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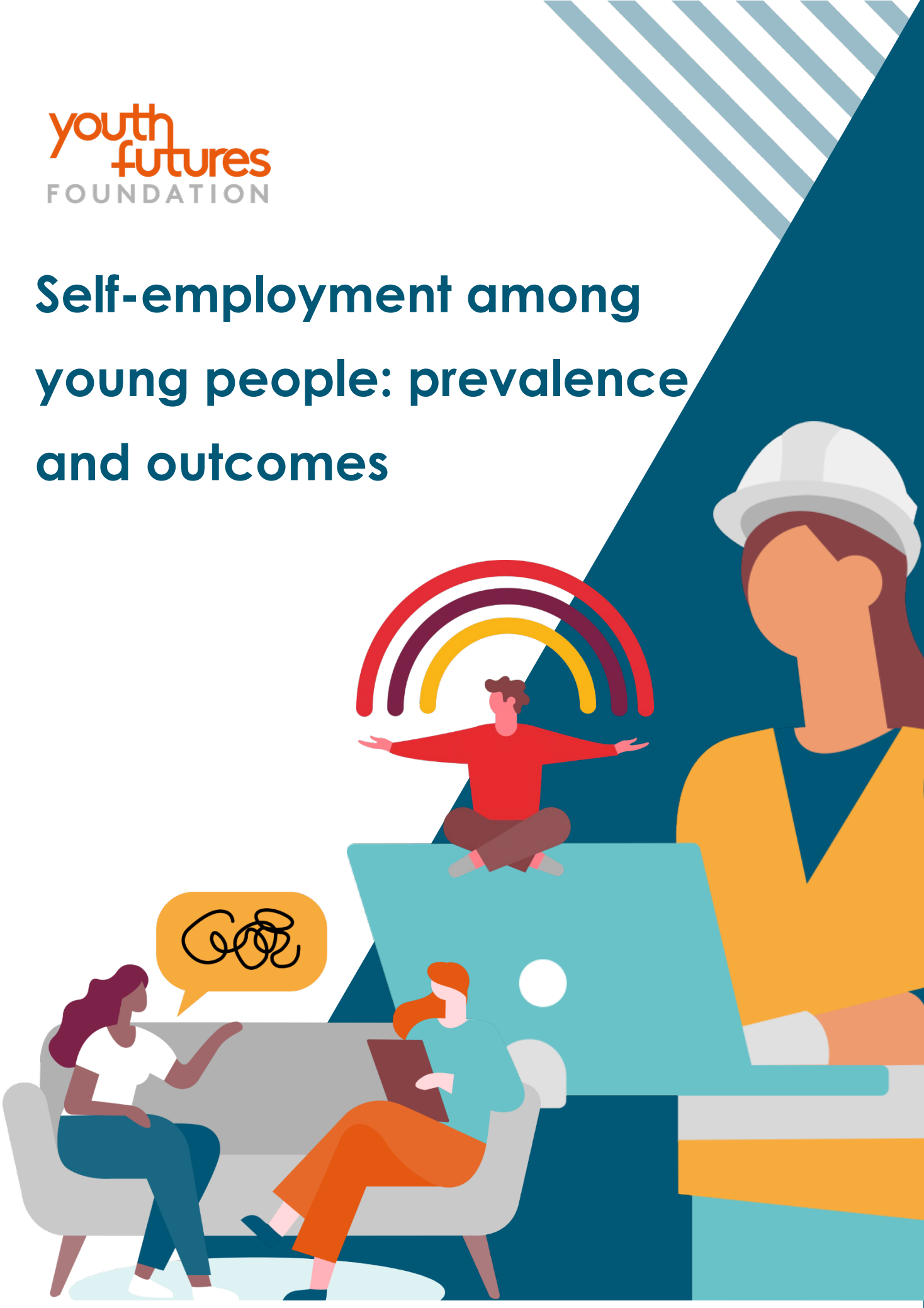
Self-employment among young people: prevalence and outcomes



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The research draws on a range of datasets:

- Labour Force Survey – Office for National Statistics (2024).
- Understanding Society – University of Essex, Institute for Social and Economic Research (2024).
- Survey of Personal Incomes – HM Revenue and Customs, KAI Personal Taxes (2023).
- Next Steps – University College London, UCL Social Research Institute, Centre for Longitudinal Studies (2024).
- Longitudinal Education Outcomes – Department for Education; HM Revenue and Customs; Department for Work and Pensions; Higher Education Statistics Agency (2023).
- Companies House data – we use data originating from Companies House. The company data for this research have been provided by the Consumer Data Research Centre, an ESRC Data Investment, under project ID CDRC 1798, ES/L011840/1; ES/L011891/1. This was matched to the People with Significant Control snapshot (https://download.companieshouse.gov.uk/en_pscdata.html) and the director (including resignations) data, provided as Companies House Company Appointments Snapshot Bulk Data Product (Product 216).
- Global Entrepreneurship Monitor – GEM data were collected by the GEM consortium as part of the ongoing GEM Global project. Analysis of the data was conducted by the GEM UK team at the Enterprise Research Centre at Aston Business School.

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Executive summary

We use a range of secondary data sources to provide new evidence on self-employment among young people, including who opts for it and how they get on in the labour market. We also look at their intentions and orientation towards self-employment. The definition of self-employment in this report is broad, taking in sole traders as well as individuals running an incorporated business.

The motivation behind the report is to understand whether self-employment might have the potential to provide opportunities to young people who face obstacles in finding a suitable job.

Young people's self-employment intentions

Male and female UKHLS respondents aged 16-21 rate their likelihood of future self-employment at an average of 37% and 32%, respectively; much higher than the proportion who actually become self-employed. For females, agreeableness, extroversion and, especially, openness are associated with increased likelihood. For males, agreeableness appears negatively related and extroversion only weakly related.

Among 16-25-year-old employees, one-third of males and one-fifth of females reported wanting to start up a business.

GEM data suggest the intention to start a business in the next three years is more common among people up to age 30 than it is among older individuals.

Among that group:

- Males tend to be more positively disposed to entrepreneurship than females.
- Individuals with higher or lower qualifications were more likely to have plans to start a business.
- Interest in entrepreneurship is low among the unemployed. Nevertheless, close to one-fifth have plans to start a business.
- Although interest levels are similar across UK-born and non-UK-born individuals, individuals whose mother was born abroad are more likely to intend to start a business within the next three years, as are those whose father was self-employed.

- Interest in entrepreneurship is highest among non-whites, especially non-Asians.
- It is also strongest among those living alone.

Considering trends since 2002 for 18-30s, GEM data show:

- Respondents' assessments of whether they have the required skills to start a business have remained relatively stable over time. Those who have no interest in starting a business are least likely to believe they have such skills.
- Those with no interest in starting a business are least likely to feel there are good opportunities to do so. Nascent entrepreneurs have become less likely over time to see start-up opportunities.
- There has been a growing trend in the tendency to report fear of failure as the reason for not wanting to start a company. Despite this, the proportion of respondents who personally know someone who has recently started a business has also grown over time. The proportion is consistently much lower among those with no interest, suggesting networks where entrepreneurism is less represented.
- Starting a business is viewed as a good career choice, and this view has only grown in recent years, including among those with no interest in doing so. It has a high status attached to it and has received increased media exposure in recent years.

GEM data also allows 18-30 year-olds to be compared with those in the US, Germany and the Netherlands:

- Respondents in the UK are less likely than those in the US or the Netherlands but more likely than those in Germany to view starting a business as being easy.
- Concern about having the skills to start a business does not seem to be a particular issue in the UK relative to the comparator countries.
- Among those with little interest in or experience of entrepreneurship, the Netherlands stands out as having the highest perceived level of start-up opportunities.
- Fear of failure is more likely to deter young people in the UK from starting a business than is the case in the Netherlands and Germany.
- UK respondents are similar to US respondents in having the impression that starting a business is generally perceived as a good career choice. In Germany, this view

is much less common. However, German respondents who have not started a business are more likely to feel entrepreneurs have high status. This is despite less coverage in the media.

Starting up as self-employed

For those completing Key Stage 4 in 2014, self-employment can be observed in LEO data from age 16. These suggests 6.9% of males and 2.8% of females were self-employed by age 23, often in combination with employment. By age 30, we estimate a rise to 11.6% and 5.8%, respectively. Survey data (Next Steps) suggest comparable levels: 10.1% of males and 6.8% of females by age 32.

LEO data show year-on-year self-employment is quite stable up to age 23, with 64% of males and 58% of females remaining self-employed the following year. Among those combining self-employment and employment, more than a quarter will be employed without self-employment in the next year. Entries into self-employment likewise mainly come from those previously employed.

Applying sequence analysis to Next Steps data, we identify typical pathways covering the time since school-leaving age. About 8% of males and 5% of females follow a pathway characterised by self-employment, albeit sometimes interrupted by returns to employment or unemployment. For males, personal motivation at age 16 is predictive of following a self-employment pathway, while this is not the case for females. Parental characteristics are also relevant; males from low-income backgrounds are more likely to follow the self-employment route, while females who, at age 16, had parents who were unemployed are less likely to do so. Both males and females most commonly enter self-employment from employment, while females are also a little more likely to enter from education.

Characteristics of the self-employed and their businesses

We focus initially on the period 2010-19 to capture the situation prior to COVID-19.

- The proportion of 16-40s reporting that they are self-employed is roughly twice as high among males as among females. Rates were quite stable over this period, standing at 13% among males in 2019 vs 7% for females.

- Self-employment noticeably increases with age. For those 26-30, roughly 12% of males and 5% of females were self-employed (including owner-managers).

- About 10% of 26-30-year-olds' companies employ others. Simulations illustrate how solo self-employment translates into later employing others.
- Among 16–25-year-olds who are in work, self-employment is more common in the London and Eastern regions (and, for males, in Northern Ireland) than elsewhere.
- For males, self-employment is more common among those with low or no qualifications. For females, this is less the case, and among older women, self-employment is associated with higher qualifications.
- Self-employment by ethnicity reveals a rich pattern. Among under-30s, the ethnic dimension of self-employment is more evident for males than females. Males who identify as Pakistani have particularly high levels of self-employment. Among male under-25s, self-employment is highest among respondents who identify as Chinese.
- Self-employment is more common among those born abroad. This is true for males and females in all age groups.
- For females, self-employment is higher among those with partners. This is also true for males, but only appreciably in the youngest age band.
- Among younger individuals in work, those who are self-employed tend to be in households with lower earnings than is the case for those who are employed.
- Self-employment is more common among people with a health problem that limits the amount or type of work that can be done.
- Self-employed people are more likely to have high levels of Openness, Conscientiousness, Extraversion and Agreeableness. They have relatively low levels of Neuroticism.
- Young males who are self-employed tend to have lower levels of cognition than their employed counterparts. This is not the case for females; if anything, young self-employed females are likely to have stronger cognitive skills.

Comparing hours, earnings and job satisfaction of self-employed and employees

Self-employed males tend to work longer hours than their employed counterparts, particularly when younger. Self-employed females, on the other hand, work, if anything, slightly fewer hours than employees, possibly reflecting their greater tendency to have caring responsibilities.

UKHLS data show self-employment earnings are higher among males than females. This also holds when converting to hourly equivalents. SPI data, originating from HMRC, show that under-25s who are self-employed earn more than employees, substantially so in the case of males. Those both employed and self-employed earn the most. Among 25-34-year-olds, employees earn the most. Being a company director attracts a premium in the form of dividend payments, which, furthermore, receive advantageous tax treatment.

LEO data allow the evolution of earnings for those young people completing KS4 in 2014 to be shown. Initially, earnings are highest among self-employed people, whether or not they also have an employee job. Over time, earnings of employees without self-employment grow relative to those of the self-employed and surpass them by age 24 or 25. For those who combine self-employment with employment, self-employment contributes a sizeable proportion of earnings. Self-employment in early career trajectories often coexists with, rather than replaces, regular employment.

There is little difference between self-employed and employees in the proportion reporting that they are completely satisfied with their income. However, the self-employed are more likely to register some dissatisfaction with their income, particularly in the case of young females.

Both male and female self-employed are likely to be more satisfied with their job than employees. The ability to "be your own boss" is prized. Females value being able to keep flexible hours. Self-employed individuals have lower levels of job-related anxiety than employees, and this is particularly the case for females. Levels of job-related depression are also lower.

New businesses and their survival

GEM data shows that among UK 18–30-year-olds in 2023 trying to set up businesses:

- Most common is to set up as a sole trader. This accounts for close to two-fifths of cases. Limited companies account for a quarter of cases, and partnerships roughly one-fifth.
- More than half of respondents spend more than 10 hours a week setting up their business. Most anticipate trading from home, and in nearly all cases, they expect to serve customers in their local area.
- In two-thirds of cases, it is the entrepreneur who funds the start-up entirely. Where other sources of funding are sought, these tend to come mainly from close family (spouse, parent, sibling), from banks or from government.
- The majority (83%) of start-ups do not require any money. Where some money is required, the median expectation is £2,200. The median amount that individuals expect to fund from their own money is £4,000.

GEM data suggest company closures – whether incorporated or not – are often due to personal reasons or having another job or business opportunity. For 16-25s, profitability and bureaucracy are common factors, while 26-30s were more likely to cite difficulty of raising finance as the main reason.

The favourable tax treatment of dividend income creates an incentive to set up a limited company. Companies House data show the most common industry for young people doing so is retail via mail order or internet. Limited companies set up by young people tend not to survive as long as those with older directors. Where there are co-directors who are relatives, particularly older relatives, survival is significantly longer.

Conclusion

The results presented in this report are suggestive of there being a group of young people currently outside the labour market who might benefit from pursuing self-employment. A programme of support that is sufficiently tailored to their individual needs and circumstances could help tap into this pool and, in doing so, offer improved prospects to a marginalised group of young people.

Chapter 1: Introduction

The analysis in this report aims to provide new understanding of self-employment among young people. It looks across a range of secondary data sources to show the extent and nature of self-employment, the characteristics of the young people who choose it and how the outcomes associated with self-employment compare with those for individuals working instead as employees.

The background to the report is that it forms part of a feasibility study into the potential to develop and evaluate a programme of support for self-employment among young people not in employment, education or training (NEET) who face obstacles in finding a suitable job. By looking across available datasets, the report collects relevant evidence on whether there might be demand for such a programme, what issues support would have to address and whether self-employment is in fact likely to be a good option for young NEETs.

The report includes results from analyses using a wide range of data sources. These are briefly described in chapter 2.

