In-work Poverty and Enterprise
Galloway, Laura; Danson, Mike; Richards, James; Sang, Katherine; Stirzaker, Rebecca Jane

Publication date:
2016

Citation for published version (APA):
In-Work Poverty and Enterprise: Self-Employment and Business Ownership as Contexts of Poverty

Professor Laura Galloway
Professor of Business & Enterprise,
School of Management and Languages

Professor Mike Danson
Professor of Enterprise Policy,
School of Management and Languages

with Dr James Richards, Dr Kate Sang, Rebecca Stirzaker
School of Management and Languages
Heriot-Watt University
Edinburgh EH14 4AS
Scotland

January 2016
In-Work Poverty and Enterprise:
Self-Employment and Business Ownership as Contexts of Poverty

Professor Laura Galloway
Professor of Business & Enterprise, School of Management and Languages

Professor Mike Danson
Professor of Enterprise Policy, School of Management and Languages

with Dr James Richards, Dr Kate Sang, Rebecca Stirzaker
School of Management and Languages
Heriot-Watt University
Edinburgh EH14 4AS
Scotland

January 2016
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abstract</td>
<td>1</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>3</td>
</tr>
<tr>
<td>1 Introduction and Context</td>
<td>7</td>
</tr>
<tr>
<td>2 Statistical and Policy Background</td>
<td>8</td>
</tr>
<tr>
<td>3 Key Informant Study</td>
<td>10</td>
</tr>
<tr>
<td>4 Self-employed and Poor: Some Examples</td>
<td>22</td>
</tr>
<tr>
<td>5 Conclusions and Recommendations</td>
<td>28</td>
</tr>
<tr>
<td>References</td>
<td>31</td>
</tr>
</tbody>
</table>
Popular rhetoric about private business enterprise is that it is positive and contributory to lives and economies. Following a summary statistical overview of enterprise and self-employment in the UK and Scotland, this report provides evidence of a very different reality for some. The research includes testimony from specialist key informants in Scotland as they relate their perceptions of enterprise as a poverty context, and also includes case profiles of self-employed people and business owners who are living in poverty.

The purpose of the research was to determine if and how poverty and enterprise intersect. This research does not dispute the macro-level view that private enterprise is a net economic contributor. It does, however, highlight a hidden form of enterprise; one where self-employment is used as an alternative to unemployment, to mitigate or avoid benefits sanctions, and to address financial need as a crisis response. This type of entrepreneurship is related in the testimonies of our key informants and the experiences of our case studies as cynical and at times exploitative. There is clear evidence of work at rates of pay well below 'minimum' or 'living' wage values. The firms created under these circumstances are low value and, in fact, are likely to have a net negative value in socio-economic terms and cause harm to health and wellbeing for individuals.

More broadly, the research finds also perceptions amongst key informants of an increase in contractualisation of what were formerly 'regular' forms of employment, and experiences of this type of self-employment amongst the case studies. This is described as exploitative of individuals and workforces as organisations shift financial responsibilities and duties of care to individuals on low rates of pay and without contractual employee rights. We argue that this trend is bad for individuals, for organisations, for national innovation and competitiveness and for national economies.

The report concludes with various recommendations based on expertise gathered from the key informants. It also identifies a dearth of reliable statistical information about the scale of the enterprise and poverty agenda and argues that, until we know more about the rates of use of self-employment as an alternative and mitigator of long term unemployment, and the extent to which workforces are now contractualised as self-employed, we will be unable to address emerging issues associated with both national economic development and social welfare agendas.
In-Work Poverty and Enterprise: Self-Employment and Business Ownership as Contexts of Poverty

Abstract
Popular rhetoric about private business enterprise is that it is positive and contributory to lives and to economies. Following a summary statistical overview of enterprise and self-employment in the UK and Scotland, this report provides evidence of a very different reality for some. The research includes testimony from specialist key informants in Scotland as they relate their perceptions of enterprise as a poverty context, and also includes case profiles of self-employed people and business owners who are living in poverty.

The purpose of the research was to determine if and how poverty and enterprise intersect. This research does not dispute the macro-level view that private enterprise is a net economic contributor. It does, however, highlight a hidden form of enterprise; one where self-employment is used as an alternative to unemployment, to mitigate or avoid benefits sanctions, and to address financial need as a crisis response. This type of entrepreneurship is related in the testimonies of our key informants and the experiences of our case studies as cynical and at times exploitative. There is clear evidence of work at rates of pay well below ‘minimum’ or ‘living’ wage values. The firms created under these circumstances are low value and, in fact, are likely to have a net negative value in socio-economic terms and cause harm to health and wellbeing for individuals.

More broadly, the research finds also perceptions amongst key informants of an increase in contractualisation of what were formerly ‘regular’ forms of employment, and experiences of this type of self-employment amongst the case studies. This is described as exploitative of individuals and workforces as organisations shift financial responsibilities and duties of care to individuals on low rates of pay and without contractual employee rights. We argue that this trend is bad for individuals, for organisations, for national innovation and competitiveness and for national economies.

The report concludes with various recommendations based on expertise gathered from the key informants. It also identifies a dearth of reliable statistical information about the scale of the enterprise and poverty agenda and argues that, until we know more about the rates of use of self-employment as an alternative and mitigator of long term unemployment, and the extent to which workforces are now contractualised as self-employed, we will be unable to address emerging issues associated with both national economic development and social welfare agendas.
Research on work and poverty focuses on low paid employment, to the neglect of low paid self-employment. There is little on the experiences of those who are self-employed and experiencing financial hardship. This exploratory study addresses this gap.

The rate of business start-up has been increasing across the UK recently. Most of this rise has been in micro firms (with fewer than 10 employees), and largely in businesses where there are no employees at all: i.e. by a significant rise in the numbers of self-employed. Government claims that work is the best route out of poverty, and that enterprise is to be encouraged. However, there is evidence that many self-employed workers earn less than the national minimum wage. Further, the self-employed are not entitled to statutory sick pay, maternity or paternity pay, paid holidays, training support, and, will be reliant on the state and their own savings in retirement. This report explores the potential for poverty for these 'enterprising workers'.

Empirical data are presented from a study of specialist key informants’ perceptions of poverty and enterprise in Scotland, followed by nine case summaries of people who are self-employed and living in poverty.

The key informants were specialists from Scottish business, support, policy and charity organisations:

- Member of the Scottish Parliament
- Local authority: business development department
- Local authority: social and welfare department
- Poverty Alliance (a national anti-poverty network)
- Scottish Trades Union Congress
- Business Gateway
- Business Gateway (ethnic minorities specialist)
- Charity bridging business & community
- Citizens’ Advice Scotland
- Area of multiple deprivation regeneration group (2 participants)

Private enterprise was recognised by all key informants as valuable for both individuals and for local and national economies. Informants also noted though that enterprise can and does intersect with poverty, and indeed, with desperation, exploitation and reduced living standards. Two broad categories of in-enterprise poverty were identified: enterprise as an alternative to long-term unemployment, and enterprise as contractualised labour.

Enterprise and unemployment were seen as two sides of the same coin. Most informants could cite examples of individuals who have flourished in terms of enterprise, including those for whom necessity and bad fortune have been the driving force. However, informants expressed concerns about the extent to which self-employment has been increasing and extending to individuals ill-equipped in terms of skills and finance for it. This was referred to as self-employment as a desperation strategy, and particularly where it is pursued as an alternative to unemployment.
Executive Summary

Introduction

Research on work and poverty focuses on low paid employment, to the neglect of low paid self-employment. There is little on the experiences of those who are self-employed and experiencing financial hardship. This exploratory study addresses this gap.

The rate of business start-up has been increasing across the UK recently. Most of this rise has been in micro firms (with fewer than 10 employees), and largely in businesses where there are no employees at all: i.e. by a significant rise in the numbers of self-employed.

Government claims that work is the best route out of poverty, and that enterprise is to be encouraged. However, there is evidence that many self-employed workers earn less than the national minimum wage. Further, the self-employed are not entitled to statutory sick pay, maternity or paternity pay, paid holidays, training support, and, will be reliant on the state and their own savings in retirement. This report explores the potential for poverty for these ‘enterprising workers’.

Empirical data are presented from a study of specialist key informants’ perceptions of poverty and enterprise in Scotland, followed by nine case summaries of people who are self-employed and living in poverty.

The Key Informant Data

The key informants were specialists from Scottish business, support, policy and charity organisations:

<table>
<thead>
<tr>
<th>Source of key informants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member of the Scottish Parliament</td>
</tr>
<tr>
<td>Local authority: business development department</td>
</tr>
<tr>
<td>Local authority: social and welfare department</td>
</tr>
<tr>
<td>Poverty Alliance (a national anti-poverty network)</td>
</tr>
<tr>
<td>Scottish Trades Union Congress</td>
</tr>
<tr>
<td>Business Gateway</td>
</tr>
<tr>
<td>Business Gateway (ethnic minorities specialist)</td>
</tr>
<tr>
<td>Charity bridging business &amp; community</td>
</tr>
<tr>
<td>Citizens’ Advice Scotland</td>
</tr>
<tr>
<td>Area of multiple deprivation regeneration group (2 participants)</td>
</tr>
</tbody>
</table>

Private enterprise was recognised by all key informants as valuable for both individuals and for local and national economies. Informants also noted though that enterprise can and does intersect with poverty, and indeed, with desperation, exploitation and reduced living standards. Two broad categories of in-enterprise poverty were identified: enterprise as an alternative to long-term unemployment, and enterprise as contractualised labour.

Enterprise and Unemployment

Most informants could cite examples of individuals who have flourished in terms of enterprise, including those for whom necessity and bad fortune have been the driving force. However, informants expressed concerns about the extent to which self-employment has been increasing and extending to individuals ill-equipped in terms of skills and finance for it. This was referred to as self-employment as a desperation strategy, and particularly where it is pursued as an alternative to unemployment.
Most informants were aware of the policy-based encouragement of long-term unemployed to try self-employment, and particularly using the New Enterprise Allowance (NEA) which provides advice and money for up to 26 weeks. Informants identified two distinct groups: those motivated to try self-employment, and those who ‘have been sanctioned and ...have moved into self-employment as a desperate resort’. Informants reported appeals for crisis support from individuals with learning difficulties, mental and physical conditions, disabilities, and other long-term unemployed, after being encouraged to self-employment using the NEA.

