



SELF-EMPLOYMENT: CHOICE OR NECESSITY?

Employment Options of the Future

During the summer and autumn of 1998 the European Foundation for the Improvement of Living and Working Conditions carried out a major survey on Employment Options of the Future across the 15 EU Member States and Norway. Who wants to work? When? and Why? were the major questions examined in the survey, which sought the views of people currently in paid employment or who intend to enter the labour market within the next five years. This leaflet summarises the main findings of the survey on the subject of self-employment and the self-employed.

Key findings

Only 12% of dependent employees work more than 50 hours per week, compared to almost 50% of the self-employed. Not all the self-employed work full time: 16% – mainly women – work on a part-time basis.

- The work motives of the self-employed are different from those in dependent employment. Not only do the self-employed value being able to work ('because they like their job'), but they also value this above financial reward.
- The vast majority of self-employed workers are men: 72% compared to 28% women. The comparable ratio among dependent employees is 56-44%.
- The average age of the self-employed person is just over 42 years, in comparison to 37 years for the dependent employee. The proportion of self-employed older than 50 is almost 30%, against 18% for independent employees.
- On average, the self-employed are better educated than those in dependent employment. Self-employed women, while representing only a small proportion of this group (28%), are on average better educated than their male counterparts.
- Almost two-thirds of the self-employed work in the private services sector. A relatively large number (16%) of the self-employed work in the agricultural sector, typically in one-person farms and family-based farms.
- The preference for self-employment among women returners and the unemployed is limited, but is quite significant among young entrants.
- There is a clear wish, even among those in dependent employment, to be self-employed: nearly one person in five says they would prefer this type of employment.



Introduction

Self-employment accounts for nearly 15% of total employment in the European Union and this is likely to increase significantly in the near future, given the growth in new forms of flexible working and contract working in rapidly developing service industries, particularly IT (Eurostat).

Self-employment carries both an economic and (in most Member States) a tax and social security status. In most EEA countries, the definition of a self-employed person is someone who has no employment contract, but who carries out an economic activity on a regular basis which guarantees an income. However, the distinction between being employed or self-employed is often based on interpretations of labour law, social security and tax status.

According to the standard international definitions, self-employment jobs are ones where remuneration is directly dependent on profits and where incumbents make operational decisions, or are responsible for the welfare of the enterprise (OECD, 2000). Most of the data on self-employment come from national labour force surveys, which ask respondents to classify themselves either as employees or self-employed. In general, this method (which is practised also in our survey) gives results which correspond fairly closely to the definition required.

When analysing the different profiles and patterns in self-employment, previous research has emphasised different factors as being significant. Factors such as the age (Rosdahl, 1993) and sex (OECD/GD, 1995) of the self-employed have been seen as influential, as well as the sector in which the business has been established (Rosdahl, 1993).

The aim of this summary leaflet is to highlight the main findings from the 1998 Employment Options of the Future survey on self-employment and to explore new information based on the views of the currently self-employed and those who express an interest in becoming self-employed. The survey looks at the issues of entrepreneurship and self-employment from the following perspectives:

- who are the self-employed, what are their main characteristics and under what conditions do they work?
- what is the level of interest by those outside the labour market, new entrants, and those engaged in dependent employment in becoming self-employed?

Who are the self-employed?

The survey reveals that 13% of people in paid employment are self-employed, compared to 85% in dependent employment. The remaining 2% constitute family workers.

Working hours

The average working week of the self-employed is 48.2 hours, 10¹/₂ hours longer per week, on average, than that of the dependent employee. While only 12% of dependent employees work more than 50 hours per week, almost 50% of the self-employed do.

Because of the tendency among the self-employed to work long hours, it is assumed that they seldom work part-time. However, the survey data shows that a significant proportion (16%) of the self-employed work part-time, against 21% in the case of dependent employees.

