

A THEORETICAL REVIEW OF SELF-EMPLOYED STATUS – FORMING, MAINTAINING AND COMPLETING

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Abstract

The uncertainty within the business environment makes both companies and individuals reconsider traditional employment practices. More and more employees are choosing to manage their professional careers on their own. In UK the number of self-employed has increased from 7% during years 2008-2011, reaching the amount of 14% of total labour force. The research in USA shows that number of self-employed may reach 40% of total labour force in the year 2020. Moreover research show that self-employed have higher job satisfaction, which leads to assumption that self-employment is more efficient than traditional forms of employment.

This conceptual paper aims to examine the theoretical aspects of self-employed status – what does it mean – are these people to be considered workforce or entrepreneurs? How and why people do become self-employed? What happens further with their professional careers? What are the risks and benefits of being self-employed? And what are the forms of entrepreneurship applied by the self-employed?

To answer the questions, the Author has reviewed theoretical papers on self-employed, and currently available statistical data on the well-being of being self-employed.

The paper contributes to developing propositions on the forming of self-employed status, maintaining it and taking the decision to discontinue self-employment by returning back to the organization or establishing own business. Also it gives an insight for companies to better master the work relationship they have with self-employed workers.

Keywords: self-employed, labour market, career development, small entrepreneurship

1. INTRODUCTION

In the world of regular labour relationships there have always existed different forms of employment. Artists, journalists and craftsmen have often chosen to work on their own – exploiting different employment and entrepreneurial forms but generally maintaining self-employed status. Nowadays the share of self-employed is increasing in the labour market according the data from USA (expects 40% of self employed in 2020) and UK (number increased from 7,9 – 14,2 % during 2008-2011) [Freelance industry report, CIPD research report], and today people entering a self-employed state come from very different backgrounds – accountants, lawyers, managers [Godin 2012].

Self-employment is the way for a person to secure work and income for themselves in time when mechanization and automation of work processes in all industries are substituting manpower with robots [Rifkin 1994].

Self-employment is attractive as it provides autonomy and self-direction [Felfe et al. 2008, Benz, Frey 2008] in the times when the stability of any organization and any person working for that organization is questioned. Also the natural willingness of people to spend more time for things important to them like family, social work and hobbies is a strong argument for leaving traditional employment [Handy 1996, Joel 2013].

Organisations face uncertainty in the external environment and increase flexibility by looking for other ways of employing the people they need [Handy 1996, Cameron 2006, Wilthogen 2011, Joel 2013, Gray 2012] Methods include rented workforce, zero hour workers and contractors.

Organizations might also be more willing to attract self-employed workers as they demonstrate higher job satisfaction [Benz, Frey 2008, Fuchs-Schundeln 2009, Schneck 2013]. This is believed to be measure for being more productive.

This paper aims to reach two goals:

6. 1) to define the status of self employed in the modern world;
7. 2) to identify the critical parameters for a person to enter self-employed status, to maintain it and to complete (exit) it.

To answer the questions the Author has reviewed theoretical papers on self-employment, and currently available statistical data on the well-being of being self-employed.

The paper contributes to develop propositions on forming of self-employed status, maintaining it and completing. Also it gives insight for companies to better master the work relationship with self-employed staff.

There is limited number of theory Journal articles focused on issues of self-employment (or freelancers) in professions traditionally considered as in-house company professions. The recent development of self –employment makes the statistics vague as many self-employed (freelancers) use different forms of entrepreneurship to govern their new careers.

2. SELF-EMPLOYED DEFINED

The term „self-employed” suggests that a person is employed by themselves, leaving quite a space for further iterations of it.

Self-employment has been considered as an extreme form of employment next to unemployed often because a person enters this state because there is no other reasonable employment choice for them. [CIPD 2012, Park 2010, Beron et al 2011, Felfe et al 2008]. Therefore so far it has been viewed as temporary solution for employment or an employment status used by people (mainly women) who in meantime are engaged in parallel social work [Budig 2006, Handy 1996].

Organizations are taking advantage of this kind of workforce as it is cheaper and provides more flexibility than traditional employment. UK organizations are using the form of so called “zero-hour workers, which means that people are still working just for one organization, but they enter terminated contracts without any social benefits (like insurance, vacation etc.) common for any traditional employment module [CIPD 2013].

Looking from the perspective of employment, the definition by S. Sus and J. Becker [2012] that a ”freelancer is a type of employment that is carried out independently and without any other workers” is well described.

