South West, compared to 35 percent in London
- The number of women in self-employment has grown at almost twice the rate of men since 2000
- Over the same period the number of over 65s running their own business has increased by 140 percent, and the number of under 25s working for themselves has increased by 55 percent.

<sup>19</sup>. For more information see [www.oecd-ilibrary.org/industry-and-services/entrepreneurship-at-a-glance-2013\\_entrepreneur\\_aag-2013-en](http://www.oecd-ilibrary.org/industry-and-services/entrepreneurship-at-a-glance-2013_entrepreneur_aag-2013-en)



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# Busting some common myths

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## Rebalancing the debate

Few dispute the fact that the microbusiness community is growing and that self-employment is on the rise. However, there is considerable disagreement in what lies behind the boom and whether it will continue into the future. The more pessimistic commentators have argued that this phenomenon is indicative of a troubled economy, and that we would be better off with fewer people working for themselves. Yet criticisms such as these are too often based on assumptions that do not stand up to scrutiny.

Here we highlight three myths in particular that deserve closer attention:

### Myth #1 – Most of the newly self-employed have been forced into it

One of the main drivers behind the increase in self-employment in recent years is said to be a lack of jobs elsewhere. The argument runs that when people cannot find work in a typical business they have to create their own in order to make ends meet. Headlines in the national press such as “Young jobless fuel growth in UK start-ups” and “Self-employment hits 20 year-high as people try to avoid unemployment” are indicative of how widespread this point of view is.<sup>20</sup> Indeed, it is often taken as a given that rates of unemployment and self-employment are strongly and positively correlated – if one goes up, the other must follow.

There is, of course, some truth in this. A number of studies have found a strong link between the level of unemployment in local areas and the rate of new start-ups.<sup>21</sup> It is also true that self-employment accounts for an unprecedented proportion of the new jobs added since the economic crash. Yet in the UK at least, measurements of entrepreneurial motivations show that the number of people starting up out of no choice of their own continue to be in the minority. The latest results from the Global Entrepreneurship Monitor indicate that the level of ‘opportunity’ entrepreneurship – where people start up for positive reasons (eg to make the most of a good idea) is close to five times higher than the level of ‘necessity’ entrepreneurship – where people start up for negative reasons

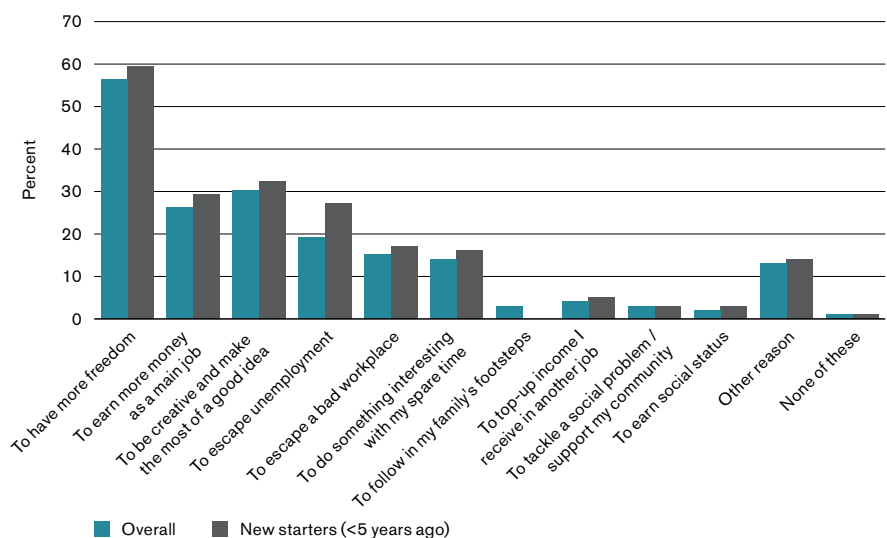
20. Available: [www.ft.com/cms/s/0/f22ef8ec-c473-11e2-9aco-00144feab7de.html#axzz32eGKDrDE](http://www.ft.com/cms/s/0/f22ef8ec-c473-11e2-9aco-00144feab7de.html#axzz32eGKDrDE) and [www.telegraph.co.uk/news/uknews/9344366/Self-employment-hits-20-year-high-as-people-try-to-avoid-unemployment-ONS-says.html](http://www.telegraph.co.uk/news/uknews/9344366/Self-employment-hits-20-year-high-as-people-try-to-avoid-unemployment-ONS-says.html)

21. See for example Fairlie, R. (2011) *Entrepreneurship, Economic conditions and the Great Recession* [Discussion paper]

(eg because they had no other options for work).<sup>22</sup> Interestingly, *both* types of entrepreneurship grew during the economic downturn.

What is more, our own RSA/Populus survey found that just 19 percent of the self-employed said escaping unemployment was a key reason for starting up. As Figure 9 shows, a much more common answer was to achieve greater freedom or to make the most of a good idea. Those who started up in business within the last five years – in other words, during the recession – are only slightly more likely to have said they started up in response to a lack of jobs (27 percent of respondents). Echoing these results are those of a survey from the Resolution Foundation, which found that only 28 percent of the newly self-employed – those who started up within the last five years – would prefer to be typical employees.<sup>23</sup> Based on analysis of government data, they calculate that the rise in the number of unemployed people moving into self-employment accounts for just a quarter (24 percent) of the overall growth in self-employment since the downturn – a significant minority but a minority nonetheless.

**Figure 9: What were the main reasons for you deciding to lead your own business?**



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

### Myth #2 – Most of the newly self-employed are odd-jobbers

As well as examining the motivations of the newly self-employed, some have questioned whether the *types* of businesses they run are of a ‘serious’ nature. Both the TUC and CIPD, for example, have suggested previously that a large number of the newly self-employed are ‘odd-jobbers’ who are scratching around for work (although the CIPD has since taken a more positive stance on self-employment).<sup>24</sup> Others have argued that most

22. Levie, J. and Hart, M. (Forthcoming) Op cit.

23. D’Arcy, C. and Gardiner, L. (2014) *Just the job – or a working compromise?* London: Resolution Foundation.

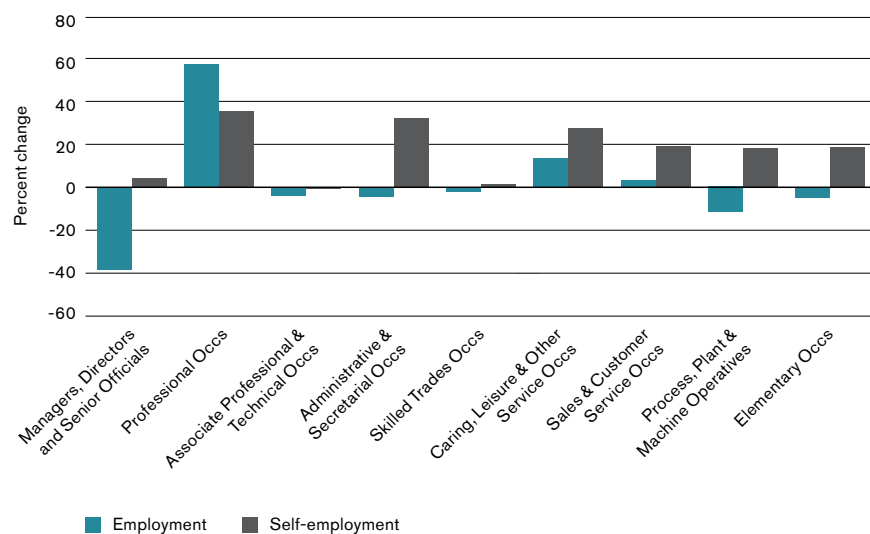
24. See for example Trades Union Congress (2014) *More than two in five new jobs created since mid-2010 have been self-employed.*

of the increase in self-employment in recent years lies in a handful of low-skilled occupations, including administration, cleaning and construction. Claims such as these are partly corroborated by the large rise in part-time self-employment since the turn of the century.

Again, however, this is only one part of the story. Data from the Labour Force Survey actually shows that the biggest increase in self-employment since 2008 has been in professional occupations – one of the highest skilled labour groups (see Figure 10). And while the number of self-employed people in other highly skilled groups has remained static or decreased marginally, this broadly mirrors the changes occurring in the wider workforce. It is true that there are clear jumps in self-employment in sales, factory and elementary occupations – some of the lowest skilled positions. But if the growth in self-employment was in fact largely down to more odd jobbers, it is reasonable to expect the increases in these groups to be much larger than indicated in the graph below.

In reality, the growth in self-employment since the recession has been a story of two trends. The latest data from the Labour Force Survey shows the increase in the first half of the economic downturn from 2008 to 2011 was virtually all accounted for by part-time self-employment, whereas the rise in the second half of the economic downturn from 2011 to 2014 was largely accounted for by full-time self-employment. This may indicate that the businesses of the newly self-employed are becoming more ‘serious’, or that more ‘serious’ workers are beginning to move into self-employment. In any case, it is unwise to assume that the part-time self-employed are running businesses with less conviction than their full-time counterparts. Similarly, the fact that many of the newly self-employed say they ‘work for themselves’ or ‘freelance’ rather than ‘run a business’ should not be taken as a sign that they are lower skilled or run firms generating lower quality products or services.

**Figure 10: Change in self-employment and employment by occupation (2008–13)**



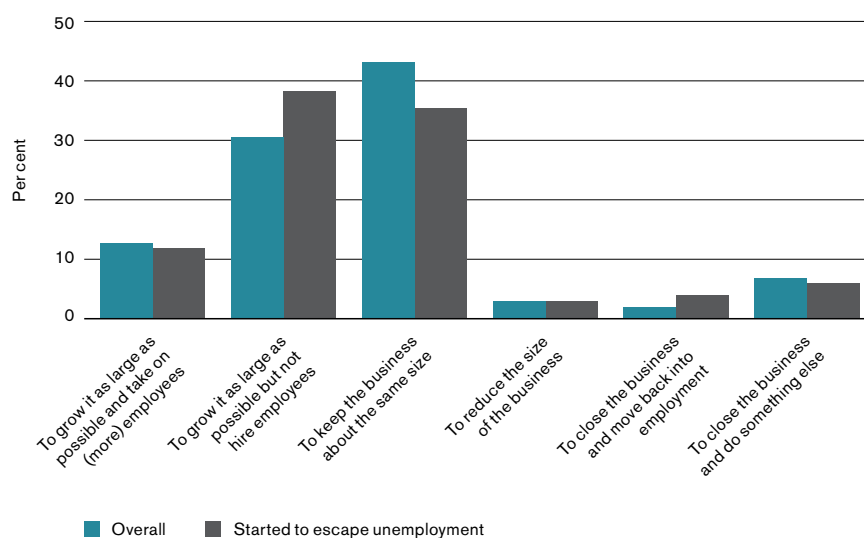
Source: Labour Force Survey, July–September quarterly data, 2000–2013 inclusive

### Myth #3 – The growth in self-employment is a cyclical blip

The number of microbusinesses has grown by over half a million since the economic downturn began, and the proportion of the workforce that is self-employed is at highest ever level. Myths 1 and 2 have led many to believe that these changes are likely to be short-lived, and that when the economy gets back on its feet things will return to normal. Yet this overlooks the fact that self-employment and the number of microbusinesses had been increasing long before the recession started. The number of microbusinesses in the UK has increased by an average of 2.8 percent a year since the start of this century, and the numbers in self-employment by an average of two percent. It is also telling that the self-employed population is now growing at a very fast rate despite the fact that the economy is on the mend.

At an individual level, some studies also show that the likelihood of a business owner returning to typical employment is low.<sup>25</sup> Our RSA/Populus survey found that only nine percent of the self-employed plan to close their business in the next three to five years, and the figure is only marginally higher for those who started to escape unemployment (see Figure 11). Surprisingly, this latter group are even more likely to want to grow their business in the near future. Moreover, we know that people who fold a business often go on to start a new one, even if they closed as a result of financial distress. A 2001 study by Kingston Business School found that around 60 percent of small business owners who closed their venture went on to launch another.<sup>26</sup>

**Figure 11: What do you plan to do with your business over the next 3–5 years?**



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

25. See for example, Dawson, C., Henley, A. and Latreille, P. (2009) *Why do individuals choose self-employment?* [Discussion paper].

26. Stokes, D. and Blackburn, R. (2001) *Opening up business closures: A study of businesses that close and owners' exit routes*. London: Kingston University.

These findings indicate that the growth in the UK's self-employed community has been propelled as much by structural shifts as cyclical fluctuations. But what are these long-term trends exactly? And how much are to do with changes in the economy and how much to do with transformations in our society and culture? The next chapter spells out five ingredients that may lie behind the boom.

### **Box 7: How much of a problem is bogus self-employment?**

Loopholes in the tax system have always been used by unscrupulous organisations to push their staff into declaring that they work for themselves. Arrangements like these mean the employer no longer has to pay National Insurance contributions and can sack their pseudo-employees more easily. This was a notorious problem in the construction industry during the early 2000s, and prompted the government to introduce new measures to limit the use of such tactics. The construction union UCATT believes the problem continues to this day, with an annual cost of around £2bn to HMRC in lost tax revenues.<sup>27</sup> However, there are no concrete figures indicating that this is a widespread problem. What we do know is that the number of people describing themselves as 'sub-contractors' has actually fallen slightly since 2005.<sup>28</sup> So too has the number of self-employed individuals working in construction.<sup>29</sup>

Concerns have also been raised that recent changes to the welfare system are fuelling a rise in bogus self-employment. The introduction of the new Work Programme, where non-state organisations are paid to help the long-term unemployed into work, is thought to have created a perverse incentive for providers to push clients into starting their own business, even if they are unprepared and ill-suited to this line of work. A BBC investigation found several instances where people had been inappropriately encouraged to start-up in business, with some being misinformed by their advisors that they would receive higher benefits on Working Tax Credits than on Job Seeker's Allowance.<sup>30</sup> Again, it is unclear how endemic this problem is. The Labour Force Survey does show that the proportion of people on Working Tax Credits who are self-employed has increased marginally, but there is little substantial evidence beyond this of Work Programme providers pushing their clients into self-employment.

