



## THE WAY TO WELLBEING

A multidimensional strategy for improving wellbeing of the self-employed



## EXPANDING THE LENS

### Opening up new ways of understanding self-employed wellbeing

Self-employment has shot up in the UK in recent years, and as numbers have risen, interest has grown in how this way of working is affecting people's wellbeing.

The Government is starting to respond to this structural shift in our workforce with its Good Work plan, a key part of which is directing the national debate towards the quality – not just the quantity – of work in the UK.

As the debate about good work grows, it is vital that businesses and policymakers understand the distinctive role of self-employment in all this. Not least because one in seven people in the UK are now self-employed – 47 per cent more than in 2001.

But even as self-employment grows – in numbers and in the national consciousness – there is still remarkably little understanding about how it affects individual wellbeing and whether it is actually a positive choice for everyone. And even where there is evidence, it only offers a mixed or narrow view of self-employed wellbeing.

That is why this report is so vital and timely. It offers policymakers and business leaders alike a much clearer understanding of how self-employment affects individual wellbeing. It does this in particular by assessing not just one facet of wellbeing, but satisfaction across all aspects of people's lives.

The report also offers practical solutions and recommendations that go beyond the kind of reductive, broad-brush policies we've seen so much of in recent years. It ends with a compendium of practical, targeted solutions to improve wellbeing in all aspects of self-employed people's lives.

It's an opportunity to make sure that as self-employment booms, it remains a positive career choice for people across the UK. And as Chair of IPSE (the Association of Independent Professionals and the Self-Employed), I hope the Government, business leaders and everyone else connected with this vital sector take heed of these recommendations and do what it takes to ensure the wellbeing of the self-employed. For the good of the self-employed community. For the good of businesses. And for the good of the UK economy.

James Collings  
Chair, IPSE



Martin Binder is a Professor of Economics at Bard College Berlin, a liberal-arts university. He holds a Habilitation and PhD in Economics (2009) from the Friedrich Schiller University Jena, an M.A. in Philosophy (2004) and a M.Sc. in Business Administration (2003) from RWTH Aachen, and a B.Sc. in Economics (2002) from Florida Atlantic University. His dissertation, which explores the normative consequences of measuring societal progress and development via measures of subjective wellbeing, has appeared as a monograph with Routledge in 2010 and won the "Deutscher Studienpreis 2010" from the Körber-Stiftung. From 2004 to 2012, he was a Research Fellow and a Research Associate at the Max Planck Institute of

Economics, Jena. In 2009–2011, Martin received a grant from the European Commission to research knowledge-intensive entrepreneurship and social wellbeing. His research interests are focused on behavioral economics, and especially subjective wellbeing ("happiness") research, where he takes an interest in how different types of work and work identity can influence our wellbeing at work and beyond. Martin's research has appeared in internationally recognised journals such as the Journal of Economic Behavior & Organization, *Economica*, *Social Science & Medicine*, *Journal of Economic Psychology*, and *Small Business Economics* and can be found at [www.mbind.net/publications](http://www.mbind.net/publications).

<sup>1</sup>The author's heartfelt gratitude goes to Andrew Burke, Kayte Jenkins, Suneeta Johal, Inna Yordanova, as well as the members of the CRSE's steering committee for helpful comments and guidance in revising this report. All remaining errors are mine.

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# EXECUTIVE SUMMARY

## **WHAT WE KNOW ABOUT THE WELLBEING OF THE SELF-EMPLOYED**

The UK's self-employed population has grown rapidly over the last ten years. It has now swelled to almost five million people, or 15 per cent of the workforce. And as self-employment becomes increasingly important to the UK economy, it becomes more and more urgent to understand the impact it has on individual wellbeing.

To do this, globally accepted and democratic measures of life satisfaction are used in this report as an indicator of mental health and wellbeing among the self-employed. Using these measures, the report finds that the UK's self-employed are more satisfied overall than employees. In most areas of life – or 'life domains' – such as health, education, job, social conditions and leisure, the self-employed are more satisfied than their employee counterparts. One area where they are less satisfied, however, is household income.

There are also differences between the various self-employed groups. For example, the life satisfaction

of freelancers (as defined in this report as short-term/project-based suppliers of knowledge services) and necessity self-employed (driven into self-employment for lack of other employment opportunities) is lower than employees. On the other hand, the life satisfaction of people who chose self-employment for the opportunities it offers is higher than freelancers, necessity self-employed and employees. This emphasises how much wellbeing divergence there can be not just between employees and the self-employed, but also within the self-employed workforce itself.

## **COMBATING A ONE-DIMENSIONAL POLICY APPROACH**

At present, UK self-employment policies do not reflect the heterogeneity of the sector or, as a result, its diverse needs. So far, policy on self-employment has mostly been concerned with income, taxation and employment rights, as well as societal desirability (in terms of job creation and innovation, for example). But by focusing only on objective factors such as income, growth and

job creation, it often neglects subjective elements of the self-employed experience. These elements, like entrepreneurial identity, confidence, stress and worries, contribute just as much to the overall wellbeing of the self-employed.

For example, if people have chosen self-employment for lifestyle reasons or because they are seeking more meaningful work, then growing their business may not be a priority. Given that more than 80 per cent of the UK's self-employed work on their own account and without employees, growth and job creation initiatives are unlikely to be much use to them.

There is also the fact that if the self-employed worry about their financial situation despite having good access to finance, then giving them more financial resources is unlikely to solve the real problem. Focusing on training initiatives to enhance business skills and confidence would probably do more to reduce stress and worries. This, in turn, is also likely to improve the objective conditions of self-employment.

It is vital that policymakers understand the impact of self-employment on individual subjective wellbeing, and they take into account that self-employment is about more than just having a job or a stream of income.

## RESPONDING TO THE TRUE DIVERSITY OF THE SELF-EMPLOYED

Another issue in policymaking at the moment is that it does not take into account the heterogeneous nature of self-employment. As highlighted by the CRSE's True Diversity of Self-Employment (CRSE 2017) report, there is not just one type of self-employment, but many. The types of self-employment differ both in terms of objective characteristics (like distinctions in the type of work, income, autonomy and the security of work) and subjective characteristics (like motivation to become self-employed, entrepreneurial identity and the meaning derived from work).

This means, the impact of self-employment on wellbeing depends on the type of self-employment people find themselves in. And this, in turn, means there is not a one-size-fits-all type of policy that is equally relevant for all the self-employed. Instead, policies must be tailored to the varied needs and challenges of specific groups. They must also focus more on matters – like wellbeing – that go beyond financial concerns and growth.

To reflect and respect the true heterogeneity of the self-employed, this report looks at six different types of self-employment in the analysis – which are not mutually exclusive – determined by pathways into self-employment, working conditions and ways in which they work.

These include:

- 1. Solo self-employment:** Working on one's own without employees.
- 2. Opportunity self-employment:** Becoming self-employed voluntarily to pursue entrepreneurial ideas and be one's own boss (moving from an employed position to self-employment within two years).

**3. Necessity self-employment:** Being driven into self-employment for lack of other employment opportunities (moving from unemployment to self-employment).

**4. Freelancers:** Self-employed people who supply their work/services on a project-by-project basis and are output-focused.

**5. Dependent self-employment<sup>2</sup>:** People whose self-employed status is unclear due to low levels of autonomy.

**6. Low-pay, insecure self-employment:** Self-employed people who tend to be less qualified, with limited autonomy. They are also much less likely to have financial security, such as a private pension.

Additional types of self-employment are distinguished in the policy recommendations, in order to provide an even more targeted approach to the solutions presented. These include:

- **Growth-oriented self-employment:** Working on one's own with employees or ambition to employ others.
- **Low, medium and high-pay self-employed:** Different categories of economic wellbeing.

## A NEW APPROACH TO WELLBEING POLICIES FOR THE SELF-EMPLOYED

This report offers a new way of looking at self-employed wellbeing based on overall life satisfaction. Life satisfaction is a measure that implicitly captures people's key life domains, such as their job, income, health, family life and leisure. While self-employment influences these life domains, they are only individual factors that help determine a person's overall wellbeing. A holistic summary judgement is needed that aggregates all these dimensions, because ultimately counts should be individuals' overall and subjective experience of wellbeing, not just one facet of it.

The new approach presented in this report takes into consideration the impact that objective conditions the self-employed find themselves in have over these life domains, as well as their subjective perspectives on these conditions.

Organised around the various life domains that affect overall life satisfaction, the report concludes by setting out comprehensive and targeted recommendations. They are to improve policy and business practice and help enhance the wellbeing of different self-employed groups.

Many of the policies are aimed at enhancing the wellbeing of the self-employed by improving their mental health – for instance, by decreasing their stress or worries about their business.

The policies are categorised under the life domain to which they most closely relate, but many also relate to other domains. The report further distinguishes between the different types of self-employed people who would benefit from these policies.

<sup>2</sup>Categories 5 (dependent self-employment), 6 (low-pay, insecure) and low, medium and high-pay self-employed are defined with regard to the classifications of the True Diversity of Self-Employment Report (CRSE 2017), which distinguishes types of self-employment along the three dimensions of economic wellbeing, security and independence.