The results are presented in the following sections (chapters 3 – 7):

- **Young people's self-employment intentions.** This section is motivated by a wish to understand whether there might be a pool of young people for whom self-employment could offer an attractive form of economic activity, perhaps particularly relative to the opportunities available to them from working as an employee. Importantly, this pool includes both those with some intention to become self-employed plus those with no such intention.

- **Starting up as self-employed.** Using longitudinal data, individuals' labour market states are tracked over time to put self-employment in a life course context.

- **Characteristics of the self-employed and their businesses.** By pooling multiple datasets, we amass sufficient observations to allow detailed descriptions of the self-employed and their businesses and to show how these vary with age.

- **Comparing hours, earnings and job satisfaction of self-employed and employees.** We show how self-employed people compare to employees in respect of earnings, hours and other aspects of job quality.

- **New businesses and their survival.** We look at directors in new limited companies and examine some of the factors influencing the survival of such start-ups.

Chapter 2: Data

In this report, the term 'self-employment' is used in a general sense and does not distinguish between different legal states. It embraces both sole traders and owner-managers of incorporated companies. In line with this, we do not distinguish between self-employment and entrepreneurship and use the terms interchangeably. We recognise that, for some, the term 'entrepreneur' may itself have particular associations. Participatory research with young people suggests it has "…connotations of innovation, risk, hustle culture and 'hero entrepreneurship'" (TSIP/YFF, 2023)[1] and is distinct from other types of self-employment. Our usage is consistent with that adopted by the Global Entrepreneurship Monitor definition (Hart et al., 2023).

The report draws on several data sources. Below, we set out how self-employment is identified in each case.

The **Labour Force Survey** (LFS) was pooled over the decade prior to COVID-19 in order to provide a sufficient number of observations for analysis. The LFS identifies the self-employed simply by asking respondents who are working (or who are temporarily away from work) whether they are employees or self-employed. There is some direction provided that professionals working in partnerships and GPs working for the NHS are considered self-employed. Respondents are also asked about second jobs they might have, and here again, there is a distinction between employees and self-employed. Employees who are managers are included in a question asking whether they own the company they work for. This allows identification of individuals who are self-employed under the definition above, despite them appearing as employees of their own company.

The second source of data is **Understanding Society** (also known as the UK Household Longitudinal Study, UKHLS), likewise, pooled over 2010-19. Again, respondents who are working are asked whether they are an employee or self-employed in their current/main job. Directors and managers who say that they are self-employed are recorded as employees if they work for a limited company.

[1] https://youthfuturesfoundation.org/wp-content/uploads/2023/02/TSIP_YF_Youth_Self_Employment_Report_FinalAW.pdf

Complementing the surveys, the analysis also uses data from the 2019 **Survey of Personal Incomes** (SPI). This annual data set is drawn from HMRC tax records, with self-employment observed through self-assessment returns.[2]

The main analysis of transitions into self-employment uses the **Next Steps** longitudinal survey.[3] Next Steps follows approximately 16,000 individuals born in 1989-90 in England, tracking them from ages 13-14 (Year 9) through to age 32, with detailed monthly activity data collected between ages 16 and 32. From age 20 onwards, self-employment was identified as a distinct activity. Our analysis focuses on the 4,100 individuals who consistently responded across all waves, providing complete activity histories. To ensure representativeness and account for survey design biases, longitudinal weights were applied throughout the analysis.

Longitudinal Education Outcomes (LEO) draws together administrative data on education, unemployment, benefit receipt, employment and self-employment, the latter captured through HMRC self-assessment (SA) returns. This allows self-employment to be observed on a tax year basis; an individual is defined as being self-employed in a tax year if they appear in the SA data for that tax year with an entry which is marked as including income from self-employment.

We also consider survival of new company incorporations. For this, we use **Companies House** data, merging company information with information on company directors.

Lastly, the main dataset providing an insight into intentions towards and views of self-employment is the **Global Entrepreneurship Monitor** (GEM). Uniquely, this has an explicit focus on self-employment. It provides the most detailed identification of self-employment, including those thinking of starting up a business (whether incorporated or not). It also asks questions about the barriers to self-employment. This is directly informative of the motivating aim of this project to identify a package of support to allow those wishing to work for themselves to do so. In view of this, the analysis of GEM data focuses on the most recent year available, 2023. We use the full GEM dataset rather than the publicly-available data.

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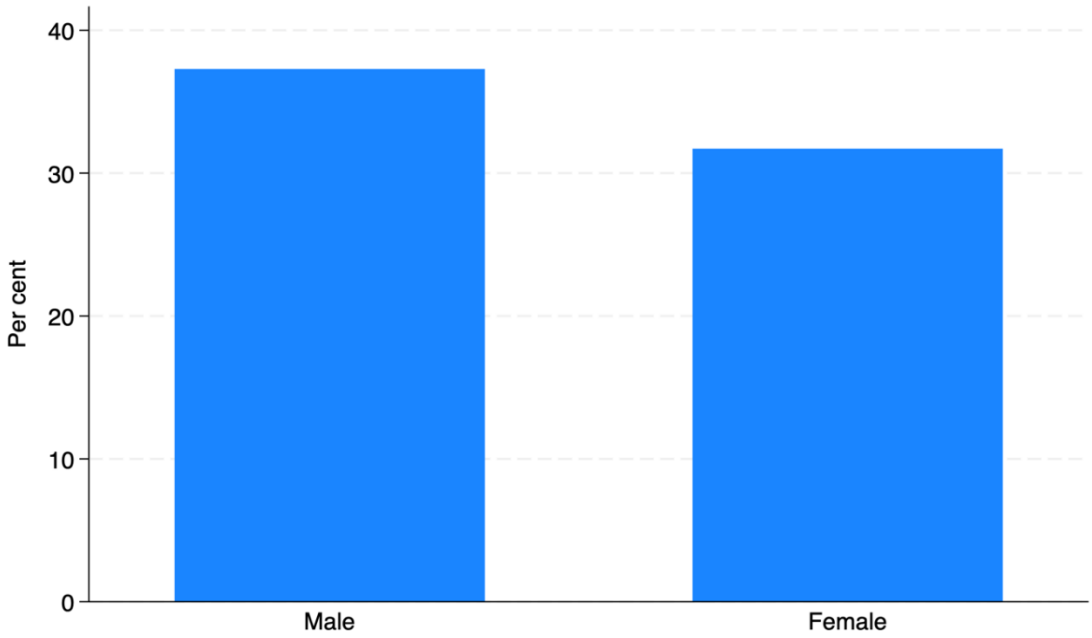
[2] Individuals must submit a tax return if they were self-employed as a 'sole trader' with a turnover of £1,000 or more. This is also required for individuals who were paid company directors or in a partnership, as well as those who received employment income from inside off-payroll working engagements (these are the 'IR35' rules and relate to contractors operating via their own intermediary company or through an agency).

[3] Formerly known as the Longitudinal Study of Young People in England.

Chapter 3: Young people's self-employment intentions

The UKHLS asks individuals aged 16-21 to rate the likelihood of future self-employment. Notably, the average likelihood predicted by respondents is substantially higher than the proportion of individuals observed to be self-employed when older. Among males in this age range, the mean likelihood is 37%. For females, it is slightly lower at 32%. Compare that with the earlier results showing self-employment peaking at 16% for males and 8% for females among the age groups we consider.

Figure 1: Anticipated likelihood of becoming self-employed when aged 16-21. Calculations based on UKHLS, 2010/19.



It is not possible to definitively interpret this discrepancy. One potential factor – which motivates this study – is that they reflect a frustrated demand, with some individuals unable to achieve their goal of self-employment. If so, this hints at a possible role for appropriately designed interventions to help overcome the obstacles preventing the fulfilment of this ambition. However, there are alternative explanations. For instance, tastes may simply change as individuals age and gain more experience in the labour market. Alternatively, as life circumstances evolve, the perceived security attached to working as an employee may take on more significance.

Table 1 highlights the ethnic dimension of this variation. For males, anticipated self-employment is highest among respondents of Bangladeshi and Black ethnicities. Relative to this, the proportion who are self-employed is lower than for any other ethnic group (apart from Chinese respondents, for whom the small number of observations cautions against over-interpreting this result). Specifically, the proportions of Bangladeshi and Black individuals who are self-employed are roughly one-third and one-quarter, respectively, of their anticipated proportions. Among males identifying as Pakistani, on the other hand, the self-employment level is nearly three-quarters that of anticipated self-employment. For females, it is likewise among Black respondents that there is the highest anticipated self-employment. Again, their actual self-employment is much lower at about 16% of the anticipated level. This rate is similar to that seen among 'Other Asian' female respondents, who are the group with the next highest rate of anticipated self-employment. Bangladeshi female respondents have much lower rates of anticipated self-employment than Bangladeshi male respondents, but their actual self-employment rate is similar.

Table 1: Intended and actual self-employment, by ethnicity (%).Calculations based on UKHLS, 2010/19 (for 'Intended' self-employment) and LFS, April-June quarters, 2010-19 (for 'Actual' self-employment).

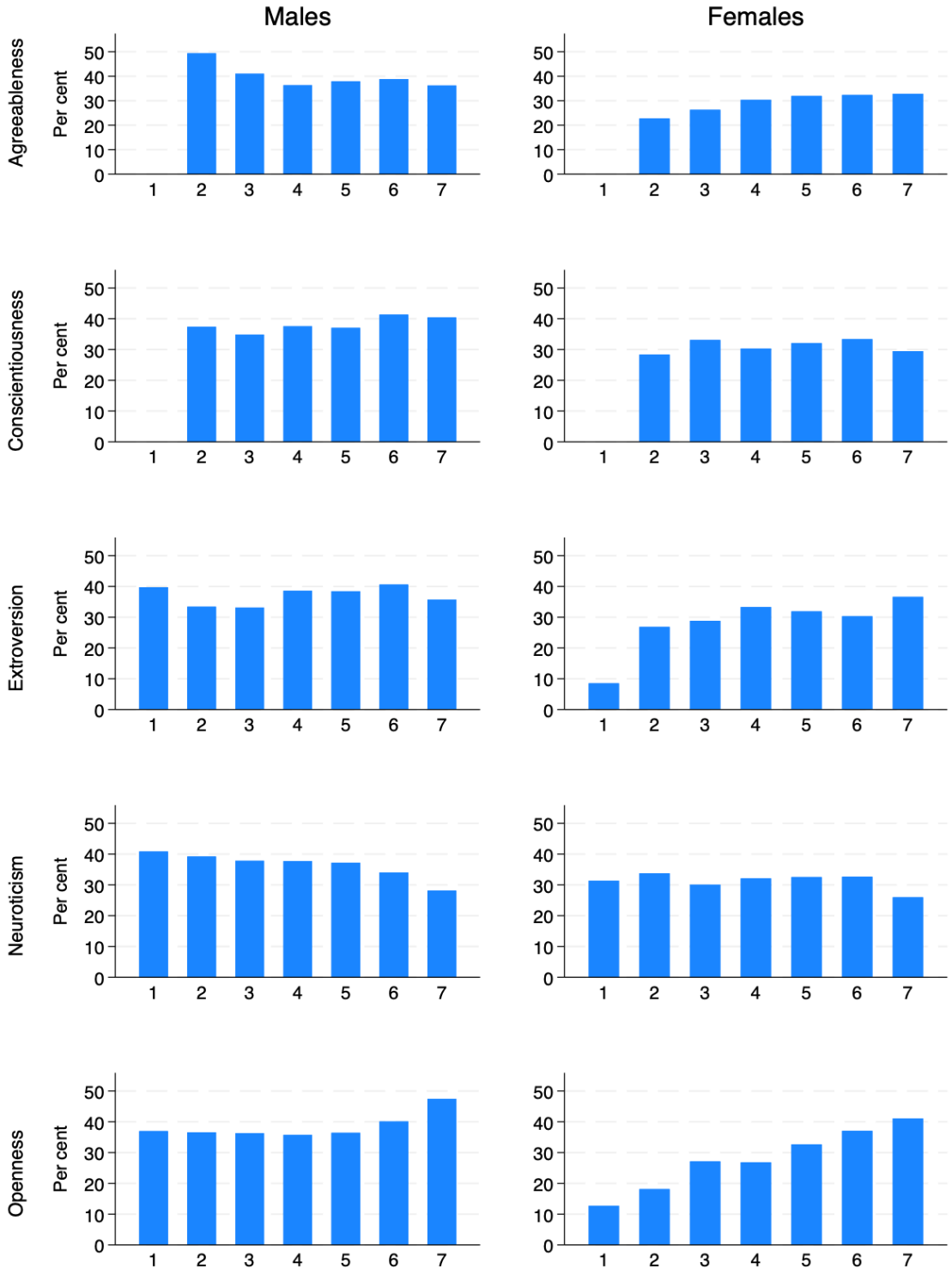
	Male			*Female*		
	Anticipated	Actual	Actual as % of intended	Anticipated	Actual	Actual as % of intended
White	36.2	16.4	45.2	30.9	9.5	30.8
Mixed	40.3	20.0	49.6	37.4	9.1	24.4
Indian	40.7	15.7	38.6	36.0	7.9	21.9
Pakistani	42.8	31.4	73.2	30.6	10.2	33.3
Bangladeshi	47.6	15.6	32.8	30.2	15.6	51.5
Chinese	31.0	7.0	22.5	34.3	3.2	9.4
Other Asian	38.2	22.1	58.0	40.6	6.4	15.8
Black	49.7	12.8	25.8	43.3	6.8	15.7

The results in table 1 are likely to reflect multiple influences, including perceived and actual obstacles to finding work as an employee, cultural norms and ethnic networks. It is notable that there is considerable ethnic variation in the extent to which actual self-employment compares to anticipated self-employment. This is suggestive of these influences varying across ethnic groups. Perhaps most notable is the finding that for both male and female Black respondents, the high levels of entrepreneurial intentions appear less likely to translate into self-employment than for other ethnic groups.

Figure 2 probes how the perceived likelihood of becoming self-employed varies with the Big 5 personality traits (where a higher score reflects higher levels of the traits). For females, agreeableness, extroversion and, especially, openness are associated with increased (perceived) likelihood of becoming self-employed.

For males, the pattern is more mixed: agreeableness appears negatively related with anticipated self-employment, for example, extroversion has only a weak relationship, and it is only among those in the top two categories of openness that the likelihood noticeably picks up.

Figure 2: Anticipated likelihood of becoming self-employed when aged 16-21 by Big-5 personality trait (higher score indicates higher level of respective trait) Calculations based on UKHLS. Categories with a small number of observations have been suppressed.



Irrespective of the reasons, the gaps between anticipated and realised self-employment are substantial. Furthermore, interest in self-employment persists as individuals get older.