27. Elliott, J. (2012) *The Great Payroll Scandal*. London: UCATT.

28. D'Arcy, C. and Gardiner, L. (2014) Op cit.

29. Ibid.

30. Barnes, H. (2013) *Work advisers 'pushing jobless into self-employment'* [Article] BBC News, 3 February 2013.

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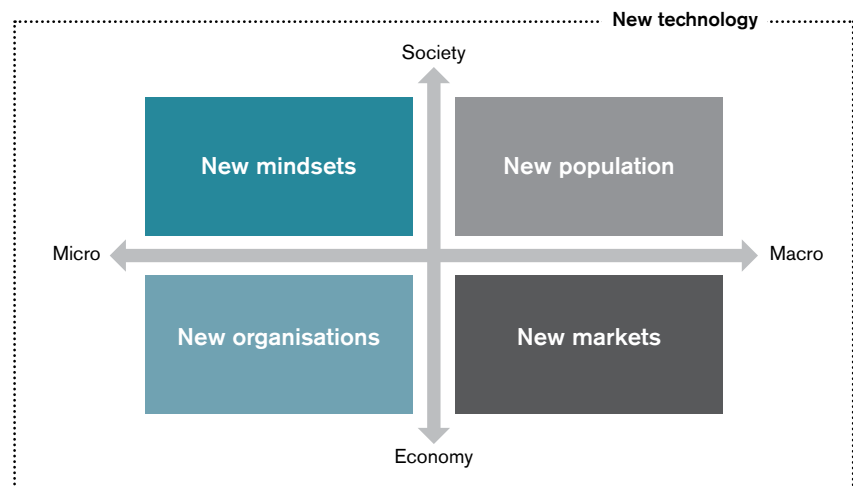
# Five ingredients behind the boom

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What follows is a breakdown of five key ‘ingredients’ that may help to explain the boom in self-employment – yet which are often overlooked in mainstream debates. These relate to long-term shifts in both the economy and wider society, as well as to changes at the micro and macro levels (see Figure 12).

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**Figure 12: The 5 ingredients behind the boom**



## New organisations

The first ingredient relates to the way in which organisations are changing. As highlighted in the last chapter, a lack of employment opportunities is one reason why more people are turning to self-employment. Yet it is not just a lack of jobs that is a driving force; it is also a lack of *good* jobs – worthwhile ones that can help people sustain the living standards to which they have become accustomed. Labour economists have highlighted that mid-level opportunities are being stripped out of today’s organisations at a remarkable pace, leaving greater numbers of people with the prospect of working either in lovely or lousy jobs, which sit at polar opposites of the jobs market. Middle-wage occupations saw their share of employment decline in 16 major European nations from 1993 to 2006.<sup>31</sup>

<sup>31</sup> Cowen, T. (2013) *Average is Over: Powering America Beyond the Age of the Great Stagnation*. Dutton.

This is partly due to the advent of computerisation and the spread of automation – once limited to certain occupations but now extending into everything from accountancy to legal services. One Oxford University study indicates that as many as 47 percent of jobs are at risk of being automated over the next 20 years.<sup>32</sup> The effect of the recession has been to accelerate this trend and reveal long-term structural problems that remained unseen in the good years. Indeed, the economists Jaimovich and Siu argue that the middle class jobs lost in the economic downturn are unlikely to return.<sup>33</sup> What we may be seeing then is that rather than settle for a lower-skilled position, many people are instead opting to work for themselves. One interesting study of unemployed workers found that very few were willing to take conventional jobs paying less than their previous salary.<sup>34</sup>

Just as many of the unemployed are disillusioned with the quality of job opportunities that are available to them, so too are those who are currently within work. Economic and technological forces have not only destroyed middle-skilled jobs, they have also eroded many of the benefits in the roles that remain. According to the Institute for Fiscal Studies, between 2008 and 2013 real wages fell by more than in any comparable five year period.<sup>35</sup> Other pillars of the workplace are also crumbling: benefits appear to be atrophying, pensions becoming less generous and workloads increasing. From architecture to teaching to academia, once prestigious occupations no longer promise the same level of rewards they used to 20 or 30 years ago.<sup>36</sup> The result is that working for yourself has become that much more attractive (even if life for the self-employed is financially difficult). As some of our interviewees put it:

“Before I set the business up, I was working in full time employment. I was working long hours, but not getting much money. I just thought to myself, why not work this hard but in my own business?”

“When I was first working everything was great. There was team spirit. We had a lot of benefits. It wasn’t cut throat at all. And they seemed to care about the employee. But because of the recession, the care for employees has gone.”

“The idea of a job for life has just gone. I think people perceive a typical job as being less secure, and when they make the comparison they realise that self-employment may be a better option for them.”

Yet the attractiveness of typical jobs is waning just as much for non-material reasons as it is material ones. The anthropologist David Graeber received attention last year for his essay on “bullshit jobs”, which took

32. Frey, C. B. and Osborne, M. and A. (2013) *The Future of Employment: How susceptible are jobs to computerisation?* University of Oxford.

33. Cited in Cowen, T. (2013) Op cit.

34. Krueger, A. B. and Mueller, A. (2011) *Job search and job finding in a period of mass unemployment: Evidence from high-frequency longitudinal data.* [Working paper] cited in Cowen, T. (2013) Op cit.

35. Institute for Fiscal Studies (2013) Op cit.

36. See for example Neville, S. (2014) *The fractured middle: Gulfs grow within, and between, professions* [article] Financial Times, 14 February 2014.

issue with the growing number of employment opportunities that seem to lack purpose, and which exist for no ostensible reason.<sup>37</sup> Survey after survey continues to show that barely a third of employees in the UK feel engaged at work.<sup>38</sup> Many of the self-employed people we spoke with echoed these sentiments, saying they had felt increasingly underwhelmed by the corporate culture of their old workplace:

“I’ve noticed more people than ever are moaning about their jobs. People are talking about what they want from life. They’re starting to realise there’s more to life than the 9–5.”

“I feel like now, we’re living in a time where people will be working until they drop. So you might as well enjoy what you’re doing.”

The impression here is that a lot of people are being ‘pushed’ into self-employment partly because of a lack of decent job opportunities and partly because those jobs that do remain are becoming less attractive. Yet this is only one part of the story. Rather than forcing people into self-employment, many of these organisational shifts should instead be seen as the ‘trigger’ that is releasing pent up entrepreneurial ambitions. In other words, they may be encouraging people to start up the business they had always been meaning to. As one of our interviewees put it:

“For me there’s a bit of a silver lining having to leave the job because you wouldn’t have had the guts to leave a good job for the unknown. But having done so it can be nice.”

## New mindsets

Just as organisations are changing, so too are mindsets. For much of post-war Britain, running your own business was seen as a lesser form of work, particularly when compared to job opportunities in professions such as medicine, law and the civil service. In recent years, however, this stigma has begun to fade away. Business owners are now seen as pioneers, just as they were in the 18th and 19th centuries when the likes of Richard Arkwright were leading the industrial revolution. According to the Global Entrepreneurship Monitor, close to 80 percent of people now believe that those starting a successful business have a high level of respect in society – a figure that has risen steadily over the past decade.<sup>39</sup>

However, this is not simply a case of more people passively admiring the self-employed, it is also about more people themselves enjoying the very acts of making, doing and selling. Conspicuous consumption is being challenged by conspicuous production, as starting and running a business becomes a deeply social and popular activity – not just a way to earn money but to express oneself and connect with others. Many of our interviewees, for instance, spoke of wanting to create their own ‘brand’,

37. Graeber, D. (2013) ‘On the Phenomenon of Bullshit Jobs’ in *Strike! Magazine*, Autumn 2013.

38. See for example Rayton, B. (2012) *Employee Engagement Taskforce: Nailing the evidence workgroup*. Engage for Success.

39. Levie, J. and Hart, M. (Forthcoming) Op cit.



while others described how their decision to start up in business was validated by the respect they received from those around them. Writing in *The New York Times*, William Derisewich sums up the popular mood:

“Today’s ideal social form is not the commune or the movement or even the individual creator as such; it’s the small business. Every artistic or moral aspiration – music, food, good works, what have you – is expressed in those terms. The small business is the idealized social form of our time. Our culture hero is not the artist or reformer, not the saint or scientist, but the entrepreneur.”<sup>40</sup>

The origins of this shift in popular culture are still open to question. However, it is likely that efforts by the government and advocacy groups to promote self-employment as a viable path in life have made at least some impression on people. Indeed, there seems to have been a conscious political decision by this government in particular – and by many of the devolved governments – to champion self-employment. The Business in You campaign, the StartUp Loans scheme and the New Enterprise Allowance initiative are just a handful of the new projects set up by the state in recent years. Added to these are independent programmes like Global Entrepreneurship Week, which now promotes entrepreneurship across 84 countries. The media, too, has played its part, with shows like *Dragon’s Den* and magazines such as *Inc.* exposing greater numbers of people to the idea of working for themselves – even if they do labour the clichés.

These efforts are complementing more fundamental changes in society – particularly those driven by new technologies. The social theorist Manuel Castells has written of how the internet and social media platforms have exposed people to a world of new ideas and outlooks, and as a result nurtured among them a craving for autonomy and distrust of authority – something he describes as ‘individuation’.<sup>41</sup> Similarly, the political scientist Moisés Naim has suggested that the world is undergoing an ‘expectation revolution’, whereby increasing access to travel, different cultures and communication tools are imbuing people with a desire for independence that cannot be readily satisfied by old power orders and hierarchical workplaces.<sup>42</sup>

Other commentators have gone further and argued that our very value systems are shifting. One such person is Ronald Inglehart, a political scientist at the University of Michigan, who has over the course of several decades been tracking changes in what we value. According to his research, ‘post-materialist’ values – where people prize autonomy and self-expression over economic security and tangible possessions – have become more widespread.<sup>43</sup> There were approximately four times as many materialists as post-materialists in the early 1970s, yet by 2006 the latter had taken the lead. This is partly due to increasing connectivity and

40. Deresiewicz, W. (2011) *Generation Sell* [article] *The New York Times*, 12 November 2011.

41. Castells, M. (2012) *Networks of Outrage and Hope: Social movements in the internet age*. Polity Press.

42. Naim, M. (2013) *Op cit.*

43. Inglehart, R. F. (2008) ‘Changing values among western publics from 1970 to 2006’ in *West European Politics*, 31(1–2): 130–146.

cultural exposure, and partly to do with feelings that survival and access to basic goods can now be taken for granted.

Unsurprisingly, the desire for autonomy and self-expression may have fed into greater numbers of people wanting to work for themselves and be their own boss. These individuals will in turn add to the weight of cultural forces making self-employment more acceptable. In a self-fuelling fashion, the more people we see starting up in business, the more we view it as a feasible option for us. Indeed, someone with a self-employed parent is approximately two or three times more likely to start their own business than those without.<sup>44</sup> One study by the Kauffman Foundation in the US suggests that ‘entrepreneurship’ may even be contagious.<sup>45</sup>

## New markets

Another factor fuelling the growth of the self-employed community is changing markets. Forty plus years ago the UK was an economy still rooted in heavy industry and manufacturing. Yet fast-forward to 2014 and the economy is in an entirely different place. Today we are more likely to work in a call centre than we are in a car factory, and to be in an office surrounded by servers and computers than heavy machinery and assembly lines. In 1990, manufacturing accounted for a fifth of UK GDP, but now it is only a tenth.<sup>46</sup> Contrast this with the service sector, which today accounts for over three-quarters of UK economic output.<sup>47</sup> One estimate suggests that almost all recent EU jobs growth has come from services.<sup>48</sup>

The reason this matters is because small businesses thrive in service industries – not least due to lower barriers to entry. Rather than have to invest in heavy *capital* to create products, microbusinesses can instead draw upon talented *labour* to generate services. And with fewer barriers to entry, new players can continually challenge the status quo, generating a level of churn that opens up space for new microbusinesses to emerge. As Josef Schumpeter once said, established businesses are “standing on ground that is crumbling beneath their feet” – and that ground is becoming ever more precarious.<sup>49</sup> Moreover, many of the new service-based occupations emerging today can only be hosted in small business units. The app developer and the personal trainer, for instance, operate with a certain level of authorship that requires them to work alone or in a small team.

Alongside a booming service sector, another trend driving the growth of self-employment and microbusinesses is the emergence of ‘niche’ markets – namely products and services that cater to very particular tastes. From music to television shows to food, the mainstream standardised offers that once dominated our lives are being challenged by

44. Hout, M. and Rosen, H. (2000) ‘Self-employment, family background and race’ in *The Journal of Human Resources*, Vol 35 (4) cited in Blanchflower, D. and Shadforth, C. (2007) ‘Entrepreneurship in the UK’ in *Foundations and Trends in Entrepreneurship*, Vol 3 (4).

45. Kedrosky, P. (2013) *Getting the Bug: Is (growth) entrepreneurship contagious?* Kauffman Foundation.

46. See <http://data.worldbank.org/indicator/NV.IND.MANF.ZS>

47. See <http://data.worldbank.org/indicator/NV.SRV.TETC.ZS>

48. Roxburgh, C. and Mischle, J. (2011) *European Growth and Renewal: The path from crisis to recovery*. McKinsey Global Institute cited in Mulgan, G. (2013) *The Locust and the Bee*. Princeton University Press.

49. Schumpeter, J. (1942) *Capitalism, Socialism and Democracy* cited in Wooldridge, A. (2009) *Global Heroes* [Article] *The Economist*, 12 March 2009.

highly personalised alternatives – what some have termed ‘the great unbundling’.<sup>50</sup> As one business owner put it, whereas the 20th century was about “dozens of markets of millions of consumers”, the 21st century will be about “millions of markets of dozens of consumers”.<sup>51</sup>

Technological progress has played a large part in enabling the growth of niche markets. The internet, for instance, allows the self-employed to reap the benefits of ‘diffused demand’, selling their products and services to consumers in every corner of the country and also abroad. But much may also have to do with more ‘venturesome consumers’, with the rise of social media platforms such as Twitter, Instagram and Pinterest fuelling people’s desires for one-off experiences they can let others know about.<sup>52</sup>

However, it is not just *what* the self-employed make that is giving them an advantage, it is also about *how* they can deliver what they produce. Just as consumers are increasingly looking for niche goods, so too are they demanding a more personal touch in many of the things they purchase. The business guru Nicholas Lovell argues in his new book *The Curve* that to gain people’s attention – one of the rarest commodities in our society – businesses can no longer rely on price or quality to set themselves apart from the rest of the pack.<sup>53</sup> Rather, they have to make people *feel* something. As he puts it:

“In the commodity era of limited availability, we asked ‘Can I get it?’ In the goods era of manufactured products, we asked ‘How much does it cost?’ In the service era of quality, we asked ‘Is it any good?’ Now that we can get great products cheaply whenever we want, we have started asking a new question: ‘How will it make me feel?’”