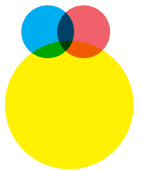
# MULTIDIMENSIONAL STRATEGY FOR IMPROVING WELLBEING OF THE SELF-EMPLOYED



## APPROACH TO SELF-EMPLOYMENT

Before presenting policies to do with the various life domains, there are two overarching policy recommendations to consider:

Policy	Outcome/Impact on wellbeing	Primary target group of the self-employed	Stakeholders
1. Rethink the policy focus on business growth and develop policies for different groups of the self-employed	Produce more comprehensive policies that go beyond the financial domain and growth, and support those who engage in self-employment for the meaning they can derive from their work.	Solo self-employed	Government (specifically the Department for Business, Energy and Industrial Strategy), media
2. Gather better data for the heterogeneous groups of self-employed people	More targeted and informed policymaking acknowledging the different self-employment segments and their diverse needs.	All self-employed indirectly	Government, the Office for National Statistics, researchers



## DOMAIN: HEALTH

Policy	Outcome/Impact on wellbeing	Primary target group of the self-employed	Stakeholders
3. Provide training in confidence-building through counselling/seminars	Improve confidence with short business courses and information sessions delivered by private coaches or universities that teach business skills.	All self-employed, especially necessity self-employed	Universities, private coaches/training providers, professional organisations, Department for Work and Pensions (DWP) – specifically Job Centre Plus
4. Provide self-management and stress-management courses for the self-employed	Reduce stress and worries through training aimed at helping better prepare for and manage irregular work patterns, as well as help align skills to the demands of running a self-employed business.	All self-employed, especially necessity self-employed, growth-oriented self-employed	Universities, private coaches, professional organisations, Government (delivering New Enterprise Allowance)
5. Provide opportunities for emergency mentoring	Reduce financial worries with better and quicker access to mentoring during business crisis periods (delivered through Job Centre Plus employees with specialised training or through professional organisations supporting the self-employed), and by encouraging the use and strengthening of existing initiatives/networks.	All self-employed, especially necessity self-employed, growth-oriented self-employed	Universities, private coaches, professional organisations, Government (specifically DWP), business support groups
6. Remove psychological barriers to hiring/growth by myth-busting and improving information	Reduce anxiety caused by administrative, financial and regulatory barriers to growth by providing resources on the websites of Government bodies or professional organisations representing the self-employed, which make it easier to navigate these regulations.	All self-employed, especially growth-oriented self-employed, opportunity self-employed	Government (specifically BEIS and DWP), professional organisations



## DOMAIN: INCOME AND FINANCIAL SECURITY

Policy	Outcome/Impact on wellbeing	Primary target group of the self-employed	Stakeholders
<b>7.</b> Abolish New Enterprise Allowance (NEA) or couple with training	Strengthen the impact of the NEA for those who use self-employment as a way of becoming/remaining economically active, by providing accompanying training and mentoring (online and offline) that will help improve understanding and confidence, as well as open more pathways back into employment.	Necessity self-employed	Government for retargeting (specifically DWP), universities and professional coaches (who deliver training)
<b>8.</b> Reform Universal Credit (UC)	Reduce financial hardship caused by income instability by changing the monthly assessment period for UC to better represent the irregular incomes of the self-employed.  Extend the duration of the minimum income floor exemption to give businesses more time to become profitable.	Low-pay self-employed, necessity self-employed	Government (specifically DWP)
<b>9.</b> Clarify statutory definition of self-employment	Provide better protection for the self-employed who have dependent status so that they can access appropriate labour rights.	Dependent self-employed	Government (specifically BEIS, HM Treasury, HMRC)
<b>10.</b> Improve cashflow smoothing, overdraft policies and microcredit	Reduce worries and psychological barriers caused by irregular cash-flow through the provision of simpler and less cost-intensive funding and incentive schemes for the self-employed. This includes self-employment-friendly banking services, as well as informational campaigns and systematic online resources aimed at incentivising uptake of existing funding and emergency credit initiatives.	Low and medium-pay self-employed, necessity self-employed	Government, cooperatively owned banks, commercial banks, credit unions, challenger banks
<b>11.</b> Improve small claims enforcement	Decrease financial concerns associated with non or late payment from clients, by providing the UK's Small Business Commissioner with greater powers to help enforce payment on behalf of the self-employed. This includes endorsing companies that exhibit best practice and scrutinising those who use exploitative practices. Making it easier to enforce payments in small claims courts through shared lawyers, union lawyers etc, would also help in reducing financial stress.	Low-pay self-employed, freelancers, necessity self-employed	Small Business Commissioner, Government, professional organisations (shared lawyers)
<b>12.</b> Increase pay rate transparency	Improve competitiveness and confidence of the self-employed by enhancing their understanding of standard rates of pay to benchmark themselves against.	Low-pay self-employed, necessity self-employed	Professional organisations, Small Business Commissioner, recruitment organisations
<b>13.</b> Extend default pension option to the self-employed	Improve lifetime savings by creating a system for default contributions to be made to private pensions schemes.	Low-pay self-employed	Government (specifically DWP, Work and Pensions Select Committee), commercial finance, pension providers
<b>14.</b> Tailor financial products and information about saving for later life specifically for the self-employed	Improve long-term financial sustainability by enhancing informational campaigns and promoting easier to access financial products tailored to pension savings for the self-employed.	Medium and high-pay self-employed, opportunity self-employed	Government (specifically DWP), professional organisations, commercial finance, pension providers



## DOMAIN: SOCIAL LIFE (WORK-LIFE BALANCE)

Policy	Outcome/Impact on wellbeing	Primary target group of the self-employed	Stakeholders
<b>15.</b> Build more joint work-spaces	Overcome psychological challenges caused by the isolation of working for oneself by creating more communities that enable networking, social interaction and pooled/shared services.	Self-employed people in creative industries, freelancers, opportunity self-employed	Professional organisations, private businesses, local authorities, metro mayors co-working spaces
<b>16.</b> Provide pooling solutions for insurance and other business services	Improve the symbiosis between work and life domains through the provision of joint administration, insurances (illness/injury), childcare, maternity/paternity allowances and other social support services, facilitated by co-working spaces.	Solo self-employed, freelancers, opportunity self-employed	Insurance industry, Government, professional organisations, co-working spaces, co-operatives, trade unions
<b>17.</b> Increase access to time management training	Reduce time pressures and work/life conflict of the self-employed by integrating time management as a standard part of training curriculums such as NEA.	All self-employed	Private counsellors, professional organisations, Government (delivering NEA)



## DOMAIN: JOB (SKILLS/EDUCATION/MEANING)

Policy	Outcome/Impact on wellbeing	Primary target group of the self-employed	Stakeholders
<b>18.</b> Make training and skills development resources tailored to self-employment easier to access and more cost effective	Increase the skill level and job prospects of the self-employed, strengthen their independence and improve job satisfaction through consolidated online resources on self-employment, as well as "How-to" guides for specific administrative requirements. To overcome the financial barriers of training, tax relief could be extended to include training for new skills, as well as granting vouchers to be redeemed at certified education and training providers.	Low-pay insecure self-employed, necessity self-employed, dependent self-employed	Government (specifically HM Treasury), universities, professional organisations, training providers, charities
<b>19.</b> Enlist schools and universities as allies in creating public awareness about self-employment	Strengthen the UK's entrepreneurial culture and facilitate knowledge exchange at universities and schools to support self-employed people who lack knowledge about effectively running a business.	All self-employed, mostly indirectly	Government, schools, universities
<b>20.</b> Strengthen different narratives that support entrepreneurial identity	Improve job satisfaction and meaning derived from self-employment for the individual by increasing public acceptance of self-employment as a viable and respected way of working.  Reduce stigma associated with business failure by promoting a more appreciative culture in which business failures are seen as a normal part of entrepreneurial life.	All self-employed, mostly indirectly	Government, universities, media, organisations supporting the self-employed
<b>21.</b> Strengthen "social entrepreneurship"	Improve sense of meaning, fulfilment and enjoyment in work by encouraging self-employment that aims to strengthen civil society.	All self-employed	Government, professional organisations, trade unions, co-working spaces, co-operatives, business leaders





# METHODOLOGY AND DEFINITIONS

The present report synthesises research articles and policy papers on the subjective wellbeing of the self-employed (mostly measured with satisfaction with life questions). The academic literature uses the terms self-employment and entrepreneurship often synonymously, and in many cases does not even distinguish types of self-employment.

Wherever possible, this report will focus on self-employment more narrowly and distinguish between the types of self-employment, such as freelancing, opportunity and necessity self-employment. It will also focus on solo self-employed (as opposed to employer-type self-employed).

Unambiguous and generally accepted definitions (let alone legal statuses) do not exist for many types of self-employment, which is a problem in itself. In order to survey a nascent literature in its broadest fashion, this report uses broad definitions of self-employment, i.e. working for oneself.

## Definitions used in analysis and recommendations

In the empirical analysis, using data from the British Household Panel Survey (BHPS), self-employment is measured by individuals self-describing their type of work as being self-employed. Different types of self-employment are then distinguished on the basis of:

- **Solo self-employment:** Working on one's own without employees.
- **Opportunity self-employment:** Becoming self-employed voluntarily to pursue entrepreneurial ideas and be one's own boss (moving from an employed position to self-employment within two years).

- **Necessity self-employment:** Being driven into self-employment for lack of other employment opportunities (moving from unemployment to self-employment).
- **Freelancers:** Self-employed people who supply their work/services on a project-by-project basis and are output-focused.

Other categories of self-employment are defined with regard to the classifications of the True Diversity of Self-Employment Report (CRSE 2017), which distinguishes types of self-employment along the three dimensions of economic wellbeing, security and independence:

- **Dependent self-employment:** People whose self-employed status is unclear due to low levels of autonomy.
- **Low-pay, insecure self-employment:** Self-employed who tend to be less qualified, with limited autonomy. They are also much less likely to have financial security, such as a private pension.

## Additional definitions used in recommendations

Additional types of self-employment are distinguished in the policy recommendations, in order to provide an even more targeted approach to the solutions presented. These include:

- **Growth-oriented self-employment:** Working on one's own with employees or ambition to employ others.
- **Low, medium and high-pay self-employed:** Different categories of economic wellbeing (defined with regards to the True Diversity of Self-Employment Report).

For the data analysis and policy recommendations, categories are not mutually exclusive, e.g. individuals can be both freelancers and opportunity self-employed.



CHANGING THE LENS  
THROUGH WHICH WELLBEING  
OF THE SELF-EMPLOYED  
IS VIEWED

After growing rapidly over the last ten years, the UK's self-employed population has swelled to almost five million people, or 15 per cent of the workforce.<sup>3</sup> The recent recession and the advent of the gig economy seem to have made it easier – and perhaps a necessity for more people – to become self-employed instead of working exclusively for one employer. Most, however, do not seem to become self-employed to avoid being unemployed, but because they cherish the autonomy, the creativity, the independence of “being one's own boss”, and the chance to pursue a lifestyle preferable to being in an office from nine to five.<sup>4</sup>

Governments foster self-employment because it can promote innovativeness, create jobs and help build new markets.<sup>5</sup> Self-employment may also reduce both welfare dependency and Government burden if people engage in it to avoid unemployment. And it is generally through the lens of job creation that UK Government policymakers see self-employment (even though the vast majority – 84% – of UK self-employed are solo self-employed and do not create jobs besides their own).