Table 2 shows how respondents answered the UKHLS question regarding whether they would like to start up their own business. Among 16-25-year-old employees, one-third of males and one-fifth of females reported wanting to start up a business. Among older age groups, the level of interest drops only slightly (and remains higher among men than women).

Table 2: Employees who would like to start their own business (%)Calculations based on UKHLS.

	male	female
16-25	33.8	21.3
26-30	33.2	20.0
31-35	30.2	19.9
36-40	28.1	18.3

Orientation towards entrepreneurship among 18-30 year-olds

Use of GEM data allows a deeper exploration of attitudes towards self-employment. It distinguishes respondents according to their stated orientation towards entrepreneurship:

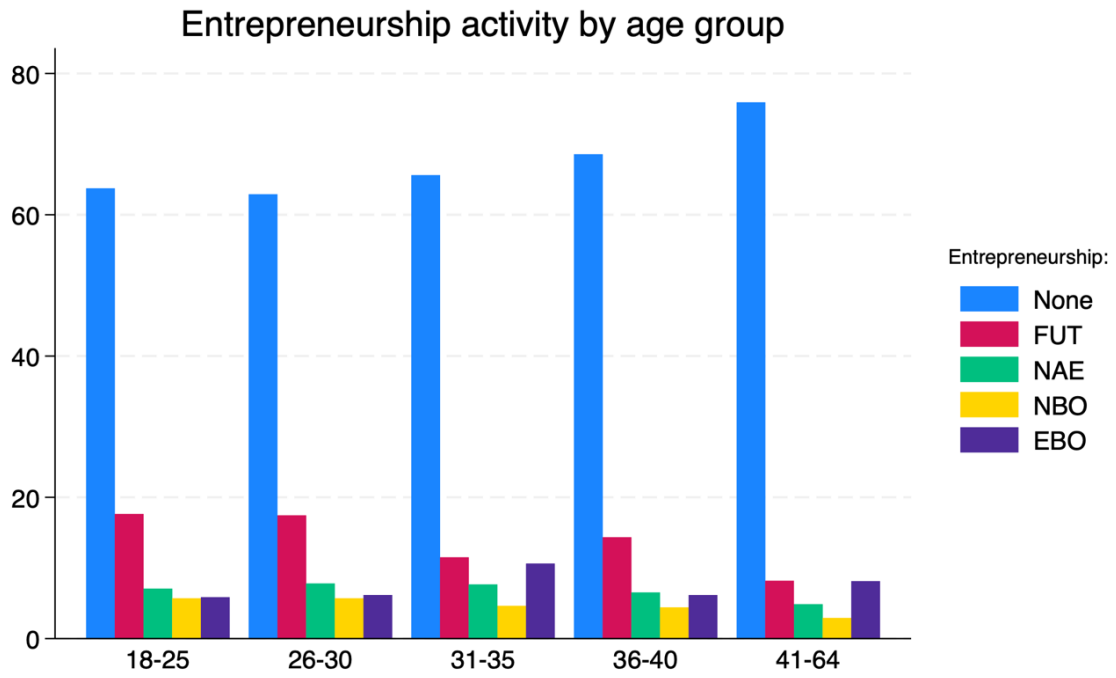
- Those with no entrepreneurial activities or interest ('None')
- Those with the intention to start a business within the next three years (FUT).
- Nascent entrepreneurs (NAE) - individuals who are beginning to commit resources, such as time or money, to starting a business. To qualify as a nascent entrepreneur, the business must not have been paying wages for more than three months.

- New business owner-managers (NBO) – individuals whose business has been paying income, such as salaries or drawings, for more than three, but not more than forty-two, months.

- Established business owner-managers (EBO) - those whose business has been paying income, such as salaries or drawings, for more than forty-two months.

Figure 3 shows how this classification varies by age group. Clearly, the majority appear to have no interest in entrepreneurship, and this proportion increases with age. The intention to start a business in the next three years is more common among respondents up to the age of 30 than it is among older individuals. Interestingly, the proportions with a business in any stage (NAE, NBO, EBO) are not dramatically below those seen for older age groups.

Figure 3: Entrepreneurship orientation by age group, 2023



For the rest of this report, we concentrate on respondents aged 18-30 to show compositional differences across this classification.

Figure 4 confirms that males tend to be more positively disposed to entrepreneurship. The proportion of respondents who are entrepreneurs (in categories NAE, NBO or EBO) is 25.1 per cent for males and 21.5 per cent for females.

Figure 4: Entrepreneurship orientation among 18-30 year-olds by gender, 2023

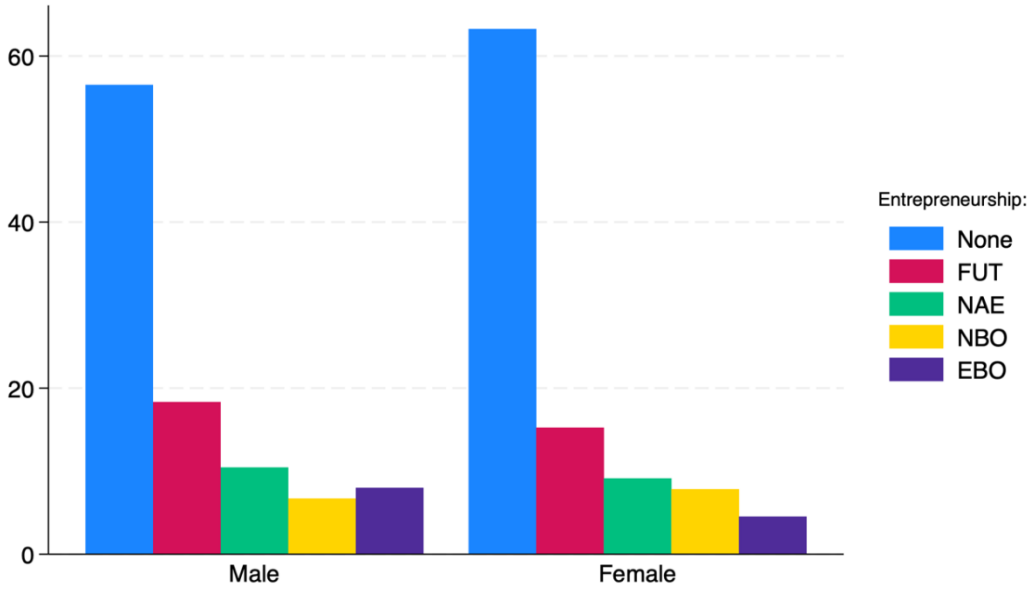


Figure 5 shows entrepreneurship is highest among those educated to GCSE or A-level. Individuals with higher or lower qualifications were more likely to have plans to start a business and also to already have a business. Established businesses were more common among respondents with degrees.

The level of interest in entrepreneurship is low among the unemployed; nearly three-quarters have no interest (Figure 6). Nevertheless, close to one-fifth have plans to start a business, a level comparable to that seen among employees. These intentions among employees underscore the dynamic nature of the labour market as individuals may look to become entrepreneurs in future. For employees, this need not mean giving up the day job; more than one-fifth of employees also appear to own a business.

Figure 5: Entrepreneurship orientation among 18-30 year-olds by highest qualification, 2023

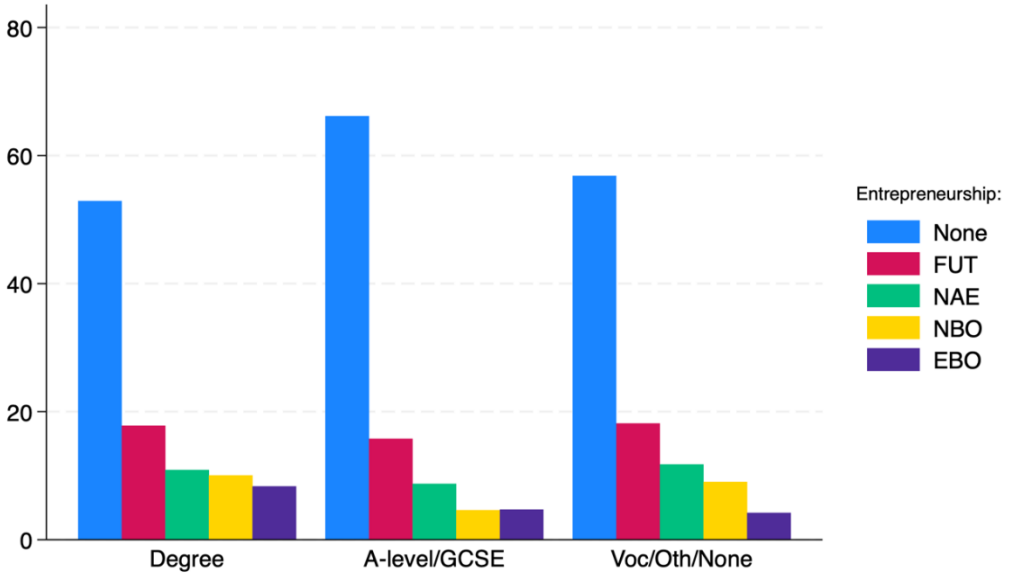
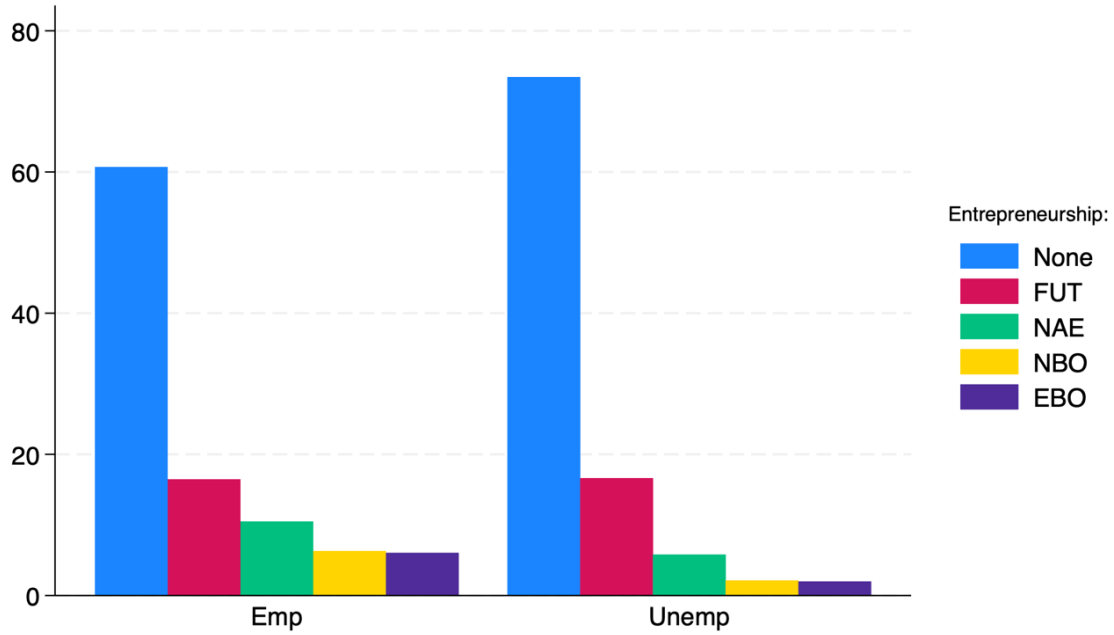


Figure 6: Entrepreneurship orientation among 18-30 year-olds by employment status, 2023



Figures 7 and 8 show, respectively, how the orientation to entrepreneurship varies according to whether the respondent was UK-born and whether the respondent's mother was UK-born.

Figure 7: Entrepreneurship orientation among 18-30 year-olds by whether UK-born, 2023

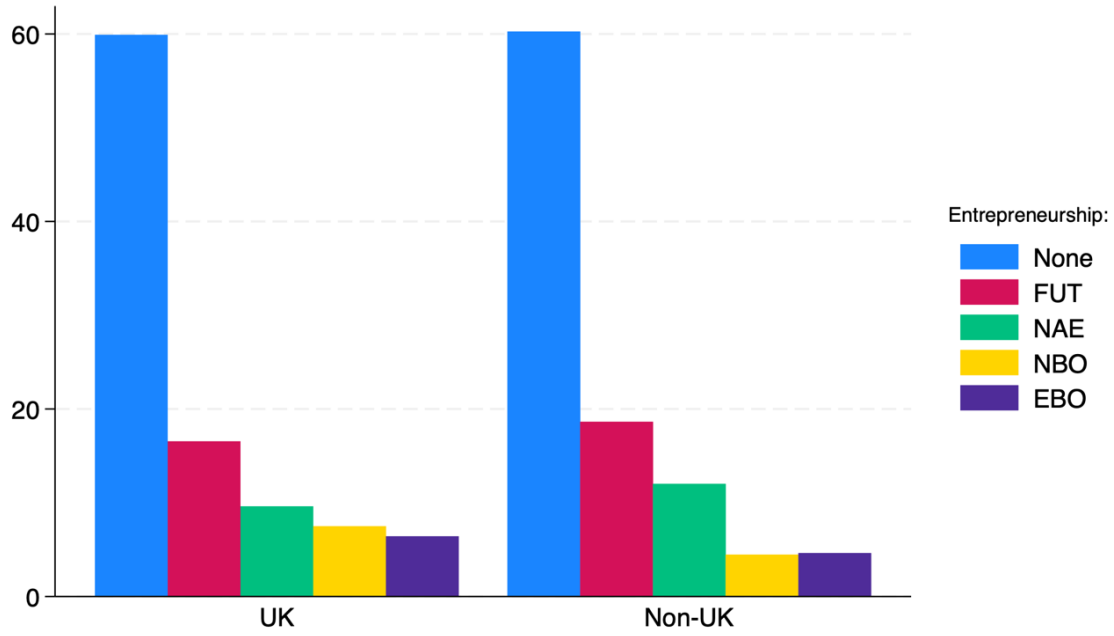
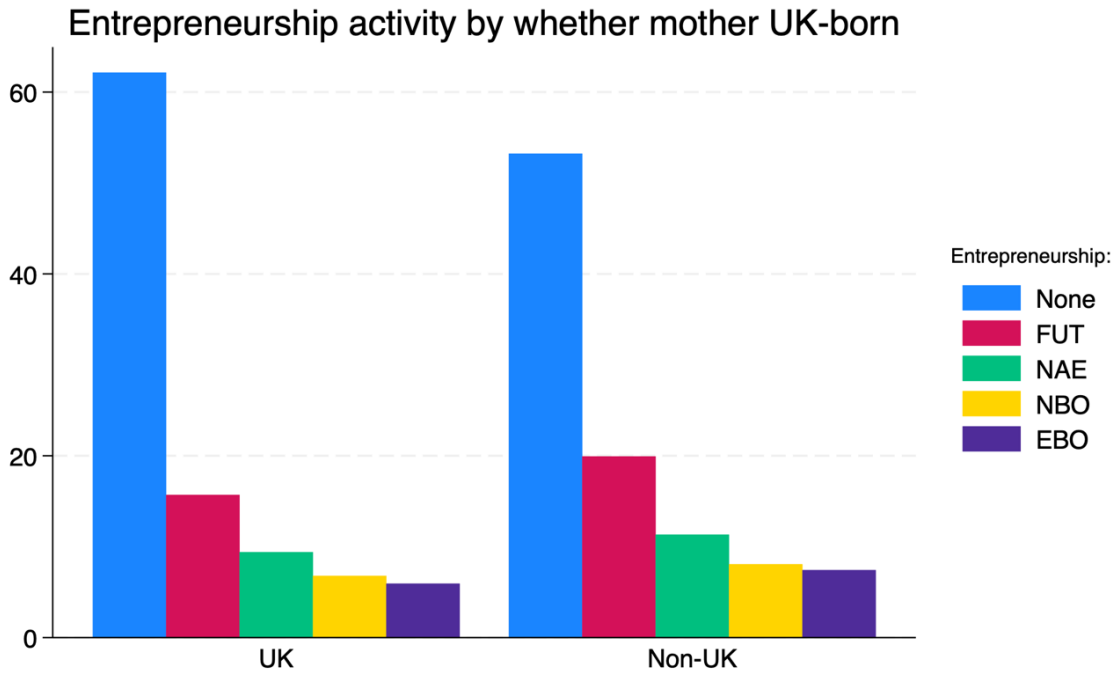