Again, this can be an advantage for microbusinesses, which are arguably better placed to make tailored products that resonate with consumers’ desires and emotions. A good example is the typical sellers on the ecommerce website Etsy, who often speak to their customers before they make a purchase, connect with them on social media, and leave hand-written letters in their parcels (see Box 8). Indeed, recent research by Vodafone found that more than half of small businesses said their ability to be nimble in tailoring services to clients was crucial in competing with larger firms.<sup>54</sup>

Such will be the importance of these qualities in future that Larry Katz, an Economics Professor at Harvard Business School, predicts most high quality jobs will require some form of ‘artisanship’ founded on providing a personal touch – whether that be an empathetic caregiver or a thoughtful personal tutor.<sup>55</sup> Tyler Cowen agrees, suggesting that the only

50. See for example Lovell, N. (2013) *The Curve: From Freeloaders to Superfans*. Portfolio Penguin.

51. Cited in Day, P. (2013) *Imagine a world without shops or factories* [Article] BBC News Magazine, 11 October 2013.

52. See for example Wallman, J. (2013) *Stuffocation: How we’ve had enough of stuff and why you need experience more than ever*. Crux Publishing Ltd.

53. Lovell, N. (2013) Op cit.

54. Vodafone (2011) *Working Smarter to Succeed*. Available: [www.vodafone.com/content/dam/vodafone/about/what/research\\_papers/working\\_smarter\\_research.pdf](http://www.vodafone.com/content/dam/vodafone/about/what/research_papers/working_smarter_research.pdf)

55. Larry Katz cited in *The Economist* (2011) *The Return of Artisanal Employment* [article] 31 October 2011.

way for workers to set themselves apart from machines will be to cater to the emotional needs of customers.<sup>56</sup> One study from the University of Oxford predicts that technically proficient accountants have a 0.94 chance of their jobs being automated in the next 20 years, whereas experience-led recreational therapists only have a 0.003 chance.<sup>57</sup>

## New population

The effect of changing organisations, mindsets and markets on levels of self-employment is perhaps unsurprising. Less obvious, however, is the impact had by shifts in the UK's population. One of the major drivers of the microbusiness boom we are witnessing today is likely to be an ageing society. The number of over 65s is set to increase by 50 percent over the next 20 years as baby boomers age, and many of these will continue to work well past the state retirement age.<sup>58</sup> According to data from the Labour Force Survey, the number of people working past the point of state retirement has more than doubled since the turn of the century. Another survey suggests that one in 10 people will work for as long as they can in their lifetimes.<sup>59</sup>

As highlighted earlier in this report, a large number of these individuals will opt to start their own business. The number of over 65s working for themselves has increased by 140 percent since the turn of the century, and half the increase in self-employment since 2008 was accounted for by the over 55s. One reason for becoming self-employed is to plug gaps in their finances. HMRC figures indicate that incomes plummet by an average of a third when people reach retirement,<sup>60</sup> while other research shows that many are leaving their working lives with large outstanding debts.<sup>61</sup> But many will also start up in business to do something more meaningful with their spare time. As one of the business support practitioners we interviewed put it, “people don't want to spend 30 years unemployed. They think they have the skills to do X, Y, Z – so why can't they use them.”

Another demographic trend pushing up the self-employment figures may be the baby boom currently sweeping across the UK. The number of births in 2012 was the highest it has been in 40 years, and bucks the trend of declining fertility rates seen among most other European countries.<sup>62</sup> Many of these new mothers may go on to start a business while on maternity leave. Others will opt for self-employment later on, as they struggle to access affordable childcare – the cost of which has increased by a third since 2009<sup>63</sup> – and require more flexibility to look after their children. These were particularly strong motivations among our interviewees:

56. Cowen, T. (2013) Op cit.

57. Frey, C. B. and Osborne, M. and A. (2013) Op cit.

58. Cracknell, R. (2010) 'The Ageing Population' in *Key Issues for the New Parliament*. House of Commons Library Research.

59. Barings (2013) *No retirement for 1 in 10 UK adults, warns Barings*. London: Barings

60. HMRC (2013) *Personal Incomes Statistics 2010–11*. HMRC.

61. Prudential (2014) *One in six planning to retire this year will have debts*. Available: [www.pru.co.uk/pdf/presscentre/class\\_of\\_2014\\_retiring.pdf](http://www.pru.co.uk/pdf/presscentre/class_of_2014_retiring.pdf)

62. [www.ft.com/cms/s/0/7a42c2de-0008-11e3-9c40-00144feab7de.html#axzz2xp15pC9g](http://www.ft.com/cms/s/0/7a42c2de-0008-11e3-9c40-00144feab7de.html#axzz2xp15pC9g)

63. [www.bbc.co.uk/news/education-26373725](http://www.bbc.co.uk/news/education-26373725)

“Seven years ago I had a little boy and asked [my employers] whether I could work part-time for a while. They said ‘no’, which annoyed me. When I found out I was pregnant the next time, I decided that I would definitely leave my job if they didn’t give me some flexibility.”

“I can dedicate a lot more time to my kids now. I’ve spent more time in the last year with my children than in all the years before that put together. Once you have that, you don’t want to go back.”

A third noteworthy demographic trend is the sustained level of immigration the UK has undergone over recent decades.<sup>64</sup> The number of migrants entering the country every year has rarely dipped below the 500,000 mark since 2003 – some of whom are coming to study but the vast majority to work.<sup>65</sup> And according to the University of Oxford’s Migration Observatory, a fifth of our future population growth will come from births to immigrant mothers.<sup>66</sup> This is significant because first-generation immigrants and their children are nearly twice as likely to start up in business than their native counterparts.<sup>67</sup>

### **New technology**

Technological progress is the final but crucial ingredient behind the boom in self-employment. While the broader impact of the internet age may be questioned by some, its transformative effects on the world of business are plain to see. Our own RSA/Populus survey found that over a third of self-employed people would not have been able to start their firm at all without recent advances in technology such as the internet, while another third said they could but it would have been less successful (see Figure 13). Echoing these findings, research by Lloyds Bank into small businesses found that those with a strong web presence grow twice as fast as those with minimal or no presence.<sup>68</sup>

Simply put, these technologies have sent the cost of doing business into freefall. Whereas 20 or even 10 years ago you would require a bricks and mortar shop to stock goods, distribute them and build awareness of your brand, today all that is required by many people is some form of work-space, a laptop and access to the internet. A recent survey by Barclays Bank found that the average cost of starting a business (at least B2C) is now just £500.<sup>69</sup> Crucially, what these new technologies have created are ‘variable cost structures’ that allow businesses to operate on a plug-and-play model.<sup>70</sup> Amazon is paid per gig of data storage used, Skype per call made, Google per advert clicked and Etsy per sale made. Even manpower can be bought per hour and per day through new web platforms like Elance and oDesk.

64. Bank of England (2007) *Quarterly Bulletin Vol 47 No. 1*. BoE.

65. Office for National Statistics (2013) *Migration Statistics Quarterly Report, February 2014*. London: ONS.

66. The Migration Observatory at The University of Oxford cited in Allen, K. and Warell, H. (2013) *Baby Boom drives UK Population Growth* [article] Financial Times, 8th August 2013.

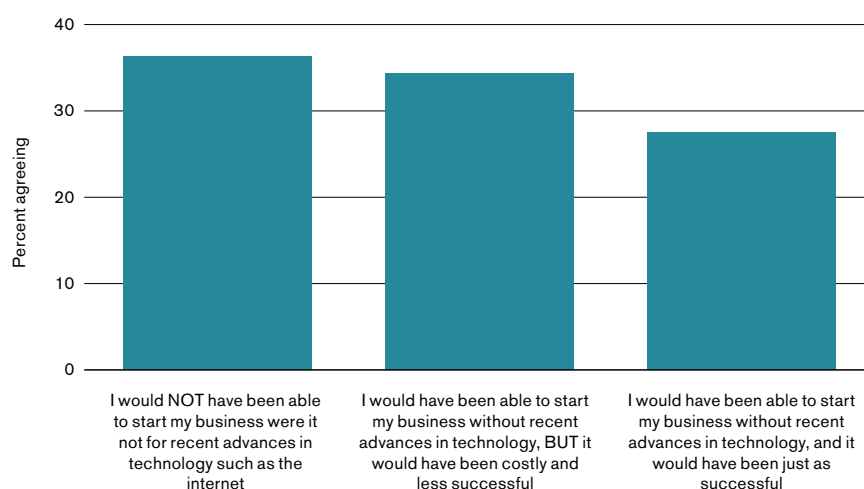
67. Levie, J. and Hart, M. (2014) *GEM UK 2012 Report*. Global Entrepreneurship Monitor.

68. Lloyds Banking Group (2012) *Britain’s Digital Opportunity*. Lloyds and GO ON UK.

69. Barclays (2013) *Entrepreneurs Index*. Barclays and the Business Growth Fund.

70. Intuit (2008) *Intuit Future of Small Business Report*. Institute for the Future for Intuit.

**Figure 13: How important have recent advances in technology been to your business?**



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

Nor is this phenomenon limited to services. The emergence and increasing sophistication of 3D printers and other additive tools means that manufacturers can also operate on lower costs than was previously possible.<sup>71</sup> Of course, these technologies are not a panacea for the manufacturing community, and they are far from being able to churn out large quantities of finished goods in a cost-effective way. However, where they add tremendous value is in enabling people to make prototypes of products, which can be altered and finessed before being manufactured in a typical factory. One of our interviewees living in Orkney does just this, making designs for model railways on his computer, printing and tweaking them using his 3D printer, and only then ordering large batches from onshore manufacturers – something that would have been near enough impossible for a one-person business just a few years ago.

Such technological advances have helped to democratise business and put production into the hands of the many rather than the few. In particular, these tools now mean that people are able to start their own venture with just a few spare hours a week from home, perhaps dipping their toe in the water before fully committing themselves. This is certainly the case for many Etsy sellers, approximately one in five of whom work in full-time jobs in addition to running their creative business (see Box 8). The financial and social opportunities this unleashes for those on the margins of society – including many disabled people and those with chronic health conditions – should not be underestimated.

So far we have looked at how the self-employed community is evolving and what might explain the increase witnessed in recent years. However,

<sup>71</sup> Anderson, C. (2012) *Makers: The New Industrial Revolution*. Random House Business Books.

this birds-eye view of the economic and social landscape can only tell us so much about the individual attitudes and behaviours of what is a highly diverse set of individuals. What motivates people to start up in business, what are their aspirations for the future and how does the business affect them on a personal level? In the next chapter we will flesh out our understanding of the self-employed with a detailed and original segmentation.

### **Box 8: Analysis of the Etsy community**

Alongside analysing the make-up and nature of the self-employed community, we also set out to explore in particular the motivations and behaviours of the craft makers that sell items on the ecommerce website Etsy. In particular, we were interested in the impact that such a web-based platform can have on the ease of starting and running a business, including people's ability to find customers, generate meaningful income and access support from like-minded shop owners. The full results of our survey of Etsy sellers will be published in the coming weeks, however we can reveal a number of indicative findings (all of which may be subject to change pending a weighting exercise):

- One in five work in a full-time job alongside their Etsy business
- Nearly half said Etsy was the first place they had sold their goods
- Over a third talk with other Etsy sellers to receive business advice
- Nearly a quarter source materials and supplies from other Etsy sellers
- Half agree that wherever possible they try to recommend the products of other Etsy sellers to their customers
- Over a third said their buyers help by suggesting ideas for entirely new goods they could sell, and nearly three quarters by spreading word about their goods

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# The six tribes of self-employment

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## Getting beyond the binary

Whether it is an ageing population, evermore precarious workplaces or the emergence of post-materialist mindsets, changes in our society and economy are leading many more people to start up (and stay) in business. But who exactly are the self-employed, and how do they differ in terms of their motivations and behaviours? In recent years it has been popular to divide this community into two groups: those who are driven by ‘necessity’, and those who are pursuing ‘opportunity’. In other words, those who are either pushed into that position or pulled into it.

While this has been a useful comparison, particularly when attempting to give a simple answer as to whether people have been forced into self-employment (see chapter 3), it tells us little about people’s motivations for starting a business, let alone their growth intentions, business style and strategies, customer base or the impact the business has on their personal life and financial situation. Indeed, the self-employed are a highly heterogeneous community, and splitting them into two camps diminishes our understanding of them. A self-employed plumber in Newcastle is likely to be worlds apart from a fintech entrepreneur in Silicon Roundabout. Likewise, a small factory owner in the East Midlands will have little in common with a shopkeeper in deepest rural Wales.

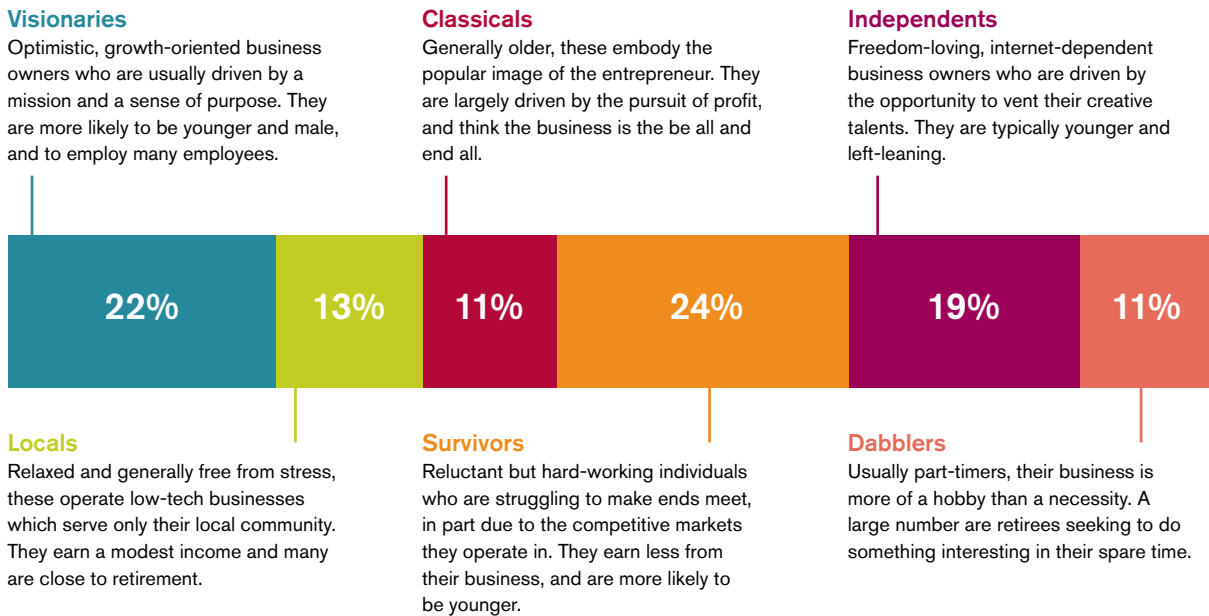
Knowing these distinctions is not an academic exercise. Rather, it is fundamental to the ability of policymakers and business support groups to encourage and enable more people to start *and* grow successful businesses should they wish to. Significantly, it allows policies and initiatives to be tailored to specific types of self-employed people, or at least to develop these schemes with everyone in mind. At present, there is a danger that we pander to one group or to false stereotypes, such as the maverick, risk-taking entrepreneur – images of which clog up media channels at the expense of other groups.