With self-employment coming to play such an important role in the UK labour force, we need to better understand its impact on individual wellbeing. We also need to start thinking of wellbeing as more than just having a job or an income. Is it good overall for individuals to be self-employed? Do they enjoy it once they become self-employed, even if they did not want to be self-employed in the first place? Under what conditions is self-employment stressful and harmful, and when is it fulfilling and rewarding? And also, since there is not just one type of self-employment, what types of self-employment should we promote?

For the millions of people in the UK who are self-employed, the way they work is an integral part of their lives. When policymakers are considering the wellbeing of the self-employed, they should be informed by these people's assessments of their own experiences. While self-employment affects a person's income, health, stress levels, work and family life, these are all just facets of their wellbeing: there must be a holistic summary judgement that aggregates all of these dimensions.

So why not ask the self-employed person themselves? This report will argue that the impact of self-employment on wellbeing should be gauged by focusing on the subjective wellbeing (“happiness”, “life satisfaction”) of the self-employed. Life satisfaction is a measure that implicitly captures all areas of an individual's life, such as job, income, health, family life and leisure. The Office for National Statistics' (ONS) four “personal wellbeing” questions (see Box 1) show a person's subjective and self-assessed summary of their life as a whole.

#### Box 1: ONS' Personal Wellbeing Measures

- Overall, how satisfied are you with your life nowadays?
- Overall, to what extent do you feel the things you do in your life are worthwhile?
- Overall, how happy did you feel yesterday?
- Overall, how anxious did you feel yesterday?

Scale of 0 to 10, where 0 is “not at all” and 10 is “completely”. The ONS calls it “personal” as opposed to the “subjective” of the academic literature.

Source: ONS (2017)

These measures allow us to get a “big picture view” of the wellbeing of individuals and groups in the populace, and to track this over time. They also allow us to track how wellbeing responds to changes in policy. More governments across the world are starting to rely on such measures, officially eliciting them and basing their policies on them.<sup>6</sup> While the UK has played a leading role in instituting the measurement of wellbeing, so far it has not been used in this country to assess how the self-employed are doing. Worse, many UK self-employment policies are still focused on job creation, without giving any consideration to the wellbeing of the self-employed.

Considering only one facet of wellbeing, as many studies do (and as UK policymakers implicitly do by focusing on economic wellbeing and job creation), may lead us astray. For instance, focusing on the high job satisfaction of the self-employed misses the fact that in many (international) studies they are shown to earn less than their employee counterparts, may have conflicts between their family and work-life, and often suffer from higher levels of stress and anxiety. Globally accepted life satisfaction measures aggregate all of the above. They are also democratic because the self-employed person themselves provides the judgement.

There is also a risk of going astray by looking at the “average self-employed person”. A key focus of the True Diversity of Self-employment report by the CRSE<sup>7</sup> is the heterogeneous nature of self-employment: there is not one type of self-employment, but many. This “true diversity” of self-employment appears through differences in both the objective and subjective characteristics of the self-employed.

Objective factors include distinctions in the type of work, income, access to funding, autonomy, independence and the security of work. Subjective factors include the motivation to become self-employed (e.g. wanting to become self-employed versus having to be self-employed for lack of other opportunities), entrepreneurial identity, worries and rumination about income/job security, and the meaning derived from work.

This means, the impact of self-employment on wellbeing depends on the type of self-employment people find themselves in. And this, in turn, means there is not a one-size-fits-all type of policy that is equally relevant for all the self-employed. Policymakers need to take this into account and tailor different policies to different self-employed groups. This report will therefore call for better targeted policies to improve the wellbeing of the self-employed, formed under the guiding principle that what ultimately counts is people's overall and subjective experience of wellbeing, not just one facet of it.

<sup>3</sup>Eurostat (2015). <sup>4</sup>Blanchflower (2004). See also Jenkins (2017): 60% of the UK freelancers in a recent survey choose freelancing to enjoy a desirable work-life-balance. <sup>5</sup>Lord Young (2013). <sup>6</sup>O'Donnell et al. (2014), OECD (2015), European Commission (2016), ONS (2017). Policy Implementation: The UK's Behavioural Insights Team (a.k.a. “Nudge Unit”); The ONS calls these measures of “personal well-being”, whereas the academic literature uses the canonical term “subjective well-being”. <sup>7</sup>CRSE (2017).



We can only start to understand the wellbeing of the self-employed by considering broader, subjective measures of wellbeing. Both academic and policy-related literature on the subject is fragmented and unsystematic because of the heterogeneity of self-employment – as well as the lack of consensus about what dimensions of wellbeing to analyse.

Both policymakers and early academic literature use economic success as a measure of wellbeing – otherwise known as economic wellbeing. For example, the profits or income the self-employed earn, or the jobs created by founding new business ventures.

#### **INCOME**

Using income as a measure of wellbeing, and comparing the self-employed with their employed

counterparts, most studies have shown that on average the self-employed earn less.<sup>8</sup> This is especially true of part-time or solo self-employed (meaning working on their own account, without employees). In the UK more than 80 per cent of the self-employed are self-employed without employees – a much higher rate than in other major European countries. Recent ONS data also confirms that in the UK, on average, full-time self-employed underearn compared to employees. Modal weekly self-employed income is around 200 GBP vs. 400 GBP for employees, and in 2016, median weekly incomes for the full-time self-employed were 347 GBP or roughly 18,000 GBP p.a.<sup>9</sup>

Income averages like this are misleading, however, because they lump together very different UK self-employed groups. Low income groups can earn

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<sup>8</sup>Astebro/Chen (2014) for an overview. See also Hamilton (2000), Sorgner et al. (2017). <sup>9</sup>ONS (2018), see also Lockey (2018), p. 32.

as little as 3.21 GBP per hour (median income for shopkeepers), whereas high-pay income groups can earn an average of 30.84 GBP per hour (median income for financial advisors).<sup>10</sup> A similarly diverse picture emerges even within groups – among Brighton’s creative industry freelancers, for example. In this group, the median yearly income of highly educated freelancers is 33,000 GBP: more than comparable employees at the time (27,000 GBP), but with fewer hours worked. Variability, however, is high: from a median income for consulting of 60,000 GBP to a median web design income of 25,000 GBP.<sup>11</sup>

It is also well known that the self-employed receive fewer fringe benefits and social security benefits – and have more fluctuating earnings. The detrimental effects of this are evident in the disproportionately low number of self-employed people saving into a private pension compared to employees (only 30% pay into pension plans in the UK, compared to 50% of the employed).<sup>12</sup>

Income comparisons are even less informative when you consider that the self-employed often work fewer hours than employees. For instance, converting the above 33,000 GBP into full-time equivalents (FTE) would lead to a yearly income of 43,000 GBP for the group of freelancers analysed. But it is not useful to convert self-employed incomes in this way if they cannot actually choose to work more hours; converting to FTE would then inflate their actual incomes. In short, self-employed income figures can be quite misleading because of the incredible diversity of self-employment.

### HOURS WORKED

For similar reasons to income, just looking at working hours is not enough. While some self-employed people (especially those with employees) work longer hours than comparable employees, others work less. ONS estimates suggest average working hours at 38 per week, compared to 36 for employed people. However, with 16 per cent of self-employed people working 50+ hours and 14 per cent not working as many hours as they would like (thus counting as underemployed<sup>14</sup>), the real picture is clearly far more varied than the basic average figures suggest.

Looking at how long the self-employed work is in itself not very informative regarding their wellbeing. For some working just a few hours is what they want, for others it is not a choice and not enough.

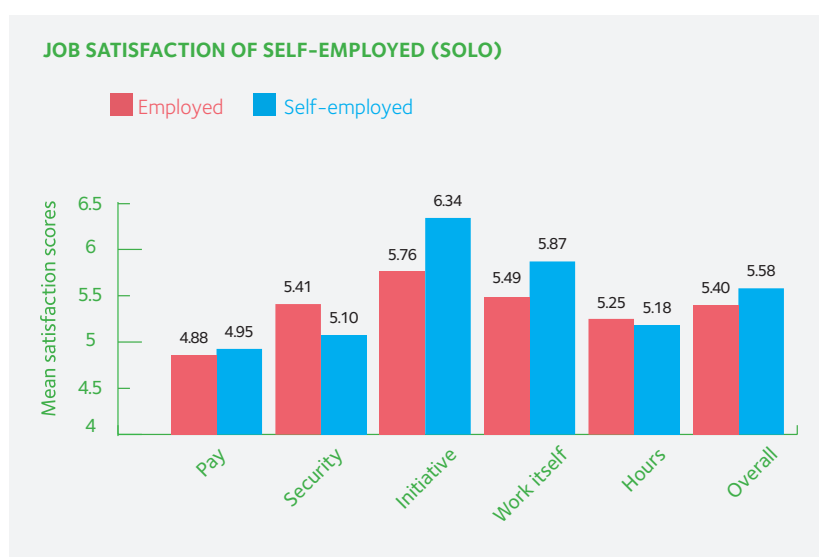
### JOB SATISFACTION

Job satisfaction is increasingly being used as a measure to explain why many people want to be self-employed despite lower earnings. Findings in the literature show that in all countries and contexts, there is higher job satisfaction for all types of self-employment analysed (for entrepreneurs, freelancers, opportunity and necessity self-employed to name a few).<sup>15</sup>

The ability to be flexible with hours worked, work place, work tasks, use of own initiative and day-to-day work decisions – as well as the use of creativity and the autonomy of being one’s own boss – can largely account for these findings. They also explain why many people want to become self-employed despite often lower earning potential and higher earning variability. In fact, more than 70 per cent of the UK’s self-employed say they want to remain self-employed. Of course, this still means three in ten would actually prefer to be employed, but this rate is lower for people who were self-employed before the recession.<sup>16</sup>

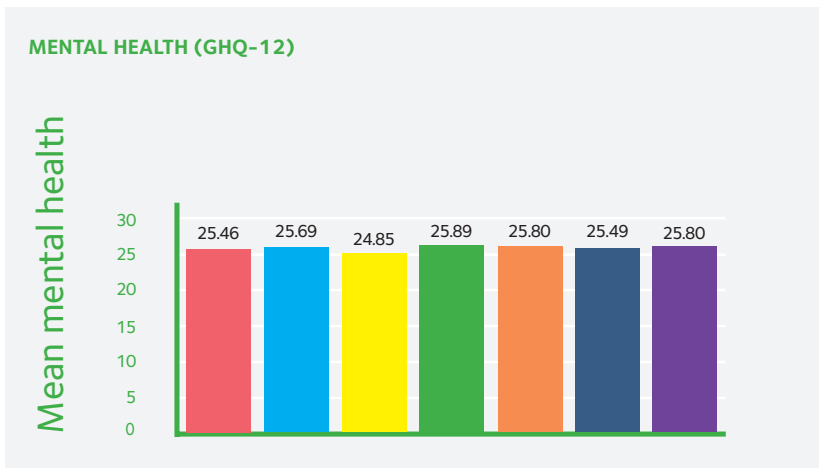
Drawing on the long running British Household Panel Survey (BHPS) data set, Figure 1 shows how the use of initiative and the work itself are particularly strong sources of satisfaction for the UK’s self-employed (here focusing on solo self-employed). It also shows how satisfaction with job security and with hours worked is lower when self-employed.