The NEA was not seen to be particularly useful to business start-up for to those with low human capital and poor access to finance capital anyway: opportunity identification and pursuit skills are not prioritised, and the funding required to start a business or transition to self-employment is not realistically constituted. The sustainability of ventures created in contexts of poverty is likely to be highly dubious.

In terms of other support, while self-employed people are entitled to Working Tax Credits if their income falls below a certain level, access to this is complicated. Looking forward to the introduction of Universal Credits, the key informants anticipate that access and navigation for the self-employed will worsen.

**Enterprise and Contractualised Labour**

Contractualisation is traditional in particular sectors characterised by high levels of skills and knowledge, and the commodification of individuals as contractors can lead to high rates of pay. Key informants reported contracted employment has been increasing and extending to sectors as diverse as transportation and call centres though, where it is commonly exploitative. It is also entirely disassociated from choice – individuals can be compelled to take contracted work. Informants claimed organisations are shedding the costs and responsibilities of employment, and several cited examples of individuals shifting from employment to self-employment status in the same role.

At the macro-economic level, key informants also asserted that increases in contractualisation have a net negative socio-economic effect. Such ‘bogus self-employment’ meant that ‘Tax receipts have not recovered with the labour market. ...this massive new cohort of self-employment workers are not earning...what they were previously earning as employees’.

Concerns were raised that in many cases self-employment can comprise an inappropriate response to unemployment, is a consequence of contractualised workforces, and can lead to low wages and poor conditions. The potential for self-employment to pay below national minimum wage was mentioned by all, with examples cited of individuals who had experienced this. In addition, exclusion of the self-employed from key benefits such as statutory maternity, paternity, and sick pay were noted. Cumulatively these represent strong indicators of the potential for poverty for individuals, and in turn, ongoing economic and social costs to families and society.

**Examples of Poverty in Self-employment**

Nine case examples of people who are self-employed and living in poverty are presented in the report. Three main reasons for self-employment-based poverty are included, the latter two of which are predicted in the key informant study.

1. Where individuals have become self-employed for specific reasons, e.g. flexibility to look after children (Gina and Barbara). While the experiences described, such as working below minimum wage and itinerant features of poverty are not assumed benign, self-employment
has been entered into deliberately, accepting that income will drop in the short-term, in anticipation of an eventual return to regular better paid employment.

2. Where enterprise is an alternative to unemployment (Carol, Ben, Debbie, Anne, Fiona). Self-employment is a last resort in the absence of alternative income, and/or a means of avoiding benefits sanctions. For some with long term health conditions and disabilities this was the only option (Ben, Debbie and Fiona).

3. Where those who have been employed are now obliged to be self-employed as contractualised labour. Allan and Evelyn are examples of this and in each case they consider they are substantially worse off than they were in employment.

Conclusions

In opposition to much of the rhetoric about the contributory value of enterprise, there is clear evidence that in some cases the opposite is true. Key informants identified at least two broad types of ‘poor’ self-employment:

1. The long-term unemployed and those with health and disability problems encouraged to self-employment. The enterprises emerging often do not provide even subsistence-level income, and the chance of sustainable self-employment in these circumstances is likely to be low. The quality and value of business will be reduced in contexts of deprivation unless adequate and appropriate resources and support are provided.

2. Contractualisation of the workforce, where the responsibilities of employment have shifted from organisations to individuals. The extent to which it is increasing and pervading all sorts of industry sectors is concerning, since the evidence suggests that this not only leaves many individuals less well-off, but is also having a negative effect on the tax base, and is bad for industrial and commercial development since it stifles workplace engagement and innovation.

This research has exposed that enterprise is not always a positive economic phenomenon, for individuals or for societies. The recurring themes are precariousness, low incomes, financial and social hardship, with little or no prospect of any alternative in the short or long term. This seems particularly unacceptable in a first world economy. The push to self-employment by policies on eligibility for benefits for both fit and unﬁt individuals has created a situation whereby some people are being exploited by larger organisations and not supported by the social welfare system. Policy that encourages enterprise should be underpinned with an assurance that, over the piece, this adds, rather than subtracts, economic and social value.
Recommendations

The recommendations included in the report coalesce around the following broad areas:

Action research is required to be commissioned to better understand the various contexts of self-employment.

Greater inspection of the realities of enterprise needs to be undertaken, investigating both contractualised activity and the use of self-employment as a panacea to a weak employment market and ineffective welfare system.

More realistic support for new enterprise is required, informed appropriately by knowledge already established about skills and capital requirements.

Meaningful communication between agencies that specialise in poverty alleviation, social support, and enterprise development is encouraged. Scotland has a wealth of expertise in these areas, as demonstrated by the key informants in this study. Meaningful interaction to harness these valuable resources for individual lives and for national economic development is advocated.
1. Introduction and Context

Most of the focus in recent debates and academic research on work and poverty has been on low paid employment, underemployment and changes in welfare support for those who are economically active. While there have been several reports and statistical presentations over the last two years on poverty and self-employment, these provide limited information and in fact we know little about the experience of poverty in the enterprise context. Constraints include small sample sizes, confusion over definitions of self-employment, business ownership and entrepreneurship, and inconsistency in income and company reporting.

Consequently, there is scant evidence or information on the experience of those who are self-employed or business owners in terms of low pay and financial hardship. Further, a review of the policy and practitioner literature suggests that many agencies have not considered how self-employment has evolved during the period of the recent recession and its aftermath. For these reasons, we have developed this exploratory study. The next section introduces some basic statistics on self-employment. Following that, the outcomes of a study with a sample of key informants who are specialists on poverty-related issues and/or business in Scotland is presented. In addition, nine case examples of people who are defined as self-employed or business owners and living in poverty are outlined. Their stories are offered as examples of a narrative of experiences we do not commonly associate with the phenomena we describe interchangeably as self-employment, business enterprise and entrepreneurship.

---


2 Indeed, the expected report by the ONS on self-employment in 2015 has been cancelled due to concerns over the statistical reliability of the data.
2. Statistical and Policy Background

2.1 Growth in Entrepreneurship and Self-employment?

In recent years, the UK economy has seen an increased rate of entrepreneurship, measured as the number of private sector enterprises. Scotland is no exception, with an estimated 361,345 enterprises operating in March 2015, an increase of 7.8% in one year alone (Scottish Government, 2015). Behind this headline, and driving this increase, there has been a continuing rise in the number of unregistered businesses (the smallest sole traders and partnerships that are not registered for VAT/PAYE) which were up by 13.2% over the year to March. The number of these unregistered enterprises has more than doubled since 2000 (up from 91,305 in 2000 to 191,010 in 2015). The typical unregistered business has no employees; they are sole proprietors/partnerships comprising only the owner(s). They account for 70.3% of all private sector enterprises in Scotland, 13.5% of private sector employment and 4.6% of private sector turnover. The number of registered enterprises has also increased but at a lower rate of 14.6%, and within this group, growth in numbers was driven by those without employees which increased by 3.1% from 61,135 in 2014 to 63,035 in 2015.

In summary, the significant successes in raising the birth rate and in enterprise in Scotland in recent years can be explained largely by these increases in businesses – registered and unregistered - where there were no employees: that is by a significant rise in the numbers of self-employed. These indicators of growth are reflected in the data for the UK as a whole (Table 1); these show an increase in the proportion of self-employed consistent with the Scottish picture.

Table 1. Employment\(^1\) of people in work in the UK, 1975 to 2014\(^2,3\)

<table>
<thead>
<tr>
<th>Year</th>
<th>In employment</th>
<th>Employees</th>
<th>Self-employed</th>
<th>Other(^4)</th>
<th>Proportion of self-employed(^5)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Thousands</td>
<td>Per Cent</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>22,386</td>
<td>8.7</td>
<td>20,449</td>
<td>1,937</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>30,597</td>
<td>15.0</td>
<td>25,767</td>
<td>4,590</td>
<td>240</td>
</tr>
</tbody>
</table>

\(^1\) Based on a person’s main job  
\(^2\) From 1975 to 1983 the Labour Force Survey was carried out as a biennial survey and then annually from 1984 to 1991.  
\(^3\) Spring 1984 to 1991 are annual estimates from March to May, not seasonally adjusted. From 1992 onwards estimates are seasonally adjusted  
\(^4\) This includes unpaid family workers and people on government supported training and employment programmes  
\(^5\) Percentage of the total workforce that are self-employed


2.2 Defining Poverty, Entrepreneurship and Self-employment

At *The Yorkshire Post Excellence in Business Awards* in 2014, Iain Duncan Smith, the Work and Pension Secretary, is reported\(^1\) to have claimed that:

*We are also helping to create the employers of the future by helping budding entrepreneurs become their own boss. Thanks to the New Enterprise Allowance, over 6,500 businesses have*

---

been set up in Yorkshire and the Humber in a scheme which gives people on benefits the mentoring and help with finances they need

This typifies government and policy assertions since the 1990s that ‘work is the best route out of poverty’, and that self-employment and running your own business are to be encouraged alongside employment within a strategic approach.

Complementing the labour market policies, the government’s recent Enterprise Bill4 aims to:

- **make sure that Britain is the best place in Europe to start and grow a business and that people who work hard have the opportunity to succeed**
- **cut red tape for business, encourage investment in skills, and make it easier for small firms to resolve payment disputes by setting up a Small Business Commissioner**

These suggest support is available for starting a business or becoming self-employed to allow ‘hard-working families’ to prosper. However, a recent report by the RSA (Royal Society for the Encouragement of Arts, Manufactures and Commerce, 20155) has revealed that more than two in five (42%) of self-employed workers earn less than the equivalent of a full-time employee on the national minimum wage (NMW). This degree of poverty continues after start-up with a quarter still below the minimum wage when self-employed for over two years. The Social Market Foundation (2015) confirms

Little is known about this group of workers who stand outside many of the official statistics, and outside many areas of employment regulation and protection. They are not covered by the minimum wage, for example, and so are not covered by the increases coming in between now and 20206.