In a bid to get beyond the binary of push vs. pull, and to overcome stereotypes, we have created a detailed segmentation of the self-employed using data collected through our RSA/Populus survey (see Figure 14). The six tribes outlined below were generated using a rigorous statistical method that analysed respondents’ answers to a large number of



dual-statement questions.<sup>72</sup> This included ones touching upon their motivations, identity, aspirations, working style and economic and social wellbeing. For example, we asked respondents the extent to which they rely on gut instinct versus detailed planning, and the degree to which growth is their first priority versus survival. Table 1 at the end of the chapter summarises the defining features of each tribe.

**Figure 14: The six tribes of self-employment**



*\*Percentages refer to the proportion of the self-employed community who fall into these tribes*

### The Visionaries

Visionaries are optimistic, growth-oriented business owners who are driven by a sense of purpose. Their main motivation for starting up in business is to find greater meaning and to generate change in their chosen sector, with money often being an afterthought. Visionaries would have been able to find work elsewhere, but running their own business is the best way to vent their creative passions and make the most of their ideas. They firmly see themselves as serious business owners and are rarely distracted by other commitments, unless it is another venture. In fact, Visionaries work some of the longest hours, with over half spending 45 hours on their business in a typical week. This can occasionally leave them feeling stressed and isolated, but their business provides them with a moderately high income and is a great source of happiness. Half (51 per cent) earn over £30,000 a year.

72. The segmentation was conducted using Latent Class (LC) Analysis. Unlike other approaches, LC Analysis uses a mathematical modelling based approach to identifying segments, using appropriate models for each type of questionnaire item underlying the segments. There are many reasons for using LC analysis over other approaches, but among the most compelling is its ability to handle different types of response bias when rating scales are used, including tendency to rate at the extremes vs the centre. LC Analysis is considered by statisticians to be the most mathematically robust method of segmentation and had a proven track record of thousands of successful applications.

Their businesses are usually on the larger size, with most employing between five to nine people. Growth is a clear priority in the short-medium term and they are highly likely to recruit in the near future. Nearly 70 percent of Visionaries plan to grow their business by taking on staff in the next three to five years. This reflects another defining feature of this group: an overwhelming optimism about the future success of their venture. Yet the trajectory of the business is rarely left to chance. Most have their eye on the future and operate with detailed business plans. Part and parcel of being a Visionary is continually developing new kinds of products and services to serve national and international markets. Visionaries are not particularly vocal on political and economic issues, but they are one of the most likely to say they believe the economy is getting better and that the country is heading in the right direction.



One such Visionary is Craig Lynn, who has been co-running a product design company, filament pd, for the last two years. Before this he ran a consultancy service for five years, but decided to start the new firm in a bid to branch out and create his own products. This includes everything from children’s toys to agricultural products to hair straighteners. “We wanted to do something new and exciting – so we got together some 3D printers and started using crowdfunding to generate revenue for our designs.” Filament pd also has an incubator to develop the products of design students in and around the city. This reflects the highly collaborative nature of the business, which Craig says is based on transparency and a deep-seated mission to create useful, high quality products. “How many UK consumer brands can you think of? Barely none. I want to change that, and build a community around it in Scotland.”

Craig’s business ideas were originally born from conversations that he and two friends had while in their last year at Glasgow School of Art studying product design. “It turned out to be a case of graduating on the Friday and starting the business on the Monday.” Craig says he did consider a typical job, and had enjoyed an experience as an intern while at university. But as he puts it, “something was always niggling away at me. I’m not a 9–5 kind of guy.” Despite the “never ending to-do list” and

significant lifestyle changes, Craig says he couldn't imagine doing anything else. In the immediate future he is keen that filament pd continues to grow, particularly in the emerging market of 'the internet of things', but longer-term thinks it likely that he will start another venture spun out from one of their successful products. "We have a plan, but it's the products that are driving us."

#### **Key facts about Visionaries:**

- 60 percent employ between five to nine people
- 68 percent want to grow their business as large as possible and take on employees
- 49 percent say meaning is one of the things they look for most in their personal work
- Half (52 percent) work over 45 hours a week, and 13 percent work over 60 hours

#### **The Locals**

Locals run low-tech businesses that cater mainly to their immediate community. They tend to be relaxed about the business and are keen to have a manageable working week and to avoid any unnecessary stress. Their overriding motivation for starting their own business is to secure freedom and flexibility. Like Visionaries, Locals think of themselves as fully-fledged business owners, but their business is not a fundamental part of their identity. They derive more enjoyment from making their product or service than selling it. This may in part explain their relatively modest income, with a third (36 percent) earning less than £20k a year. Their business makes them happy, but unlike Visionaries it rarely leaves them feeling stressed or isolated. In fact, many Locals think running their own business enables them to look after their physical health conditions.

The laid back nature of Locals is reflected in their aspiration for the future, with 70 percent wanting to keep their venture about the same size as it is today. Although many have a small number of staff, virtually none plan to take on any employees in future. Any plans they do have are usually formulated on gut instinct, with decisions made as and when opportunities arise. They are optimistic about the success of their business, although still see survival as a key priority. The term Locals speaks to their overwhelming reliance on surrounding communities for clients, rather than national and international markets. This may help to explain why they tend to make little use of the internet and social media in the business.

Many market stallholders and tradesmen will fall under the banner of Locals. Steve Boden, for instance, is a self-employed tradesman running a heating and plumbing business in the town of Filey, North Yorkshire. Steve began working for the firm when he was just 16 years old and finally took over the reigns from his father a decade ago – something he says he knew he'd always do. Indeed, working for someone else seems like a foreign concept. As he puts, "I've always worked in this firm. And I've nearly always been my own boss. I can't imagine doing anything else." Steve says he feels the pressure of managing a small firm, but believes this is outweighed by the freedom that comes with being your own boss. "It's out to you to get the money. You decide what you want to do".

With the economy picking up, Steve sees a brighter future for the business. Yet competition in his area can be very intense. “There are a hell of a lot of other plumbers out there. Many are working under VAT and they can undercut us with their prices.” It’s for this reason that his team are open to all kinds of work, whether that is fixing a tap or refitting a major portfolio of properties for the council. Nevertheless, business opportunities are limited by location and his team can only travel so far to meet clients. Looking to the future, Steve plans to attract more business by building a showroom that can demonstrate his products and fittings. Ultimately he hopes to hand over the business to his nephew, who is already part of the team.



#### **Key facts about Locals:**

- 70 percent want to keep their business about the same size
- Half say they would have been able to start their business without recent advances in technology such as the internet (a much higher figure than the other groups)
- 30 percent say that low levels of stress are one of the things they look for most in their working lives
- Nearly half (47 percent) are between the ages of 45–64

#### **The Classics**

Classicals are self-styled entrepreneurs who embody the typical image of the business owner in popular imagination. Their passion is fuelled primarily by the prospect of greater income, but also by a strong desire to make the most of their latent talents – something they can seldom do in a typical workplace. In short, Classicals think that their business is the be all and end all. Many have wanted to work for themselves from early on in life, and they derive much more enjoyment from selling and networking than making their products and services. Like Visionaries, being their own boss gives them more control, meaning and freedom, yet they differ in that they do not feel as overworked or stressed.

The vast majority of Classicals have at least some employees, and many earn a reasonable income from their work. But they are often

personally split between growing their business and keeping it the same size. This is despite being optimistic about the future success of their business. Part of the explanation may lie in their style of working, with many preferring to rely on intuition rather than detailed strategy and planning. Nevertheless, they have a clear vision of what they want their business to look like over the long term. As for their politics, Classical are broadly right-leaning, being the group most likely to vote Conservative and to agree to leave the EU.

A typical Classical, Matthew Hopkins is only 30 years old but has already been involved in multiple businesses. He began as a teenager with a profitable and extremely busy babysitting business, had a brief flirtation with university life, and then went on to found a group of companies comprising a removals firm, demolition and waste management business and a development company. Today Matthew runs a security, fire and home, and business automation company called Instant Protect. In every case, Matthew says he simply spotted an opportunity to provide a better offer. “If we can do it better, there has to be a place for us. It doesn’t have to mean reinventing the wheel.” And if you can beat the competition on service, product and value, then there is nearly always money to be made – a rule of thumb that fuels Matthew’s appetite for business. As he says, “Profit is my measure of success.”



At one point Matthew’s removals service was turning over £1.5m a year and employed over 50 staff. Yet no business is ever fully secure, and the reverberations of the economic crash in 2008 were strong enough to sink their operations. That Matthew decided to start another venture is testament to the kind of optimism commonplace among Classical. It also reflects his deep-rooted feeling that running a business is the only way to make a living, describing it as extremely hard work but rewarding. Instant Protect is less than a year old, but Matthew is already contemplating other opportunities that might spring up in the future.

#### **Key facts about Classical:**

- 42 percent say the prospect of earning more money was one of the main reasons for starting up in business

- Over half (57 percent) say that being able to use their talents to the full is one of the main things they look for in their personal work
- A third say they want to grow their business as large as possible and take on employees
- 21 percent are over the age of 65

### The Survivors

Survivors are reluctant but hard-working business owners who struggle to make ends meet. They often find themselves in business through little choice of their own, with many starting up to escape unemployment. Unlike other groups, they are not particularly concerned with achieving greater freedom and flexibility in their working lives. Rather, their main priorities are pay and security. In stark contrast to Classics, many Survivors see their business as a means to an end, and do not consider themselves to be ‘business owners’ in the conventional sense. Overall, they are some of the least satisfied tribes, with stress, long hours and low pay being common occupational hazards. Nearly half earn less than £25k.

Despite the rather modest nature of their work, however, most Survivors are keen to hold on to the business and keep it around the same size – perhaps because few other options are available to them. Among all the groups they are the most pessimistic about the future of their business, relying more on day-to-day decision-making than long-term planning to ensure their survival. That they operate in relatively competitive local markets, and see little scope for innovation, may be among the reasons for their gloomy outlook. Given all of this, it may come as some surprise that they are one of the most supportive of the government. They are the most likely to trust politicians and to think that the welfare system is fair to people like them.



One such Survivor is Fiona Crawford, who started her Kent-based children’s play centre and events business over four and a half years ago when the recession was just beginning. Before this she had a well-paid career but had to leave due to illness. By the time Fiona returned to full health she knew going back to what she did before was not an option, in part

because she saw herself as unemployable. “I was in my late 40s and I think I was a little anxious about going back to a normal job.” The first year of the business turned out to be a great success, but the recession had yet to fully take hold. Her contracts with the council gradually diminished as a result of public spending cuts, and competition for remaining business became more intense as others joined the saturated market for children’s activities. “Someone even started a children’s centre five minutes down the road”, Fiona says.

As a result, it has been a struggle to eke out a living from being self-employed. Compared with her old role as an employee, Fiona says she is considerably worse off financially. “If someone offered me a reasonable salary, I’d have to bite their hand off.” A group of her friends who are in the same position joke that they are the ‘pensionpreneurs’, in light of needing to work well into old age because of their inadequate pension. The crux of the problem is that Fiona cannot increase turnover by putting up prices for fear that she will lose customers. All of that said, the business is still breaking even, thanks in large part to the long hours Fiona puts in. “I’m on Twitter, I do the marketing, I do the accounts – all things I really need someone else to work on”. Fiona thinks the saving grace of the business will be the excellent service they provide – they were awarded Britain’s Friendliest Business award this year – as well as their commitment to the community, which includes providing work experience for local young people.

#### **Key facts about Survivors:**

- A fifth say one of the main reasons they started up was to escape unemployment
- 10 percent plan to close their business and do something else in the near future
- Half (48 percent) work more than 45 hours a week on their business
- A quarter earn less than £25,000 from their business (eight percent are making a loss)

#### **The Independents**

Independents are freedom-loving, internet-dependent self-employed people who are driven by the opportunity to leave a creative mark on the world. Their decision to start up in business has less to do with the prospect of earning more money, and more to do with making the most of their talents and working on something that is close to their hearts. In short, they care deeply about the products and services they provide. Like Locals, they derive a great deal of satisfaction from being their own boss and are – relative to other tribes – free from stress and exhaustion. This may be explained by their reasonable working hours, with around two thirds managing to work less than 40 hours a week. Moreover, being their own boss gives them the flexibility to spend more time with their friends and family. The only obvious downside to being an Independent is the isolation that comes from self-employment.

Independents are generally optimistic about the trajectory of their business, but are split between growing their operations and keeping

them the same size. In any case, they are very much against the idea of recruiting employees, with limited plans to hire anyone in the near future. If they did it would most likely involve freelance help. Their reluctance to hire staff may be because their products and services require a certain degree of authorship. Many will cater to niche markets nationally and internationally, and this may explain their heavy reliance on the internet and related technologies – without which their business would struggle to survive. Independents are more likely to juggle projects, as well as to see lots of scope for innovation. Their cosmopolitan style of working is also mirrored in their left-leaning political outlook, being the group least likely to support a reduction in government expenditure or to back a cap on immigration.

The ecommerce website Etsy plays host to a large number of Independent sellers, including Rowena Dugdale from Bristol. Originally an Illustrator, Rowena started in 2008 by selling clutch bags made with her own fabrics and those she sources from elsewhere. It began slowly at first but Rowena recalls that demand suddenly snowballed as a result of being instantly able to tap into markets across Europe, including the UK, Poland and Germany. “I was completely overwhelmed actually... it was almost too much.” Such was the popularity of her products, Rowena had to decide early on whether to grow rapidly or stay the same size. “You reach that big crossroads of whether to expand and take on employees. And I didn’t actually. I’m not a team player, and realised that the amount of more bags I’d need to sell means I’d lose a lot of my love for it.”



As a result, Rowena has shied away from taking on employees and has kept her business to a manageable size. However, she continues to work full-time hours making and selling her bags. The difference is that she can be highly flexible about when she works. “If you’ve got a busy day then you’ll work through, but if it’s a sunny day we put the dog in the car and go to the beach. We just don’t have a distinction about weekends.” For Rowena, the biggest drawback of self-employment lies in the lack of security. As she puts it, “it’s just a rollercoaster”. Yet she believes that everything evens out in the end, with as many good years as there are bad



ones. In any case, Rowena describes her work as a lifestyle rather than a job, and believes that she is “unemployable” in the conventional sense.