**Figure 1:** Job satisfaction of the solo self-employed and employees in the UK



Source: BHPS (1991–2008), Pooled averages: 7-point scale where 1 is “not satisfied at all” and 7 is “completely satisfied”

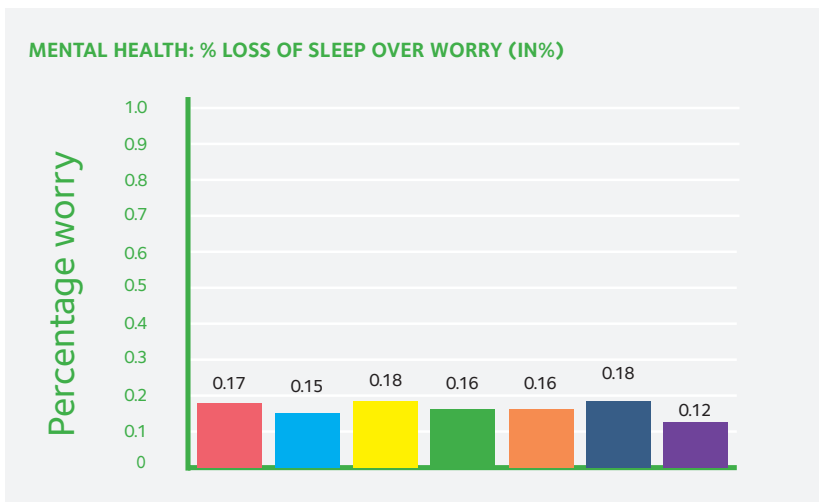
<sup>10</sup>CRSE (2017), p.21. <sup>11</sup>The same holds true for a sample of highly educated freelancers surveyed by the IPSE: quarterly earnings here range from ca. 15,000 GBP (associate professional and technical occupations, SOC3) to 34,000 GBP (for managers, directors and senior officials, SOC1), see IPSE (2018b), p.13. <sup>12</sup>Storey (1994), Van Praag/Versloot (2007). <sup>13</sup>Sapsed et al. (2015). <sup>14</sup>Hyytinen/Ruuskanen (2007), D’Arcy/Gardiner (2014). <sup>15</sup>Blanchflower (2004). <sup>16</sup>Dellot, B. (2014a), D’Arcy/Gardiner (2014).



**Figure 2a:** Mental health of the full-time solo self-employed and employees in the UK: GHQ-12 (General Health Questionnaire)

Employed Self-employed Freelancers  
 Opportunity SE Necessity SE Low pay, insecure SE  
 Dependent SE  
 Note: Categories are not mutually exclusive.

Source: BHPS (1991–2008), Pooled averages: 36-point Likert Scale. Values below 12 indicate depression and bad mental health. The General Health Questionnaire (GHQ) is a screening device for identifying minor psychiatric disorders in the general population in non-clinical settings.



**Figure 2b:** Mental health of the full-time solo self-employed and employees in the UK: Loss of sleep over worry (in %)

Employed Self-employed Freelancers  
 Opportunity SE Necessity SE Low pay, insecure SE  
 Dependent SE  
 Note: Categories are not mutually exclusive.

Source: BHPS (1991–2008). Indicates percentage of individuals who more so than usual report losing sleep over worries (one of the 12 sub-items of the GHQ-12 measure)

Job satisfaction also varies between different types of self-employment, as one of the few studies that attempts a segmentation of the self-employed shows.<sup>17</sup> In this study, the lowest level of job satisfaction in the UK was found among low-pay, dependent and insecure self-employed people (e.g. drivers and cleaners): 5.04 out of 7. The highest levels of job satisfaction were found among mid-pay, insecure, dependent self-employed people (e.g. carers and child-minders) and mid-pay, secure, independent self-employed people (e.g. professionals, trainers and coaches): 5.95 out of 7 and 5.94 out of 7 respectively. This also shows that job satisfaction is somewhat independent from income.

## MENTAL HEALTH

Looking at job satisfaction alone, of course, would neglect other physical and mental health aspects of the self-employed experience.<sup>18</sup> If long working hours or a mismatch between job demands and individuals' skills become overwhelming, the self-employed can experience higher levels of stress and associated deteriorating health.<sup>19</sup> While some studies claim that the self-employed have worse health outcomes,<sup>20</sup> recent analyses show the opposite: that you are in better health when self-employed. But this does

not mean that self-employment itself improves health: rather, more healthy people choose to become self-employed.<sup>21</sup>

Some types of self-employment also come with higher stress levels (being an employer for instance).<sup>22</sup> Not all stress is necessarily bad stress, but some forms can be considered negative,<sup>23</sup> such as increased worries (see Fig. 2a,b) and rumination. The strains that come from work-life balance conflicts and the absence of job security can also be seen as negative forms of stress.<sup>24</sup>

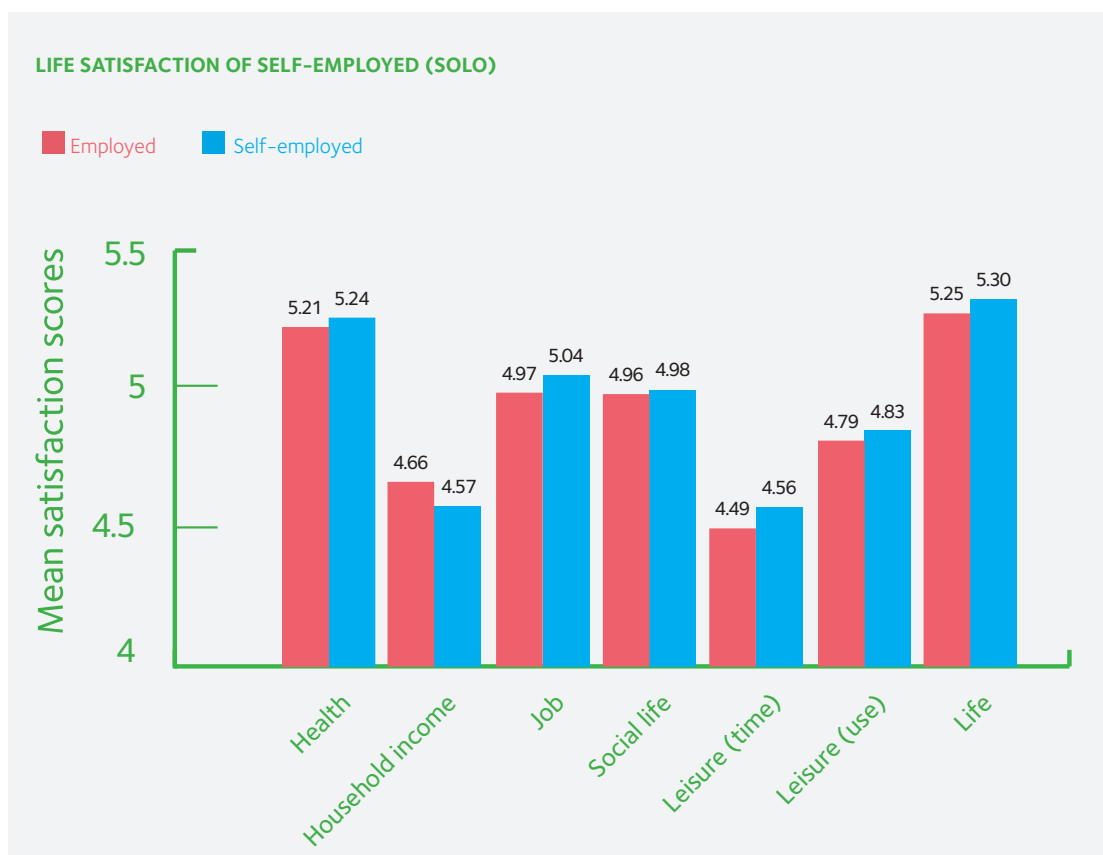
## SOCIAL INTERACTION

Long working hours can interfere with the private lives of the self-employed too. Many solo self-employed lack the varied social interactions that come with normal work life and experience loneliness when working from home. Individuals can also perceive the same situation in many different ways, meaning more optimistic and resilient people experience lower levels of stress and thus higher levels of wellbeing. This is most likely influenced by social norms, entrepreneurial culture and identity as well.<sup>25</sup> Overall, however, neither the physical nor the mental health of the UK self-employed seem particularly different to their employee counterparts (Fig. 2a).

<sup>17</sup>CRSE (2017). <sup>18</sup>A recent survey into the mental health of the self-employed shows the varied facets of entrepreneurial mental health and well-being but also provides a sense of how ill-known some of the relationships between self-employment and mental well-being still are, most likely due to the heterogeneity of SE (Stephan, 2018). <sup>19</sup>Schieman et al. (2006). <sup>20</sup>Buttner (1992), Andersson (2008). There is some evidence that when suffering bad health and mental problems, self-employment can be the only way to participate in the labour market. <sup>21</sup>Bogan et al. (2014), Rietveld et al. (2015). <sup>22</sup>Hessels et al. (2017). <sup>23</sup>Stephan/Roesler (2010). <sup>24</sup>Parasuraman/Simmers (2001). The self-employed are also less satisfied with their job security despite enjoying higher levels of job security than many employees (Millán et al. (2013)). <sup>25</sup>Baron et al. (2016), Binder/Blankenberg (2017).