Similarly, they are not entitled to statutory sick pay, maternity or paternity pay, paid holidays, training support, and, without an employer’s management and contribution to their future income, they will be reliant on the state and their own savings in retirement. Limited liability insurance and other costs that are not faced by employees further reduce the take-home pay from self-employment.

In a commentary on the most recent HMRC data on the incomes of the self-employed, and before facing many of these hidden costs, Richard Murphy concluded that:

.. if mean pay is about £20,000 then 91.5% of self employed people earn mean pay or less. Second, if two thirds of median pay is a measure of poverty (or £15,000 or less here) then 84% of the self employed would be in poverty based on their self employed earnings and 77% are based on total income.7

There are a number of approaches to defining and measuring poverty. As in the quote above, ‘two-thirds of median pay’ is one threshold definition in common use while more sophisticated indicators use household equivalence8. Regardless of which definition or threshold of poverty is applied, its prevalence in the self-employment or enterprise context appears substantial. This makes the dearth of investigation of it from a business/economic or a welfare perspective all the more surprising. Correspondingly, to contribute some information and develop knowledge on these issues, the following sections report an exploratory empirical study of the experiences of enterprise and poverty in Scotland. First, a study of specialist key informants’ perceptions is presented. This is followed by

---

4 http://www.gov.uk/government/collections/enterprise-bill
4 https://www.smf.co.uk/earnings-are-up-but-what-about-the-self-employed/
4 http://www.poverty.org.uk/summary/social%20exclusion.shtml
reportage of nine case summaries of people who are self-employed and living in poverty. The report concludes with summary analysis of these researches and provides some recommendations.

3. Key Informant Study

3.1 Background

The participants in the key informants study comprise a group of specialists from various Scottish business, support, policy and charity positions. They were sourced using a purposeful sample targeted at specialists in business, the support of business, and engagement with the poverty agenda. As a result, all informants had management-level roles in organisations that engage with one or more of these agendas. They are located throughout Scotland, and both rural and urban-located specialists are included. In order to afford testimony as candid as possible, all interviewees were guaranteed anonymity. The summary of organisations from which participants were sourced is given below in Table 2.

Table 2. Source of key informants

<table>
<thead>
<tr>
<th>Organisation (as cited in this research)</th>
<th>Informant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member of the Scottish Parliament</td>
<td>MSP</td>
</tr>
<tr>
<td>Local authority: Business development department</td>
<td>Local Auth BD</td>
</tr>
<tr>
<td>Local authority: Social and welfare department</td>
<td>Local Auth WD</td>
</tr>
<tr>
<td>Poverty Alliance (a national anti-poverty network)</td>
<td></td>
</tr>
<tr>
<td>Scottish Trades Union Congress</td>
<td>STUC</td>
</tr>
<tr>
<td>Business Gateway</td>
<td>BG1</td>
</tr>
<tr>
<td>Business Gateway (ethnic minorities specialist)</td>
<td>BGEM</td>
</tr>
<tr>
<td>Charity bridging business &amp; community</td>
<td></td>
</tr>
<tr>
<td>Citizens’ Advice Scotland</td>
<td>CAS</td>
</tr>
<tr>
<td>Area of multiple deprivation regeneration group (2 participants)</td>
<td>AMD1; AMD2</td>
</tr>
</tbody>
</table>

The interviews were all semi-structured and conversational in style and they were all recorded and transcribed verbatim. The key informants were asked specifically about self-employment or business creation, and poverty. The views expressed in response are personal and do not represent the official position of the organisations to which respondents belong, but they are contextual and, of course, are undoubtedly influenced by their professional role.

3.2 Enterprise, self-employment and value

All informants were very positive about enterprise in Scotland. Most expressed the opinion that promoting self-employment and business ownership is good for the economy and good for individuals. Various informants, particularly those who work in a policy or policy delivery context, could cite examples of the positive effect enterprise has had on employment. For example, the informant from the local council welfare department identified in their area that: In 2013/14 we had a number of new businesses started up... and within that that’s created about, you know, 700 new jobs in [local authority area].

Similarly, most informants could cite examples of how individuals have flourished in terms of enterprise. This was not restricted to examples that reflect the traditional, notional trajectory of opportunity identification followed by business creation; it included also those for whom necessity and bad fortune have been the driving force. This was not considered in itself necessarily to be negative:

I think when you see young people finding it really hard to get a foot on the jobs ladders and starting to think, well, what could I do by myself (MSP)
Lack of other alternatives might not be a bad motivating factor, you know, to some people that might be the thing that helps them say, well, actually I can do this myself and I’ll start my own business (Poverty Alliance).

The respondent who works for Business Gateway advising ethnic minorities was consistently positive about the effects of enterprise on new migrant communities, often refugees and those experiencing the most severe poverty:

We’ve had huge demand from the [new] ethnic minorities who are looking at entering self-employment. Mostly the reasons are pull and the push factors. If you look at the majority of ethnic minorities, they find it very difficult to access the labour market…with the culture and understanding the whole process of searching for jobs…they are not able to seek or to get a job according to the level of education they’ve got. So self-employment has been an option of looking for earning an income for themselves and their families (BGEM).

So there was much acknowledgement that self-employment is often spurred by failure in the employment market, but equally, there was much acknowledgement of the potential positive outcomes of enterprise, even necessity enterprise. Eight of the eleven respondents expressed concern about the increasing trend of this driver of enterprise though. Comments include:

I have real concerns at the moment …that a lot of people are turning to self-employment because they simply cannot find employment. And there will be some people who are able to access the support they need but starting up a business is incredibly difficult … We [the Scottish Parliament] undertook an inquiry into under employment and we had a bit of a look at self-employment during that. And it became quite clear that people were seeing self-employment as a way out of unemployment rather than an act of choice (MSP).

[Some] people want to work and [they are] sort of applying for job after job after job and not getting anywhere. Then they can switch to [self-employment] as a sort of new strategy which may not necessarily be the best for them. Some people are maybe successfully through that route, [but for] others it’s less of an entrepreneurial choice, more of a strategy to get an income (CAS)

Similarly, one of the informants from Business Gateway claims that while most people he sees are seeking support for traditional opportunity-based start-ups, … there are a few who in desperation think about self-employment because they’ve tried interviews twenty or thirty times and haven’t got anything out of it (BG1)

From a policy perspective, most of the informants were aware that the (UK) government had created the New Enterprise Allowance – an allowance to augment benefits for those long-term unemployed to support them to start an enterprise. There was some concern amongst all of the informants about encouraging enterprise amongst the long-term unemployed though. The respondent from CAS articulated it thus:

I think in some cases they are being pushed into doing it [self-employment] because basically the Job Centre and Department of Work and Pensions only has two targets. One is to reduce fraud in the benefit system and the other is to reduce the amount of people that are claiming benefits. Not getting into employment.

3.3 Perceptions of Enterprise

One of the most commonly mentioned issues concerning poverty and enterprise was the lack of any formal acknowledgement that it exists. As the following illustrate, the key informants in this study
noted the always positive rhetoric about self-employment, and indeed, how this is not an accurate representation of the reality for many people.

People tend to assume... that higher levels of entrepreneurship, where people start firms, is necessarily a good thing... [But] often what you get if you establish more small firms it’s just a displacement effect where... if there’s one chip shop in a village... and someone opens another chip shop, they don’t double the demand for chips in the village.... I mean the Scottish Government published its new economic strategy ...and again some of the metrics in that are about levels of entrepreneurship. ...Because Scotland was perceived to have low rates of entrepreneurship, anything that sees them rise is seen as being a big success. (STUC).

I don’t think I detect any change in the idea that starting your own business is always a good thing. Issues around in work poverty have but that’s ...largely come out around issues of employment rather than self-employment. But also there needs to be ...an understanding that for some people self-employment is not viable, is not going to lift them out of poverty and is in fact sometimes a way for employers to avoid their responsibilities. To be honest I’m not sure that it’s recognised at the moment. I’m not sure that it’s in the discussions that I’ve been party to. It’s not something that comes out very clearly. I can’t think of any of the few policy documents I’ve seen around the fair work agenda where the issue of self-employment and poverty are brought up. (Poverty Alliance).

Embedded into these two quotes are perceptions which reflect particular views of self-employment and entrepreneurship. Because of the largely hidden nature of the roles, incomes and working conditions of the self-employed, many aspects of their economic lives have been recognized only partially or misinterpreted by policymakers and practitioners, and so by the key informants. This limited and insufficient representation of self-employment and business is repeated in other interviews. According to the informant from CAS, the picture is very unclear:

[There] seems to be... more self-employed but [they] probably don’t necessarily fit the classic entrepreneurial model, but basically are self-employed as an option of last resort. They tried looking for other jobs elsewhere, haven’t succeeded, and have moved into self-employment as basically a way of making an income. What we see from a number of cases that the bureaus have sent to us, is that some clients are... they felt they’ve been pushed into self-employment by the Job Centre.

This push is described by informants as not always in the best interests of individuals, but perceptions about self-employment and enterprise are such that at both a policy and individual level, it can appear an attractive option:

We keep hearing ...the top headline [that] unemployment is not as bad as you might expect it would be but that is because so many people are juggling part-time jobs, poorly paid, some on zero-hours contracts obviously, just insecure employment. And I think that’s part of the reason a lot of people are being attracted to self-employment, and a feeling that they may have more control if they were their own boss. But we need to make sure we provide them with the skills to be their own boss (MSP).