However the recent surveys show that self-employed (zero-hour workers) are not so unhappy as it was originally suggested [CIPD 2013, Freelance Industry report 2012, Fuchs-Schundenl 2009]. More and more people are becoming self-employed by their own choice changing the meaning of self-employment. Now self-employment embraces the individual taking responsibility for his own employment, career and professional growth. And as such, it suggests that it could be that in future person’s career might be perceived as a form of entrepreneurship [Korotov, Khapova et al. 2011].

On the other hand the trend of becoming self-employed might be the effect of the World financial crises of 2008, as there is evidence that the share of self-employed increases during economic recession [Gindling 2014]. Later the self-employed person either returns back to the organizations or establishes their own companies becoming business owners [Berton et al 2011, Gindling 2014, Fuchs- Schundenl 2009, Benz et al 2008].

This opens the space for discussion whether self employment is a form of employment of start-up for business. See Figure 1 created by Author.

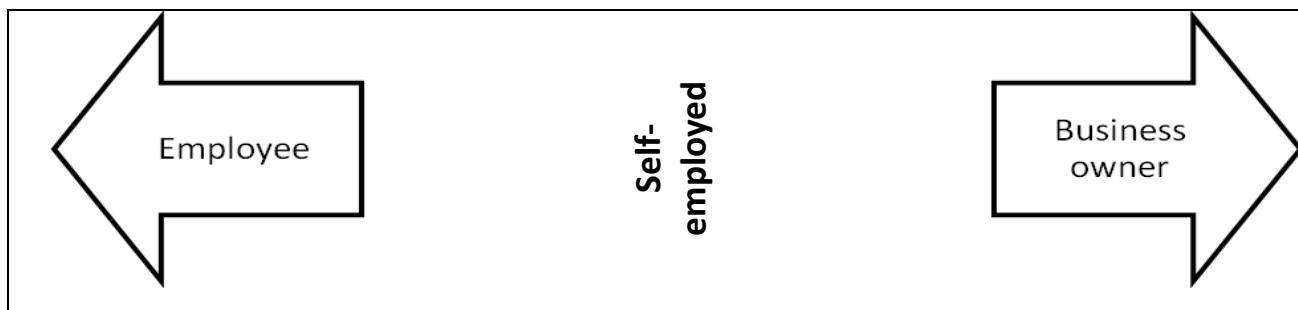


Figure 1. Self-employed positioning
Source: made by Author

The self-employed positioning in this perspective is to be the subject of the further research. And potentially may lead to more precise definition of what being self-employed actually is.

To reach the goals of this article The Author suggests that self-employed should be viewed like:

- 1) Self-employed v 1.0. – complying with the definition by S. Sus and J. Becker, that it is the person securing a job for himself and not employing other people;
- 2) Self-employed v. 2.0. - close to the term “freelancer” for which the Author would suggest the following definition „is an independent actor in the labour market selling their personal labour (time, skills, competence) to number of employers”.

3. THE PARAMETERS TO BE SELF EMPLOYED

Who are the people who chooses to become self-employed? The author researching the topic had paid attention to different parameters of self-employed – gender, age, income, procedural utility, freedom, responsibility etc. The Author suggests to sort parameters into two categories:

- 1) Visible parameters - like gender, age, income, geographical location etc.
- 2) Psychological parameters – like freedom, autonomy, responsibility, challenge etc.

The most often evaluated visible parameters are income [Fuchs-Schundeln 2009, Budig 2006, Sus, Becker 2013, Gindling et al 2014, Benz, Frey 2008, Clercq et al 2009], gender [Fuchs-Schundeln 2009, Budig 2006, Sus, Becker 2013, Gindling et al 2014, Park 2010], education [Fuchs-Schundeln 2009, Park 2010, Sus, Becker 2013, Clercq et al 2009], age [Fuchs-Schundeln 2009, Park 2010, Sus, Becker 2013] and home ownership [Fuchs-Schundeln 2009, Park 2010, Gindling et al 2014].

There is no such a unity when trying to find out the psychological portrait of someone who is self-employed. The most often researched parameters are procedural utility (focusing rather on the process more than on the outcome) – 3 articles [Fuchs-Schundeln 2009, Benz and Frey 2008, Schneck 2013], independence [Fuchs-Schundeln 2009, Felfe et al 2008] and freedom [Felfe et al 2008, Benz, Frey 2008] each 2 articles.