**Figure 3:** Life satisfaction of the self-employed and employees in the UK

Source: BHPS (1997–2008), Pooled averages: 7–point scale where 1 is “not satisfied at all” and 7 is “completely satisfied”



### LIFE SATISFACTION AS A MEASURE OF WELLBEING

Taken together, these divergent findings show how easily one can be misled by focusing on a subset of indicators when trying to judge the overall wellbeing of the self-employed. Considering the bigger picture then, how well are the self-employed doing?

A broad measure of mental health and wellbeing is life satisfaction, and a number of studies have looked into how self-employment affects this. And at first, the picture seems quite inconsistent. Some studies find higher life satisfaction among the self-employed and some find higher life satisfaction because of their enterprise, whereas others show that self-employment has a negative impact, and in some cases no effect at all.<sup>26</sup>

Overall the evidence is scant and mixed because there has only recently been an interest in using life satisfaction measures as performance indicators for self-employment. Another, perhaps more compelling explanation for the varied findings is that the differences in life satisfaction (similar to the differences in earning potential) derive from different types of

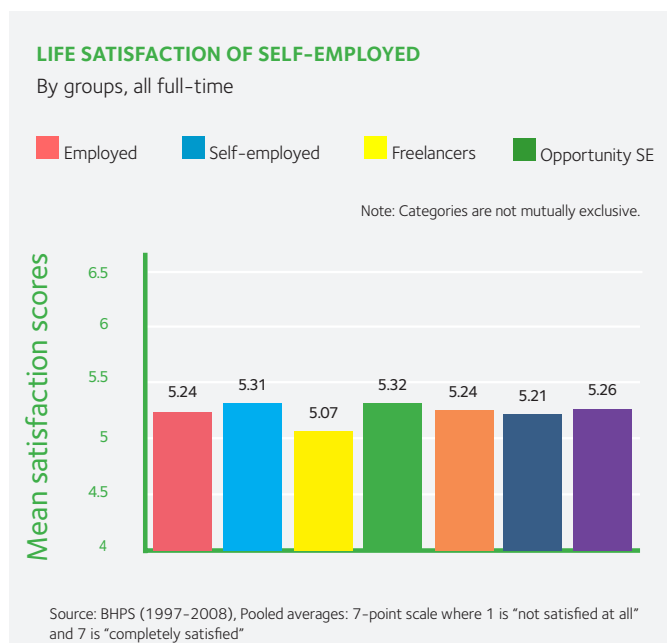
self-employment. For example, evidence is mounting that people pursuing voluntary “opportunity” self-employment are more satisfied than their employed counterparts. Self-employment out of “necessity”, on the other hand, is likely to decrease life satisfaction.<sup>27</sup>

Recent research shows that an important channel for explaining these differences in life satisfaction is subjective perceptions. These include lack of confidence, perceptions of failure or entrepreneurial worries (about the financial situation and job security).<sup>28</sup>

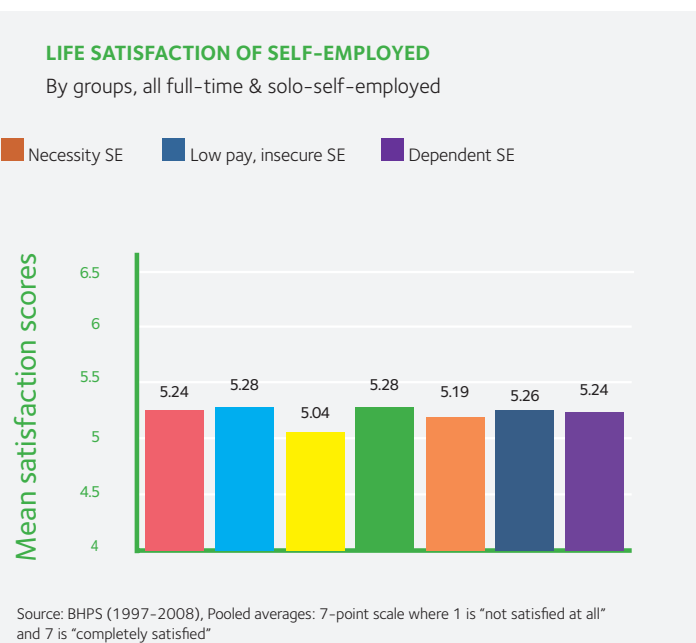
Considering the life satisfaction of the UK self-employed (Fig. 3), we can see that they are overall somewhat more satisfied with their life than the employed (5.30 vs. 5.25). The differences here are, however, much less pronounced than those that relate to job satisfaction. In most aspects of their lives, the self-employed show a greater level of satisfaction than their employed counterparts – except for satisfaction with household income. There are even more differences among specific self-employed groups (Fig. 4a,b).<sup>29</sup> For example, among freelancers and necessity self-employed, life satisfaction is lower than for employees.<sup>30</sup>

<sup>26</sup>Yes: Andersson (2008, Sweden), Craig et al. (2007, Australia); No effect: Schjoedt/Shaver (2007, nascent entrepreneurs); Depends: Alesina et al. (2004, subgroups), Blanchflower (2004, subgroups). <sup>27</sup>Positive effects only for opportunity SE in UK (Binder/Coad (2013)) and Germany (Binder/Coad (2016)). <sup>28</sup>Stephan (2018) for an overview, and Binder (2017) specifically for worries about job security and financial situation. <sup>29</sup>Job satisfaction numbers differ between Figure 1 and 2a,b because averages in Figure 1 are over 1991–2008, whereas the averages in Figure 2a,b are over 1997–2008 as life and non-job domain satisfaction have not been elicited earlier on.

**Figure 4a:** Life satisfaction of all self-employed and employees in the UK



**Figure 4b:** Life satisfaction of the solo self-employed and employees in the UK



## THE PROBLEM WITH CURRENT POLICIES

The UK’s current policies on self-employment reflect neither the heterogeneity of the self-employed nor their overall wellbeing. UK self-employment policies are, at present, mostly focused on labour market deregulation, information provision and financial considerations such as access to funding, business venture growth and job creation. Policy is generally more concerned with the societal desirability of self-employment (because of job creation and innovativeness, for example) than the wellbeing of individual self-employed workers.<sup>30</sup> This is, however, at a time when there is greater concern about wellbeing in society more generally: policies that

would foster more self-employment at the cost of a stressed out, unhealthy and unhappy self-employed workforce should be seen with scepticism, even if they would lead to high societal innovativeness.

The UK’s labour markets are among the most deregulated in Europe, with few barriers overall.<sup>31</sup> Further deregulation of labour markets seems neither necessary nor likely to be supported by the general public (similar to the 2012 Beecroft report, which argued for no-fault dismissal deregulation, faced strong opposition).<sup>32</sup>

The self-employed have reasonable access to bank loans, and many do not want or need further bank loans. Of those who need more money, only a minority of small companies have difficulties getting loans on private markets.<sup>33</sup> Bank loans are, however, only one

<sup>30</sup>This is nothing that is peculiar to UK self-employment policies and could similarly be stated for the EU 2020 action plan “Reigniting the entrepreneurial spirit” (European Commission, 2013). <sup>31</sup> UK is No. 7 overall (The World Bank, 2017); also UK in the lower rungs regarding employment protection (OECD, 2018). <sup>32</sup> The UK Government (2018). <sup>33</sup>Freeman (2013).



form of finance, and other financial problems such as lack of pension savings and irregular cash-flows persist and are among the most pressing worries for the self-employed.<sup>34</sup>

A Small Business Commissioner has recently been appointed in the UK to help with late payments, although it remains to be seen whether the office's powers are sufficient to effect the necessary changes.<sup>35</sup> There are also different Government schemes to help, such as the New Enterprise Allowance (NEA), which gives a subsidy to unemployed people founding a business. There are also Growth Vouchers, which provide finance for businesses wanting to grow beyond micro-size, as well as an Employment Allowance (which gives employers a reduction of up to £3,000 in National Insurance Contributions). Then there are National Insurance Holidays (similar to the Employment Allowance) and the Youth Contract, a subsidy for hiring young people.

Although all these Government schemes are estimated to be quite costly, they have not been particularly successful. For instance, only one per cent of all recent new self-employed people are eligible for the NEA (or 4% of the unemployed), and while the Youth Contract was meant to help approximately 160,000 people, in practice there are only 12,000 viable beneficiaries. It was a similar situation with the NIC Holidays, where it helped only six per cent of the intended business beneficiaries.<sup>36</sup> It remains to be seen whether this low uptake is due to targeting problems or if it is because the self-employed don't know about or are failing to take advantage of these opportunities.

Other policies focus on information provision (e.g. Business is GREAT) and, to a limited extent, on mentoring (NEA comes with some mentoring support). These schemes do not seem to have led to more people taking advantage of the above programmes. This is perhaps not surprising because of the limited amount of time and attention self-employed people can give to dispersed sources of information while also putting the necessary time into the day-to-day running of their businesses.

So, what are the gaps in UK self-employment policy? Firstly, by focusing on finance and business growth, UK policies generally ignore the heterogeneity of self-employment: in fact, most self-employed people do not want to grow their businesses and are content not hiring people. For them, therefore, the above policies are of limited use. Secondly, these policies focus on objective factors (access to income, job creation), but not on subjective perceptions (such as entrepreneurial identity, confidence, stress and worries).

If there are psychological barriers among self-employed people who want to grow their businesses (such as lack of confidence, incorrect perceptions about access to finance, dealing with hires and setting up VAT or PAYE accounts), then focusing on finance provision and information is not enough. There must be training to correct these perceptions, deal with stress, manage time and build confidence. If the self-employed worry about their financial situation despite good access to finance, more finance will not solve the problem. If the self-employed pursue their job as a lifestyle choice or to engage in more meaningful work, growing their business might be impossible or not a priority.