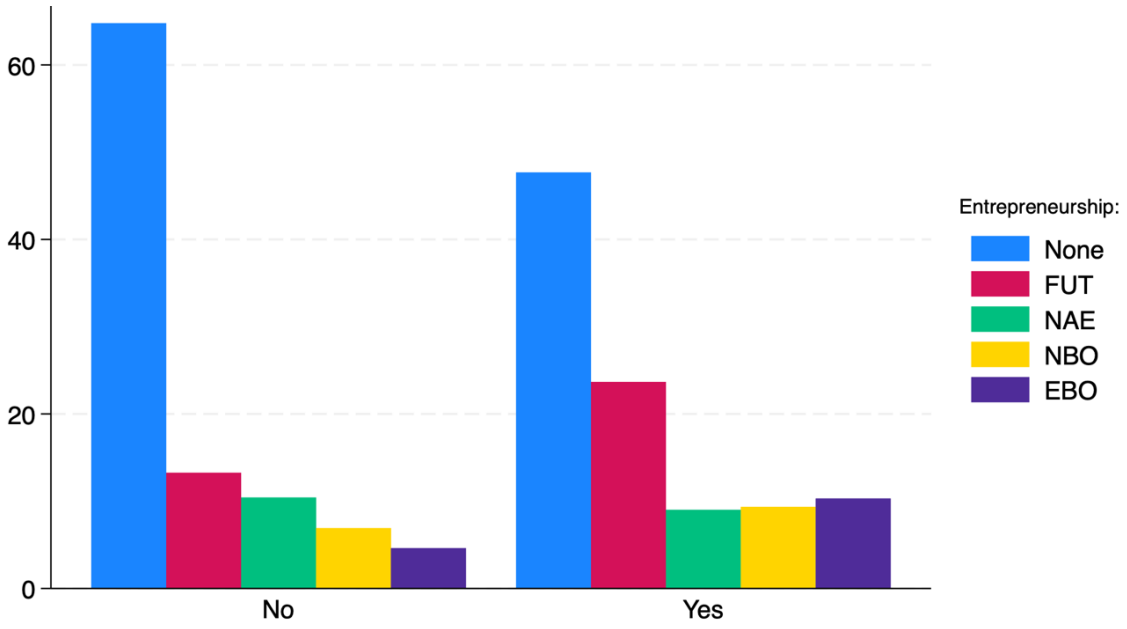
Figure 8: Entrepreneurship orientation among 18–30-year-olds by whether mother is UK-born, 2023



Unlike earlier results, there are few visible differences associated with being born abroad. Perhaps most revealing is that NAE is somewhat higher among respondents born outside the UK, but NBO and EBO rates are slightly lower than for the UK-born. This is suggestive of migrants being active in setting up businesses but struggling to keep those businesses going. More differentiating is whether the respondent's mother was born in the UK. Where this is the case, the respondent tends to be less positively inclined towards entrepreneurship. Those whose mothers were born outside the UK were less likely to report having no interest and were more likely to intend to start a business within the next three years.

Another parental influence is whether the respondent's father was self-employed (Figure 9). Where this is the case, there was more interest in entrepreneurship, including the intention to set up a business.

Figure 9: Entrepreneurship orientation among 18-30 year-olds by whether father is self-employed, 2023



Differences are starker when considering ethnic group (Figure 10). Sample sizes are such that it is not possible to be more granular than the division between White, Asian and 'Other'. Those in the white ethnic group show the least interest in becoming an entrepreneur, followed by Asian and then Other. Despite this, the proportion of white respondents intending to start a business is similar to that seen for Asian respondents. It is among the 'Other' group that the interest in setting up a business is strongest, nearly 30 per cent intending to do so within the next three years. The proportion who have already done so exceeds 30 per cent and is comparable to that seen for Asian respondents (and comfortably above the 20 per cent seen for White respondents).

Figure 10: Entrepreneurship orientation among 18-30 year-olds by broad ethnic group, 2023

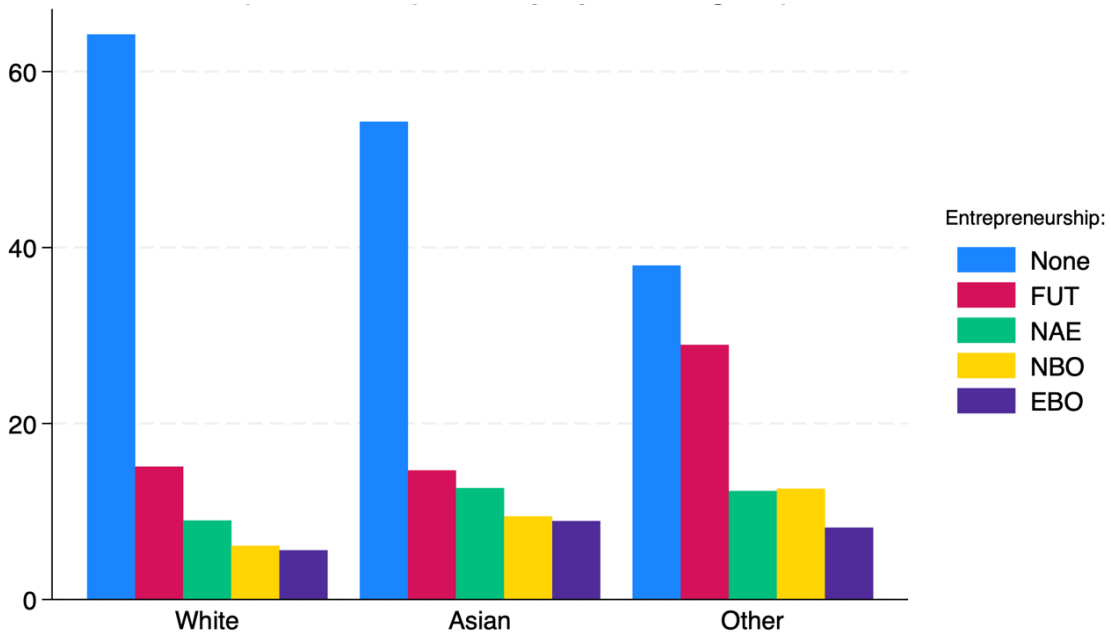
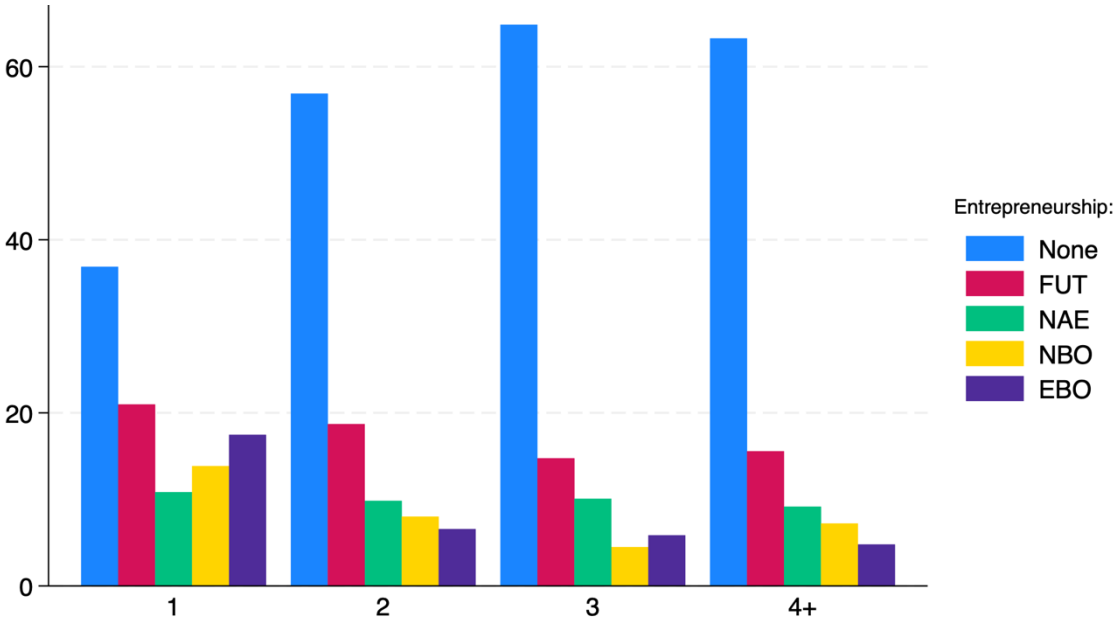


Figure 11 reveals that interest in entrepreneurship is strongest among those living alone. They are by far the least likely to report no interest and score highest for all other categories, including intending to set up a business.

Figure 11: Entrepreneurship orientation by number of adults in the household, 2023

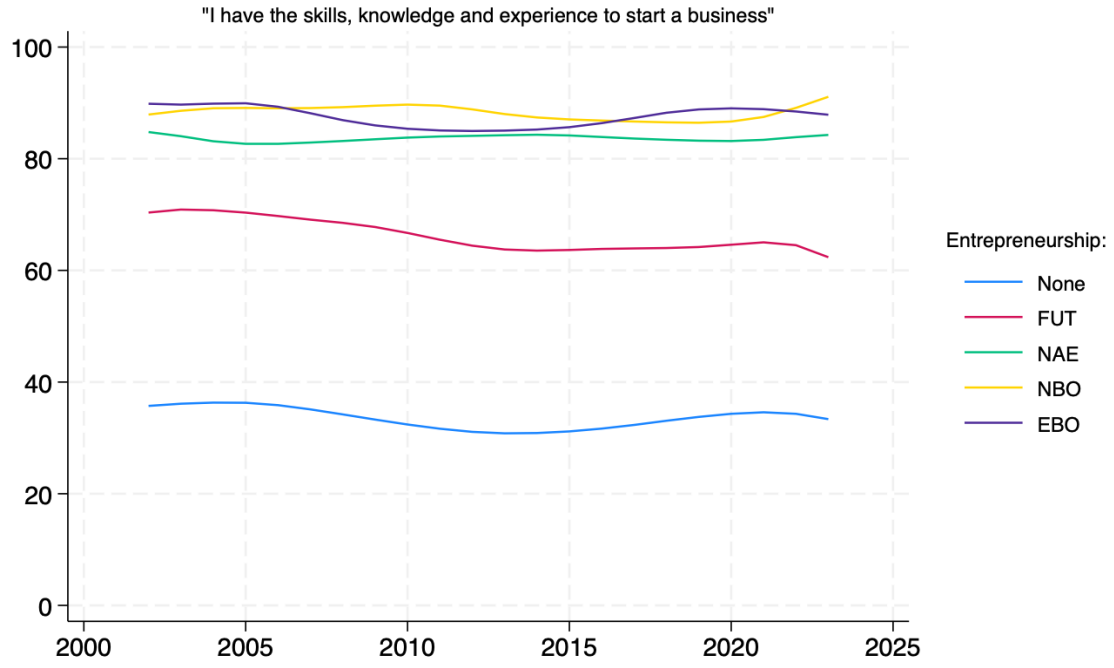


Trends in views on entrepreneurship among 18-30 year-olds

Mostly, the GEM survey has been conducted in a consistent form over time. This makes it possible to examine long-term trends in views towards entrepreneurship.[4] In this sub-section, we consider trends from 2002 to 2023.[5]

Figure 12 shows that respondents' assessments of whether they have the required skills to start a business have remained relatively stable over time. Furthermore, they make intuitive sense; those who have started a business (NAE, NBO, EBO) mostly believe that they have the skills, while those who have no interest in starting a business are least likely to believe they have such skills. Those planning on starting a business within the next three years occupy a middle position, with roughly two-thirds believing they have the necessary skills.

Figure 12: percentage of respondents who report having the skills and experience to start a business by entrepreneurship orientation, 2002-23

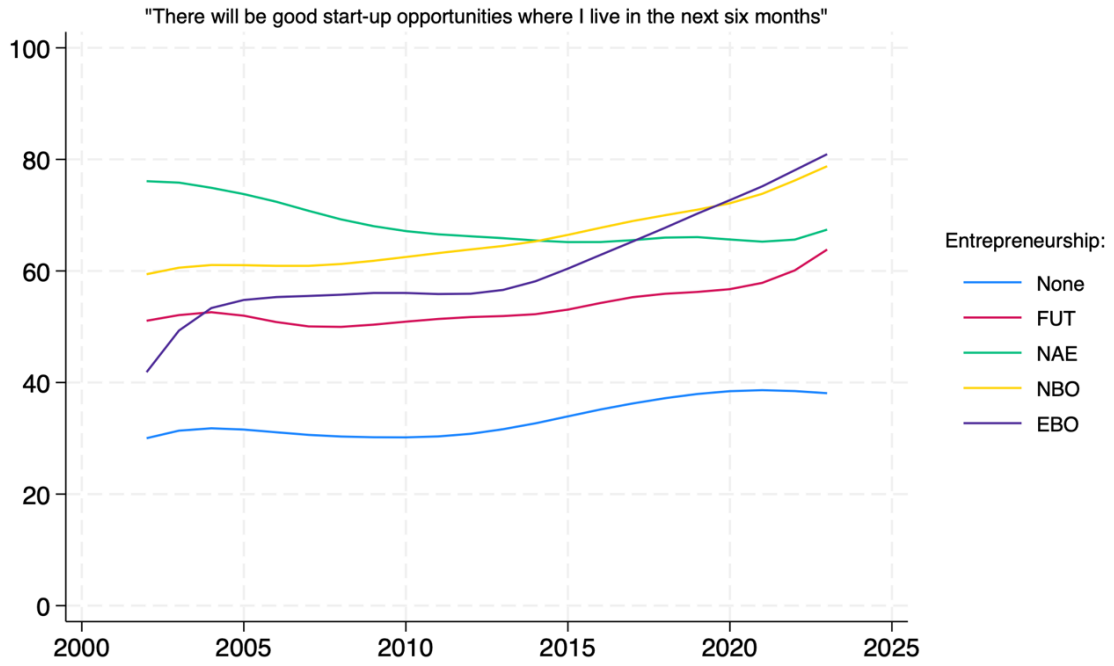


[4] The format of questions asked of respondents changed in 2019. The possible effect of this is shown in the Annex, which focuses on 2023 respondents.