There is also evidence that many self-employed persons work part-time on various jobs or contracts, which adds up to longer working hours. Over one tenth (11%) of the self-employed indicate that they have more than one job in addition to their main job as entrepreneur: only 5% of dependent employees are in this situation. This multi-job tendency may be indicative of a flexibility that is just not possible within dependent employment; equally it may also point to a larger share of marginal employment among the self-employed and/or to the existence of 'quasi', or 'false' self-employment.

Motives for working

Three of the most common motives for participating in the world of work are:

- Financial reward
- Job satisfaction
- Interaction with others

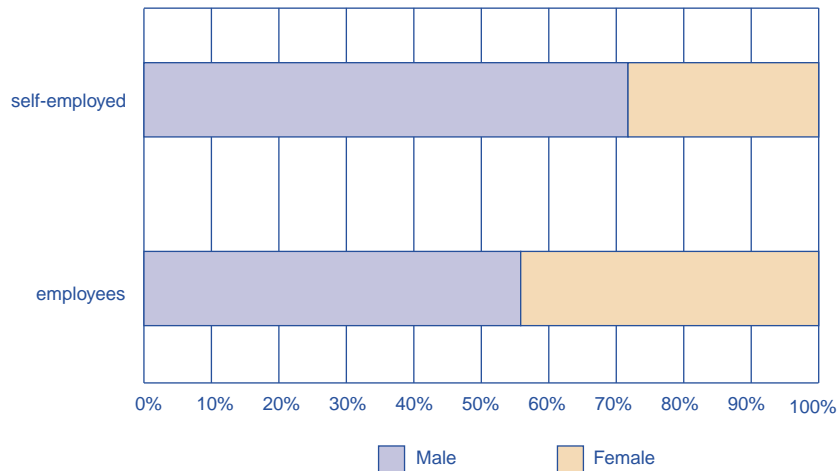
Do the self-employed share the same motives as workers in the dependent labour market? It appears that while financial considerations motivate both groups equally, the desire to work with others is, not surprisingly, a stronger motivation for dependent employees. But the greatest distinction lies in the enjoyment of the type of work each group does. The survey reveals that the self-employed value being able to work for intrinsic reasons and for the sake of the work content, and, interestingly, they value this aspect higher than financial reward. This last finding may have implications for retention aspects of employment policy, as well as providing incentives for self-employment.

A man's world?

Women still lag behind men in labour market participation – 42% of those in paid employment are women – but this gender differential is even more sharply contrasted in the self-employed world, where only slightly over a quarter (28%) of workers are female. It appears that the self-employment marketplace is radically more gender segregated than the dependent labour market (see Figure 1).



Figure 1 Employment status by gender



Base: Current labour force

Age profile

The average age of the self-employed person is just over 42 years, in comparison to 37½ years for the dependent employee.

Figure 2 shows that, on average, self-employed workers are older than dependent employees. What is very striking is the relatively high share of self-employment among the the 50+ age category: this reaches a level of 30% compared to 18% for dependent employees. In the oldest age category, 60-64 years, the relative share of self-employed is more than twice that of dependent employees.

However, in the 16-29 age group, we find twice as many persons in dependent employment as in self-employment: this situation is interesting in the light of the fact that a relatively large proportion of this age group (25%) express a preference in the survey for self-employment.

Education and qualifications

One of the significant findings of the survey is that, whereas the two labour force categories show differences regarding age profile, the educational level of both groups is almost identical. In the current labour market, younger people generally have higher levels of educational attainment than older workers. One might expect this to be reflected among the self-employed and the fact that it is not suggests that the self-employed are more highly qualified than their dependent employment peers of the same age. This obviously has considerable implications for skills levels in the dependent labour market. The movement of the more skilled out of dependent and into self-employment could adversely affect skill shortages in the former group. Policies to encourage self-employment need to consider this issue.