The failure of policies catering for different types of self-employment – and that don't take into account the subjective perceptions of the self-employed – is likely to account for the lack of success of initiatives such as the NEA, NIC Holidays and the Youth Contract.

The UK's overall self-employed business and administrative climate can be considered quite good compared to other countries in the European Union (as evidenced by low levels of employment protection, ease of access and ease of starting a business). But while there are many initiatives to support the self-employed in the UK, they all seem to address one small and not especially pressing aspect of self-employment. The remainder of this report will therefore present a more comprehensive wellbeing framework, both to consolidate existing policies and to shed light on areas of self-employment policy that have not yet been considered and could help improve the wellbeing of people in this sector.

<sup>34</sup>See Lockey (2018), p.47. <sup>35</sup>IPSE (2018a). <sup>36</sup>D'Arcy/Gardiner (2014), Dellot (2014b).



**A NEW APPROACH TO  
WELLBEING POLICIES FOR  
THE SELF-EMPLOYED**

Wellbeing policies for the self-employed in the UK need to take a more holistic view of wellbeing. The unifying idea here is that self-employment (or any job really) has a set of characteristics that affect the individual in different domains of their life (such as finance, health and social life). A summary of all domains should thus provide an indication of a person's overall life satisfaction. This model of wellbeing has two sides: an objective (bottom-up) and a subjective (top-down):<sup>37</sup>

The objective conditions of self-employment (people's income, amount of time spent at work, conflicts of work-life balance etc.) affect people's wellbeing by influencing different domains of their lives (such as financial security, health and social life). But their subjective perceptions of these objective conditions matter as well. These can include: worries about income streams, lack of confidence, perceived mismatch between skills and challenges, entrepreneurial identity, as well as personality traits that provide psychological capital to deal with being self-employed (e.g. optimism, resilience, risk-loving attitudes). These all play a role in how objective conditions are perceived and to what extent they contribute to the wellbeing of the self-employed.

One striking example is that it is not so much objective financial conditions that negatively affect the wellbeing of the self-employed, but their subjective perceived sense of the business failing.<sup>38</sup> It is also to do with the extent to which a bad financial situation makes the self-employed worry.<sup>39</sup> Both objective and subjective

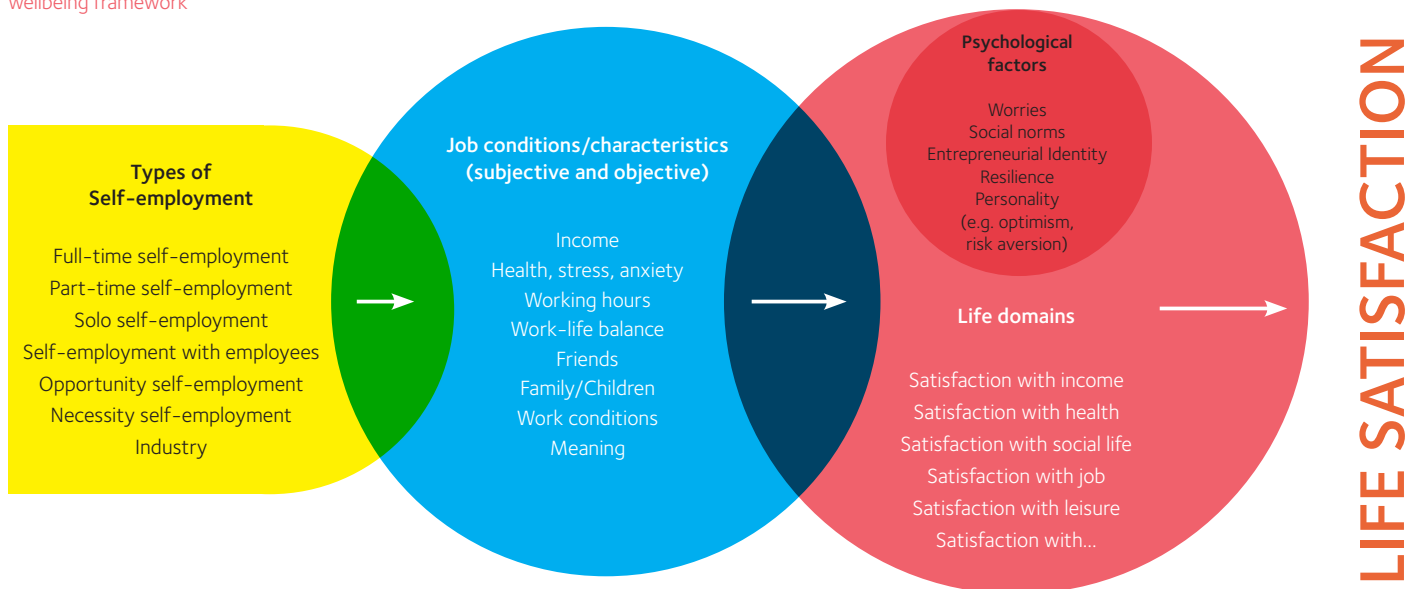
conditions need to be considered when producing policy.

Policymakers who believe that focusing on softer measures of wellbeing instead of income amounts to "feel-good" thinking should not forget that higher wellbeing leads to all sorts of positive outcomes for society. Not least: better physical and mental health, more job market success as well as greater persistence of the (happy) self-employed in their business ventures, leading to a better chance of opportunity generation.<sup>40</sup> Happiness is good both in itself and as a means to other ends.

Creating a comprehensive wellbeing framework would not obviate any policies focused on financial success and business performance, as income (or lack of business success) is an important driver of financial satisfaction, contributing to overall life satisfaction. As shown in Figure 5, however, more attention needs to be paid to how different types of self-employment affect satisfaction in other life domains (such as health, social life and leisure). If conflicts between these domains arise, overall life satisfaction can be used to decide what policies should be prioritised.

Broadly, policymakers need to pay more attention to how people perceive their objective conditions. An overall wellbeing framework would contribute to the Government's goal of increasing people's personal wellbeing and support its recently released "Good Work" plan. Despite the Government's commitment to improving wellbeing, this has not, so far, translated into wellbeing policies for the self-employed.<sup>41</sup>

Figure 5: Big picture wellbeing framework



<sup>37</sup>E.g. Van Praag et al. (2003), Erdogan et al. (2012), pp. 1041-2. <sup>38</sup>Stephan (2018), specifically pp. 22-23. <sup>39</sup>Binder (2017). <sup>40</sup>See Stephan (2018) for an overview, pp. 27-32. <sup>41</sup>See The UK Government (2018); Should society encourage misery-increasing forms of self-employment if they increase overall to society's level of competitiveness/innovativeness? From a perspective centred on individuals' wellbeing I would argue: no. Or if competitiveness is a goal for public policy, we should try and achieve it in more sustainable fashion in that case, i.e. organize work in ways that do not make people miserable. This also means, that if much of SE is like playing the lottery in terms of creating new innovations, we should not discourage this, as long as the self-employed are happy with this.

# MULTIDIMENSIONAL STRATEGY FOR IMPROVING WELLBEING OF THE SELF-EMPLOYED

This section presents the first steps towards a more comprehensive and specific approach to policies that increase the wellbeing of the self-employed. Many policies are aimed at enhancing the wellbeing of the self-employed by improving their mental health, for instance by decreasing their worries about the business or stress. The policies are categorised under the life domain to which they most closely relate, but there are crossovers in many places. Before presenting concrete policies for the various life domains, however, there are two more general policy recommendations to consider:



## RETHINK THE POLICY FOCUS ON BUSINESS GROWTH AND DEVELOP POLICIES FOR DIFFERENT GROUPS OF THE SELF-EMPLOYED

Policymakers need to stop neglecting the self-employed who specifically do not want to grow – which accounts for the majority of the self-employed in the UK. Policymakers need to accept that not growing is a viable business strategy. While financial needs differ, policies should not prioritise growing one's business at the expense of the large number of self-employed who want to remain small. Many engage in self-employment because of the meaning they can derive from their work, not to grow a large business. Narratives should emphasise that this is a normal choice for many microbusinesses.

**Primary target group of the self-employed:** Solo self-employed

**Stakeholders:** Government (specifically the Department for Business, Energy and Industrial Strategy), media

**Ease of implementation:** Low cost, high practicality



## GATHER BETTER DATA FOR THE HETEROGENEOUS GROUPS OF SELF-EMPLOYED PEOPLE

As we have little detailed and adequate data for this area at this point, it is imperative both to better define different types of self-employment and to gather data on overall wellbeing in these groups.<sup>42</sup> Even quite recent reports on the wellbeing of the self-employed still draw on outdated information and, when looking at satisfaction scores, mostly draw on satisfaction with work questions.<sup>43</sup>

**Primary target group of the self-employed:** All self-employed indirectly

**Stakeholders:** Government, the Office for National Statistics, researchers

**Ease of implementation:** Low cost, high practicality

<sup>42</sup>While a IPSE report asks about the satisfaction with working as a freelancer, no overall life satisfaction question is reported (Jenkins (2017)). <sup>43</sup>For instance, Lockey (2018), pp. 45-5, Dellot (2014a), pp. 54-6. The positive exception is the CRSE report on the true diversity of self-employment (CRSE (2017)).

The following sections list potential policies and also distinguish between different life domains and the different types of self-employed people who would benefit from these policies

## LIFE DOMAIN: HEALTH



### PROVIDE TRAINING IN CONFIDENCE-BUILDING THROUGH COUNSELLING/SEMINARS

Lack of confidence and excessive worrying negatively affect people's wellbeing and can be countered by providing short business courses or information sessions on hiring practices, pension savings options and other subjects that teach business skills. Even if these training measures might not be sufficient to improve business success, they can have a positive impact on health by reducing stress and thus improving life satisfaction.<sup>44</sup>

It is important to understand that subjective perceptions are relevant to mediating objective conditions: access to money, for instance, increases stress and job demands. It is therefore necessary to not just improve the provision of funding, but also teach business skills and confidence. This training can be delivered by private coaches or universities, and Government should put more emphasis on tying funding to these measures (see specifically also Policies 4, 17 and 18).