[5] As with all trends considered in this subsection, the graphs show a smoothed relationship in order to focus on the overall patterns rather than the year-on-year fluctuations arising in part from small sample size.

Figure 13 shows the proportion of respondents who feel that there are currently good opportunities to start a business near where they live. Those with no interest are least likely to see such opportunities. For those intending to start up a business (FUT), a marked post-COVID increase is evident. Nascent entrepreneurs have become less likely over time to see start-up opportunities, but for other business owners, the perception of opportunities has followed a long-term upward trajectory.

Figure 13: Percentage of respondents who see good start-up opportunities locally in the next six months by entrepreneurship orientation, 2002-23



A more concerning trend is that the tendency to report fear of failure as the reason for not wanting to start a company has grown steadily (Figure 14). Making sense of this is not straightforward, but it may reflect increasing uncertainty felt by businesses and the position entrepreneurs would be in should their start-up be unsuccessful. Nevertheless, the increase is striking and important to understand.

Despite this, the proportion of respondents who personally know someone who has recently started a business has also grown over time. Figure 15 shows that this is true regardless of orientation towards entrepreneurship. It is notable that the proportion is consistently much lower among those with no interest. This points to possible peer and network effects and could suggest the lack of interest might be due to low levels of familiarity and perceived relevance to the respondent's own situation.

Figure 14: Percentage of respondents for whom fear of failure would prevent them from starting a business by entrepreneurship orientation, 2002-23

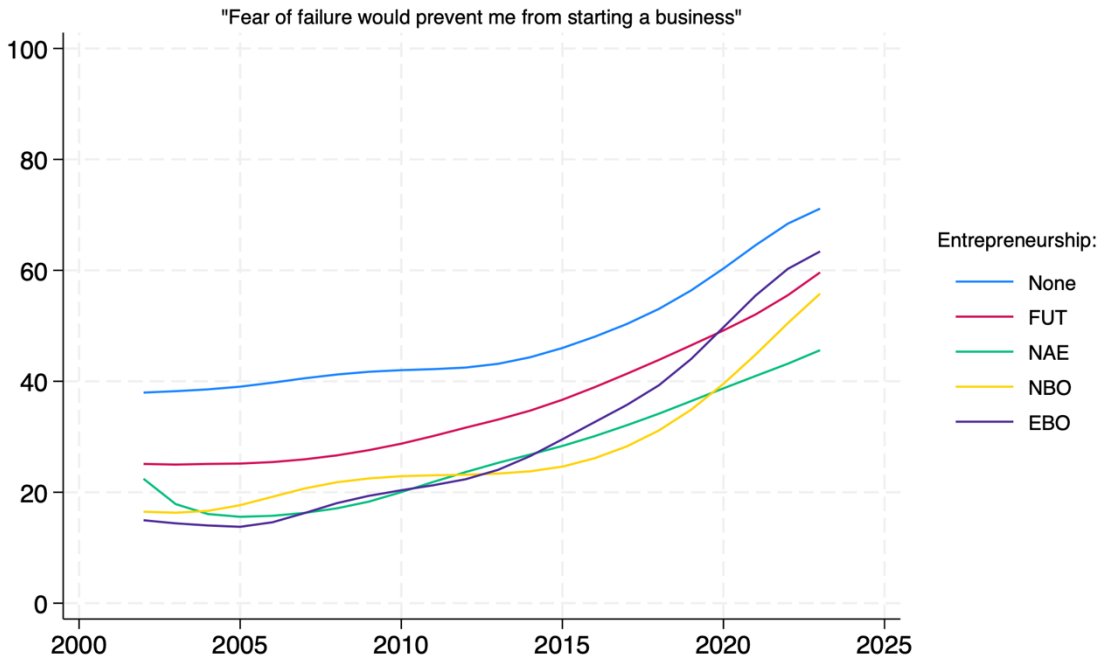
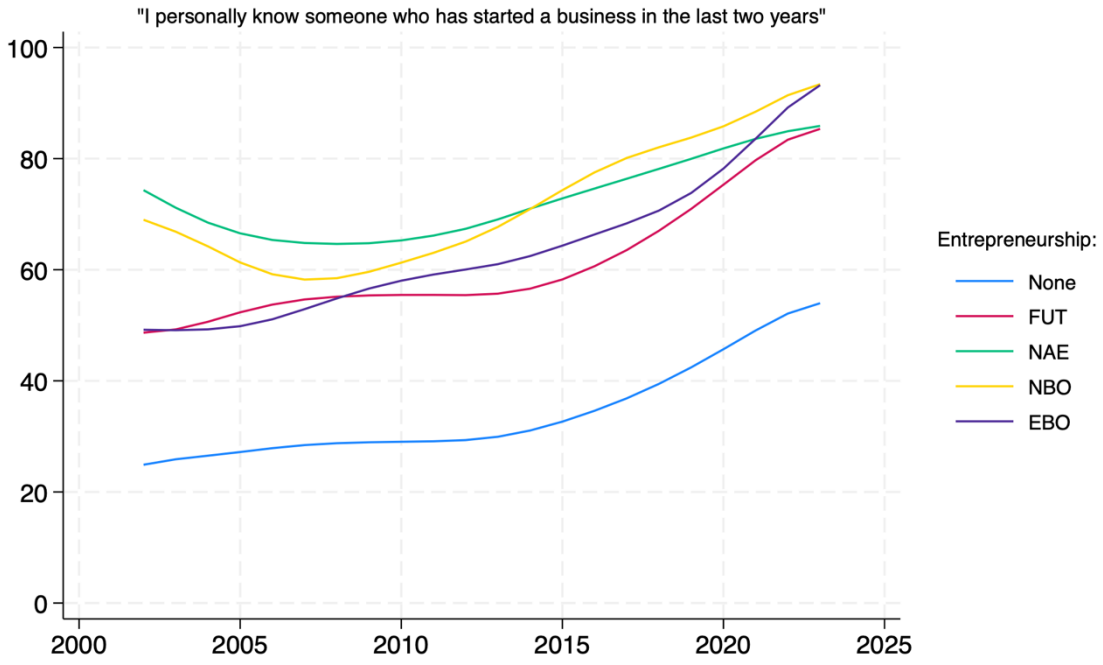
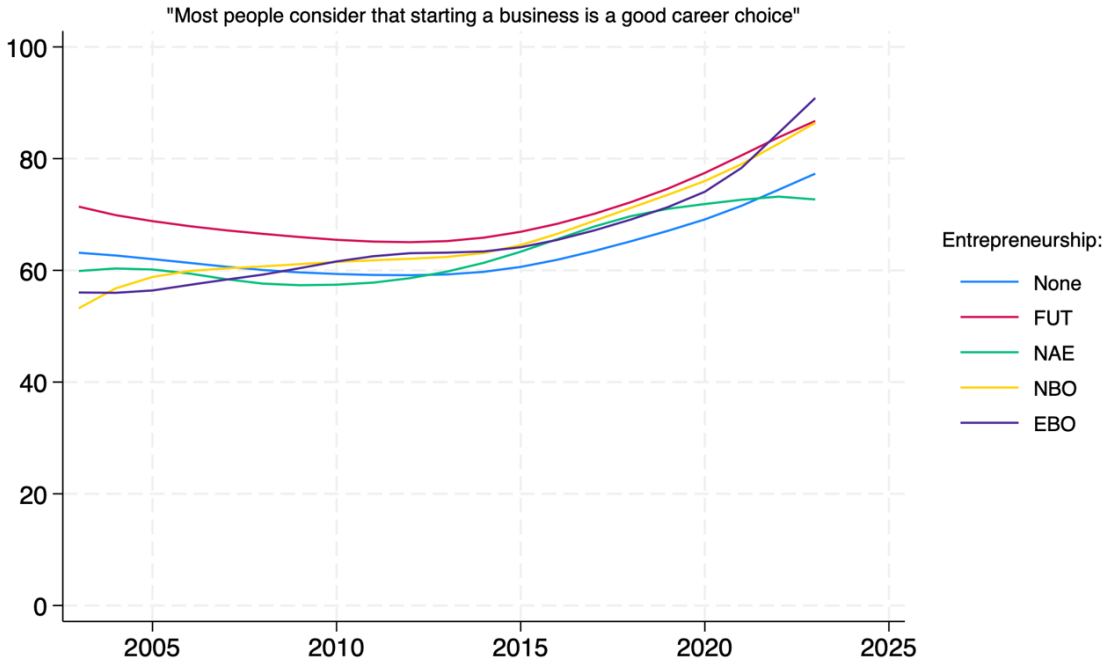


Figure 15: Percentage of respondents who know someone who has started a business in the last two years by entrepreneurship orientation, 2002-23



Starting a business is often held in high regard. Even among those with no interest in doing so, close to 80 per cent believe it is generally viewed as a desirable career choice (Figure16).

Figure 16: Percentage of respondents who feel that most people consider starting a business is a good career choice by entrepreneurship orientation, 2002-23



It is important to interpret answers to this question appropriately. Respondents are not necessarily saying that they themselves view it as a good career choice, still less that they view it as a good career choice for them. Rather, it speaks to their assessment of how it is viewed in the population at large.

On this basis, there has been an improvement over time in the image of entrepreneurship. Even more emphatic is the feeling that successful entrepreneurs enjoy a high level of status and respect (Figure 17).

Regardless of respondents' orientation towards entrepreneurship, this is a widely-held view. Figure 18 provides evidence of the growing media visibility of entrepreneurs. This is a long-standing trend, beginning in about 2010.

Figure 17: Percentage of respondents who agree that individuals who successfully start a business have a high level of status and respect by entrepreneurship orientation, 2002-23

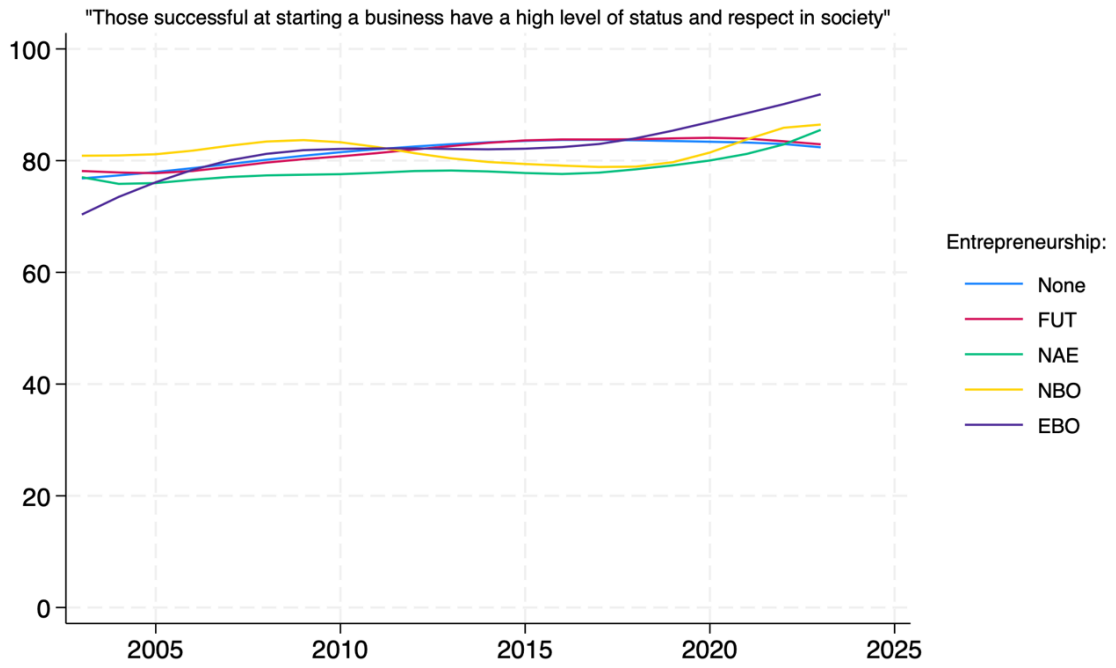
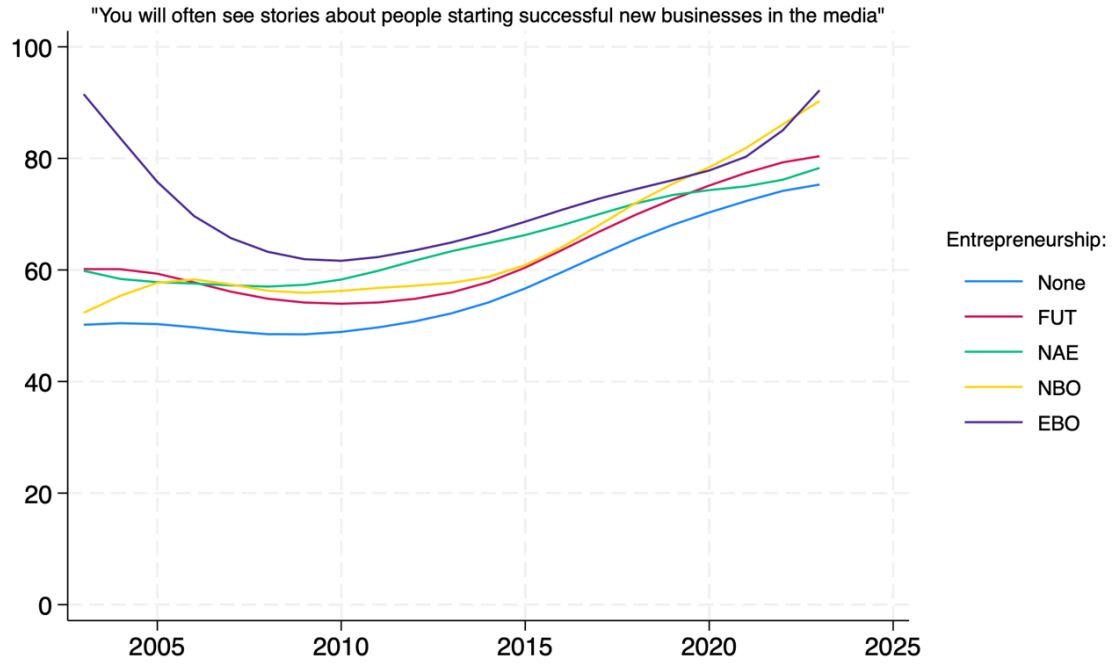


Figure 18: Percentage of respondents who agree that individuals who successfully start a business are often reported in the media by entrepreneurship orientation, 2002-23



International comparison of 18-30 year-olds' views on entrepreneurship, 2023

A major strength of GEM is that it conducts consistent surveys across multiple countries. To place the UK in a broader context, this sub-section compares against the US (the world's largest economy), Germany (DE – Europe's largest economy) and the Netherlands (NL – the highest-scoring European country on the basis of GEM's National Entrepreneurial Context Index).[6] Results are presented for all groups, but we note that the sample numbers in the comparator companies are substantially smaller than in the UK, with the consequence that the results for established business owners are based on fewer observations (between 20 and 30) and are therefore less reliable.