#### **Key facts about Independents:**

- 65 percent said the prospect of greater freedom was one of the main reasons they decided to start up in business
- Nearly half (48 percent) say they would not have been able to start their business were it not for recent advances in technology like the internet
- Half (51 percent) want to grow their business but only four percent by taking on staff

#### **The Dabblers**

Dabblers are usually part-time, one-person hobbyists who start up in business to make better use of their talents in their spare time. They seek out a short working week and a simple business that gives them little hassle. For many Dabblers, their venture is a useful convenience rather than something fundamentally important to their lifestyle. Over half work less than 30 hours a week, and a third earn less than £10k. Few thought from an early age that they would have worked for themselves, but now that they do they enjoy the act of making the product they sell. However, Dabblers are not particularly wedded to their business, and would not be affected as deeply as others if it were to fail. They derive less meaning and freedom from their business compared to other groups, but neither are they stressed nor overworked.

The overwhelming majority of Dabblers operate alone, and this is unlikely to change in the near future. While most would prefer to keep their business about the same size, around a third want to shrink their operations or close the business altogether and do something else. Dabblers are some of the most pessimistic about the future, and their immediate focus is on keeping their business afloat and pleasing existing clients rather than winning over new ones – most of whom can be found in their local community. Dabblers view business plans as a waste of time and see little scope for long-term innovation. With regard to their demographics, they are one of the oldest self-employed tribes, with a large number owning their house outright without a mortgage. Politically speaking, they have a progressive outlook and are left-leaning, being the group least likely to vote Conservative and to want to leave the EU.

Unlike many Dabblers, Seb Castle is relatively young and finished his education only a few years ago. However, his start-up story typifies the way that many of this tribe fall into business accidentally. He began by experimenting with graphic design software at the age of 16, and this soon led him to helping others on a pro bono basis – from designing event posters for his sixth form college to building a website for a university society. The point at which hobby turned into business was when Seb presented one of his designs to his university tutors. “They said I should be charging for creating websites of that quality. It was the first time I realised I could actually make some money out of what I’d always thought was a hobby”.

Through word of mouth, Seb has gradually built up a number of clients who return to him on a regular basis. On average he spends close

to 10–20 hours a month on the business, which is on top of a full-time job working at a TV production company. Yet he does not feel particularly overwhelmed by the work. “I find it very therapeutic”, he says. “It gives me a sense of flow.” However, that is not to say that Seb is on course to grow his business indefinitely. Like many Dabblers, he views his venture in a pragmatic way and is mindful of its limitations. “I know the fun would disappear if I spent too much time on it. Part of the enjoyment is that it’s an escape from work.”



#### **Key facts about Dabblers:**

- A fifth (21 percent) said one of the main reasons they started up was to do something interesting in their spare time (a much higher number than in the other tribes)
- 10 percent plan to reduce the size of their business in the near future, while a fifth (21 percent) plan to close the business entirely
- A quarter (25 percent) are over the age of 65, and 58 percent own their home outright without a mortgage

Before exploring further how policymakers and others should respond to this growing self-employed community (and each particular tribe), the next chapter examines in greater detail the personal implications of being self-employed – including its impact on finances, working hours and wellbeing.

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**Table 1: The six tribes of self-employment**

Tribe	Description
<b>Visionaries (22%)</b>	Visionaries are optimistic, growth-oriented business owners who are driven by a sense of purpose. Their main motivation is to find greater meaning, with money being an afterthought. However, they see themselves as serious business owners and work long hours on the venture. They usually have a great deal of scope for innovation and are extremely keen to grow their business as large as possible, including by recruiting employees. The business is a great source of satisfaction, but this often comes at the cost of feeling stressed and overworked.
<b>Locals (13%)</b>	Locals are stress-free individuals running low-tech businesses that cater mainly for their local community. They are keen to have a short working week and to avoid any unnecessary hassle. Despite describing themselves as business owners, Locals far prefer making products than selling them. They see little potential for innovation and have a strong desire to keep the business the same size as it is today. The bulk of their rather modest income comes from local clients, and they rarely make use of the internet and social media. They eschew plans and instead rely on gut instinct.
<b>Classicals (11%)</b>	Classicals are self-styled entrepreneurs whose identity, health and happiness are fundamentally intertwined with the success of their business. They are largely driven by the prospect of more money, but also the desire to make the most of their talents. Classicals know from an early age that they want to work for themselves, and get much more enjoyment from selling their goods than making them. They also see their business as important to their lifestyle, giving them greater meaning, control and freedom than they could find elsewhere.
<b>Survivors (24%)</b>	Survivors are reluctant but hard-working business owners who are struggling to make ends meet. They are more likely to start up to escape unemployment, and their immediate priority is survival rather than growth. Survivors work some of the longest hours but are still downbeat about the chances of success for their business. They operate in relatively competitive local markets, and are unlikely to have a long-term plan or to see scope to innovate. Overall, Survivors are some of the least satisfied business owners, with stress, isolation and low pay being common occupational hazards.
<b>Independents (19%)</b>	Independents are freedom-loving, internet-dependent business owners who are driven by the opportunity to leave a creative mark on the world. There is a good chance they started their business while out of work, but are not overly concerned with pay in their working lives and are passionate about the things they make. Independents are also very optimistic about the trajectory of their business, and are keen to grow it in the years ahead. However, they are largely against the idea of recruiting staff. Independents are reliant on the internet and related technologies, which help them to reach national and international markets.
<b>Dabblers (11%)</b>	Dabblers are usually part-time, one-person hobbyists who start up in business to make better use of their talents in their spare time. They never thought they would work for themselves but enjoy the act of making the product they sell, which they usually trade in their local area. Their business involves very few hours and provides them with little income, meaning that it would not be the end of the world if it failed. Many already plan to reduce the size of the business or close it entirely. Compared to others they derive less meaning from working for themselves, but neither do they feel overworked. The business is just a useful convenience.

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# The virtuous toil of self-employment

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## Is this a good thing?

Imagine for a moment an economy where one in six of the workforce is self-employed, and where there are more people working for themselves than there are employed in the public sector. These are profound numbers by any stretch of the imagination, yet if current trends continue it is likely we will reach these scenarios within the next ten to fifteen years. So far this report has sought to explain why these changes are happening, and what kinds of people are behind such businesses. But an important question remains unanswered: is this really a good thing?

In follow-on reports we will discuss the potential consequences of a surge in microbusiness activity for macroeconomic and social issues such as economic growth, job creation, productivity, innovation and inequality. For now, however, we will focus on the *individuals* running microbusinesses. What is the impact of self-employment on working hours and wages? Does being your own boss enhance your wellbeing and life satisfaction? And what are the trade-offs at play? Below we spell out some early answers to these questions.

## The perils and pitfalls of self-employment

Our typology reveals that certain types of people struggle more than others to generate income through their business – namely the Survivors and the Dabblers. Yet government data suggests that low incomes may be endemic across the self-employed community. According to the Institute for Fiscal Studies, close to 30 percent are in the bottom 10 percent of earners, and 40 percent are in the bottom 20 percent.<sup>73</sup> Nor is the situation thought to be improving. Our analysis of the Family Resources Survey data indicates that since the turn of the century real incomes among the self-employed have fallen in every earnings bracket. Median weekly earnings among the full-time self-employed have decreased by 10 percent in real terms between 2000 and 2011, meaning they are now around 20 percent worse off than their employed counterparts (see Figure 15). Financial woes were also hinted at by a number of our interviewees:

“We had points in the business where we had to open the sofa to find enough money to pay for a pint of milk.”

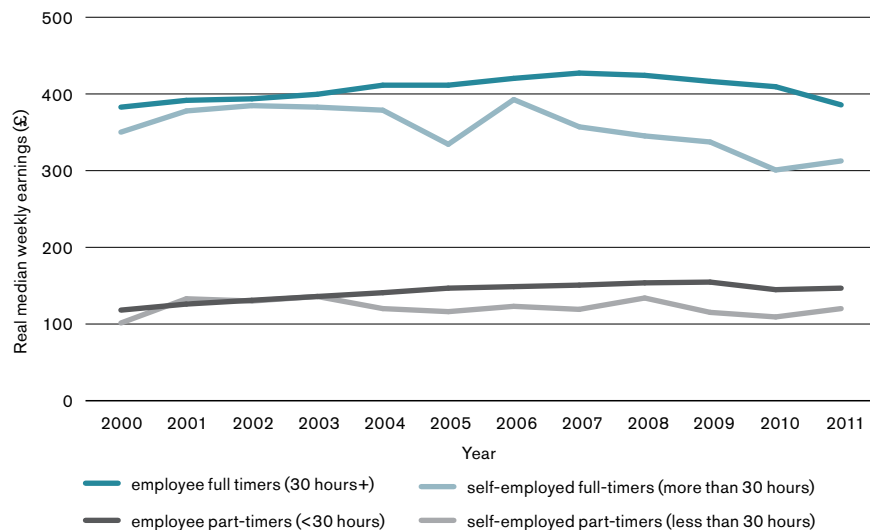
73. Blundell, R., Crawford, C. and Jin, W. (2013) *What can wages and employment tell us about the UK's productivity puzzle?* Institute for Fiscal Studies.

“I would almost certainly have been financially better off doing something else – something normal.”

“I’m virtually the last person in the team to be paid as it is. And I get paid the least too.”

The financial position of the self-employed is made particularly precarious by irregular payments and unpredictable cash flow, with business activity often characterised by peaks and troughs. As one of our interviewees put it, “You’d have work, then not have work, have work and then not have work.” This is perhaps one reason why some appear to be turning to personal loans. The debt charity StepChange calculates that its self-employed clients have average personal debts of over £30,000, compared with an average of £20,000 for their typical clients.<sup>74</sup> Wonga have even begun targeting small business owners through a subsidiary company offering easy-to-access loans at high repayment rates.

**Figure 15: Changes in real weekly median earnings**



Source: Family Resources Survey

On top of weak and irregular income streams, many of the self-employed miss out on the financial benefits they would have had in a typical job (although these are diminishing, as highlighted earlier in the report). This includes pensions, life insurance, medical insurance and maternity and paternity cover. One estimate puts the average loss of employer pension contributions at £91,512 over a lifetime.<sup>75</sup> The self-employed do not appear to be plugging the gap with their own savings. According to research by the Resolution Foundation, only 30 percent are contributing to a pension, compared to over half of employees.<sup>76</sup> This is a worrying

74. See Knight, J. (2012) *Small business owners owe over £30,000 on average* [article] The Independent, 9 April 2012.

75. Prudential (2013) *Self-employed miss out on £91,500 in retirement, Pru reveals*. Available: [www.pru.co.uk/guides\\_tools/articles/801594981-Self-employed-mi/](http://www.pru.co.uk/guides_tools/articles/801594981-Self-employed-mi/)

76. D’Arcy, C. and Gardiner, L. (2014) Op cit.

statistic, although it should also be noted that many self-employed people plough money into capital and assets such as property, which they consider to be their pension pot.

Long working hours are another hazard. The Office for National Statistics calculates that the self-employed work an average of 38 hours a week, compared to 36 hours for employees.<sup>77</sup> According to our analysis of the Labour Force Survey, approximately 16 percent of self-employed people work over 50 hours a week, which is nearly twice the proportion of those in typical employment (8.8 percent). Moreover, it appears that the self-employed are less likely to take conventional holiday leave. Our RSA/Populus survey found that 37 percent agreed that working for themselves meant they were less able to take holidays and breaks (see Figure 16). Indeed, few of our interviewees felt they could be totally at ease when managing their business – particularly in the early days:

“I want to win work, deliver that work, and keep being on top of my game. And when I’ve done that there isn’t much time for anything else.”

“I don’t even understand the concept of leave. It’s alien to me.”

“It does have a tendency to bleed into the majority of your time if you’re not careful. Taking a proper break becomes an exception rather than the rule.”

By its nature, self-employment is also more characterised by spells of isolation. Over half of the self-employed work from home all or some of the time, and the vast majority of microbusinesses are one-person businesses going it alone. Depending on their line of work, such individuals may seldom come into contact with others on a typical day. Forty percent of the people we surveyed agreed that working for themselves meant they felt more isolated (see Figure 16). This is not just potentially bad for their wellbeing, it may also be detrimental to their ability to learn new skills and pick up useful information. As RSA research into social networks has shown, who you know can have implications for your health, happiness and quite possibly also the chances of success for your business.<sup>78</sup> Many of our interviewees shared these sentiments:

“One of the problems with running a business is that you’re on your own. It’s disheartening sometimes. All you have is your three dogs, looking at you.”

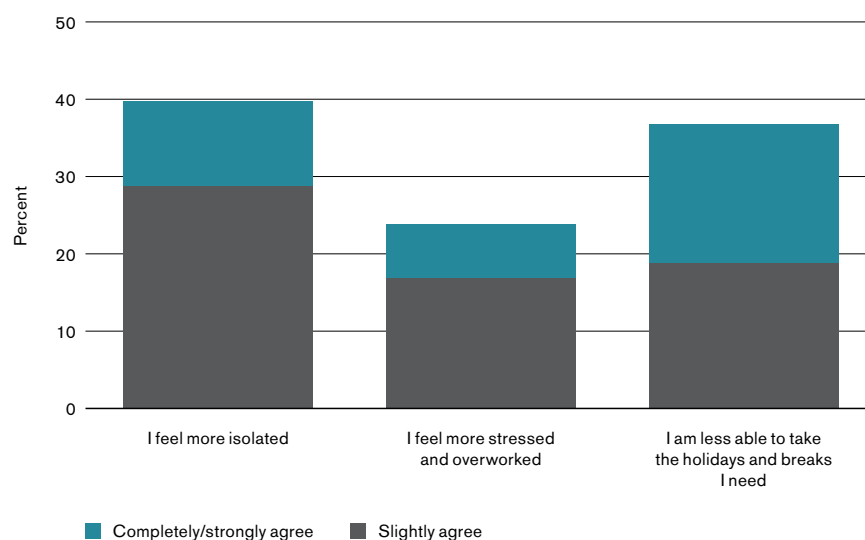
“It’s quite lonely being an entrepreneur on your own. And also sometimes you just want to say to people around you: does this look bad, or am I doing this right. You want a second opinion.”

“There’s also something nice about having fixed colleagues. You have a shared sense of achievement, and a shared sense of commiseration when things don’t go so well. When I’m freelancing it’s pretty much just me at home with a laptop.”

77. Office for National Statistics (2013) *Self-employed up 367,000 in four years, mostly since 2011*. London: ONS.

78. Rowson, J., Broome, S. and Jones, A. (2010) *Connected Communities: How social networks power and sustain the Big Society*. London: RSA.