**Primary target group of the self-employed:** All self-employed, especially necessity self-employed

**Stakeholders:** Universities, private coaches/training providers, professional organisations, Department for Work and Pensions (DWP) – specifically Job Centre Plus

**Ease of implementation:** Low cost, high practicality



### PROVIDE SELF-MANAGEMENT AND STRESS-MANAGEMENT COURSES FOR THE SELF-EMPLOYED

One big factor in the health domain is the stress the self-employed experience as a result of longer working hours and/or a mismatch between skills and job demands. Being forced into self-employment can be another reason for bad health, stress and dissatisfaction.

Better preparing the self-employed for irregular work times could be one policy to help achieve better health outcomes. This could be done through time and stress-management training, including relaxation exercises or cognitive-behavioural therapy interventions to deal with anxieties and worries, for example. These could be offered either as part of job training within New Enterprise Allowance (NEA) or through virtual resources and professional organisations/private practice. Even short training programmes of a few hours could help to reduce stress and worrying, and positively impact individuals' wellbeing.

**Primary target group of the self-employed:** All self-employed, especially necessity self-employed, growth-oriented self-employed

**Stakeholders:** Universities, private coaches, professional organisations, Government (delivering NEA)

**Ease of implementation:** Low cost, high practicality

<sup>44</sup>Self-management and stress-management techniques have been shown to be surprisingly effective, especially regarding financial stressors (Stephan, 2018, pp. 20-23). Effects of education and past success are less unambiguously positive.



## PROVIDE OPPORTUNITIES FOR EMERGENCY MENTORING

Better quality and quicker access to mentoring during business crisis periods can also reduce worries, so “emergency” mentoring should be offered – for instance, by Job Centre Plus employees with special training or through professional organisations supporting the self-employed. Government should incentivise the self-employed to become a part of existing networks (e.g. mentorsme.co.uk) and strengthen such initiatives – particularly for new entrants to self-employment. Mentoring can be especially helpful for individuals who want to grow their businesses, and could be provided by “peers” on a voluntary “pay-forward” basis (so that beneficiaries pledge to provide mentoring further down the line).

**Primary target group of the self-employed:** All self-employed, especially necessity self-employed, growth-oriented self-employed

**Stakeholders:** Universities, private coaches, professional organisations, Government (specifically DWP), business support groups

**Ease of implementation:** Low cost, high practicality



## REMOVE PSYCHOLOGICAL BARRIERS TO HIRING/GROWTH BY MYTH-BUSTING AND IMPROVING INFORMATION

The self-employed experience anxiety about regulations related to growth and hiring, and there is a widespread perception that growing above the VAT threshold and hiring employees could cause difficulties. Providing better, more easily accessible information could help allay these fears, combat this perception and make it easier for the self-employed to navigate these regulations.

For instance, check-lists about the necessary steps involved in growing a business might help make this process more accessible from a purely administrative point of view. This information could be provided on the websites either of Government bodies or professional organisations representing the self-employed.

Dispelling the myth of a lack of job security could further improve satisfaction. The self-employed actually often have higher job security, but are less satisfied with it. This suggests an unrealistic perception of the situation, which could be remedied – for a limited cost – with better information.

**Primary target group of the self-employed:** All self-employed, especially growth-oriented self-employed, opportunity self-employed

**Stakeholders:** Government (specifically BEIS and DWP), professional organisations

**Ease of implementation:** Low cost, high practicality

## LIFE DOMAIN: INCOME AND FINANCIAL SECURITY



### ABOLISH THE NEW ENTERPRISE ALLOWANCE (NEA) OR COUPLE WITH TRAINING

The existing NEA has not led to many unemployed people choosing this path and if they have, it is mostly in economically stronger regions. It should either be discontinued or accompanied with more intensive training, skill-building and mentoring. There is no evidence so far that this programme has been useful for the long-term unemployed or people with health problems. To integrate vulnerable groups into the labour market, retargeting the NEA and providing accompanying training and mentoring should be an urgent priority.

Mentoring and networking schemes – or participation in online or offline training programmes – could be tied more strongly to policies such as NEA or other public funding opportunities. This would help demonstrate the effectiveness of such interventions.

For those who want to leave self-employment, transition pathways into employment should be given higher priority. Confidence-building measures might also increase the wellbeing of the necessity self-employed. The efficacy of such policy initiatives should be subjected to rigorous analysis in accordance with the standards of evidence-based policy-making (e.g. through Randomised Control Trials).

**Primary target group of the self-employed:** Necessity self-employed

**Stakeholders:** Government for retargeting (specifically DWP), universities and professional coaches (who deliver training)

**Ease of implementation:** Lower practicality for training (associated with high costs of educational policies), high practicality for abolishing/retargeting the NEA



## REFORM UNIVERSAL CREDIT

Make Universal Credit fairer by changing the monthly assessment period to better represent the irregular working hours of the self-employed. At present, bad months are not sufficiently reflected, whereas several months of good earning can lead to self-employed people losing their entitlement.

Moreover, as many self-employed people earn less than the minimum living wage (MLW), the current policy creates financial hardship for the most vulnerable self-employed because they may lose their entitlements if they don't quickly earn above the required amount. This could be countered by increasing the duration of the minimum income floor (MIF) exemption to give self-employed businesses more time to become profitable.

**Primary target group of the self-employed:** Low-pay self-employed, necessity self-employed

**Stakeholders:** Government (specifically DWP)

**Ease of implementation:** High cost, low practicality



## CLARIFY STATUTORY DEFINITION OF SELF-EMPLOYMENT

The self-employed with dependent status are faced with greater concerns about job security, which can negatively influence their wellbeing. Providing clarity around the statutory definition of the self-employment would provide better protection and appropriate labour rights to this segment of the self-employed.<sup>45</sup> Otherwise people in self-employment with low levels of independence and security will get the worst from both employment and self-employment.<sup>46</sup>

**Primary target group of the self-employed:** Dependent self-employed

**Stakeholders:** Government (specifically BEIS, HM Treasury, HMRC)

**Ease of implementation:** Medium practicality



## IMPROVE CASHFLOW SMOOTHING, OVERDRAFT POLICIES AND MICROCREDIT

As many people in self-employment experience high anxiety and worries about their financial prospects, a number of policies could target these welfare-decreasing concerns. Many business worries are due to irregular cash-flows and corresponding problems, so priority should be given to this area.

Simpler and less cost-intensive schemes would include more self-employment friendly-banking, e.g. better overdraft conditions or small, easily accessible bridging loans to smooth the irregular cash flows of many small businesses – this could also include more self-employment-friendly bank policies on mortgages.

Better access to funding, which in many cases could be akin to “emergency microcredit” or “emergency overdraft” would be another avenue (both from private and public sources). There is already a comparatively large number of funding policy schemes in place (and most self-employed seem to get loans if they need). However, some consideration should be given to improving uptake. To help with this, there should be better information campaigns and systematic online resources (a central database for grants, for example).

Overcoming psychological barriers associated with financial management will be more difficult, but the behavioural sciences offer some tools and nudges that can increase uptake at low costs. For example, changing the choice architecture of the self-employed by tying information sessions to registering one's business or defaulting the self-employed into mentoring schemes when they are approved for loans or grants. It should also be possible to improve satisfaction and reduce worries by offering better access to social security nets (see below) like those enjoyed by employees, and by generally improving the security of low-skilled self-employed through training.

The Government already provides funding and incentives for self-employment through various schemes, but these are often focused on growing microbusinesses instead of supporting the continued existence of individual businesses that do not want to grow and take on additional employees. Refocusing these policies would not incur additional costs. Both cooperatively and privately-owned banks should also rethink their service portfolio to better accommodate the needs of small businesses – a measure that could be incentivised by the Government.

**Primary target group of the self-employed:** Low and medium-pay self-employed, necessity self-employed

**Stakeholders:** Government, cooperatively owned banks, commercial banks, credit unions, challenger banks

**Ease of implementation:** Cost neutral if private financial solutions can be developed, medium practicality

<sup>45</sup>IPSE has suggested to clarify self-employment status along the lines of having autonomy in one's work, having control over working arrangements, being independent from clients and bearing business risk in response to the Taylor Review: See IPSE (2017). <sup>46</sup>See Millan et al. (2018).



11

### IMPROVE SMALL CLAIMS ENFORCEMENT

The lack of prompt payment contributes to financial worries and decreased wellbeing. Promoting shorter payment time frames and making it easier to enforce payments in small claims courts (through shared lawyers, union lawyers etc.) would decrease financial worries and improve wellbeing. The Small Business Commissioner (SBC) also helps by “naming and shaming” companies who regularly fail to pay on time. Conversely, the SBC could provide an award (or “seal of approval”) for companies that pay self-employed and freelance contractors on time.

In addition, the SBC could be given more powers to help enforce payment on behalf of the self-employed. If these (mostly voluntary) measures turn out not to affect payment practices sufficiently, the Government should also evaluate whether some of the mentioned practices could be made mandatory.

**Primary target group of the self-employed:** Low-pay self-employed, freelancers, necessity self-employed

**Stakeholders:** Small Business Commissioner, Government, professional organisations (shared lawyers)

**Ease of implementation:** Low cost, high practicality



12

### INCREASE PAY RATE TRANSPARENCY

Lack of information on pay rates for different types of services contributes to small-scale business worries about people’s financial situation. Better knowledge of feasible rates could improve competitiveness and confidence of the self-employed by enhancing their understanding of standard rates of pay to benchmark themselves against.

It could also help improve the position of untrained (necessity) solo self-employed who might be unaware of standard rates of compensation.

**Primary target group of the self-employed:** Low-pay self-employed, necessity self-employed

**Stakeholders:** Professional organisations, Small Business Commissioner, recruitment organisations

**Ease of implementation:** Low cost, high practicality



13

### EXTEND DEFAULT PENSION OPTION TO THE SELF-EMPLOYED

Reform the social security system to allow the self-employed to gain similar pension insurance to employees. Where the Government provides funding, a part of this should be defaulted into private pension savings (such nudges have proven effective for employees). Otherwise, a default contribution could be worked into standard contracts where part of the fee is earmarked as a pension contribution. The self-employed could then be incentivised to self-nudge by committing to such a scheme through financial planning.