The suggestion that classic ‘pull factors’ are dominating in a labour market of choice is notable here, with an implicit understanding that people are apparently attracted to be their own boss rather than being forced into self-employment or making a difficult choice between low paid employment and low income self-employment. There is a characterisation of labour market decisions being made by some to improve incomes and working conditions, albeit that these are sometimes believed to be based on misinformation. This reluctance to consider that many are forced into self-employment is repeated by those who offer advice and support in securing tax and welfare benefits:
...Because of the way things are written in papers... I think some people [think] that being self-employed will give them a better standard of living, will give them more money, and all they need to do is work hard, and actually there's an awful lot more to it than just working hard (Local Auth WD).

Alternatively, according to the specialists in this study, the reality of self-employment for many is difficult. The following example is illustrative.

A lot of the start-ups that have happened have in fact been ... very good and very positive ones. [But] for example, the one I'd probably tell you is about somebody who decides to set themselves up as a window cleaner... So they set themselves up and there they are with the little step ladder, getting on and off the bus, going to various places to clean windows and, in fact, are having to get food vouchers because, of course, they're not making a living, and didn't actually even realise that they could in fact get Working Tax Credit. ...We've got people who because they can't get a job and they've probably not got a lot of skills, they've set themselves up, you know. So dog walking, beauty, window cleaning, those kind of ...things. ...We do see quite a lot of that where the sustainability is very doubtful ...So when they arrive at our section in terms of welfare advice, etc., it's usually because they're in crisis, they've got great debts and quite often we find those debts are also associated with the fact that they've set themselves up in business... We have seen a steady increase of people trying to become self-employed, trying it out, getting themselves into some debt and then stopping it and thinking it's not working... But by the time they come to us they're in crisis, they're in debt (Local Auth WD).

This reference to being ‘in debt’ is interesting as almost all lenders to businesses would expect their clients to be carrying some debt. This suggests that the self-employed clients being helped here are considered as sole traders in similar positions as the employed.

The informant from the Business and Community group considers failure to be a part of the business experience from which learning and ultimately success can stem. In this respect, his views closely align with traditional wisdom on self-employment and entrepreneurship:

It's hard knocks that take people further down their enterprise, entrepreneurial experience. So, yes, I'm sort of being facetious by saying it's a good opportunity, it's good experience for anybody ...when that happens to you. In some cases it can be a demotivating, very un-positive experience ...I would like to look at ...as part of our aftercare with the ones that have failed, we [could] actually find out why they've failed and ...some of the reasons they've failed. One [maybe] they didn't get funding from families or they didn't get it off the ground, an idea didn't work (Business and Community Group).

Implied in this is the principle that most businesses receive informal, family-based support. Indeed, this is true, as identified throughout the literature on small firms’ start-up financing (eg. Barringer and Ireland, 2006). In the specifically Scottish context, Deakins et al. (1997) found that personal sources of finance were by far the most commonly used start-up funds. Of course, this is very unlikely to be available to those who have been unemployed over the long term, and those who live in poverty, and come from poverty where neighbourhood, generational and social capital are less available. As the informant from STUC points out:

The system isn't really built for poor people who are trying to establish businesses, is it? And some of the very long standing structural problems that we talk about here, about access to finance for growing businesses etc. will be multiplied when you're talking about someone from a poor background.

It is to poverty and structural issues that we now turn.
3.4 Poverty, unemployment and self-employment

3.4.1 Sanctions and disadvantage

As noted, most informants were aware of the policy-based encouragement of those long-term unemployed to try self-employment. For those on Job Seeker’s Allowance, Employment and Support Allowance and Income Support, the New Enterprise Allowance (NEA) might be available to support starting up a new business by providing advice and money for up to 26 weeks (to a total of £1274). The informant from the Business department of a local council claims there are two types coming from long term unemployed: the have a go’s/last resort; and the sanctions avoiders. Working within a support organisation, the informant from CAS reports similar and explains his experiences of such:

If they are continuing to receive benefits they need to... look for a certain amount of jobs every week, they need to go onto various programmes that the Job Centre might mandate them for ...or they’ll need to attend meetings at the Job Centre. I think that for some people they find the conditions quite difficult to deal with... I think another issue is that if people don’t comply with the conditions that their benefits can be sanctioned. They can be sanctioned for four weeks initially but they can be sanctioned for as much as three years... so basically they receive no Job Seeker’s Allowance and they have no entitlement to any sort of benefit at all during that period. ...The ones we see more of are the ones where it’s because the benefits have been sanctioned and they’ve moved into it [self-employment] as a desperate resort. [We] don’t see an enormous amount of those who have kind of gone in off their own backs (CAS).

So the NEA may offer very limited support to some to start a firm or become self-employed, but for others it is a means by which to avoid or mitigate benefits sanctions. This was mentioned by several other informants too and the MSP had direct experience of this:

I dealt with a young male constituent... He was sanctioned and found himself having to apply for hardship... And he was looking at... a sort of courier type business that he might take up on his own. And I think his family actually had real concerns. Because of what was happening to him he was under physical and mental stress and, you know, it was his father who said “actually I think this is a really poor idea for him at the moment because the last thing he needs when life is so precarious is to find himself in greater stress because he just doesn’t have the wherewithal just now to deal with setting up a business”.

The informant from CAS describes similar instances:

[There’s] a range of different...cases, where they had mental health issues, a history of depression; in another they had...literacy issues which made job hunting and getting a job difficult. ...There was a client for instance who was ...vulnerable, and had a number of health problems that prevented him from working and [he] ended up at the Job Centre. He felt pressured into starting up a theatrical management agency which then hit problems quite early on ...and it ended up exacerbating his health problems (CAS).

Research on those with long term illness and incapacity problems has reported similar issues where inappropriate encouragement from volunteering to employment has created negative outcomes for vulnerable people (Lee, 2007). The benefits of work identified by Jahoda (1982) have informed successive UK governments, but the issues identified by Lee (2007) have qualified this support for the disabled especially when in self-employment (Waddell and Burton, 2006).
3.4.2 Benefits

Despite the concerns noted earlier of moving into self-employment for some of those who are disabled, long term sick, or indeed their carers, all the informants in this study endorsed the idea of the NEA and using it to encourage people off benefits. However, the NEA was largely not seen to be particularly useful to the start-up process, especially if the claimant is already experiencing financial hardship. As the Business Gateway adviser notes:

*The New Enterprise Allowance, the people who operate that will ... direct people to us. A lot of what we do is sign posting to where there are small lumps of money available. But these are, you know in the overall scheme of things aren’t going to make... They might make a difference to some of the initial start-up costs and just make it a bit easier for people but if someone gets fifteen hundred quid in grant money, it’s a bit of seed corn, but I don’t think it’s going to be the driving force into self-employment (Business Gateway).*

Grants tend to come from local authorities, some European programmes and other agencies but, as noted in this quote, are often small. The ongoing costs can also be counter-productive. For example, the NEA can offer a start-up loan of £1000 and loans of up to £25000 at a fixed 6 percent interest rate per annum over one to five years; this means up to £1500 per annum must be raised by the business to service the loan.

More generally, self-employed and business owners’ eligibility and access to welfare benefits support is extremely cloudy.

In fact, self-employed people are entitled to welfare support the same as anyone else if they meet the eligibility requirements. But while the benefits system in the UK is known to be complex, informants identified that when applied in a self-employment context, it is even more complicated. As the informant from CAS explains:

*I think there are some issues around the benefits system and peoples’ fluctuating incomes if they are self-employed. At the moment, people can claim Working Tax Credit but that requires them to ... estimate their income over the course of the year which if they’re self-employed their income can fluctuate. I think it’s particularly a problem for people whose business is quite seasonal... It is quite a complicated system for self-employed. Certainly it seems to be acknowledged that...the benefits system doesn’t particularly work well for self-employed people because you’re not necessarily getting a weekly wage or monthly salary and incomes can vary (CAS).*

In times of transition from inactivity or unemployment to employment, there are well recognised difficulties and concerns of facing periods of reduced or no income; for the self-employed and those considering becoming self-employed, these issues are exaggerated and represent significant obstacles to starting-up or moving between economic states. Despite being designed to address some of these problems, the CAS informant explains that Universal Credit – the new benefit to replace much of the current system, is even less clear:

*There are blurry lines where someone is self-employed ...whether they are able to get [Universal Credit], [or] if someone is setting up a business whether they will still need to comply with the work search conditions and whether they will still be expected to look for other jobs at the same time as trying to start up a business. That’s currently not clear in the regulations (CAS).*

The informant from the Business / Community charity would agree with that as he has experience of being at a bit of a loss when confronted with the question of entitlement to benefits:
[We were contacted by] a self-employed person and it was a guy who owned a motorcycle training school. He obviously employed some people who took candidates out on lessons, etc., etc. But he had a question ...which kind of threw us a wee bit which was that he would have to go and claim benefits himself as did he not have enough lessons to keep him going in a particular week. And that was something that he...would have to continue to do as we move towards the new benefit system [Universal Credit]. So that was a new one for us, we hadn’t seen anybody like that. The whole self-employment thing...this chap raised a specific question that impacted the business owner; he employed other people [but he] would have to go and claim benefits for himself... That was a new one for us...

You have this impression that business owners just take the hit on the weeks when business is quiet, don’t you? ...We kind of assume that, you know, if you decide to run a business and employ a couple of people, etc., etc., then that’s your risk. But, of course, you’ve got families as well you need to look after, you know.

As before, this suggests a narrow perspective of self-employment as being synonymous with notional entrepreneurship, and perhaps neglects consideration of sole traders and micro-firm owners with a handful of employees. More generally, the exclusion of the self-employed from several key benefits: Statutory Maternity Pay, Statutory Paternity Pay, Statutory Sick Pay, as well as restricted access to several other elements of social security are noteworthy. This is significant as these would be expected to be included in any comprehensive assessment of the costs and benefits of self-employment compared with employment or joblessness. For many the additional costs of self-employment, of insuring against the threat of losing income through illness, disability, old age, etc., are often not appreciated or are hidden from them, their advisors and commentators; these can have long term impacts where alternative policies and strategies are not included into financial planning.