**Figure 16: Compared with working for somebody else, to what extent do you agree or disagree with the following statements?**



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

### Box 9: Metamorphoses of the self-employed

The journey that people embark on when starting a business is rarely smooth or straightforward. Many of the self-employed will cease trading within the first year of their venture, and those that do survive are likely to have a rocky time as they seek to establish their reputation and find clients. A common finding in our interviews was that it took close to two years to turn a new business into a fully-fledged operation, and this would only occur after a game-changing 'light-bulb' moment. Until they reach this point, the self-employed can expect much lower earnings than their counterparts in typical wage work.

Just as the fortune of the business can change, so too can the outlook and character of the people running it. One academic study found that the self-employed undergo several metamorphoses as they develop their business, with 'long periods of relative stability punctuated by 'critical episodes' of transition and change.'<sup>79</sup> The period before start-up is often characterised by deep self-reflection, and occasionally major life events such as the loss of a loved one will spark the decision to embark on a new business. The very act of starting-up can bring about an 'equilibrium', but emotional demands may soon build as the venture becomes more serious. According to the study, the most successful learn how to 'let go' and realise that the business is bigger than the individual.

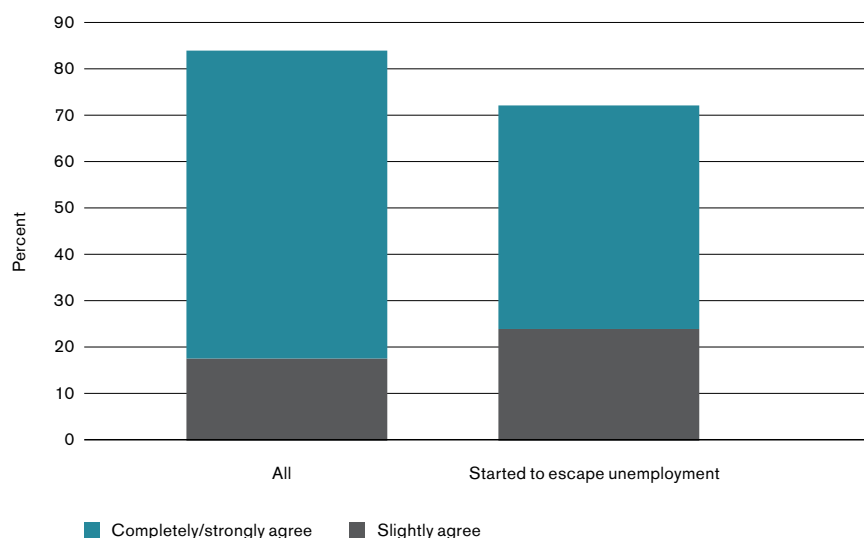
### The happiness paradox

Hazards such as these paint a gloomy picture of what life is like for the self-employed. Relative to others, they appear to work hard, get paid little and find themselves cut off from the wider world. Yet a paradox exists: they are more content at work and happier overall in their lives. The British Panel Household Survey (BHPS) (undertaken in 2004–05) found

79. Cope, J. (2008) *The 'juggling act' of entrepreneurship: Developmental entrepreneurial learning and the concept of focal commitment*. University of Strathclyde.

that while the self-employed were less satisfied than employees with their hours, they were more satisfied with their lives as a whole.<sup>80</sup> Echoing this finding, our RSA/Populus survey found that 84 percent agreed that being self-employed meant they were more satisfied in their working lives (66 percent completely or strongly so). Significantly, this is also true for over 70 percent of those who started up in business to escape unemployment (see Figure 17).

**Figure 17: Compared with working for somebody else, to what extent do you agree you feel more satisfied in your working life?**



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

The same story is playing out across the world. The World Bank reports that in one study of 23 countries (including non-Western ones), the self-employed were found to be more satisfied with their work than the employed.<sup>81</sup> Interestingly, a number of studies of OECD-member states discovered that the very act of creating a business makes people more satisfied than the average person in their country.<sup>82</sup> One report even indicates that the number of hours worked at the start-up stage of a business correlates positively with job satisfaction.<sup>83</sup> Again, these findings are borne out in our own conversations with the self-employed people we spoke to:

“It makes me very happy that I am doing something that I love, and there is no better feeling than making money from something you have made with your own hands.”

80. Blanchflower, D. (2007) *Entrepreneurship in the UK* [Speech] Bank of England, 9 July 2007.

81. Licht, A. N. and Siegel, J. I. (2004) *The Social Dimensions of Entrepreneurship*. World Bank.

82. Ibid.

83. Block, J. and Koellinger, P. (2009) ‘I can’t get no satisfaction – Necessity entrepreneurship and procedural utility’ in *Kyklos*, 62 (2): 191–209.



“I’m happy because I don’t see it as a job. It’s back to that whole lifestyle thing: for me it’s not a job; it’s a way of life.”

“My wellbeing is much better, before I was trying to survive and it wasn’t pleasant, I was doing lots of travelling, I didn’t have a life.”

Of course, not every self-employed person is happier working for themselves. To return to our ‘tribes’, many of the Survivors would rather be employed by someone else in a typical job, and Dabblers by their nature are less enthusiastic about their life as a business owner. The impact of self-employment on wellbeing is also determined to some extent by the stage people are at within the business cycle (see Box 9 on the metamorphoses of the self-employed). For example, the latest survey data from the Global Entrepreneurship Monitor survey reveals that the self-employed in the ‘nascent’ stage of their business are less likely to think their life is close to ideal than those whose businesses are more established.<sup>84</sup>

### **A vehicle for pursuing the good life**

While self-employment is not for everyone, clearly it is a great source of satisfaction for a large proportion of our workforce. Why is this the case? Part of the reason is because self-employment confers many ‘soft’ benefits, which compensate for the loss of ‘hard’ ones found in standard wage work – namely freedom and flexibility (see Figure 18). Indeed, the pursuit of autonomy is arguably a defining characteristic of modern human behaviour. The Italian economist Paolo Verme argues that that freedom is by far the most significant predictor of life satisfaction.<sup>85</sup>

One of the reasons why people are drawn to self-employment is because it is a vehicle for achieving the independence they crave. Indeed, multiple studies show that the reason the self-employed are more satisfied with their jobs is because they enjoy greater autonomy.<sup>86</sup> Or put another way, because they are in charge of their own destiny, set their own rules and answer to no immediate boss. As one of our interviewees put it, “you’re not forced to do things by people who don’t understand the task”. Our own RSA/Populus survey found that 87 percent of the self-employed agree that they have more freedom to do the things they want to do than they would have had in a typical job (see Figure 18).

Yet this is not just about freedom for its own sake. Autonomy also has its practical uses, giving people the flexibility to work around their own needs and those of their loved ones. Fifty-four percent of people in our survey said being self-employed was important in working around their physical health issues, and 28 percent in accommodating their mental health conditions (see Figure 19). Others find that being their own boss allows them to spend more time with their family, particularly their children. One interviewee said: “I get to see my kids at breakfast, make them packed lunch in the morning, get their bags ready, and so on.” For some,

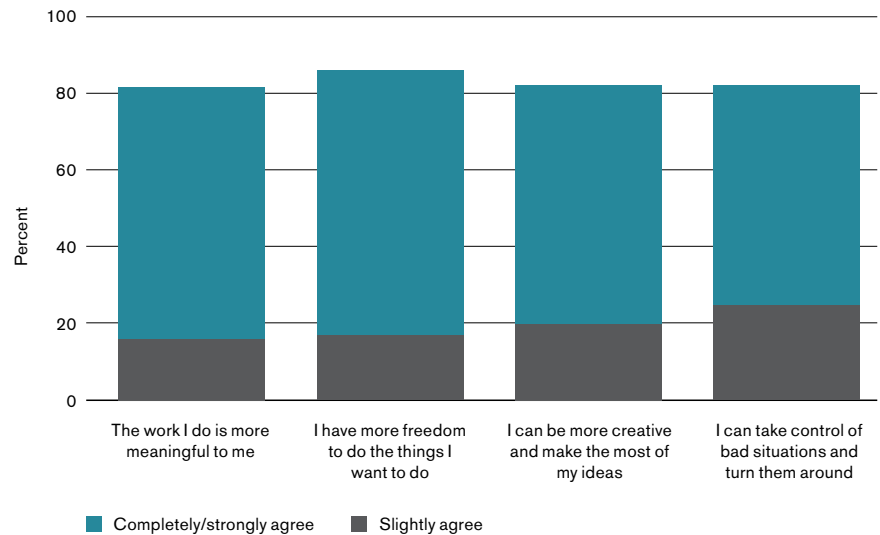
84. Levie, J. and Hart, M. (Forthcoming) Op cit.

85. Verme, P. (2009) ‘Happiness, Freedom and Control’ in *Università Commerciale Luigi Bocconi, Econpubblica Centre for Research on the Public Sector*, Working Paper No. 141.

86. See for example, Dawson, C., Henley, A. and Latreille, P. (2009) Op cit., and Licht, A. N. and Siegel, J. I (2004) *The Social Dimensions of Entrepreneurship*. World Bank.

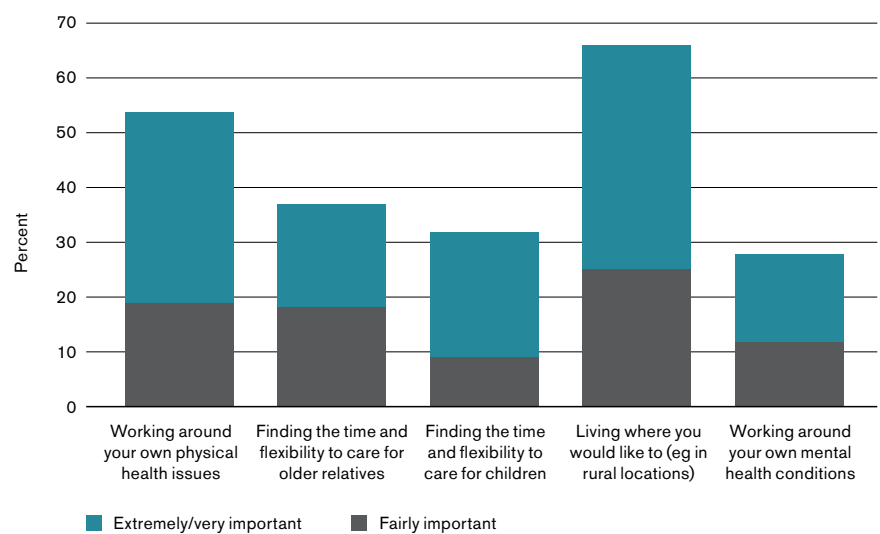
autonomy is a pleasant by-product of working for themselves, but for others it will be a necessity – particularly those with caring responsibilities such as the need to look after a disabled child or an elderly parent. Just over a third (37 percent) felt being self-employed was important in being able to care for older relatives.

**Figure 18: Compared with working for somebody else, to what extent do you agree or disagree with the following statements?**



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

**Figure 19: Compared with working for somebody else, how important or not important is being self-employed in helping you do the following?**



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

Another advantage of self-employment is being able to earn a living and survive in a location where there are few other opportunities for work – something that is now eminently possible with the increasing sophistication of internet technologies and wider access to high-speed broadband. One of our expert interviewees suggested that this may even help to stem the tide of brain drain away from suburban towns and rural areas. Echoing this, our RSA/Populus survey found that 66 percent of the self-employed think working for themselves is important to living where they would like.

### The quest for meaning

Just as self-employment attracts those with a desire for independence, so too does it tap into people's innate desires for meaning. Our survey found that 82 percent of the self-employed agree that their work is more meaningful to them than that found in a typical job. Similarly, findings from the latest Global Entrepreneurship Monitor survey show that the number of business owners who see their work as meaningful is 10 percentage points higher than the number in conventional full-time employment.<sup>87</sup> One reason is simply because the self-employed are more able to work on subjects and topics that are close to their hearts, for instance a Visionary like Craig Lynn who is devoted to making the latest gadgets and consumer products, or an Independent like Rowena Dugdale who is passionate about the design of the clothing accessories she makes (see the previous chapter for more detail).

Yet this is not just about being able to work on what most interests you. Many self-employed people create products and services they have little innate connection with, for instance the business owner we met who runs a shipping freight firm or the person we encountered who started a health and safety business. For these people, meaning comes from the very *act* of making and selling. Ostensibly, running a business is about turning over as much money to generate as big a profit as possible. But this is a shallow interpretation of a much deeper human activity: that of creating and leaving your mark on the world. Our RSA/Populus survey found that close to 85 percent of the self-employed agree that being their own boss means they can be more creative and make the most of their ideas (see Figure 18).

The characteristics of self-employed work are such that they may even induce experiences of what the psychologist Csikszentmihalyi calls 'flow', a "kind of intense focus and crisp sense of clarity where you forget yourself, lose track of time, and feel like you're part of something larger".<sup>88</sup> Indeed, one of our interviewees described feeling "more in the present", while another said that running their own business took them to "another level". Csikszentmihalyi himself remarked that the ability to take calculated risks makes "entrepreneurial activities" flow-inducing.<sup>89</sup>

It may seem odd that people in this position can experience such feelings, given how uncertain and insecure their lives appear. But this points

87. Hart, M. and Levie, J. (2012) *Global Entrepreneurship Monitor: United Kingdom 2011 Monitoring Report*. GEM.

88. A description of the concept of flow by Maria Popova on her website, Brain Pickings. See [www.brainpickings.org/index.php/2012/02/27/purpose-work-love/](http://www.brainpickings.org/index.php/2012/02/27/purpose-work-love/)

89. Csikszentmihalyi, M. (2008) *Flow: The Psychology of Optimal Experience*. Harper Perennial Modern cited in Goodman, N. (2013) *How to achieve a state of total concentration* [article] *Entrepreneur*, 6 February 2013.

to another strange quirk of self-employment: many people who work for themselves feel more in control of their own destiny. In one sense, the self-employed lead precarious lives with little protection from the whims of the market. Yet in another, most have the space and the wherewithal to at least try and do something about it. 86 percent of our survey respondents agreed that being their own boss means they are more able to take control of bad situations and turn them around. It is also important to bear in mind that wage work in organisations is less secure than it seems: bosses and shareholders can be just as capricious as clients. As some of our interviewees put it:

“It’s down to me to get out there, get my name out there, get leaflets out there or anything I can do.”

“I suppose I feel more in control of the situation, even though the risk is greater.”

“The thing with working for yourself is that you can’t blame anybody else. It’s all in your own hands. That’s positive. It’s up to you.”