While women form only a small proportion of the self-employed (28%), women in this category of workers have a substantially higher average educational level than their male colleagues:

Figure 2 Employment status by age

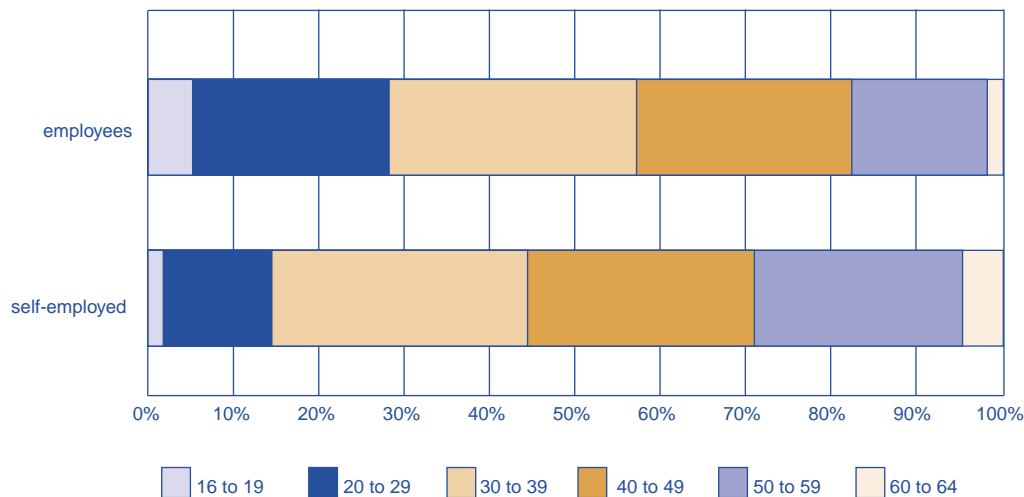
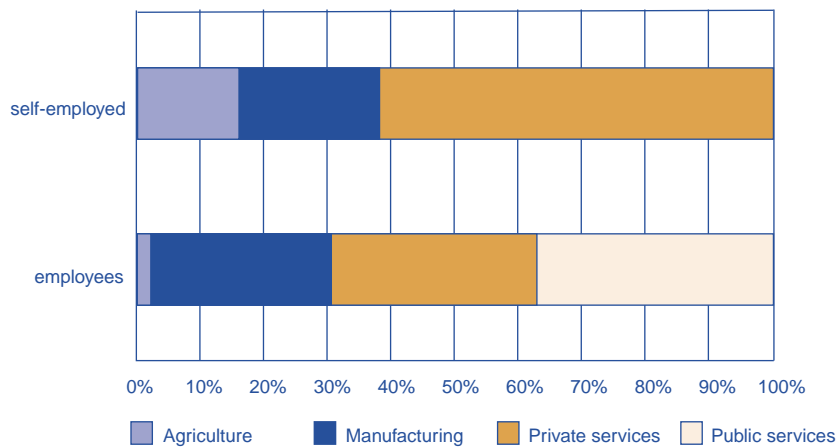


Figure 3 Employment status by sector



- only 4% of self-employed women have no qualifications against 16% of their male equivalents;
- three-quarters (75%) of self-employed women have attained at least a higher secondary educational level, compared to only two-thirds of male entrepreneurs.

Type of work

Almost two-thirds of the self-employed work in service industry in the private services sector (see Figure 3). Personal services and the knowledge-intensive professional services account for the greater part of business start-ups in European economies. The higher start-up rate in these sectors as opposed to the manufacturing industry is certainly linked to the relatively small investments needed for a start-up in these areas. The fact that the self-employed person in the private services sector can easily operate alone and on a part-time basis are also strong incentives.

Allowance-based incentive schemes for business start-ups, as opposed to capital finance schemes, are further encouragements for the development of self-employment in the services sector, as opposed to manufacturing industry where substantial investment in machinery would be required.

One important area traditionally for self-employment has been the agricultural sector. A relatively large proportion (16%) of the self-employed work in this sector, particularly in one-person farms and family farms. Almost 80% of the self-employed in agriculture work alone, or with family workers, but without employees: the equivalent figures for individual self-employment in manufacturing is 56% and in the private services sector 61%.