### 3.4.3 Wages

Wages were identified as an issue by most of the participants in this study, and particularly the minimum wage. While casual and part-time workers are entitled to be paid the National Minimum Wage (NMW), the self-employed, company directors and business owners are explicitly excluded³. The following demonstrate some of the concerns therein:

*I can imagine until you’re sort of up on your feet how difficult it could be to earn a living wage as a newly self-employed person setting up (MSP).*

*I think few people realize the timescale involved in getting the shooting match off the ground and prospering. One of the concerns is that the living wage or the national minimum wage are maybe not going to be achieved early on and they’ll rely on back up from family, friends or whatever, maybe to supplement income (BG1).*

Contrary to practitioner, policy and textbook assumptions that entrepreneurs will launch with a business plan, there was further opinion that this was often lacking:

*People will say to you “well there didn’t seem to be much out there. Any job that I was looking for... it wasn’t long-term, it was only so many hours”. ...So they see this [self-employment] as an alternative...With the window cleaner, back to him again, he had not actually worked out how much he was paying himself. I think he was earning something like £3 an hour. He didn’t know because he hadn’t worked that out. So ...in his head he thought he was bound to be making more money than the minimum wage and he wasn’t even making the minimum wage. ...At this point he didn’t have Working*

Tax Credits, I mean he didn’t even know he could get them. So because of that he was here for food vouchers (Local Auth WD).

3.4.4 Support

Since informants in this study were chosen because of their knowledge of self-employment in non-traditional and poverty contexts, they were also able to express informed opinions about where intervention might be focused.

First, one of the informants from the area of multiple deprivation claims there is a lack of prioritization of those in poverty. He claims: politicians and policies don’t set targets like “we want X percentage from the most deprived areas”… Business Gateway- they don’t have any targets for helping individuals from the most deprived backgrounds or areas. As a result, while there is a focus on encouraging start-up specifically for the long-term unemployed to remove them from the benefits system, there is no direct engagement with them from a support perspective. Lack of skills and experience of business are key issues. The informant from the local council welfare department provides the following example to illustrate:

The job coach [at the Job Centre] has said … “you’re telling me your good at landscaping because you’ve been a labourer, etc., is that an area you’d like to explore?”…And he’s just thought, “yes, that is a good idea, I could go and do that” and off he goes and he thinks he knows what to do...because he didn’t really think there was much to it. It was only once he started to have to do it for himself and thought, “well, where would I store the equipment, how am I going to get the equipment from A to B” that he realised there was an awful lot more to having your own business than he thought. Because all he had to do up to that point was turn up at a location, somebody picked him up and off he went to do the landscaping. So he knew about the physicality of the job. ... he knew that if he looked at a bit of grass or something he would very quickly be able to work out... how many slabbing stones you would need or how much fertilizer. So that kind of stuff about the physicality of actually doing it he actually knew he had the strength but his problem was he hadn’t thought about the other things that go round about that (Local Auth WD).

Other than skills, engagement is seen by some informants as one of the biggest barriers. For those working directly with those in poverty the situation is described thus:

Most local authorities do have a Business Gateway who will give people assistance... We’ll have start-up grants, we’ll give people help and support about ...having a business plan ...and do one-off kind of workshops about publicity, marketing, managing your finances. ...But what we tend to find is there’s a number of people who are unemployed, the long-term unemployed who cannot get a job and who just think they could start up a business and don’t actually go to get any of that help. Its that whole thing about, you know, on one level we’ve got a Business Gateway, another part of the council, and ...the Chamber of Commerce, the Small Business Federation, all of that help and support that’s out there but individuals not quite realising that they could access that, not thinking it’s for them. ...I think there’s something about people seeing the whole thing about businesses being [for] a different sort of person and they’re not that, so therefore they wouldn’t be tapping into it. So we quite often get that and they’ll say, “oh that’s not for the likes of me” (Local Auth WD);

Business Gateway...have a range of surgeries and you can go to those surgeries if you are proactive and sign up ...or walk into a Job Centre [but] it doesn’t happen in this area (AMD1);

So we meet people around the area who of course say they wouldn’t go near any of these agencies. They’ve had a bad experience years ago and all that kind of stuff (AMD2).
The MSP informant expresses similar awareness and places some of the responsibility for lack of engagement with perceptions of the benefits and support agencies being part of a punitive establishment. The informant from the Poverty Alliance similarly places the responsibility for lack of engagement with the support providers:

*I think the majority of people are finding the whole Job Centre experience totally and utterly depressing. I think we... really need to get a grip on that. It should be a dynamic, positive place that you want to go to. ...I can’t think of when I ever have had somebody come in and say, well, that was just so fabulous they were so helpful. People are very afraid of being sanctioned or mistakenly missing an appointment or, heaven forbid, being ill and being unable to attend....People feel really bad when they’re out of work so you’d just like to think this would be a service that was ...staffed by incredibly well trained, very motivated people who wanted to make sure they were doing the best they could for people who were having a really difficult time (MSP);

*I think perhaps the information for new business start-ups is targeted in a different way and maybe not at some of those people [those in poverty and long term unemployment]. So that might be something that the business networks need to look at (Poverty Alliance).

From the point of view of those who work with deprived communities, the situation described resonates with cultural and social distance. For example, the informant from the local authority welfare department states:

...You’re almost having to say to people “you will need to make a phone call”, so it’s that level. You’re actually having to say to them, “yes, you’ve heard about it but did you phone them? Did you go along and see them?” They go, “oh no, I never got round to it”... and, you know, there’s just that reluctance to engage. ...I think it’s that thing about language and, you know, formality.... So I think there is a barrier ...They see the people that are giving advice as ...talking in a different language, they’re talking in a different way and culturally that doesn’t sit with them. They don’t understand what that person’s trying to say them. So it’s about breaking down those barriers, about what do you mean by profit and loss? What do you mean by liability? ...Somebody has got to be able to explain to you in a way that is meaningful to you and I think that’s the bit that’s missing (Local Auth WD).

Similarly, the two interviewees from the area of multiple deprivation assert that ways of engaging with the community need to be better thought through if there is expectation that self-employment might contribute value:

*We need the folk to go out and speak to them about education, employability or whatever it is. ...Its linkages with other things that you [need]....Getting them to think about... here’s enterprise and it’s in a positive light. It’s not just for people who come from [affluent local area], you know what I mean. And if you live in [deprived local area] you’re just as entitled to progress into something like enterprising activity as anyone else (AMD1).

Interestingly, there may be lessons to be learned from some of the very successful engagement activities that have happened elsewhere. The informant from Business Gateway with a specific focus on ethnic minorities describes a similar context: *for them [ethnic minorities and new migrants] to come in the mainstream has been a huge challenge... It’s a culture thing. Sometimes they don’t even know these services are available, sometimes they don’t even know Business Gateway can give them some finance and support.*
He goes on to note how they have achieved engagement with ethnic communities: *It's a community led organization, where you go to meet them in the comfort of their own...*, we talk with the leader from the church, the mosque, from community organisations, *...third sector organisations (BGEM)*.

Informants thus noted that engagement amongst long-term unemployed and those in poverty can be facilitated but only if there’s real effort to understand the context. Correspondingly, role models and realistic representations of being self-employed were identified as important:

*If a national agency came in here and said the way out of poverty is self-employment, blah blah blah, we would work with that but we’d test it to destruction because I’m not going to stand up at a public meeting and say “your future is through enterprise” and all that kind of stuff unless we were sure and unless we had some role models to show people as well. It’s got to be real. ... I wouldn’t stand at a public meeting here and say “create your own job”. I think it would be patronizing and insulting to people in this community who ... have got ridiculously high levels of unemployment and worklessness. You would have to say, “Here’s Sarah, she created her own job and you can go see it, it’s at [local street] or whatever and some of you might want to think about doing the same as Sarah has done”* (AMD2);

*Something that helps people who are long-term unemployed to think if I was setting myself up in business, whatever that business may be, that you actually could go along and talk to other people who’d done it... and, you know, not always people who have been highly successful. ... There’s a bit of pressure there ... So it would be good if they had a range of people who were just ticking along and ... were quite happy, you know, they were the one man band making a living out of it... [through] to those who had started like that but perhaps had moved on and employed somebody, etc. So I think you need that but you don’t hear of different people at different levels at different stages and talking honestly about the pluses and the minuses of being self-employed. I think there needs to be a publicity campaign, probably on the telly, you know, using new media that says “here’s Joe, he set himself up in business, here’s where he got all the help”* (Local Auth WD).

**3.5 Structural Issues and Self-employment**

As demonstrated in the preceding sections, all informants discussed the issues of poverty, unemployment and self-employment. The other main topic that emerged from the interviews concerned broader concerns about self-employment as a structural alternative to the traditional employment market context. Five of the informants, including those engaged at a policy level in the employment, social and support realms (CAS, STUC, MSP, Business and Community charity, Poverty Alliance) expressed concern about what they considered to be the increasing contractualisation of the workforce in the UK. Each explains from their own professional perspective:

*I think in terms of self-employment, ... we hear a lot of stories about people who are formerly union members, employees, now doing their own thing ... people being offered jobs that are actually self-employment contracts. Now that was always... the case in things like construction. It has a long tradition of that, people being forced to take on the responsibilities of employment themselves. But we’re seeing it in places now like call centres etc, you know. ... They’re just outsourcing the costs and the responsibilities of employment from the employer to the individual. So it’s essentially boosting their profit margin. ... I think they’d still have to be very careful around the minimum wage, they’d have to pay that, but they’ll not be happy to pay holiday pay, maternity pay, National Insurance, that kind of thing. So the advantage is simply ... that they are spending less on employment to accru bigger profits basically. ... To all intents and purposes they’re employees. These are scams basically and they have to be recognized as such. So they are employees, they’re told when to go in, they’re told what to do,
...they're just various mechanisms to absolve the traditional responsibilities of being an employer (STUC).