In one study, the self-employed were found to be less likely than employees to think they would lose their job in the next 12 months.<sup>90</sup> Indeed, one of the benefits of self-employment is that you often have multiple streams of income, meaning that if one dries up there may be others to fall back on. In a sense, self-employment may embody Nassim Nicholas Taleb’s concept of antifragility, which suggests that those more prone to fluctuations are also those best placed to weather them.<sup>91</sup>

### **A creative compromise (or why self-employment is worth £74 a week)**

To recap, life for the self-employed presents a paradox: they appear to earn less, work harder and be more isolated, yet in the round are some of the happiest people. The reason seems to be because their work offers greater autonomy, a source of meaning and – perhaps surprisingly – a greater sense of security. All of which suggests that the draw of self-employment lies in what the Swiss economists Benz and Frey term ‘procedural utility’. In other words, people who work for themselves gain more from the *way* something is done rather than the final *outcome* of that activity – namely money.<sup>92</sup> In a bid for greater freedom and meaning many are willing to swallow the £74 a week that full-timers on average sacrifice when moving from employment into self-employment.

Forgoing material remuneration for better quality work that offers less tangible returns is nothing new. But this lifestyle appears to be more commonplace, perhaps due to new economic pressures that mean the

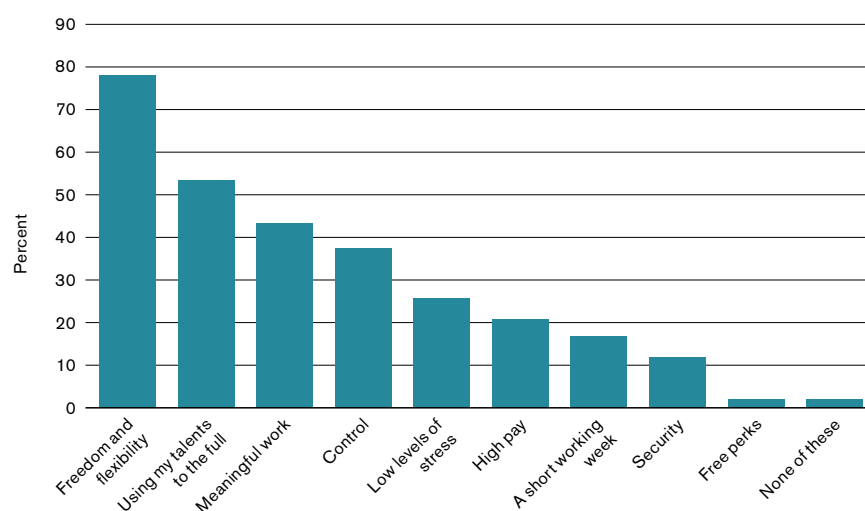
90. Blanchflower, D. (2004) *Self-employment: More may not be better* [Working paper]. NBER.

91. Taleb, N. N. (2012) *Antifragile: Things that gain from disorder*. Random House Trade Paperbacks.

92. Frey, B. S., Benz, M. and Stutzer, A. (2004) *Introducing Procedural Utility: Not only what, but also how matters* cited in Wilkinson, W. (2011) *Happiness, Freedom and Autonomy* [Article] Forbes, 23 March 2011.

alternative is to work a great deal harder simply to maintain their usual standard of living. As one of our interviewees remarked, “people are going to have to try and get more satisfaction out of their lives by doing things they enjoy rather than spending money on things they enjoy”. The economist Tyler Cowen has coined the term ‘threshold earner’ to describe a new generation of people (particularly young earners) who are “content just to get by... and who do not push ambitiously for a higher wage”.<sup>93</sup> Our survey found only a fifth (21 percent) of the self-employed rate high pay as a priority at work, and only 12 percent security (see Figure 20 below).

**Figure 20: Which of the following do you look for most in your personal work? (Top three answers)**



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

That work in itself could be fulfilling is still a foreign concept to large parts of society. Historically, the likes of Jeremy Bentham, Adam Smith and John Maynard Keynes saw work as an inherently painful endeavour – even ungodly (the puritanical work ethic was an exception). In their eyes, its only purpose was to generate wealth and material goods to enjoy in leisure time. But today the separation between work and leisure is – at least for a growing number – increasingly blurred. In fact, the very term ‘work’ may be a misnomer. In his classic text *The Gift*, Lewis Hyde makes a distinction between ‘work’, which is usually mundane and repetitive, and ‘labour’, which is inherently rewarding.<sup>94</sup>

There is also something deeper at play here. The creative compromise of self-employment is not just about sacrificing material wealth for softer pleasures. It is also about accepting some level of hardship in the quest to *feel* something. Like the protagonists of Aldous Huxley’s *Brave New World*, there are many who believe it is better to be “fully alive” than in a state of “anaemic slumber”. People are faced with the relatively easy world

93. Cowen, T. (2013) *Average is Over: Powering America Beyond the Age of the Great Stagnation*. Dutton.

94. Hyde, L. (2007) *The Gift: How the creative spirit transforms the world*. Canongate Books.

of consumption versus the virtuous toil of self-employment – and an increasing number appear to find the latter more attractive. It is telling that in our survey, very few of the self-employed said a short working week and low levels of stress were priorities in their working lives (see Figure 20).

Few understood this better than Joseph Schumpeter who first wrote about these sentiments during the 1930s:

“First of all there is the dream and the will to found a private kingdom... Then there is the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself... Finally there is the joy of creating, of getting things done, or simply of exercising one’s energy and ingenuity... Our type seeks out difficulties, changes in order to change, delights in ventures.”<sup>95</sup>

### **Box 10: Key findings from our RSA/Populus survey**

Our RSA/Populus survey of microbusiness owners found that:

- Over a third (37 percent) agree that being self-employed means they are less able to take holidays and breaks, and 40 percent that they feel more isolated
- 84 percent agree that being self-employed means they are more satisfied in their working lives (66 percent completely or strongly agree)
- 82 percent agree that the work they do is more meaningful to them, and 87 percent that they have more freedom to do the things they want at work
- Two-thirds (66 percent) think that working for themselves is important for being able to live where they would like; 54 percent for working around their own physical health conditions; and 37 percent for being able to care for older relatives
- Over three quarters (79 percent) look for freedom and flexibility most in their personal work; half (54 percent) for the chance to use their talents to the full; and 44 percent for meaningful work
- In contrast, 21 percent look for high pay, 17 percent for a short working week, and 12 percent for security
- Despite the majority (61 percent) agreeing that the economy is getting better and the country is heading in the right direction, only 14 percent agree that the government adequately supports the self-employed and just 11 percent that the welfare system is fair to people in their position

95. Schumpeter, J. (1934) *The Theory of Economic Development*. Cambridge MA: Harvard University Press, cited in Licht, A. N. and Siegel, J. I (2004)

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# Adjusting to the new normal

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Our economy and society are changing. The number of microbusinesses in the UK has increased by over 40 percent since the turn of the century, and the proportion of the workforce that is self-employed has reached its highest level in living memory. One in seven of the workforce now answer to themselves. This report has sought to delve deep into this phenomenon and answer a number of questions it raises – namely why so many people have decided to start up (and stay) in business, and what that has meant for them on a personal level.

As may be expected, the picture is not a neat and tidy one. The boom is partly due to cyclical fluctuations and partly to long-term structural trends. Likewise, it appears that life for the self-employed is fraught with financial difficulties yet also laden with meaning, freedom and control. It is unlikely that the heated debates around these issues will cool anytime soon. If anything they are likely to grow as the magnitude of the changes dawns upon more of us. Yet this should not prevent us from starting a vital conversation regarding how we should adjust to the ‘new normal’. Below we spell out a number of imperatives for the future.

## Rewrite the narrative

The news that the microbusiness and self-employment communities are booming has to date been used by two opposing camps to further their arguments on the health of the economy. At one end of the spectrum are the enthusiasts – usually on the right – who argue that this phenomenon is a clear sign that the country is getting its entrepreneurial streak back. Iain Duncan Smith, for example, recently stated that the growth in self-employment is an indication that the “entrepreneurial spirit is alive and well in the UK”, and referenced a Bank of England report that supposedly said the government’s welfare changes were a large reason for the increase.<sup>96</sup> Yet there is little evidence for this claim. Other advocates engage in the same hyperbole, such as those who use the unreliable data from Companies House to exaggerate the number of businesses being created.<sup>97</sup>

At the other end of the spectrum are the sceptics, usually to be found on the left. For them, the rise in self-employment is symptomatic of a weak economy that cannot generate enough high quality employment opportunities for the jobless, and therefore it should not be celebrated let

96. See Swinford, S. (2014) *Benefit cuts creating new generation of entrepreneurs*, Bank of England suggests [article] The Telegraph, 23 April 2014.

97. Data from Companies House is seen by some as unreliable because many of the businesses registered with them will be ‘shell companies’ created for purposes of tax avoidance.

alone promoted by policymakers. Again, however, the statistics are used in such a way as to further certain arguments. A case in point is media reporting of recent research into self-employment by the Resolution Foundation. When the think tank released a preview of their results in April, many of the papers laboured the finding that 450,000 (28 percent) of the newly-self employed would prefer to be an employee – yet very few, if any noted that the remaining 1,250,000 (72 percent) are content where they are.

Inaccurate commentary of this kind risks creating a warped narrative around self-employment. This in turn informs whether or not people believe it to be a ‘good thing’, and whether it should be promoted and supported. Indeed, a growing body of evidence reveals just how important compelling stories and ‘scripts’ can be in shaping behaviours and attitudes, for instance people’s outlook on austerity measures or immigration. There is a real danger that the term self-employment becomes synonymous with drudgery and on a par with zero-hour contracts. The findings of this report point to the need for a much more balanced narrative on self-employment – one that does not drown in the hyperbole that sometimes surrounds ‘entrepreneurship’, nor one that treats self-employment as the sink for the desperate and needy.

A good starting point would be to formulate a common definition of ‘self-employment’, which we do not have at present. Without one, we will continue to lump many different forms of employment under this banner, which can create a great deal of confusion. A clear definition will in turn inform efforts to tackle bogus self-employment, which is a relatively small but still significant issue. It is promising to see that HMRC has just introduced new rules on employment agencies attempting to circumvent National Insurance obligations. Another practical step would be to improve our measurement tools. At present, for instance, many of the surveys around earnings do not capture the views of people who work for themselves – a major oversight.<sup>98</sup> The EU made progress earlier this year with its plan to include questions on self-employment within its labour force survey.

### **Agree a new settlement**

The findings detailed in this report show that life can be very tough for those who work for themselves, even if they are compensated for that in a number of other ways. Full-timers earn 20 percent less than employees on average, and many lack adequate protection in the form of insurance and pension cover. On top of this, there is a good chance they will face barriers when looking for mortgages and personal credit. Such financial pitfalls are particularly acute for the 20 – 30 percent of people identified in our segmentation as Survivors, and highlighted in the work of the Resolution Foundation as wanting to leave self-employment.

The task for the government and others is therefore two-fold: first, to help those for whom self-employment really is a last resort into a conventional job; and second, to improve the livelihoods of the vast majority of people who genuinely want to continue working for themselves. The

<sup>98</sup> A point brought up in the Resolution Foundation’s report on self-employment. D’Arcy, C. and Gardiner, L. (2014) Op cit.



government has already made significant progress in recent years to bring benefits for the self-employed in line with their counterparts in wage-work. One significant move has been to open up the new Single-tier State Pension to the self-employed from 2016 onwards. Likewise, the self-employed are now eligible for the childcare vouchers that were recently introduced.<sup>99</sup>

Yet despite moves such as these, our RSA/Populus survey indicates that the self-employed still largely feel as though they are overlooked by the state (see Figure 21). Only 14 percent of respondents agreed that the government adequately supports people like them, and only 11 percent that the welfare system is fair. Moreover, most do not trust politicians to put the interests of the country above the interests of their party. All of which is despite the majority (61 percent) believing that the economy is getting better and that the country is heading in the right direction.

Some of these sentiments may arise simply due to a lack of knowledge of the support that is available to them. Many of our interviewees, for instance, were unaware that they could be eligible for Working Tax Credits. However, a number of recent policy changes suggest that the self-employed do indeed continue to be overlooked in Whitehall. The Universal Credit, the government's flagship welfare programme, appears to have been formed without much consideration of those who work for themselves. The original plans involved onerous obligations for people to attend regular meetings where they would report their efforts to increase earnings and move off tax credits. Had they not reached a given standard of income over a certain time period, they would have been required to look for other work. These stipulations have subsequently been revised, but the impact of the Universal Credit on the self-employed is still unclear.

Similarly, the introduction by HMRC of 'real-time reporting' payroll measures would have originally seen the self-employed report to the tax office every time they paid their staff (rather than once a year). However, these plans were eventually revised after an outcry over the impracticalities of such changes. More recently, the Mortgage Market Review has recommended changes to lending and credit-checking that could make it more difficult for the self-employed to secure a mortgage.

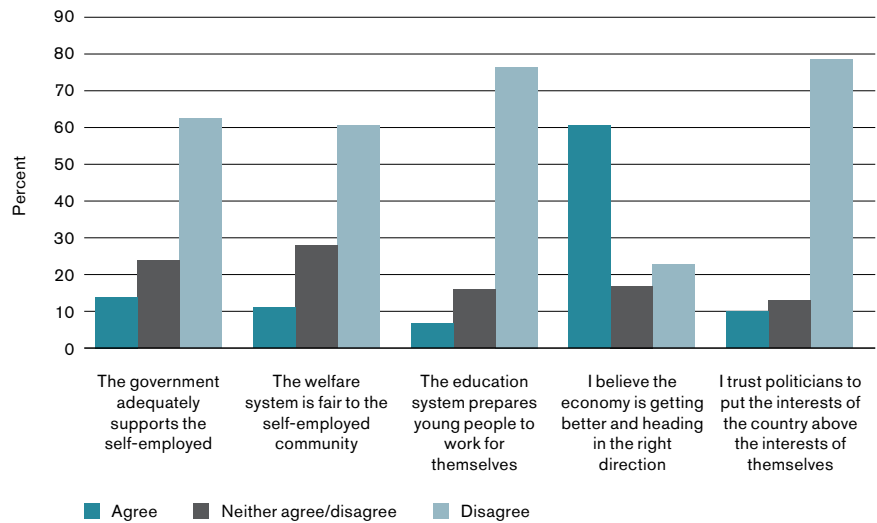
Certain policies have no doubt been designed with the self-employed in mind. Yet many appear to be developed without much consideration of this growing community, only to be revised at a later date when their potential impact is revealed. This points to the need for an urgent review of government policy on self-employment – from welfare and taxes, all the way through to education and housing. It is beyond the remit of this report to unpack the finer details of what such a settlement might look like, but one possible scenario is the development of a more flexible National Insurance system like that seen in Finland and other European countries.<sup>100</sup> This would involve asking the self-employed to decide on the level and composition of their social security protections, depending on

99. There are many who would disagree with such steps. The economist Marianna Mazzucato, for example, has argued that small businesses (and those who run them) receive an undue amount of assistance from the state. And this poses the fundamental question of whether the growth in microbusiness numbers is really a good thing for the economy as a whole. We will explore this issue in further reports.