The visible parameters are quite well described. The successful self-employed person is older and has better education than average, and they are doing better if they are the household owner [Budig 2006, Benz 2008, Fuchs-Schundeln 2009, Sus, Becker 2013, Gindling, Newhouse 2014, Benz, Frey 2008, Clercq, Dakhli 2009].

The visible parameters demonstrate the structure of the self-employed world, but the value of these data increases in comparison – the trend over years or the difference with other forms of professional career. Currently there are contradictory findings - on one hand Gindling and Newhouse argue that being self-employed is just slightly better than to be employed without salary [Gindling, Newhouse 2014], on the other hand the research of freelance industry in USA shows that the self-employed earn more and are happier than formal employees [Freelance Industry report 2012]. The Author suggests to further study the visible data by longitudinal studies and in comparison with other forms of professional career to see if there are any trends related to the change of generations.

When it comes to the psychological parameters of self-employed it turns out that self-employed appear more process oriented than result oriented [Fuchs-Schundeln 2009, Benz and Frey 2008, Schneck 2013]. The Author would question these findings because to sustain the status of self-employed, a person has to achieve results. It is vital to build the income to maintain a desired standard of living, and in order to do this they have to create value (results) so other people (employers, customers) will be ready to pay for the service/products delivered by that person.

The Author could agree with these findings in a way that the resource of one person is limiting, and more value can be created by people working together. In that sense it could be said that self-employed are possibly more modest and humble towards their expectations of the value they create and value they receive. However there appears to be yet no research on such psychological parameters as modesty and humbleness in this regard.

The self-employed are overcoming the obstacle of limited resources by collaboration and network creation [Joel 2013, Godin 2012, Gray 2012], which also requires person to possess adequate self-esteem, openness and co-working capabilities, which have not been on the research agenda up to now.

The Author suggests that the list of psychological parameters of self-employed shall be expanded to get broader and more precise description of people choosing the career of self-employed. This also could allow elaboration of future predictions whether the self-employment is the path everyone may eventually go [Clifford 2013] or just a solution to build a professional career for specific type of people.

4. JOB SATISFACTION AND PRODUCTIVITY

It has been believed for years that a higher satisfaction of employees is a significant basis for higher productivity [Herzberg 1959], and this makes organizations continuously work on tools to maintain and improve satisfaction, motivation and engagement of employees.

The various researches demonstrate that the self-employed experience higher job satisfaction [Benz and Frey 2008, Hundley 2001, Fuchs-Schundeln 2009, Schneck 2013, Freelance industry report 2012] particularly stating that job satisfaction is higher for people valuing higher freedom rather than necessity for hierarchy and that men have higher job satisfaction than women [Budig 2006, Gindling, Newhouse 2014]. In fact the same research suggests that despite women overall having lower job satisfaction, they tend to stay as self-employed for longer periods of time [Budig 2006, Gindling, Newhouse 2014].

The Author believes that this paradox requires further research – why people who are less satisfied (women) continue the self-employment for longer period than those who are more satisfied (men)?

In addition there is distinction between job satisfaction and life satisfaction. Benz & Frey [2008], suggest that the self-employed are perhaps more satisfied with the job they do, however their life satisfaction is lower due to the regular uncertainty they experience.

Also the distinction between work commitment – a focus on being employed, occupational commitment – a focus on being professional, and organization commitment – a focus on working for a specific organization shall be recognized [Felfe et al. 2008]. The different commitments and procedural utility of being self-employed opens up discussion of satisfaction here in three differing perspectives:

- 1) Organizations – what are they striving for? Is this the highlighting excellence (could be achieved through occupational commitment) or the loyalty of employees (organizational commitment);
- 2) Employees could be more motivated by the fact that they are employed not so much caring about the occupation of the organization [Felfe et al 2008], but opening the question about the professionalism and efficiency of the self-employed worker
- 3) The Self-employed also focus on how procedural utility might lead to failure of the result requirements of the organization; so – what kind of collaboration models are required to secure the needs and the requirements for productive work on both sides.

This makes both the organizations and individuals pay attention to the beliefs and commitments required when deciding on the best way to either employ full time or to purchase a self-employed workforce. And definitely the further research is required to find if there is an evidence of organizations experience higher returns when employing the work of self-employed.

5. BECOMING SELF-EMPLOYED

The decision of one's professional career is explored by research in psychology; suggesting that if people are successful they attribute the cause of the success to something within themselves. However when failure is experienced, people tend to find reasons for that in external circumstances [Jones, Harris 1967]. Therefore the Author will look at people becoming self-employed both from an individual point of view and from the external environment. The external environment within the scope of this article consists of two parts – the overall business environment (economy development, IT development (internet and social networks), globalisation) and the organizational context.