**Primary target group of the self-employed:** Low-pay self-employed

**Stakeholders:** Government (specifically DWP, Work and Pensions Select Committee), commercial finance, pension providers

**Ease of implementation:** High cost, low practicality



14

### TAILOR FINANCIAL PRODUCTS AND INFORMATION ABOUT SAVING FOR LATER LIFE SPECIFICALLY FOR THE SELF-EMPLOYED

For medium and high pay self-employed, the challenges around saving for their future is less about a lack of funds, but rather a case of inertia and lack of easily digestible information on private pension schemes.

Better information campaigns and easier access to financial products tailored to pension savings for the self-employed (where part of the monthly earnings are automatically “defaulted” into private savings accounts) would help improve the long-term financial stability of the self-employed.

**Primary target group of the self-employed:** Medium and high-pay self-employed, opportunity self-employed

**Stakeholders:** Government (specifically DWP), professional organisations, commercial finance, pension providers

**Ease of implementation:** Low cost, high practicality



## LIFE DOMAIN: SOCIAL LIFE (WORK-LIFE BALANCE)



### BUILD MORE JOINT WORKSPACES

Pooled workspace arrangements can improve leisure satisfaction because they make central administration, childcare and mentoring services more easily accessible. We all share the need for connection and human contact. Many solo self-employed work from home and lack the social interactions they need in their working day. Policies should be devised to create and improve networking opportunities in hubs such as shared workspaces/offices or virtual offices and virtual networking spaces (“Facebook for freelancers”).

Despite general awareness of the benefits of networking, few of the self-employed act on existing opportunities. Co-working spaces or virtual networks should also employ “nudges” (behaviourally informed choice architectures) to make it psychologically easier for the self-employed to join these social efforts. Joint resources in co-working spaces (even if virtual) also help to create a feeling of community among people who might otherwise be isolated. Newly self-employed people should be systematically incentivised to become part of social networks in their region (or in virtual “regions”).

Government should also consider providing incentives to create co-working spaces in areas where self-employment is not as prevalent (for instance by creating tax breaks<sup>47</sup> or offering the required work spaces).

**Primary target group of the self-employed:** Self-employed people in creative industries, freelancers, opportunity self-employed

**Stakeholders:** Professional organisations, private businesses, local authorities, metro mayors, co-working spaces

**Ease of implementation:** Medium practicality: likely to work only in places that already have vibrant self-employed communities



### PROVIDE POOLING SOLUTIONS FOR INSURANCE AND OTHER BUSINESS SERVICES

A big factor in this domain is policies to improve the family situation of self-employed people with small children. While maternity/paternity leave schemes similar to employees may seem far-fetched given the need to maintain businesses, childcare facilities in pooled workspaces may be more of a help. Where possible, statutory equality seems desirable for maternity leave, paternity leave and shared parental leave.<sup>48</sup>

Government and professional organisations should also consult with the financial industry on the feasibility of specialised insurance products (for instance payment insurance for child care). Given the rising number of self-employed, such products might soon become commercially feasible.

**Primary target group of the self-employed:** Solo self-employed, freelancers, opportunity self-employed

**Stakeholders:** Insurance industry, Government, professional organisations, co-working spaces, co-operatives, trade unions

**Ease of implementation:** Medium practicality for joint workspaces, high practicality for evaluation of specialised insurance products



### INCREASE ACCESS TO TIME MANAGEMENT TRAINING

Time management courses within training schemes (e.g. connected to NEA) can also cut time pressures and reduce perceived stress, thus enhancing wellbeing. Similar to stress and self-management, such interventions do not require lengthy time or money investments and should be given more systematically to newly self-employed people.

**Primary target group of the self-employed:** All self-employed

**Stakeholders:** Private counsellors, professional organisations, Government (delivering NEA)

**Ease of implementation:** Low cost, high practicality

<sup>47</sup>Lockey (2018), p.81, suggests the relaxation of business relief rates for co-working spaces in the newly created Opportunity Areas. <sup>48</sup>This has been called for by IPSE (2016).

## LIFE DOMAIN: JOB (SKILLS/EDUCATION/MEANING)



18

### **MAKE TRAINING AND SKILLS DEVELOPMENT RESOURCES TAILORED TO SELF-EMPLOYMENT EASIER TO ACCESS AND MORE COST EFFECTIVE**

Systematic funding and training initiatives should especially target – but not only target – vulnerable groups of individuals (e.g. seniors, disabled, immigrants) for whom self-employment could be a way out of unemployment. Life satisfaction is lower for the necessity self-employed (see Fig. 4a,b) and even though some vulnerable self-employed then adapt to the lifestyle, this rate could be helped by increasing support and security for those who find themselves self-employed against their initial will.

For those who want to get out of self-employment, transition pathways into employment should receive higher priority. Training programmes might also increase job prospects. To increase the autonomy and independence of the self-employed, training (formal) and mentoring (informal) opportunities should be strengthened across all domains. There is also a great need for competence in this area. A mismatch in skills is a driver of low satisfaction among necessity self-employed, and its reduction will improve satisfaction in this vulnerable group.

In concrete terms, online resources on self-employment, as well as “How to” guides for specific administrative requirements and other topics, might cost-effectively improve the situation of the self-employed.

Tax relief should be expanded to include new professional training. It should also be applicable to constant learning and professional development, and not just re-training efforts.

**Primary target group of the self-employed:** Low-pay insecure self-employed, necessity self-employed, dependent self-employed

**Stakeholders:** Government (specifically HM Treasury), universities, professional organisations, training providers, charities

**Ease of implementation:** High cost, low practicality



19

### **ENLIST SCHOOLS AND UNIVERSITIES AS ALLIES IN CREATING PUBLIC AWARENESS ABOUT SELF-EMPLOYMENT**

Both school and university projects (e.g. internships, self-employment days/fairs, etc.) may contribute to strengthening the UK’s entrepreneurial culture. Business schools have a vital role in providing not only future entrepreneurs, but also exchange between centres of entrepreneurial knowledge and self-employed people who would not otherwise have access to such knowledge.

Entrepreneurship students could provide help in building business plans and mentoring support for NEA self-employed (e.g. in the form of “student consultancies”). They could also provide inexpensive consulting and learning while collaborating with self-employed people who may lack knowledge about effectively running businesses. In schools, self-employment needs to be promoted more systematically as a viable career choice.

**Primary target group of the self-employed:** All self-employed, mostly indirectly

**Stakeholders:** Government, schools, universities

**Ease of implementation:** Low cost, medium practicality



### **STRENGTHEN DIFFERENT NARRATIVES THAT SUPPORT ENTREPRENEURIAL IDENTITY**

Norms about business failure (personal failure vs. learning opportunity) and the purpose of business (job creation vs. fulfilment of post-materialist values) have an impact on people's satisfaction with self-employment. And, to the extent that they affect satisfaction, think tanks, entrepreneurial role models and academics in popular media and communities can improve satisfaction by increasing recognition and the perceived legitimacy of different types of self-employment.

The existence of unions and the presence of advocacy groups in job fairs at universities and schools – and during community festivities – all provide opportunities to improve the perceived standing of the self-employed. Greater public awareness about the self-employed lifestyle should also help to change narratives – for example, about the value of solo self-employment that does not create additional jobs.

If bankruptcy regulation would allow for (good faith) business failure to carry less stigma, this might also reduce the strain of being in self-employment. In a wider European context, such a policy should be complemented by a more appreciative culture in which business failures are seen as a normal part of entrepreneurial life, not as personal failures of the self-employed.

**Primary target group of the self-employed:** All self-employed, mostly indirectly

**Stakeholders:** Government, universities, media, organisations supporting the self-employed

**Ease of implementation:** Low cost, medium practicality



### **STRENGTHEN “SOCIAL ENTREPRENEURSHIP”**

Social entrepreneurship means founding a business to affect social change in a sustainable manner (i.e. that isn't depending on charity but can fulfil its social mission based on the profits the business generates). It is a valid alternative to employed work in non-governmental organisations and to part-time work for people who are already self-employed (many of whom are already engaged in similar voluntary activities). As such, it is a way to improve the entrepreneurial culture while at the same time strengthening civil society.

Promoting social entrepreneurship might also offset some of the negative effects of necessity self-employment by offering a greater sense of meaning and thus a boost in life satisfaction. With its high potential for meaningful, fulfilling and enjoyable work (and its contribution to society), social entrepreneurship should be a regular component of self-employment training in business schools.


**Primary target group of the self-employed:** All self-employed

**Stakeholders:** Government, professional organisations, trade unions, co-working spaces, co-operatives, business leaders

**Ease of implementation:** Low cost, medium practicality

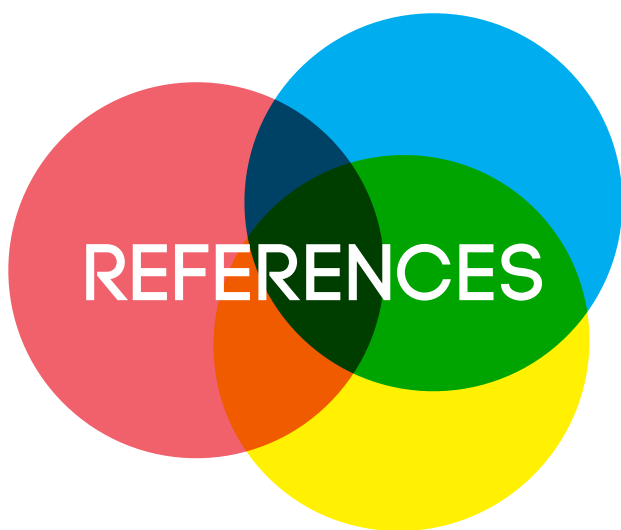


# CONCLUSION



With the exception of the necessity and insecure groups, the UK's self-employed seem reasonably satisfied with their lives, despite their (sometimes) lower economic wellbeing. In order to further the wellbeing of the self-employed, policies need to be tailored to specific groups and their needs. Policies should also focus more decidedly on aspects of self-employment - like wellbeing - that go beyond just the financial domain and growth. Policy needs to

take into account both the objective (income, health, security) and subjective (stress, confidence, worries, identity) factors that determine the wellbeing of this heterogeneous group of workers. This report has put forward a number of policies that can help achieve this and is a first step towards understanding and engaging with the true heterogeneity of the self-employed.



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