Figure 19 shows that respondents in the UK are less likely than those in the US or the Netherlands to view starting a business as being easy. They are more likely than those in Germany to believe it is easy to start a business, although this difference levels out among respondents with a business at any stage (NAE, NBO). Despite this, concern about having the skills to start a business does not seem to be a particular issue in the UK relative to the comparator countries (figure 20). Respondents rival the US in their confidence in this regard and comfortably exceed the levels seen in the Netherlands and Germany.

Figure 21 shows that among those with little interest in or experience of entrepreneurship (the None, FUT and NAE groups), the Netherlands stands out as having the highest perceived level of start-up opportunities.

Figure 22 presents an important result. Fear of failure is more likely to deter young people in the UK from starting a business than is the case in the Netherlands and Germany. The US case is closer to the UK, but still lower across all groups.

Figure 23 shows that most people in the UK know someone who has started a business. In common with other countries, this proportion increases the greater the respondents' inclination towards self-employment.

[6] https://www.gemconsortium.org/news/global-entrepreneurship-monitor-releases-ranking-of-countries-for-conditions-to-start-a-business

Figure 19: International comparison of percentage of respondents who view starting a business as easy, 2023

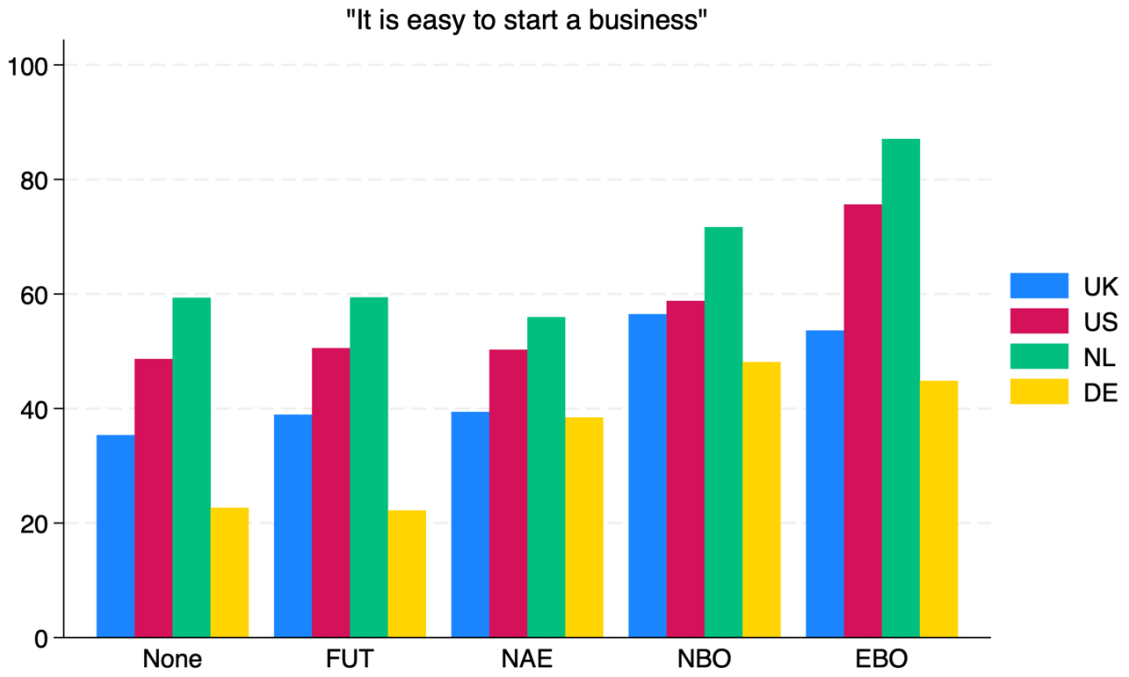


Figure 20: International comparison of percentage of respondents who report having the skills and experience to start a business by entrepreneurship orientation, 2023

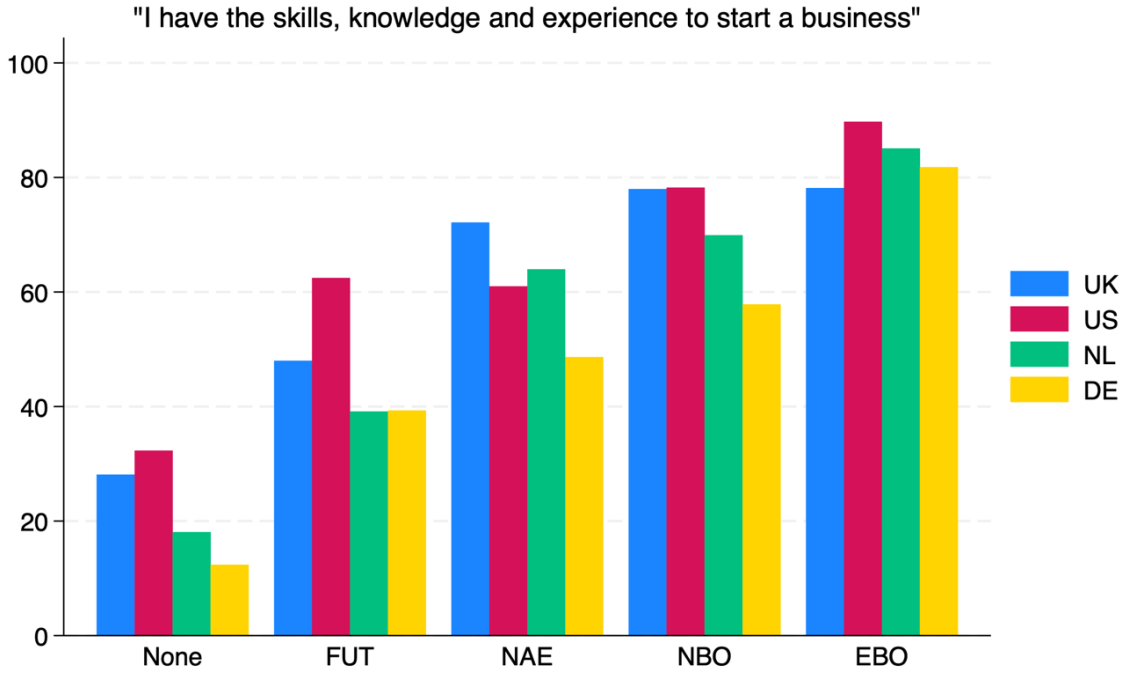


Figure 21: International comparison of percentage of respondents who see good start-up opportunities locally in the next six months by entrepreneurship orientation, 2023

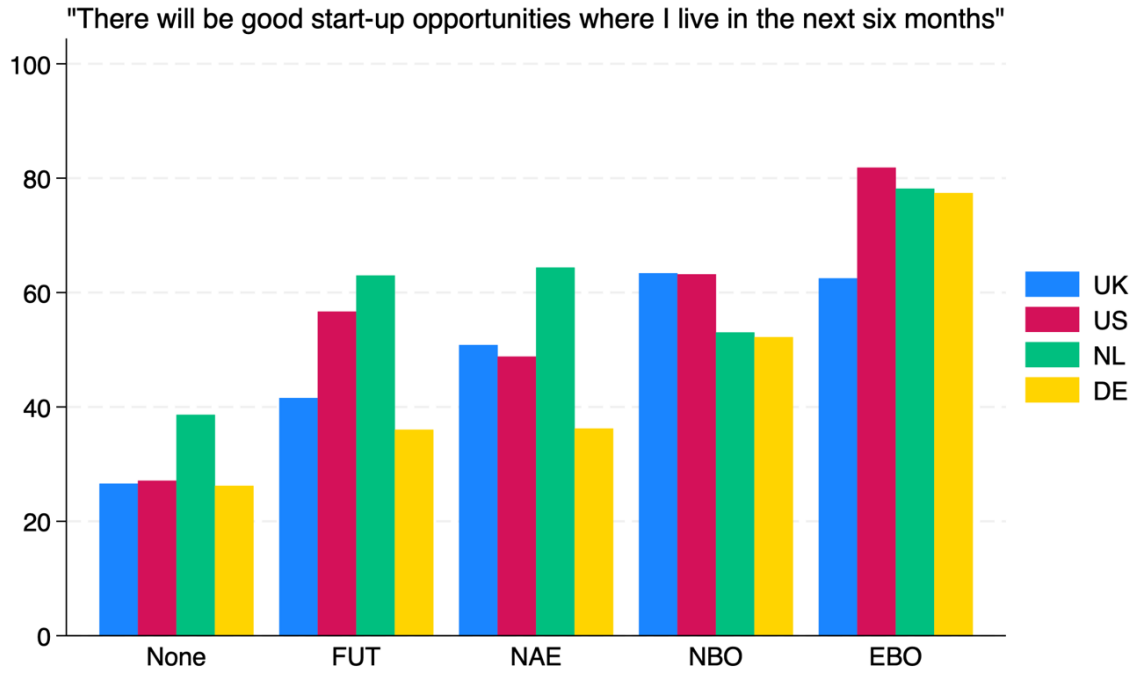


Figure 22: International comparison of percentage of respondents for whom fear of failure would prevent them from starting a business by entrepreneurship orientation, 2023

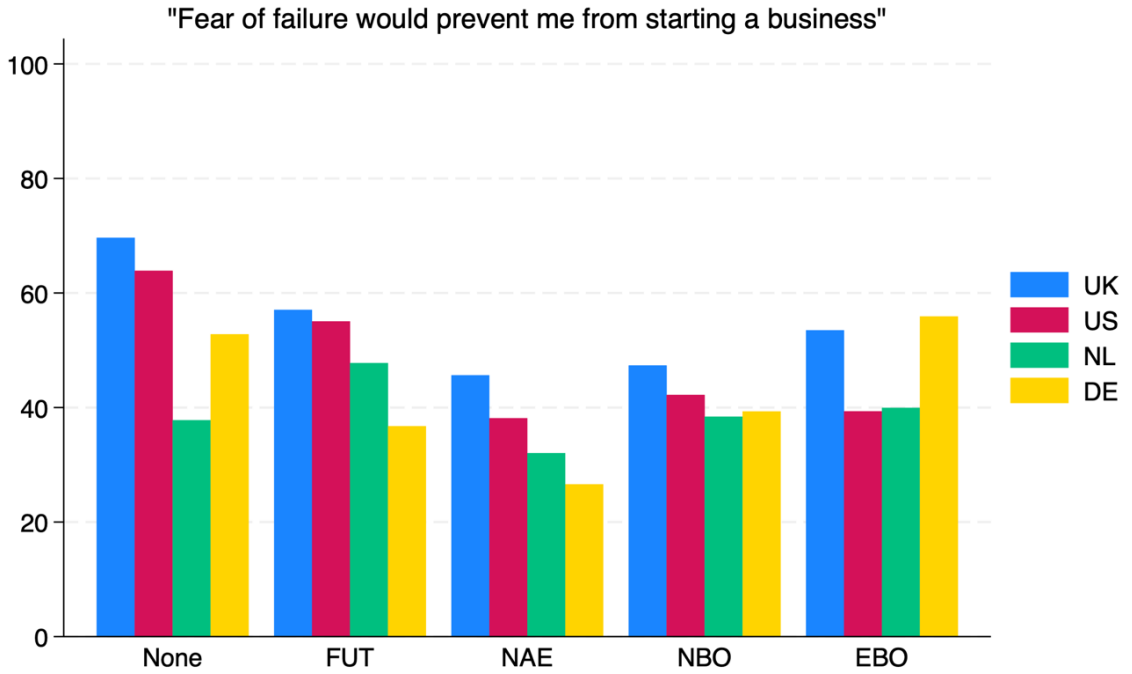
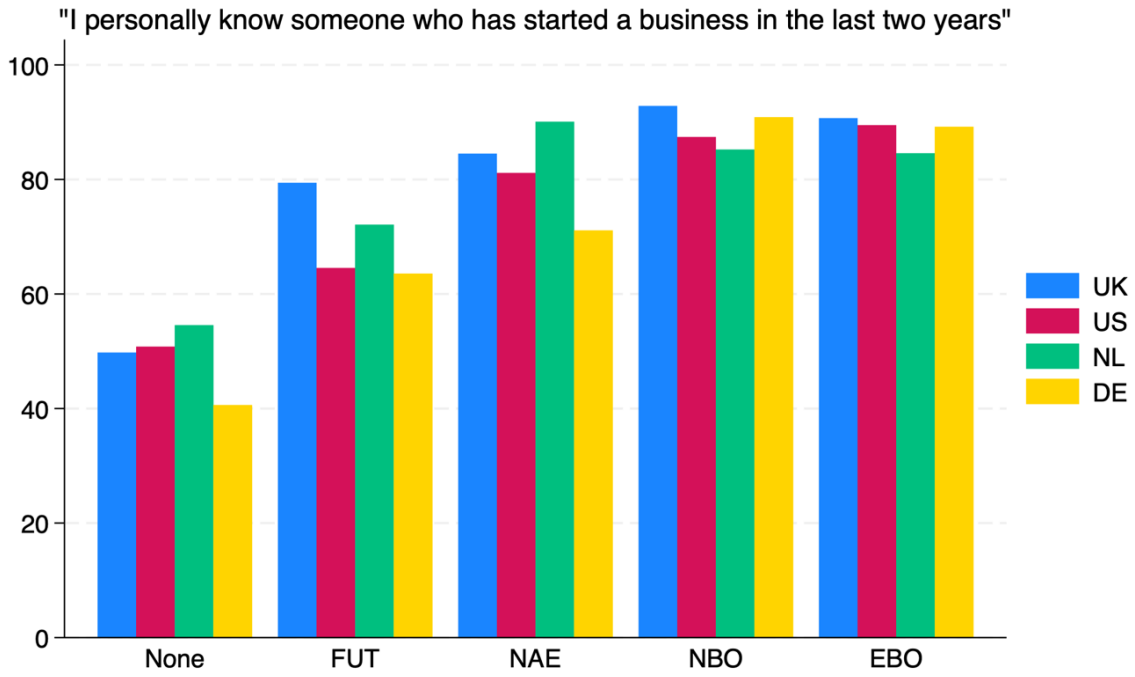


Figure 23: International comparison of percentage of respondents who know someone who has started a business in the last two years by entrepreneurship orientation, 2023



The remaining results exclude the Netherlands due to missing information.