Thus the increasing numbers of self-employed can be explained from three perspectives see (Figure 2):

- 1) Economic development;
- 2) Organizational development;
- 3) An individual perspective.



Figure 2. The structure of factors about becoming self-employed

Source: made by Author

Gindling [2014] in his research argues that more people become self-employed when economy is in the recession phase, and they return back as employees when economy is growing. On the other hand the development of IT technologies and globalisation is opening completely new possibilities for people to pursue their professional careers beside the traditional forms of employment within a formal organization [Godin 2012, Joel 2013]. Therefore further research is required to identify whether the current up-going trend to be self-employed [CIPD 2012, INTUIT 2010] is the passing result of the global economy crises in 2008 or the permanent transformation of the workforce.

The dynamics of the external environment change the organizations. New IT technologies provide further options of mechanization and automation of manufacturing processes substituting employees with robots [Rifkin 1994, Clifford 2013]. This process creates more and more people without a job in traditional industries. No job, means no income, which leads to weak purchasing power. In the long term this can hurt wider business interests as they are configured today. Therefore various forms of creative and social business are developing creating totally new types of jobs and allowing the traditional business to distribute money for activities that up to now were considered as voluntary work [Rifkin 1994, Handy 1996].

The other business environment factor which makes organizations change is uncertainty. Research by Cameron and Quinn demonstrates that over time more and more organizations describe their organizational culture as an ad-hoc culture. This is a culture where organizational activities are

project based focusing on external environment and securing high flexibility [Cameron 2006].

It can be concluded that organizations facilitate self-employment by:

- Higher job satisfaction might suggest that self-employed are more productive [Benz and Frey 2008, Hundley 2001, Fuchs-Schundeln 2009, Schneck 2013];
- The changing market demand requires huge organizational flexibility [Handy 1996, Gray 2013, Joel 2013, Wilthagen 2011].

This opens a new research area on the collaborative models between organisation and individual which up to now were described conventionally as an employer-employee relationship. This is now appearing closer to a customer – supplier relationship. A customer – supplier relationship today is in the change process moving from business to business or a business to consumer relationship more towards a person-to-person relationship [S. Godin 2013, M. Joel 2013]. This puts many more psychological aspects on the table than before and demands new collaborative approaches.

When exploring this question from the individual perspective the overall business and social environment still needs to be considered. We live in the age of individualism – since 1980-ies to 2010 the number of individual households has increases more than 60% both in USA and UK [McCarthy 2013, Handy 1996]. It could be suggested that the trend of how people organize their personal life effects the way they would like also to organize their work life. And current studies show that the main reason for entering self-employment is more autonomy [Budig 2006, Feife et al. 2008, Benz, Frey 2008].

People might find themselves as self-employed because they just didn't have any other opportunity, escaping unemployed status [Park 2010], looking for higher job security [Budig 2006], or a more interesting job [Benz, Frey 2008]. The research demonstrates two options of becoming self-employed – by the choice or not of the individual. The self –employed by choice do better (38% earn more than 70\$/h) and are happier [Freelance industry report 2012]. However this might lead back to the paradigm by Harris that if successful people tend to assign the merit to themselves rather than circumstances [Harris 1967].

The Author suggests further research on the decision making processes used to become a freelancer. What are the psychological parameters or external circumstances that make people to favour someone to drive their own professional career rather than rely on the perceived stability and security of being a part of an organisation [C. Handy 1996].

6. COMPLETING SELF-EMPLOYED STATUS

Self-employment up to now has been viewed as a temporary, passing state in an individual's professional career [Berton et al 2011] because of its failure to secure continuity, stability, security and reliability [Felfe et al. 2008]. The majority of people entering self-employment after a few years either establish their own company or return back to being an employee in an organization. This especially applies to workers doing the job of unskilled or marginalized occupations [Park 2010]. So, self-employed can continue to stay as self-employed, become an employee or an entrepreneur. See Figure 3.