100. European Employment Observatory Review (2010) *Self-employment in Europe*. EC.

how much welfare they want to receive and how much they can contribute in National Insurance.

**Figure 21: Perceptions of support among the self-employed**



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

**Box 11: Personalised interventions for the six self-employed tribes**

Our segmentation exercise was an attempt to highlight how diverse and heterogeneous the self-employed community is. Knowing the characteristics of the six tribes we identified is not only of interest in itself, it is also useful to policymakers and business support groups that are seeking to stimulate business activity. Whereas previously interventions were targeted at the self-employed as a whole, the information provided by such a segmentation could be used to deliver more intelligent and targeted actions.

For example, it is not difficult to see that information about what drives different groups to start up in business could be used to help shape marketing campaigns. At present, there is a risk that the heavy use of celebrity entrepreneurs to promote self-employment only resonates with Classicalists that can relate to their experiences. A more effective measure would be to broaden out the messaging to highlight the stories of Independents, Visionaries and the other tribes.

The segmentation could also inform efforts to stimulate growth and employee recruitment. The new Growth Vouchers scheme, for example, would arguably have greater impact and take-up if targeted more at Visionaries and Classicalists, who already have growth aspirations. Similarly, messages around exporting should land with Independents and Visionaries, as opposed to Localists who sell predominantly in their immediate community. There are also lessons here for support charities and organisations like Citizens Advice, which should arguably be focusing their limited resources on Survivors.

If the precarious nature of self-employed work persists, there is a danger that many of these individuals will disconnect from the system entirely and fall into the informal economy, where taxes are unpaid but where life is even more hazardous. Previous RSA research highlighted that

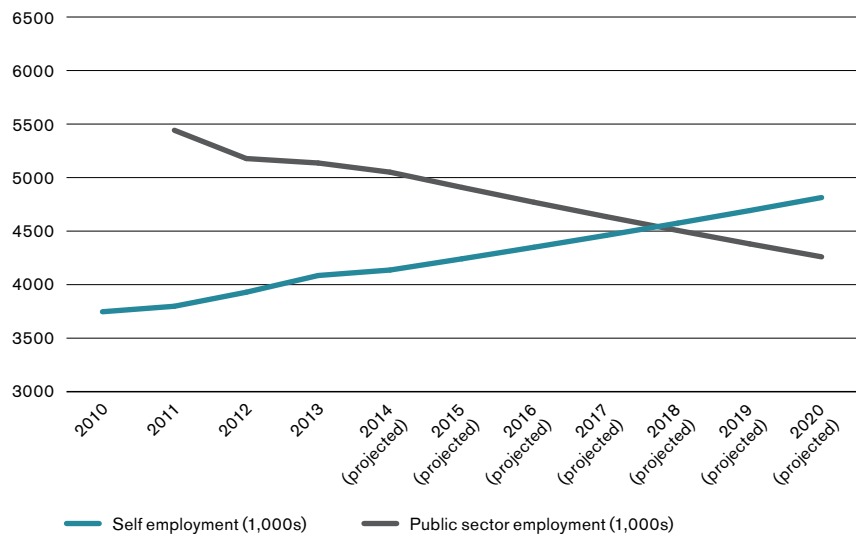
the undeclared economy in the UK is worth as much as £200bn a year, and our polling found that 20 percent of small business owners had at some point in the past traded informally.<sup>101</sup> While we argue that some level of informal activity is inevitable, exacerbating this phenomenon may serve to undermine the country’s tax base, create unfair competition for fully compliant businesses and leave more workers vulnerable in times of hardship.

### Harness the crowd

In straitened times there is only so much that the state and its policy levers can do to effect change. Therefore we must also look to other actors to support the self-employed. A good place to start is with the trade unions, which are not only able to lobby on behalf of their working members but also to assist them in legal cases and provide cost-effective insurance schemes. To date, however, the trade unions have been one of the most vocal in disapproving of the rise in self-employment, with the Trades Union Congress recently expressing its concern that this type of work is inherently insecure.<sup>102</sup>

While some of these concerns are valid, the RSA believes that the trade union movement needs to begin recognising the benefits of self-employment and even to start recruiting such workers into their ranks of members – something now done by a number of unions in Germany. Indeed, our analysis suggests that the number of people who work for themselves in the UK will soon outnumber those who are employed in the public sector (see Figure 22). It is far better to go with the grain of such trends than to wax nostalgic for a period when virtually everyone was employed in a job for life, either by the public sector or a handful of large employers.

**Figure 22: Projected growth trends in self-employment and public sector employment**



Source: Labour Force Survey

101. Delloit, B. (2012) *Untapped Enterprise*. London: RSA.

102. See for example Trades Union Congress (2014) Op cit.

Lessons for what a revised union model might look like in practice can be found in the Freelancers Union based in the US. Since its inception 11 years ago the union has amassed more than 230,000 members, many of whom choose to access benefits ranging from retirement plans to liability insurance. The founder, Sara Horowitz, describes this type of model as a form of ‘new mutualism’. Its sister, the co-operative model, also shows potential for supporting the self-employed, though usually this is in aid of assisting the business as a whole rather than the individual owner.<sup>103</sup> One example is the French-based co-operative BEC, which organises its members to support one another as they grow their fledging businesses.<sup>104</sup> Once established, the members become ‘salaried employees’ who contribute 10 percent of their sales to the co-operative in return for legal, book-keeping and insurance support.

Yet the self-employed do not necessarily have to be sewn together through legal arrangements in order to collaborate effectively. A study of StartUp Britain’s members found that over half were informally sharing core business functions with other firms, including office space, vehicles and accountancy staff.<sup>105</sup> Early results from our own survey of craft makers on Etsy indicate that there is a strong culture of cooperation among sellers, with 35 percent sharing advice and another 50 percent pointing customers in the direction of one another’s shops. Alliances such as these are also forming face to face in local areas. The BNI group, for example, is a networking organisation that knits thousands of business owners together in local chapters, which encourage their members to refer clients to one another. Whether formal or informal, encouraging collaboration of this kind could be a highly effective way for the self-employed community to achieve more than the sum of its parts.

### **Stimulate growth and recruitment**

If the growth in self-employment continues it spells major implications for the economy – particularly in terms of job creation. A key question we have to ask is how many of the newly self-employed will grow and take on staff. As our own analysis of government data shows, virtually all the growth (95 percent) in the microbusiness population in the last 10 years has been down to the increase in the number of non-employing firms. Many have voiced concerns that most of these will stay that size for the foreseeable future.<sup>106</sup> An in-depth analysis of microbusiness growth by the Department for Business, Innovation and Skills revealed that only three percent of non-employers took on staff in the period from 2007 to 2013 – a remarkably low number.<sup>107</sup>

103. Steven Toft mentioned the potential of co-operatives in his popular blog *Flipchart Fairytales*. See <http://flipchartfairytales.wordpress.com/2014/05/02/could-co-operatives-help-the-self-employed/>

104. One example of a BEC is Coopaname, based in Paris. See [www.eurofound.europa.eu/areas/qualityofwork/betterjobs/cases/fro6coopaname.htm](http://www.eurofound.europa.eu/areas/qualityofwork/betterjobs/cases/fro6coopaname.htm)

105. StartUp Britain (2013) Majority of UK start-ups say sharing costs is essential for survival. StartUp Britain and Zipcar. See [www.startupbritain.co/news/2013-04-30/majority-of-uk-start-ups-say-sharing-costs-is-essential-for-survival](http://www.startupbritain.co/news/2013-04-30/majority-of-uk-start-ups-say-sharing-costs-is-essential-for-survival)

106. Low growth ambitions among Britain’s small businesses is an issue highlighted by both Lord Young and Lord Heseltine in recent papers. See for example Lord Heseltine (2013) *No Stone Unturned*. London: BIS.

107. Department for Business, Innovation and Skills (2013) Op cit.

The government has implemented several initiatives in a bid to address this challenge and stimulate employee recruitment. The recently established Employment Allowance, for example, means that employers will have as much as a £2,000 reduction in their National Insurance contributions. Approximately 1.25m businesses will benefit, with a third being taken out of employer NI contributions altogether. Other steps taken include eliminating or amending over 3,000 regulations and creating simple guides on the steps needed to be taken to hire a first recruit. In the same vein, the Institute for Public Policy Research (IPPR) has very recently suggested the government go further and offer vouchers that would subsidise the costs associated with recruitment, for instance liability insurance and payroll services.<sup>108</sup>

Each of these moves and proposals is a step in the right direction. However, the experience of similar initiatives suggests that finance, regulation and information are not the only obstacles holding people back from growing their business. For example, the holiday in National Insurance contributions launched late last year to encourage job creation was found to have had very low take-up rates, with only six percent of the expected number of businesses benefiting from the tax break.<sup>109</sup> Similarly, the Youth Contract, which subsidises the wage bill of employers taking on young people, has been met with an equally muted response from the business community.<sup>110</sup> The effect of deregulation is just as questionable as that of finance. A study by the International Labour Organisation (ILO) shows no clear link between labour market reforms and employment growth.<sup>111</sup>

In practice, many of the barriers to recruitment are likely to be psychological in nature. For example, a recent BIS study found that the self-employed often have exaggerated fears over the costs and hassle of hiring a member of staff, and of crossing the VAT threshold.<sup>112</sup> Other behavioural barriers include entrenched habits, which mean the self-employed are unable to fully reflect on the state of their business, and status quo bias, whereby the self-employed have an innate preference to stick with their current state of affairs. Any future efforts to stimulate recruitment among new business owners will therefore need to treat the self-employed as inherently human, and go with, rather than against, the grain of such psychological quirks and frailties. The RSA will report on these issues later this year in a separate piece of research.

108. Thomson, S. (2014) *Small firms, giant leaps: Small businesses and the road to full employment*. London: IPPR.

109. BBC News (2013) *Government scheme to cut national insurance revisited*. BBC News.

110. Department for Work and Pensions (2013) *Businesses offer 21,000 jobs with support of the wage incentive* [press release] DWP. Coverage of the criticism can be found here: Hayes, D. (2013) *Calls to abandon wage subsidy in Youth Contract* [article] Children and Young People Now, 23 July 2013.

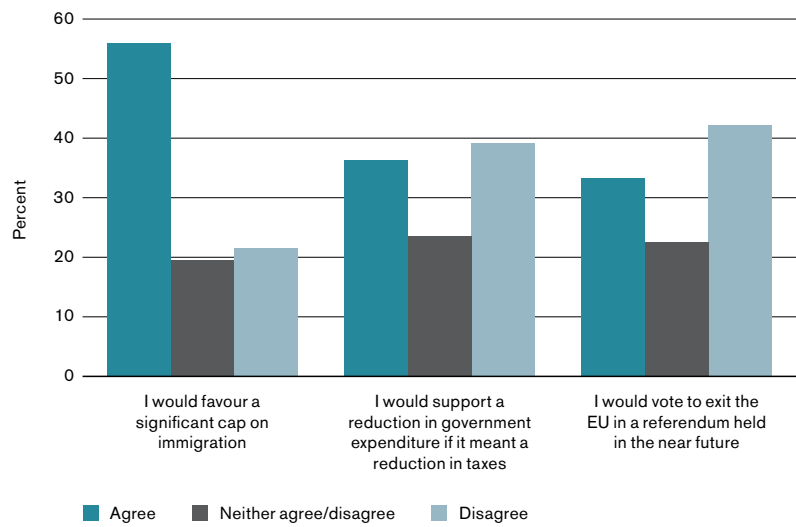
111. International Labour Organisation (2012) *World of Work Report 2012*. ILO.

112. Department for Business, Innovation and Skills (2013) Op cit.

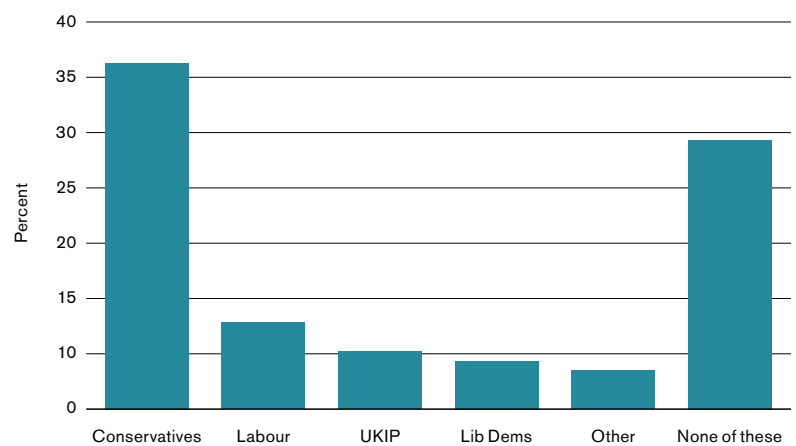
### Box 12: Leaning towards the right?

All signs indicate that the self-employed are becoming a political force to be reckoned with. Yet until now there has been little debate about their political outlook or attitudes on different social issues. In a bid to address this gap, we included several questions in our Populus survey that examined their stance on Europe, immigration and the major political parties. Given the heterogeneous nature of the self-employed community, it would be unwise to form any generalisations. However, it is noteworthy that on the whole they appear to lean towards the right on the political spectrum. The vast majority believe the Conservatives have the best policies for their business, and there is widespread support for a cap on immigration.

**Figure 23: Political attitudes of the self-employed**



**Figure 24: Which of these parties has the best policies for your business?**



Source: RSA/Populus survey of microbusiness owners (26 February – 12 March 2014)

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# Next steps

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This report has addressed several questions regarding the growth in self-employment and the rise of microbusinesses. How is this community changing? What are the fundamental driving forces behind the boom? And what is life really like for the self-employed? Several misconceptions will hopefully have been put to bed, but the debates around this phenomenon will and should continue long into the future.

In the next phase of the Power of Small project, we will turn our attention to the wider economic and social implications that this growth poses. We now have a good understanding of what it means for the people directly involved, but questions remain about the impact of a booming microbusiness community on major issues that affect us all, such as productivity, innovation, jobs growth, inequality and living standards. Needless to say, there will be as many people who harbour concerns about this trend as who fully welcome it, and we look forward to a growing debate with these two camps over the coming months.

To find out more about this report or the wider Power of Small project, please email [benedict.dellot@rsa.org.uk](mailto:benedict.dellot@rsa.org.uk)

The RSA: an enlightenment organisation committed to finding innovative practical solutions to today's social challenges. Through its ideas, research and 27,000-strong Fellowship it seeks to understand and enhance human capability so we can close the gap between today's reality and people's hopes for a better world.



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