It is evident from Figure 24 that UK respondents are similar to US respondents in having the impression that starting a business is generally perceived as a good career choice. This is in marked contrast to Germany, where that appears less often to be the case.

Figure 25 asks the related question of whether respondents feel that entrepreneurs have high status. Interestingly, while in the UK and the US the responses resemble those in figure 24 for the None and FUT groups, in Germany the levels are much higher and in fact exceed those of the UK and US. Perhaps this reveals an admiration for those who persevere against the odds?

Lastly, figure 26 points to international differences in media coverage of successful entrepreneurs. Among the None, FUT and NAE groups, such success appears to be celebrated most in the US and the least in Germany.

Figure 24: International comparison of percentage of respondents who feel that most people consider starting a business is a good career choice by entrepreneurship orientation, 2023

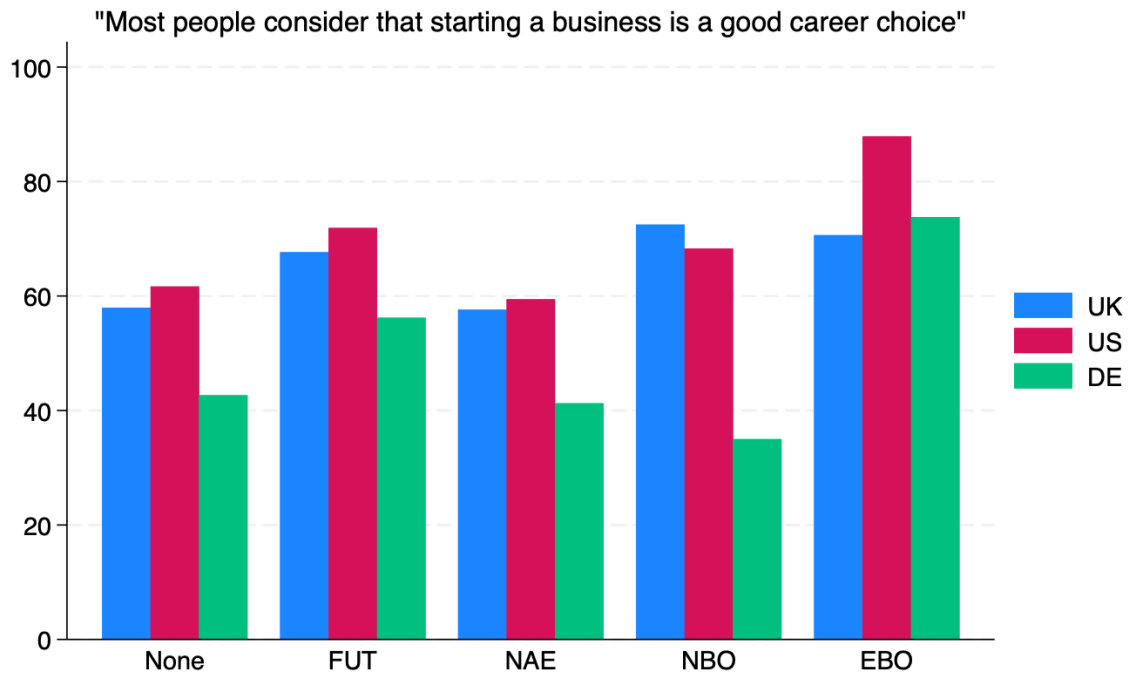


Figure 25: International comparison of percentage of respondents who agree that individuals who successfully start a business have a high level of status and respect by entrepreneurship orientation, 2023

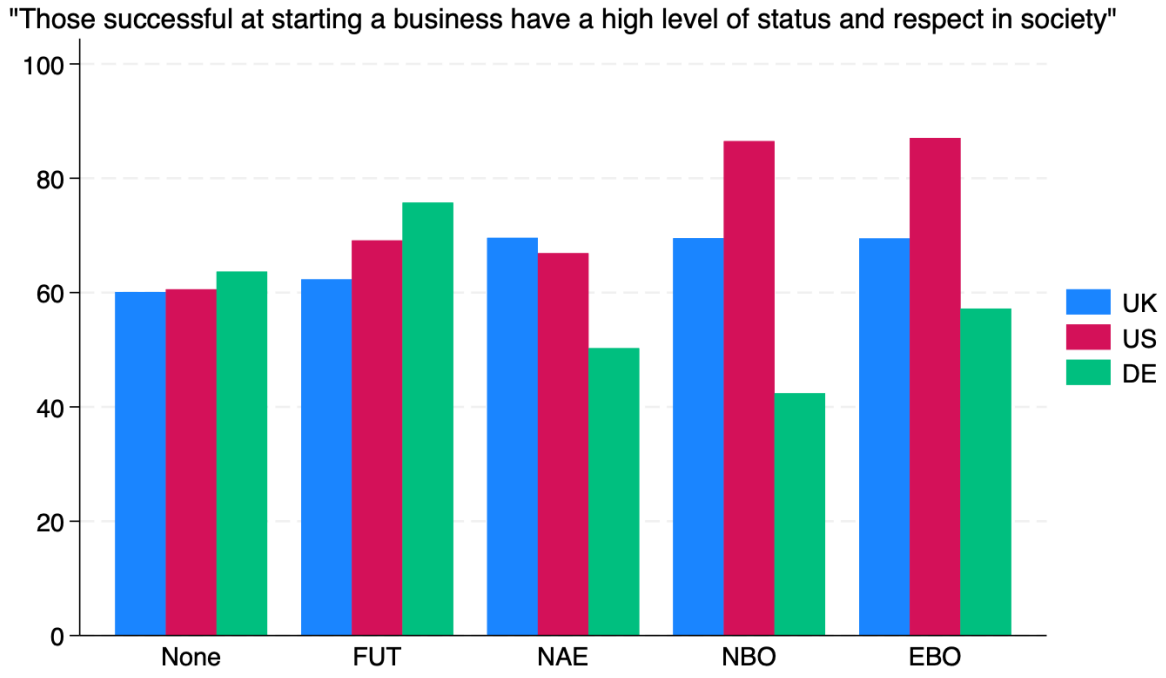
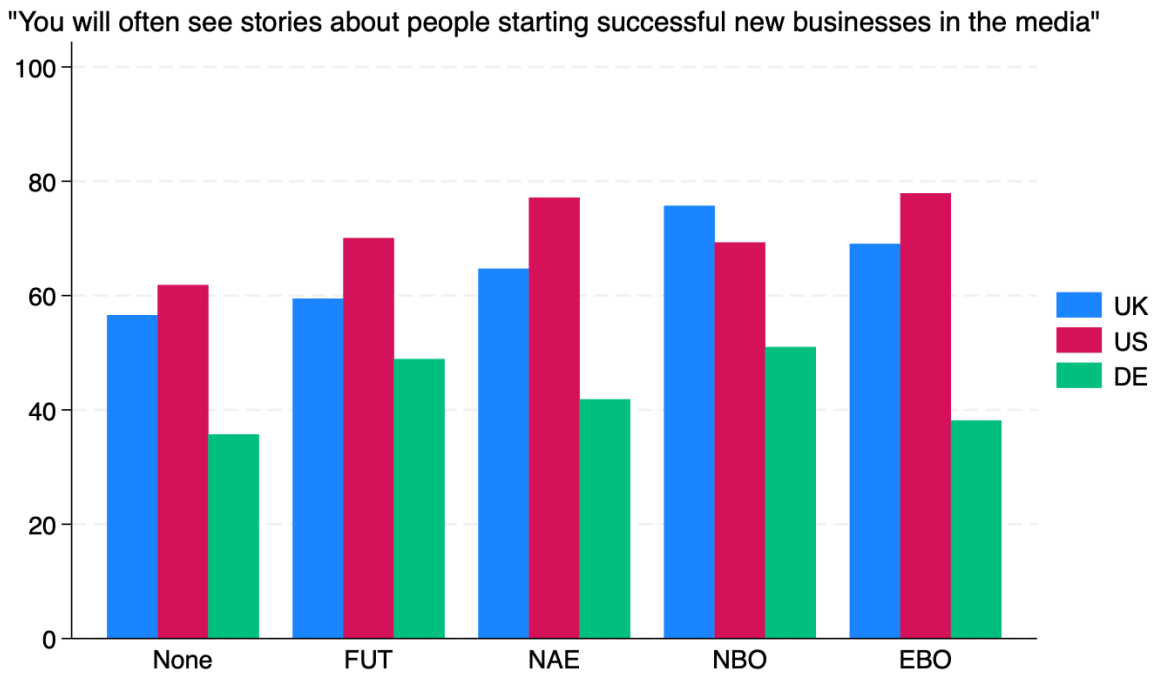


Figure 26: International comparison of percentage of respondents who agree that individuals who successfully start a business are often reported in the media by entrepreneurship orientation, 2023



Chapter 4: Starting up as self-employed

This section focuses on individual post-school labour market trajectories and, in particular, how self-employment features within this. It uses data from both LEO and Next Steps. LEO has the advantage of capturing a full population cohort. Self-employment is only identified from tax year 2013-14 onwards. To be able to observe self-employment from school-leaving age onwards, we therefore base our analysis on individuals completing key stage 4 in 2014. The implication of this is that individuals are only tracked until age 23. We can look at longer-term aggregate outcomes by considering earlier cohorts. However, these longer-term outcomes are based on different individuals. To look at longer-term outcomes for a single cohort of young people requires Next Steps, which follows an earlier key stage 4 cohort (2006) and allows outcomes to be observed up to age 32.

We begin by looking at changes in the proportion of self-employed as cohort members get older. With LEO data, we only know whether someone was self-employed at any point during a tax year rather than their dates of self-employment. We therefore construct annual indicators. With Next Steps, we can instead construct monthly indicators of education and labour market activity status, and we use this as the basis for identifying typical trajectories that involve self-employment.

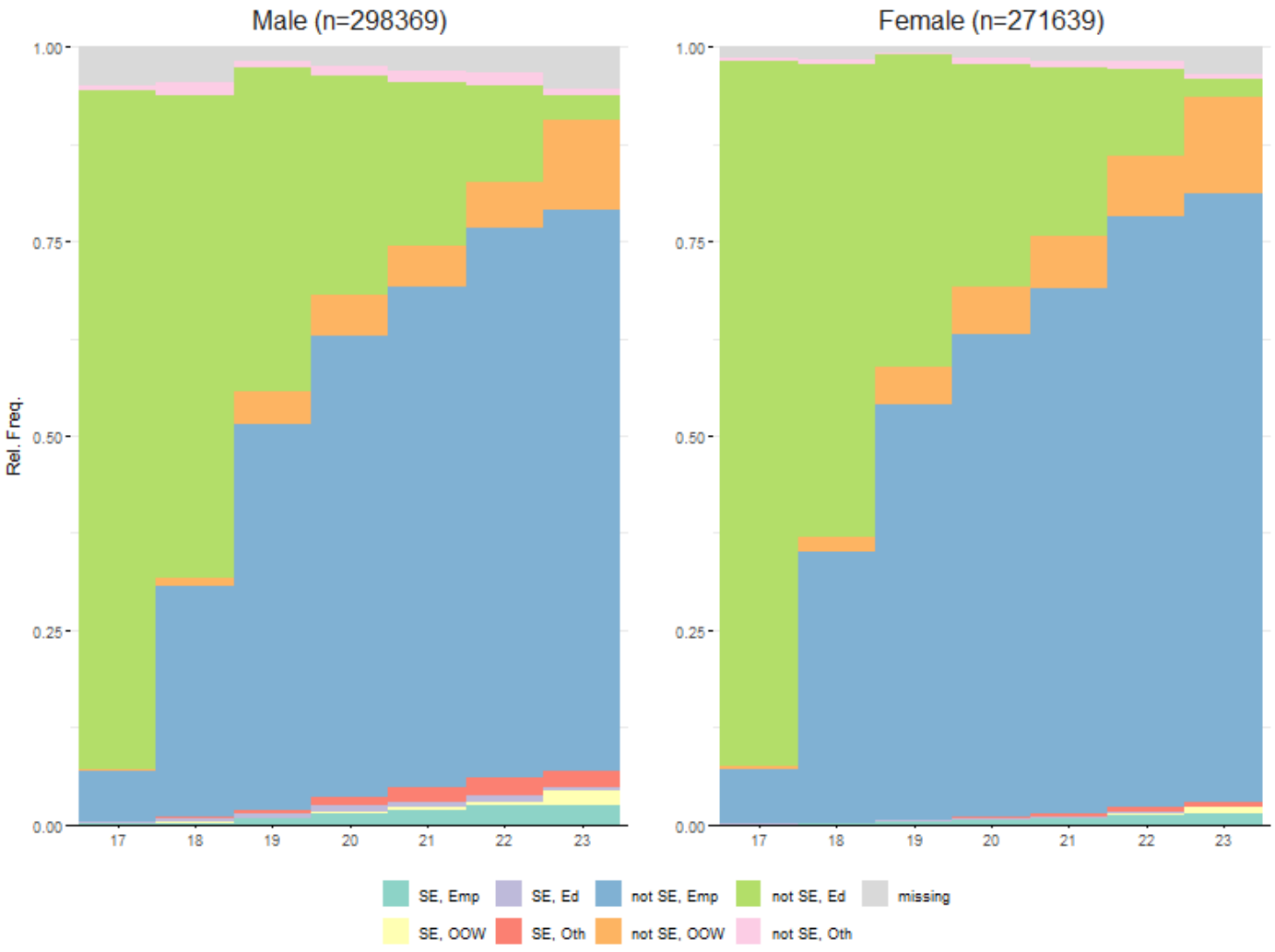
Distribution of activity sequences

Figure 27 shows how self-employment grows over time for the 2014 KS4 cohort in the LEO data. This is shown separately for females (left panel) and males (right panel). Individuals are classified according to the activity that appears dominant over the course of the year in terms of accounting for the largest number of days. This might be employment, education, out-of-work benefits or 'other' (a residual category). They may also report that they are self-employed, but in this case, it is not possible to observe how many days are spent in that state. We therefore construct combined states: the four states already listed, both with and without self-employment. In other words, a label such as 'SE, Emp' indicates that an individual's primary activity is employment (in the sense of accounting for the largest number of days over the course of the year) while also earning from self-employment.