Who wants to be self-employed?

Are there certain features about self-employment that

would attract people already in dependent employment and new and re-entrants to the labour market to this independent style of work? Could this knowledge be used to form policy initiatives on self-employment and business start-ups?

Present reality and future preferences

The survey results indicate that the preference for self-employment among women returners and the unemployed is small; by contrast a strong preference for self-employment was expressed by young entrants to the labour market. Generally, it exceeded, but was not greatly in excess of, the present distribution of self-employment, except among young entrants, where there was a more widespread interest in becoming self employed.

Only 15% of re-entrants (women returners and the unemployed) said that they would prefer to be self-employed, but the figure for young entrants is as high as 25%.

Among the unemployed, and among the women returners also, but to a lesser degree, there was a significant group (about one-fifth of the unemployed) who said they had no preference. This could indicate either a general willingness to consider all possibilities, or a lack of guidance and counselling in the options available to them.

The implications of this for policy makers are that (all other things being equal) the present wishes of women returners and the unemployed to work on a self-employed basis ought to be readily conceded to without greatly disturbing the present balance between employed status and self-employment: 85% and 13% respectively.

About one out of five of self-employed workers would prefer a dependent position as employee: this preference was expressed in particular among the lower-educated and older entrepreneurs and workers



in the agricultural sector. The proportion of dependent employees wishing to be self-employed was also close to 20%, and as the number of those in dependent employment was six times greater than the sample size of those in self-employment, the message is clear: more people want to move from dependent employment to self-employment than the other way around, and this correlation is quite a strong one. As most of those interviewed expressed a desire to change employment status now rather than in five years' time, this could imply dissatisfaction with the current situation.

There was a substantial and resolute demand for self-employment among young entrants which, if carried through into their working lives, will have implications for the sort of life skills they will require and the provision of guidance and counselling services in education.

The gender factor

Further analysis showed that gender was the most significant factor (out of 18 variables) affecting an individual's preference for self-employment: notably that women appeared to be less attracted to self-employment than men. Viewed from another perspective, the people most likely to express a preference to start their own business were young men with some educational qualifications and some experience of the labour market.

This represents something of a dilemma for policy makers who, in designing self-employment measures, must strike a balance between intervention in favour of those who need encouragement and support (on the grounds of avoiding an economically unsound self-employment market) such as women and the unemployed, with making resources and support available to those who would, in all probability, move into self-employment with few incentives.

The fact that not many women returners expressed an interest in self-employment may suggest that many women are influenced by the image of self-employment as a male preserve. Policy makers need to question whether and in what way their policies might tend to reinforce the gender segregation of self-employment.

Conclusion

The data from the Employment Options of the Future survey supports previous work carried out by the European Foundation for the Improvement of Living and Working Conditions and by other organisations such as the OECD. In general, the growth of self-employment has been concentrated in the fastest growing sectors of the economy, notably business and community services. The strongest growth has been seen in the higher-skilled occupational groups (OECD, 2000). This is in line with our survey findings, as most of the self-employed work in the

services sector and are, on average, more skilled than their counterparts in dependent employment.


Working conditions

The survey results suggest that, on the whole, the self-employed are quite happy with their choice of employment status, despite the longer working hours. However, other research has shown that even though the self-employed generally report a higher level of job satisfaction (which is also evident in our findings), the conditions of work of the self-employed often differ quite radically from those in dependent employment, particularly in relation to the speed and pace of work which is dependent upon direct demands from people such as customers, passengers, pupils and patients. Longer working hours also expose the self-employed to specific health risks (European Survey on Working Conditions, 1996). This is perhaps one of the reasons why one in five of the currently self-employed interviewed in the survey stated a preference for the position of dependent employee over that of being self-employed. It was noticeable that in particular the lower educated, the older entrepreneurs, and those employed in agriculture expressed this desire. The working conditions of the self-employed is clearly an area which should be further examined when designing policy initiatives for this group.