I know one person who worked for a national transport provider for a very long time. Now he hasn’t gone...back to the same employer but he’s been hired as a contractor by another firm. And it took him a while, ...it was getting towards a year of unemployment, and he was in his early 50s, and he was really delighted when he got this other opportunity. But it’s very much as a contractor without a lot of the employment rights that he’d enjoyed previously for some 30 years. I think that’s really, really worrying. It’s just a cheap way of hiring people and they have no entitlement and you can just get rid of them when it suits you. It just seems very, very precarious (MSP).

We know that there’s been an increase in self-employment and we know that there’s been an increase in companies using those kinds of [self-employed] contracts. So it would appear to be becoming more common. ...So it’s not a positive choice but it’s something that has essentially been foisted on them by someone who would have been their employer (Poverty Alliance).

The other issue that we see is ...bogus self-employment. Its... an issue in the construction industry, but we’ve seen it happening recently in other sectors. We’ve had some problems in hairdressers, some other retail outlets. Basically what seems to be happening, the client’s doing work, which would traditionally be classed an employee, but what’s happening is that their employer has declared them to be a self-employed contractor...basically... [for] the purpose of avoiding paying tax and in some cases, avoiding some basic employment rights that they might have (CAS).

I think that’s how a lot of businesses actually work, you know...tradesmen and other people would be happy with that. So you can maybe shift the burden... say, for example ... if you had a company that organised gas central heating services and you had paid gas fitters, you could reduce your overhead by making them all self-employed. ...I think employers ...say “well, you know, we’ve got to cut back x amount of jobs. However, we can take ...you on as a self-employed person”, and I’m sure that happens a lot (Business and Community charity).

This last testimony from the business-focused informant from the Business and Community group illustrates that he doesn’t consider the increase in contractualisation to be a negative phenomenon; instead, he considers it an efficient means of reducing costs for businesses. Indeed, there has always been contractualisation of this kind and many industries are based on this employment structure. In the literature on structural change throughout the employment market, contractualised employment is increasing though; for example Baldry et al. (2007) and Marks and Huzzard (2010) find that IT is increasingly populated by contractual work, and Perrons (2003) finds similar an new media. This increase is described most often as undesirable, and this is largely for two reasons: it is regarded as exploitative of individuals, and it is seen as having a potentially negative economic effect.

With reference to this first reason, informants in this study describe the impact of increased contractualisation as unscrupulous as detailed above. Further, in a study of graduates, Galloway et al. (2014) noted that one of their participants who was contracted to a large corporate was unaware that he was self-employed. This study finds this too; some informants cited cases in which individuals did not appreciate they were in fact self-employed:

People don’t understand their terms of employment. ... So, you know, it will be the case that...people will not realize that legally they’re actually self-employed. They’ll just assume they’re going to work. ...People don’t always study their payslips, they just look at what they’re earning at the end of the day. It’s only when things go wrong that they understand (STUC).
There’s a few instances where the client didn’t actually know at the time and the first they heard of it was a bill 2 years later from HMRC for unpaid taxes (CAS);

The other reason increases in contractualisation are considered undesirable is that it has a net negative socio-economic effect, and again, this is reflected in the testimony of informants in this study too. As the informants from the Poverty Alliance puts it:

A lot of people are classed as self-employed at the moment [but] it’s really a contractual means for their employer to escape employment regulation. So the great growth that we’ve seen in self-employment …it would be hard to represent it as business growth or as …people starting their own businesses in the way that I think most of us would really think about that, about someone having an idea for a product or for a service and then taking that idea or product to the market and starting a business. …So that kind of self-employment is not about …a genuine, growing, vibrant small business sector. That’s simply about an attempt to get round employment regulations and to reduce the responsibilities of some bigger organisations. …You have to work until the job’s done. …Those workers…still have to work all the hours but they …don’t have the opportunity to grow a business …in the same way that someone genuinely working on their own behalf will be able to do (Poverty Alliance).

Again, this suggests a blurring of perceptions of self-employment and the contribution of self-employment to individuals and to the wider economy. The informant from STUC notes:

We need a more nuanced …complex assessment of these various trends… Over the last few years the Scottish Government year on year have said, “Fantastic, we’ve seen a 10% increase in the number of firms in Scotland”. Yeah but we say, “Well if these firms are zero employee, unregistered businesses then this is really just a different way of looking at the labour market”, you know. This is people who are formerly employed as employees, who are now trying to scratch a living from self-employment. …If you look at a number of things, tax receipts would be a classic one. Tax receipts have not recovered with the labour market. So you’d expect that when you have government at all levels shouting about record levels of employment, well if that was the case then you’d expect…the relating taxes to have grown significantly over the last couple of years, but they haven’t. So, that suggests that this massive new cohort of self-employment workers are not earning what they were before and not paying the tax that you’d expect them to pay. …All the signs point towards people not earning what they were previously earning as employees (STUC).

3.6 Summary

Throughout this key informant report, three main themes emerge. First, poverty is experienced in the enterprise context; second, one of the main issues associated with it is low capitalisation in terms of skills and finance as a consequence of enterprise being presented as a solution to long-term unemployment; and third, there appears to be disadvantage for both individuals and economies in the contractualisation of labour that was traditionally employed. In each of these cases there are implications for policymakers at national and local levels, and for those tasked with supporting enterprise in non-traditional contexts. Such engagement has been facilitated under various agencies and programmes in times past but, without full and appropriate funding, seldom with demonstrable and sustainable positive outcomes (Greene, Mole and Storey, 2004; Frankish, Roberts and Storey, 2010).

The following section of this report provides care examples of people who are self-employed and also living in poverty.
4. Self-employed and Poor: Some Examples

4.1 Background

The examples outlined in the following pages were obtained in response to calls for participants for a broad study of in-work poverty. Participants therefore were not recruited specifically on the basis that they were self-employed, but rather that they were living in poverty. ‘In-work poverty’ was defined as qualifying for Working Tax Credits, therefore either employed or self-employed, with qualification for Working Tax Credits reflecting the UK government acknowledgement of poverty-level pay.

Recruitment was conducted by contacting organisations that campaign on poverty, and on behalf of specific demographic groups known to have relatively high rates of poverty, such as women and disabled people. Researchers asked these groups to advertise details of the study via email lists, and social media, such as Facebook or Twitter. Local authorities with poverty initiatives were also targeted and asked to disseminate research details directly to clients, and the Letters Pages of local newspapers throughout Scotland were also used as a means to attract participants. Each recruitment method included details of how individuals could contact the research team. Thereafter, each participant was telephoned and a face-to-face interview was arranged at a time and location suitable for them.

A total of 46 individuals participated in the in-work poverty study, 9 are self-employed or business owners. The following stories are theirs; they are presented as examples of working and financial life within the context commonly referred to as ‘enterprise’. All cases have been anonymised.
4.2 Cases

Anne

Anne is a 46 year old single parent to three children, two in their early 20s and a nine year old, all of whom live at home. She is employed part-time as a cleaner in a school for the local authority and she also works as a self-employed cleaner for private domestic clients and a church. She took on the self-employed work because the hours of her part-time employment were insufficient to qualify for Working Tax Credit. Like all self-employed people, Anne is responsible for self-assessing for tax. Unfortunately, she was not aware of this and even though her earnings were below the tax threshold, because she missed her first self-assessment deadline she was fined £100. Anne describes her financial situation as “a mound of debt at the moment... I’m just basically living day to day... and hoping to get to the end of the day to make tea and start again the next day”.

Anne has always worked since leaving school at 16, but she has struggled to make ends meet since the break-up of her marriage as she receives no financial help from her former partner. A particular problem at the moment for Anne is the loss of state support for her older children who still live at home: “When you have your children and they get past the age of 16 and then leave school... you lose this and you lose that and you lose the next thing... This is when the problem starts... because you do lose your council tax [benefit] if you get help with that, or your housing benefit or whatever because of their age”. Anne’s older children do have jobs and do provide some financial contribution to the household, but Anne is loath to depend on them.

Anne assumes she will qualify for state pension and she has some private pension provision through various and current part-time employment. In terms of aspiration, she notes “If I could get a job, one straight job, say 20 or 25 hours a week, that I was going to in the morning and finishing at a certain time... I would prefer that because it’s so tiring doing a job maybe at 10 to 12, then maybe having a break, then going to another job, and back and forward, and then to the school at night. It’s quite tiring because you have to go in the dark and if you had a job that was maybe 9 to 5 I think that would be less tiring”.

Allan

Allan is 54 and has been a self-employed joiner since 1990. Previously apprenticed and employed, Allan became self-employed due to restructuring in the construction industry, when many trades went from an employment standard to contracted self-employment. Since then, Allan has had to source work via intermediary agencies. This has led to precariousness in terms of jobs and income. Wages in particular have suffered recently: “Up until 2010 I was earning £17 an hour at shop-fitting... The carpentry trade is really strange. They seem to go through fluctuations where the wage goes up to a half decent rate and then some recession or some war or some excuse comes along for them to drop it right down through the floor again... The agencies are still getting the £18 or £20 an hour that we should have been getting but they’re offering us £11 or £12 an hour and they’re getting £8 or £10... and they do nothing. All they do is, they’re middlemen stuck between the employer and me. They’re taking £8 an hour off me, so they’re getting £100 a shift and they’re doing nothing here”.

Allan’s opportunity to work is adversely affected by his lack of transport. Where companies used to provide transport (and accommodation if necessary), this is no longer the case. Allan notes, “I need transport because I’ve got boxes of tools. It’s impossible to go to a job when you’ve got a pin gun, you’ve got a screw gun, and you’ve got 25 kilos of tools... You can’t do it on a bus or a train”.

Allan has pursued various opportunities over the years here and abroad, including an independent joinery firm. None of these has been successful, leaving him with debt. He currently has no work and receives Job-seekers Allowance. Allan describes a very austere life: “Sometimes I’ll go to the shop and get a carton of double cream and... I’ll have half the banana and half the double cream and a wee bit of milk... and that’s my whole day’s meal.” Similarly, of his lifestyle Allan claims, “I’ve only one pair of shoes, that’s my boots over there. If they wear out, that’s me. And I’m wearing holey clothes... It’s like living in an open prison here really – I’ve no money to go anywhere”.