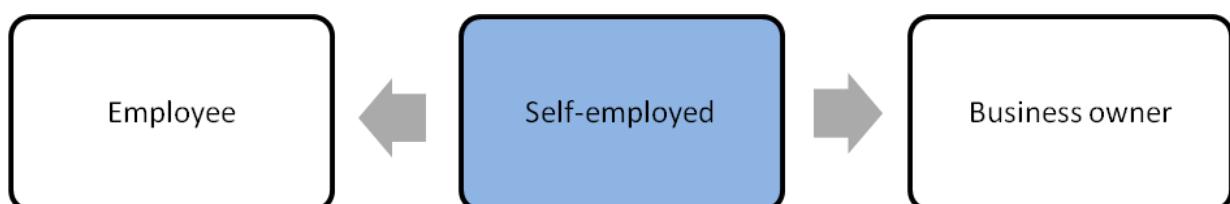


Figure 3. The self-employed professional development options

Source: made by Author

Current evidence shows that people who are more hierarchy oriented tend to return to an organization and people who are more freedom-oriented tend to establish their own companies

[Fuchs-Schundeln 2009, Gindling 2014]. The probability that the person will develop their own business is higher if the self-employed is a household owner [Budig 2006]. The Author would explain this trend by further researching the internal motivation of self-employed. Self-employment requires high self-motivation, which involves a lot of self discipline. For centuries people were forced to work by the will of others (initially it was called slavery but more recently modern management theories talk about engagement), and nevertheless there are big differences between being a slave or being engaged. Still both place the responsibility for one's working life to be put on the employer's shoulders. No doubt, the autonomy of self employment is attractive to many people, however it brings all the responsibility for personal well-being to the person who has the autonomy. Therefore it often turns out that it is more easy to be an employee rather than self-employed.

Paradoxically, the fact that the house owners are more likely to establish their own business partially confirms the Author's theory for a necessity of external forces for motivation – obviously house owners have to take care about dependants. This then establishes the required framework for self discipline.

So, the Author would suggest further research onto the psychological factors of self-employed in the context of motivation, self-motivation and self-discipline.

Also the Author would view critically the non-stability of being self-employed. All authors previously researching the issue have not taken into account the effect of the internet development and the innovative business opportunities it provides in terms of crowdsourcing, social networks and globalisation [Clifford 2013, Joel 2013]. So the study would be required to establish whether the longitude of self-employed has increased during recent years. Can we expect more and more people becoming self-employed, or is the current increase of number of self-employed just a transient consequence of the 2008 financial crises.

7. CONCLUSIONS AND DISCUSSION

Being self-employed is becoming more and more popular option for somebody to pursue their professional career. For long time self-employment was considered a desperate solution to be employed but, now self-employed workers are reporting to receive higher incomes and lead happier lives than employed.

It is required to revisit the definition of self-employed moving from “securing job for himself and not employing other people” [Sus and Becker 2013] to an “independent actor within the labour market selling their labour force (time, skills, competence) to a number of employers” proposed by Author.

This opens the space for discussion if being self-employed is a form of employment more akin to a start-up for business.

The reasons for the popularity of self-employed could be viewed from three different perspectives:

- 1) Economic development – during a recession of the economy the number of self-employed people increases, on the other hand the technology development also facilitates new forms of business;
- 2) Organizational development – organizations are operating in the hostile external environment and required more and more flexibility of workforce. On the other hand – surveys show that self-employed tend to be more process oriented rather than result oriented, which might bring new challenges for the management, and the productivity of self-employed can be questioned nevertheless they show higher job satisfaction;
- 3) Individual perspective – is it the consequence of the age of individualism [Handy 1996] or still self-employment is something just for a specific type of person seeking greater autonomy.

The current research examines the visual (income) and psychological parameters (procedural utility), still the psychological aspects would require much more attention and further research to

understand the decision making process to become, stay and exit from being self-employed.

Further research

For the further research Author would identify four major topics.

- 1) Whether self-employment shall be considered a form of employment or a new form of entrepreneurship;
- 2) the list of psychological parameters of self-employed shall be expanded to get broader and more precise description of people choosing the career of self-employment. This could also allow elaboration of future predictions whether self-employment is the path everyone will go [Clifford 2013] or just a solution to build a professional career for specific type of people;
- 3) The job satisfaction of employees and self-employed shall be investigated further to identify in which cases it is optimal to employ employees and when to subcontract work to self-employed. The Author believes that this paradox requires further research – why people who are less satisfied (women) continue being self-employed for longer periods than those who are more satisfied (men)? And does an organizations experience higher returns when employing self-employed?
- 4) Whether the current up-going trend to be self –employed [CIPD 2012, INTUIT 2010] is the passing result of global economy crises in 2008 or the permanent transformation of workforce created by globalisation and IT/IS development.

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