Furthermore, as attested by this survey and supported from other information sources, most of the self-employed are what can be identified as 'own-account' workers (self-employed people without employees), and relatively few ever become employers. This means that many of the difficulties (such as administrative and tax burdens) related to starting up and working in small and medium-size enterprises are very relevant to the self-employed (OECD, 2000).

Encouraging self-employment

The interest in self-employment among those currently in dependent employment is shown to be high: 20% would prefer the status of self-employed to that of employee. This could indicate that, if this aspiration was further developed and utilised, an increasing amount of dependent employment positions could potentially become available for those currently not employed. This is important, because the findings from the survey indicate quite clearly that the wish to become self-employed among both groups of re-entrants (women returners and unemployed) is not very high. This is in line with other research which shows that, in the case of the unemployed, for example, only a small proportion enter self-employment as opposed to wage and salary employment (OECD, 2000). This could mean that policies specifically designed to help the unemployed to enter self-employment might be less successful than policy initiatives focusing on those currently in dependent employment who might wish to move into self-employment.



While young entrants express a greater interest in self-employment than the other entrant groups (women returners and unemployed), other research has shown that, due to lower levels of capital (both financial and human), they are the least likely to succeed in their entrepreneurial aspirations (OECD, 2000). Thus, if self-employment is to be encouraged, specific measures – such as targeted training and financial assistance schemes – aimed at this target group should be designed.

Tackling obstacles facing women

Women returners face somewhat different obstacles when considering self-employment. As they in many cases have small children living in the household, the burden of trying to combine family responsibilities with the long working hours often required in self-employment seems to make women resistant to the idea becoming self-employed.

In general, women entrepreneurs have been shown to face additional difficulties: they often have a comparative lack of track record in former work experience, and consequently have more difficulties raising finance than men, as well facing negative social values that often make financial intermediaries view their business start-ups as potentially more ‘volatile’ for investment (OECD, 2000). If women are to be increasingly encouraged to become self-employed, it will be necessary to tackle the financial obstacles and provide for forms of self-employment which do not involve long hours and allow family and work to be combined. The growing private services

sector might offer possibilities for more ‘woman friendly’ forms of self-employment, as starting a business in this sector often does not require huge initial investments and long working hours. Furthermore, challenging the social barriers and attitudes of those responsible for providing finance and opportunities for the female self-employed needs to be undertaken.

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About the Employment Options of the Future survey

This survey, carried out by the European Foundation for the Improvement of Living and Working Conditions over the summer and autumn of 1998, involved 30 557 telephone assisted interviews with people aged between 16 and 64 years across the 15 EU Member States and Norway. The survey provides information on both the current situations and future preferences of those interviewed concerning employment. At the time of the interviews, 43% (7 749 out of 17 908) of the non-employed expressed the wish not to work in five years. This group was not included in further analysis. At the first stage of analysis, four main target groups were defined:

Employed Persons: persons who declare themselves employed or who answer 'yes' to the question on whether they worked last week (N=12 649).

Young Entrants: persons who are at the beginning of their working lives and who do not yet have substantial working experience (due to studying, for example) and are less than 30 years of age (N=3 932).

Women Returners: women who want to take up paid work again after a break in their careers. They have previous work experience and a minimum break of one year from employment. A shorter break is accepted only if the respondent terminated the last job because of giving birth to a child or because she had to take care of elderly, ill or disabled persons (N=3 499).

Unemployed persons: persons who declare themselves unemployed (N=2, 537).

Definitions used in the text:

part-time = less than 35 hours a week (unless otherwise mentioned)

full time = 35 hours a week or more.

temporary employment = non-permanent employment (including fixed-term and temporary agency contracts)

self-employed persons = persons who declare themselves to be self-employed.

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EF/00/22/EN



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ISBN 92-828-9558-0



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