In terms of pension, Allan believes he may be due something from his time in employment pre-1990. Beyond that, since he has spent periods of time working abroad, he is not sure the extent to which he qualifies for state pension.

**Barbara**

Barbara is 35, married and has 2 small children. Her husband works in the building trade and Barbara operates a part-time business making tablet which she sells to local retailers. Barbara has a university degree but her combined family wage when she was in employment was insufficient to pay for childcare, and in any case, she is keen to be at home while her children are young. So Barbara’s motivations for self-employment are two-fold: she is attracted to the flexibility it affords her with her current domestic circumstances, and it provides an income necessary to support the family.

Despite the combined household income, Barbara describes a financially precarious life, one that requires continual management: “When people give me birthday presents and Christmas presents I don’t actually use them. I’ll recycle them throughout the year and re-gift to other people... I’ve worn glasses for a long time so I can stop my contact lens repayments every month... My dad bought me a slow cooker so we could use cheaper cuts of meat... I used to spend £35 every five weeks on my hair but now my neighbour cuts it for free and I give her tablet... We don’t smoke, we don’t drink. I used to drink you know, we used to go out and socialise, but all that stopped in 2012... I’ve actually sold jewellery before... I say to my husband ‘can we put the heating on?’ and he’ll say ‘no’ [laughs]. So we’ll put more jumpers on or whatever”.

Part of the problem is that Barbara is paid very little for her product. She identifies that when time and resources are costed “It’s just paying me a tiny tiny wage. I mean it’s not even the normal [minimum] wage that I’m getting”. In spite of their financial hardship, Barbara describes a happy life: “I’m having such a good time with this business but I suppose there are times you think, well it would be nice to have more money...”.

In terms of pension provision, Barbara did have a fund when she was in regular employment, but she no longer pays into it, noting, “That is something that kind of worries me”.

**Carol**

Carol is 60 and has two self-employed roles: she provides IT training for people with disabilities; and she is a work assessor for an organisation that reports to the Department for Work and Pensions. Neither of these has regular or minimum hours and this has created a precariousness in Carol’s income: “I’m in that situation now with one month to the next I really don’t know how much work I’m going to get”. A further complication is that even when she does work, the organisations she works for often don’t pay promptly or efficiently. As Carol describes, “I have to invoice for the work I do which is as soon as I’ve completed it and... I never know what day I’m going to get paid. ... I’m always having to chase them up saying ‘well I still haven’t received payment for this one’... and they’ve got a habit of not paying their bills on time anyway... Like this month their excuse will be ‘oh well it’s been the end of the tax year so we’ve had a lot to do’... I’ve got to pay the rent at the end of every month... the amount of work I do on the tutoring side is not enough to cover more than a few of the bills. It certainly doesn’t cover the rent and I have had to ask my ex-partner to step in and cover two months’ rent in the last few months... and I don’t like having to do that. So it’s difficult sometimes”.

Carol became self-employed as an alternative to unemployment: “because I couldn’t get any jobs... I did apply for quite a few different jobs... I applied for a job in the libraries, a local medical centre just as an admin PA type person. But because I’d been out of that, the admin side of work, for a while, they obviously decided I wasn’t qualified or whatever. And then I thought ‘right, I’ve got to get myself some more qualifications and I did [course] and then I found out about the IT tutoring opportunity and I did that”.

At 60, Carol is understandably concerned about her future. Despite the precariousness of her income she does contribute to a pension, largely motivated by her fear of losing control. She has been in substantial financial trouble in the past, to the point where she was declared bankrupt.
Carol’s wants to return to employment. As she explains, “Being self-employed and without a stable income, that’s my biggest concern really now from the age of 60 onwards. I need to have more stability in my life... Just stability and security for the future...that’s the biggest worry”.

Ben

Ben is 42, married and has a young baby. Both he and his wife have university degrees and his wife has 0-hours contract employment. Ben has had ME for several years and was in receipt of Incapacity Benefit until recently. As he describes, “There was a shift from Incapacity [Benefit]... and I’d been for a medical and been told I’d passed the medical and was fit for work [laughs], which we knew certainly wasn’t the case. In fact, the woman who was dealing with me at the Job Centre recognised that and she was very helpful and said, ‘if you shift over to Working Tax Credits, set up as a sole trader. Then you are able to do some work and get Working Tax Credits which will top up your income more significantly than the unemployment allowance and having to go for jobs’. She kind of knew there was no way I would really be employable by an actual employer”.

Ben claimed the New Enterprise Allowance and received training and advice to start a woodworking craft business. The allowance has provided the means to buy tools, but the business is yet to attract sales or income. Both Ben and his wife work part-time: “I can’t work full time because my health would take a huge knock, but [wife] can’t work full time because equally I couldn’t look after [baby] full time because my health would take a huge knock”. As a consequence, Ben describes a frugal existence: “We don’t drink, we don’t smoke, we don’t go out a lot at night... we don’t go on big holidays... If anything untoward happens we’re quaking and scrabbling around trying to see where we can get money from. We don’t have any savings. Our earnings have always been right on the cusp of the incomings and outgoings but never kind of recovered... We make huge portions of food and freeze everything we don’t eat... The finances are ok for all our basic things but its finding that extra £60 to buy the bits and pieces you need to paint a room”.

Neither Ben nor his wife have any pension provision. He claims that he is not motivated by materialism, but even so, “We would like to be able to save... Every once in a while something happens and you’re just...it can literally just be a couple of hundred quid, but it’s like, ‘how do we find that?’ So that wee bit extra safety net would be nice”.

Debbie

Debbie is 51, university educated and was a social worker until she developed fibromyalgia several years ago. She and her partner have done various jobs since then, most recently relocating to rural Scotland to start a music business with support from the New Enterprise Allowance. Despite long hours and much passion, the business does not make enough money to sustain them, so they also provide cleaning services for holiday firms. Their combined income from the music and the cleaning businesses is less than £15,000.

When asked why she does not receive disability benefits, Debbie replies that she has not applied: “I think I prefer to just carry on working and just get by... I had an uncle that had a kidney transplant...and was on the waiting list for another one. And he got all the benefits but he had to go through so many hurdles to get them... I used to help him claim for what he was entitled... But it was really...he was so ill and yet they would ask such ridiculous questions and it was really demeaning”.

Debbie describes a frugal existence: “We don’t have holidays, we only have our radiators on for half an hour in the morning and half an hour in the evening during the winter and it’s really cold... When we had money we ate a lot better. We’re very healthy eaters but all the good stuff is expensive if you want fruit and fresh veg...so we do cut back on that a lot. We hardly buy any clothes. I go to the charity shop. I’ve sold things off to pay bills”. Debbie describes this financial situation as very stressful: “Just continually you’re stressed about money and you have to go without a lot... You can never really relax because...your business could come to an end in a month’s time as nothing is guaranteed”.

Debbie and her partner were keen to improve their work-life balance, but the opposite happened: “At 51 years old I didn’t want to be doing hard manual work and it’s very hard doing six hours of cleaning... When we’re not doing the cleaning we’re trying to make the other business work. We just work and we don’t do anything else”.

25
Debbie is not optimistic about the future: “I think when you don’t have enough money you just have to live for now because you haven’t got the money to put by for later on. It’s all very worrying because by the time we get to the age to draw a pension I suspect there won’t be much of a pension.”

Evelyn

Evelyn is 42, and until recently she was in full-time employment: “I was quite high-flying. I was a director of an organisation. And then to cut a long story short, four years ago I moved down to look after my dad… It was called a career break but when I came back there was no job for me because it was after the recession… I was going to get made redundant but they had voluntary redundancy going… so I took that because it was going to be better than proper redundancy.” Since then Evelyn has struggled to find employment. Educated to MBA she wonders if she is too highly qualified: “I still check the jobs pages every week… I have in the past applied for jobs at Tesco and you know, delivering the mail and Sainsbury’s and I just don’t get anywhere”. Evelyn has managed to get some work though: “In the past four years I’ve had a couple of contracts where I’ve been self-employed, but I should have been an employee… The employer has pushed me to be self-employed to suit their needs because obviously they save on National Insurance and also on health and safety issues as well”. From that starting point, Evelyn approached her local Business Gateway and did some business training. She is now self-employed in the conservation field: “I take teenagers on expeditions. I do outdoors stuff. I do bird survey work in the season. I do editing work and I do market research as well.”

Evelyn is aware that her circumstances have been affected by changes in the economy. Her recent experiences of the support and benefits systems are revealing. In particular, in terms of establishing her own self-employment status, she notes, “The Business Gateway courses have been really excellent to help you work out what you need to do. But here was a lot of people on these courses who are only self-employed because they’ve been made to by the Job Centre and they’ve set up a business and you can just tell their heart’s not in it and they’re uncomfortable and they don’t want to do it and sort of feel it’s the only choice they have.”

Evelyn’s current income is around £6,000. She is concerned about the irregularity her work: “It can be 24/7 if you’re away on an expedition, or it could be only five hours a week”. She would prefer more consistent work hours: “I’m not sure if the work is in control of me… I’d just like a bit more control over that, a bit more stability”.

Fiona

Fiona is 42 and has chronic physical and mental health conditions. She has much experience of the benefits system: “They can pull you in every week, every couple of days, every six months. And mostly they would phone, because I wasn’t able to go in, every four - six months. And then her attitude changed, probably because her boss was getting to her, and she started pulling me in every four weeks… She was basically saying I was lying…to the point where I ended up just sitting crying… And the final time I went to the dole she’d changed her attitude again and said I should be on disability [allowance] because I had a permanent health condition”. Complying was stressful for Fiona: “There is the danger that they stop your money”.

Fiona has had many jobs, but her health has made things difficult: “When you tell employers you have health issues they say ‘oh that’s fine’ but once you start having health issues its not fine [laughs] and you get pushed out… So I’ve been on benefits on and off since I left school pretty much. It seems to be that I can work for a while and then I get ill so I’m off for a year… I’ve had that many jobs I can’t even remember… I’ve said to the dole that it’s not fair for an employer to take on thinking they’re going to get a full-time member of staff because they’re not…. When it comes to it, they can’t accommodate it because they’re trying to run a business”.

Fiona is currently a self-employed piece worker making soft toys at home. The flexibility of this suits her: “She [the toy business owner] comes once a week with a bag of bears… and I try and get six of them done in the next six days. But most weeks I’m having headaches or whatever so sometimes I might have days off… and then I might work like the devil for the last three days… So basically I just work when I can”. The pay for Fiona’s work is a source of contention. She notes, “When you’re working like this you’ve not really got any rights because what she says is ‘this bear will take X amount of time’… Now when I started I was only getting one done every two days because it’s really skilled and difficult. So I was working at 50p an hour or something like that. It was ridiculous. And I’ve still not been able, after four years, to get to the speed she says I’m supposed to be at. It physically can’t
be done. I would probably need about an extra £3 or £4 per item to get it up to the living wage... I figured out roughly I'm on about £5.50, £6 an hour so it's below the minimum wage by a bit”.

Gina

Gina is 39 and has two small children. After being made redundant, she took call centre work (which she describes as "the equivalent of being a battery hen"), enrolled in massage courses, and is now a self-employed masseuse. Erratic work does cause her problems though: “Most weeks I get £80 to £100, which is brilliant, but some weeks... For example, one of the nursing homes where I make most of my money, had a sickness bug and I wasn’t allowed in for three weeks so it was really devastating.” Although highly motivated, Gina identifies low income as a serious concern: “I was aiming for about £100 a week but sometimes...it’s just not happening... I’ve basically worked today for £6 so it’s quite dire... Once I sort out the money and take off expenses...I get between £3000 and £4000 a year which is really terrible... My husband earns between £8000 and £12000... There has been one point where our income together was so low that we’ve probably been allowed to apply for free school meals, but I don’t want to put my children in that position to make them...feel that we’re so poor even though they probably realise we are”.

Despite the low income, Gina maintains that there are great advantages to being self-employed. It allows her to organise work around her family, and she notes, “I do feel quite glad to be able to tell people and I feel quite proud of all this stuff that I’ve achieved... In my old job I was treated as a skivvy and a slave and I don’t get treated as a skivvy and a slave when I’m doing this. So I feel better in myself...because I’m not being treated terribly by an employer... One day we’ll be proud that we’ve done it on our own”.

For now, broadly, Gina considers self-employment positively: “Quality of life I would say nine out of ten in all aspects but two out of ten financially... I have a brilliant family life. I have brilliant friends. Everything else is fine, but I’ve just not got enough money and I wouldn’t be able to float if I didn’t get tax credits... I’ve got a £1000 overdraft which is my...back-up and I have been almost to the limit of that and that’s the most stressful thing... It’s so soul destroying when you know you’ve got nothing at all. It’s horrible... It really stresses me.”
5. Conclusions and Recommendations

5.1 Summary Conclusions

This study has solicited views on self-employment and poverty and the links between them. The key informants in the research were purposefully selected because of their specialist knowledge of the poverty or business and support agendas. The case studies reflect some experiences of living in a self-employed and in-poverty context. Emerging from key informant testimony and case experiences, the first conclusion in this study is that enterprise and poverty can and do intersect. Thus, in opposition to much of the rhetoric about enterprise and value-creation and associations of these with opportunity and economic growth, there is clear evidence that in some cases the opposite is true.

Informants in this research identify at least two main types of ‘poor’ self-employment. First is the long-term unemployed encouraged to self-employment by circumstances. These might range from a positive reaction to an adverse employment market, through ‘last resort’ entrepreneurship after months of unemployment, to the most desperate self-employment to mitigate the withdrawal of benefits as a consequence of sanctions. There are examples of all three in the case profiles. As evidenced by the experiences of Anne, Ben or Fiona, the businesses being created provide not even subsistence-level income. Further we suggest that the chances of sustainable self-employment in these circumstances are likely to be low. A logical extrapolation is that the quality or value of business will be reduced in contexts of deprivation unless considered resource and support is provided.

The second main type of ‘poor’ self-employment identified by informants in this study is increased contractualisation of the workforce, whereby roles which once would have been within an employed context are now designated as external contracts, as evidenced in the experiences of case examples Allan, Carol and Evelyn. Structurally, this shifts the responsibility for employment from organisations to individuals, and it absolves organisations of obligation to uphold workers’ rights and hear workers’ voices. While this structural position is not new, the extent to which it is increasing and pervading all sorts of industry sectors is concerning, particularly since the evidence appears to suggest that this type of self-employment not only leaves the individual less well-off, but in fact may also have a negative effect on the tax base. Elsewhere, there is also evidence that the precariousness of self-employed contractualisation is bad for industrial and commercial development since it stifles innovation as people service their contracts rather than invest themselves in organisations and industries.

This research has exposed that enterprise is not always a positive economic phenomenon, for individuals or for societies. There have been recent attempts to record and analyse the self-employment landscape in the UK and how this has been developing over the last decade, but data and statistics remain limited (see footnote 1). The dearth of any more nuanced study of enterprise and poverty is somewhat surprising though. In particular, in the absence of any real statistics about the extent to which contractualisation contributes or reduces value for an economy, speculation is all there is to go on. Similarly, in the absence of any data on the effects of self-employment on the poor, or the success and sustainability of self-employment amongst those who have been (long-term) unemployed, we have no idea if policy endeavours to encourage self-employment for these groups is making any difference. We do not know if it removes the needs for benefits or if it increases them. And this is because we don’t actually know if individuals are better or worse off, or what their support needs are. The anecdotal information emerging from the nine case studies included in this report point to a picture that is complex and idiosyncratic. The recurring themes of precariousness, low incomes (below minimum wage in some cases), and financial and social insecurity from lack of access to short- and long-term welfare support are clear though. As a result, we strongly advocate that work is undertaken to better understand the various contexts of self-employment. Policy that encourages self-
employment should be underpinned with an assurance that, over the piece, this adds, rather than subtracts, value. As the informant from the Poverty Alliance puts it:

[We need to] make sure that when people do move into self-employment it’s of their own free will and it’s something that they actually desire, and it doesn’t, over the longer term, make them actually worse off; it doesn’t trap them in poverty as well.

5.2 Recommendations

1. Close inspection and analysis of the real costs of contractualisation of what traditionally have been organizational jobs is required. There is clear implication in this research that contractualisation in many cases is exploitative and makes individuals worse off. There is a further hypothesis that the costs at economic and social levels may include a limiting of national competitiveness and national wealth. So from both a social justice and from a national economy point of view, there is urgent need to better understand this trend in order to arrest or mitigate its potential damaging effects.

2. Some agencies are recommended to revisit their coverage and inclusion of the self-employed. Organisations such as trades unions, chambers of commerce, trade and occupational associations may have a role to play in supporting self-employed interests.

3. For the long-term unemployed for whom self-employment is presented as an alternative, realistic financial support is essential. The popular, business and academic literature has long recorded that most firms are supported by personal and family funds at start-up. For those without access to these funds, alternatives sufficient in number and value have to be sourced for firms to have a realistic chance of survival.

4. Security of household incomes during transition between employment states remains a significant constraint to facilitating moves into and out of self-employment and this is exacerbated by the exclusion of the self-employed from key benefits. Addressing these obstacles to security and stability for the poor should be researched and prioritized.

5. The complexity of the benefits system and its lack of navigability for self-employed people in particular needs to be addressed. The systems for these require greater clarity and ease of use so that people are able to claim social and welfare allowances to which they are entitled. This is pertinent particularly in the context of erratic amounts and irregularity of income.

6. To encourage engagement of the long-term unemployed and those otherwise economically excluded, there are lessons to be learned from previous integrated enterprise programmes and especially those that have engaged other ‘hard to reach’ groups. Testimony in this study suggests that those in our society who are amongst the poorest may not engage with the established business and support agencies. This may be borne of mistrust, lack of knowledge or cultural issues. Further investigation is required, but these issues have been experienced amongst other groups, for example ethnic minorities, and have been addressed by those most informed. There are agencies who currently do understand the contexts of poverty and a more joined-up approach between the agencies focused on social inclusion and the business and enterprise support communities appears a sensible way forward. If enterprise can contribute to the addressing of poverty and social inclusion agendas, thoroughly thought through means of how best to support self-employment for those most financially and socially deprived is required.

7. There appears to be a general lack of linkage between those engaged in poverty alleviation and social inclusion, business development and support, and welfare and employment. From the small sample of specialists interviewed for this study it is absolutely clear that there is a substantial depth of knowledge on social issues; on benefits and rights; on business development. But these are not joined up in a way that facilitates meaningful development of self-employment as a contributory
way of addressing social inclusion and poverty, and so better networking between agencies, signposting and holistic support is required.
References


GOV.UK (2015) Working Tax Credit, Available at: https://www.gov.uk/working-tax-credit/eligibility


Contact us

HERIOT-WATT UNIVERSITY

Edinburgh Campus
Edinburgh EH14 4AS
0131 449 5111

Scottish Borders Campus
Galashiels TD1 3HF
0870 050 5152

Orkney Campus
Old Academy, Back Road, Stromness
Orkney Islands
Scotland KW16 3AW
01856 850 605

Dubai Campus
Dubai International Academic City
PO Box 294345
Dubai
UAE
00 971 4 435 8700

Heriot-Watt University Malaysia
No 1 Jalan Venna P5/2
Precinct 5
62200 Putrajaya
Malaysia
00 603 8894 3888
hwum@hw.ac.uk

Marketing and Communications
0131 451 3242
pr@hw.ac.uk

Student Recruitment
0131 451 3451
edu.liaison@hw.ac.uk

Research and Enterprise Services
0131 451 3192
res@hw.ac.uk

www.hw.ac.uk

Heriot-Watt University is a Charity registered in Scotland, SC000278