The pattern visible is broadly as expected. Education remains the dominant activity up to age 18. Beyond that, employment quickly grows, although a fairly consistent proportion of young people remain on out-of-work benefits. States involving self-

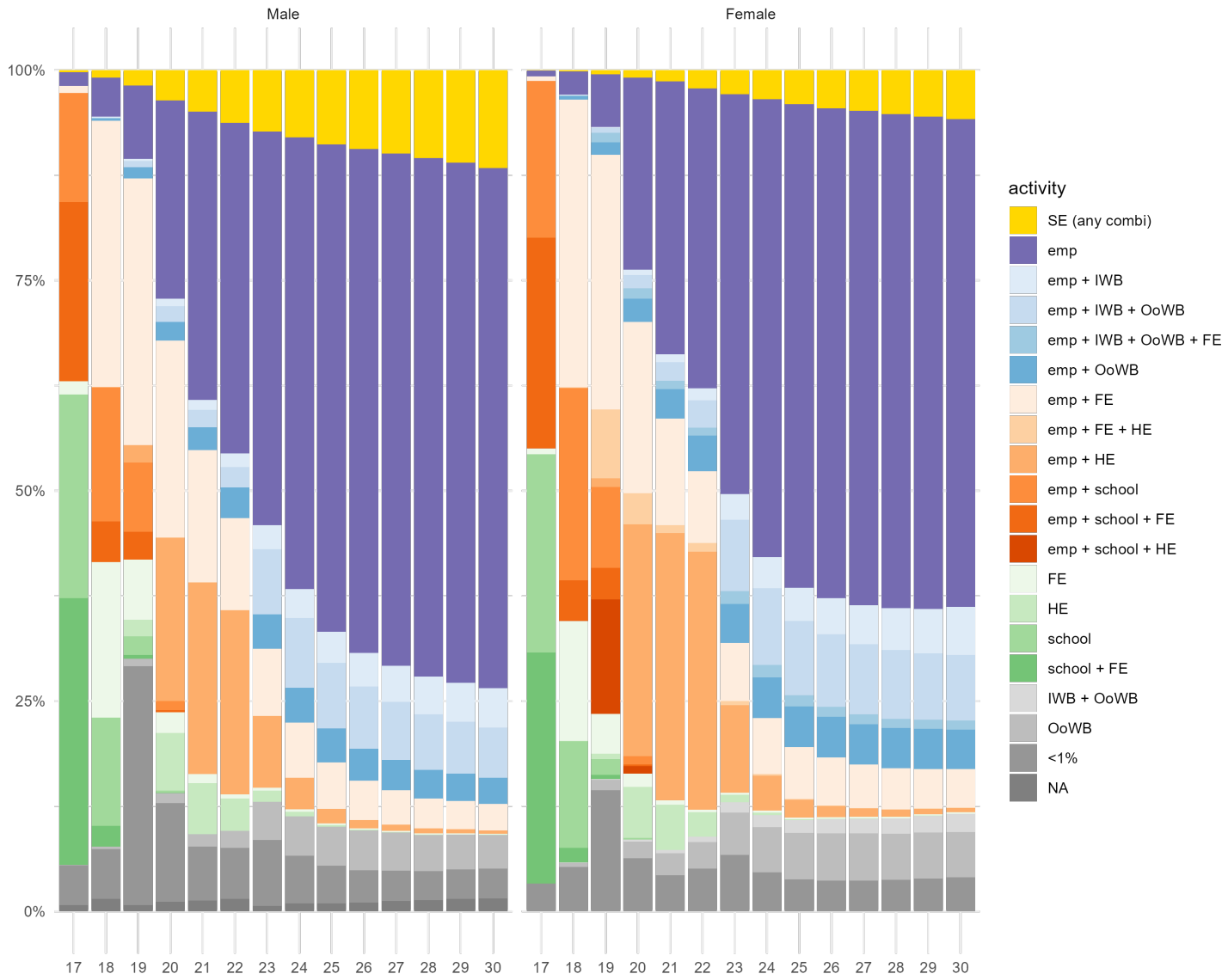
employment are almost entirely absent initially but grow over time, particularly for males. By age 23, 2.8% of females were self-employed, most often in combination with employment. For males, rates were noticeably higher at 6.9%. Self-employed males were roughly equally likely to also be employed, to be receiving out-of-work benefits or to have self-employment as their only recorded activity.

Figure 27: Distribution of activities to age 23 by gender



Although the 2014 cohort can currently only be tracked to age 23, we can estimate the continued progression beyond this point by using the 2021 outcomes for earlier cohorts. For example, outcomes in 2021 correspond to age 24 outcomes for the 2013 cohort, age 25 outcomes for the 2012 cohort, and so on. Figure 28**Figure 28:** uses these earlier-cohort results to show the estimated self-employment rate for the 2014 cohort over the longer term. It suggests that by age 30, 11.7% of men and 5.6% of women are self-employed.

Figure 28: Distribution of activity by gender - collapsed SE



Often this will be combined with some other activity, particularly for women. For self-employed men, 38% had no other status in 2021, compared with 29% for women. The most common combination was to be both self-employed and an employee. This was the case for 36% of self-employed men and 52% of self-employed women (Figure 29).

Figure 29: Distribution of activity by gender - conditional on ever being SE

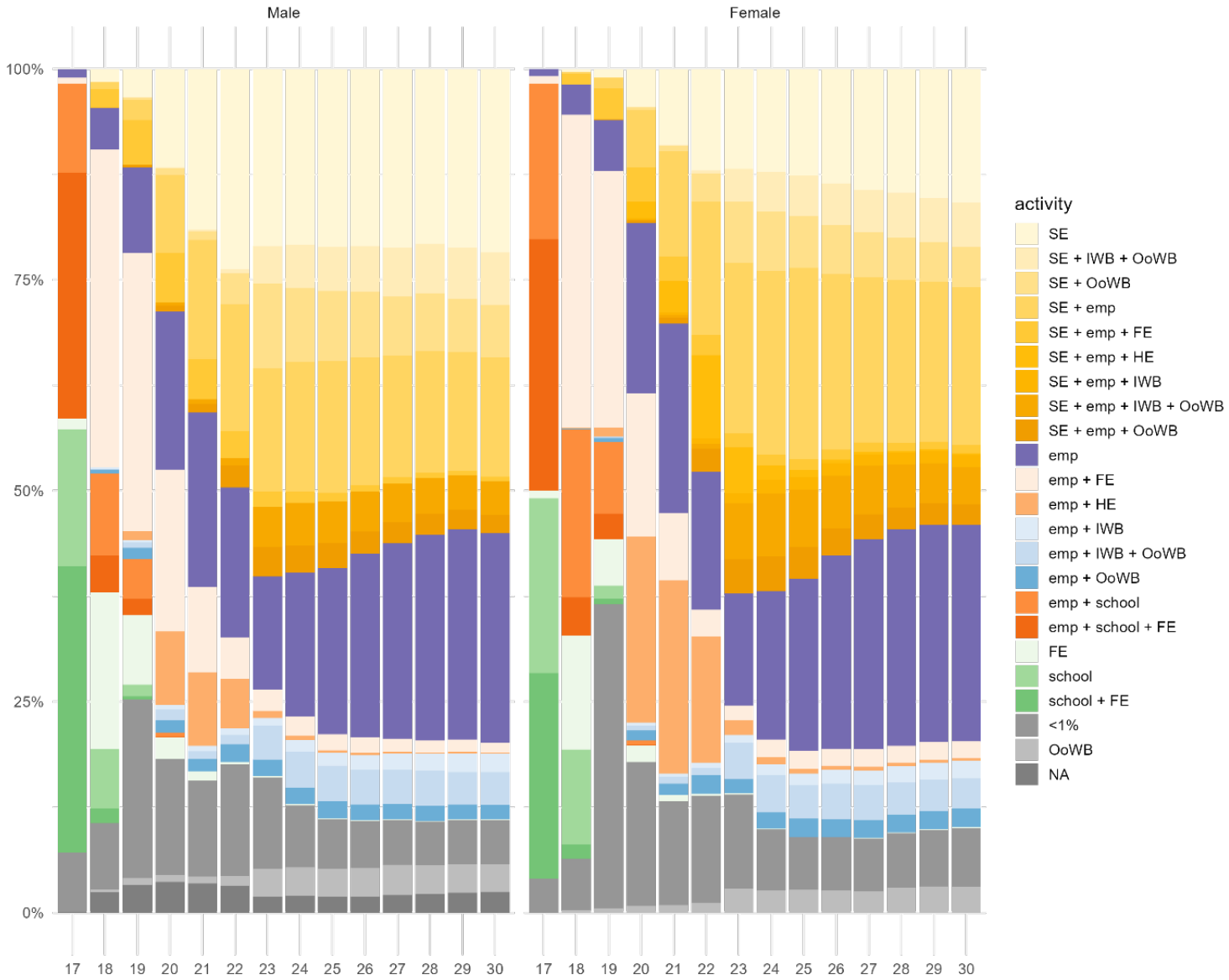


Figure 30 narrows the focus to individuals who were ever self-employed by the age of 23 and shows their year-on-year transitions as an index plot. These plots show histories over the seven years considered, with each row corresponding to specific individual. They allow the evolution of the patterns seen in Figure 27: to be understood.

For females, the biggest self-employment category at age 23 – those who combine self-employment with a job as an employee – originates from individuals who were previously either employed without also being self-employed or self-employed alongside employment. Hence, this group mostly has some employment experience. Those who record self-employment at age 23 but also receive out-of-work benefits are drawn from a much wider range of previous activities. Those solely self-employed ("SE, Oth") will mostly have also been self-employed at age 22. This adds to the impression that self-employment as a status can offer some stability. However, we also see that there are instances of combining self-employment and employment, only to later be employed only. What is less common is for those who are solely self-employed to later combine self-employment with another activity (other than claiming an out-of-work benefit). For males, the pattern is broadly similar, despite the greater tendency to be self-employed without also being employed. The index plot likewise shows a larger share of 'SE only' among men by age 23, reflecting the higher sole self-employment rates we observe elsewhere in the data.

Figure 30: Index plot by gender

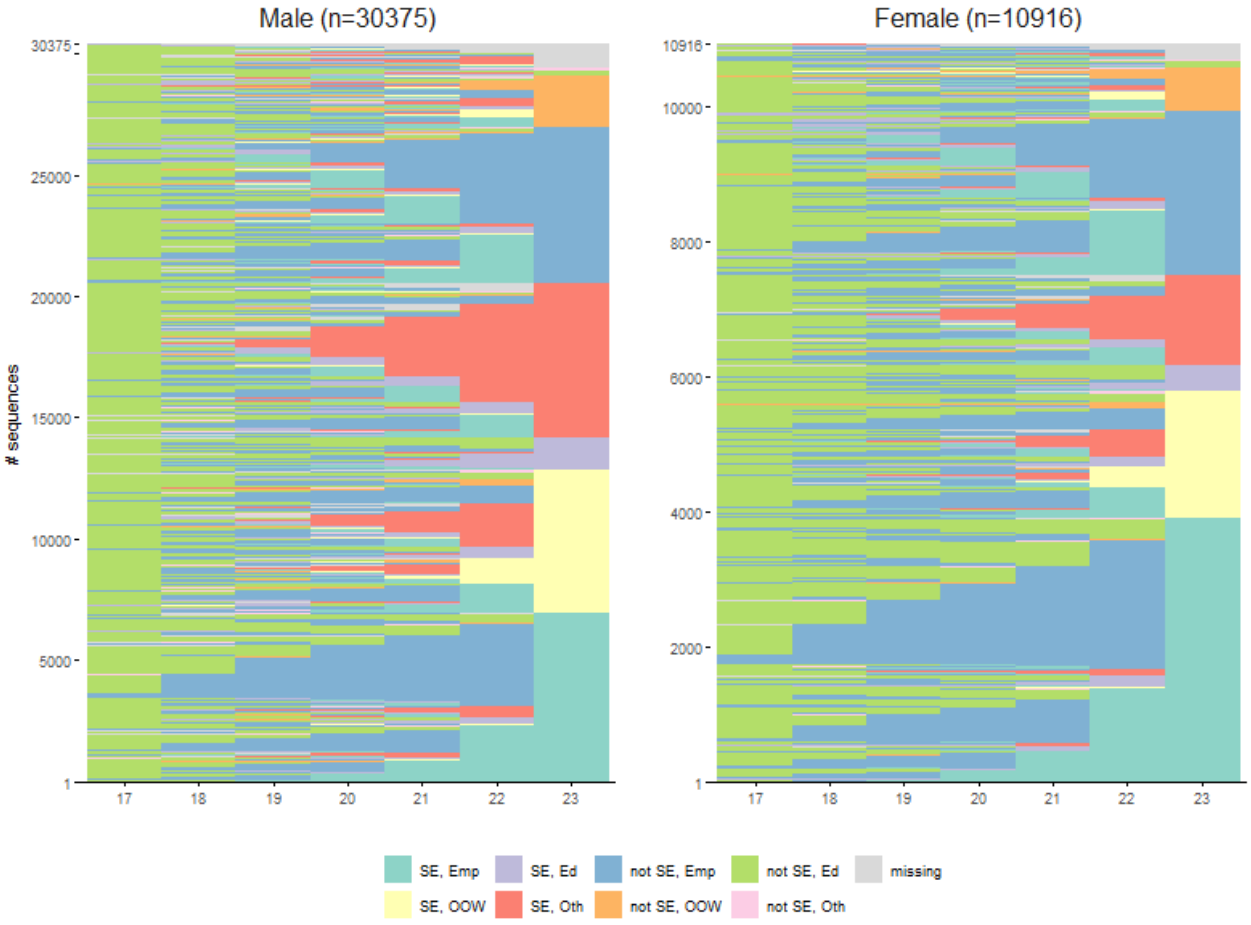
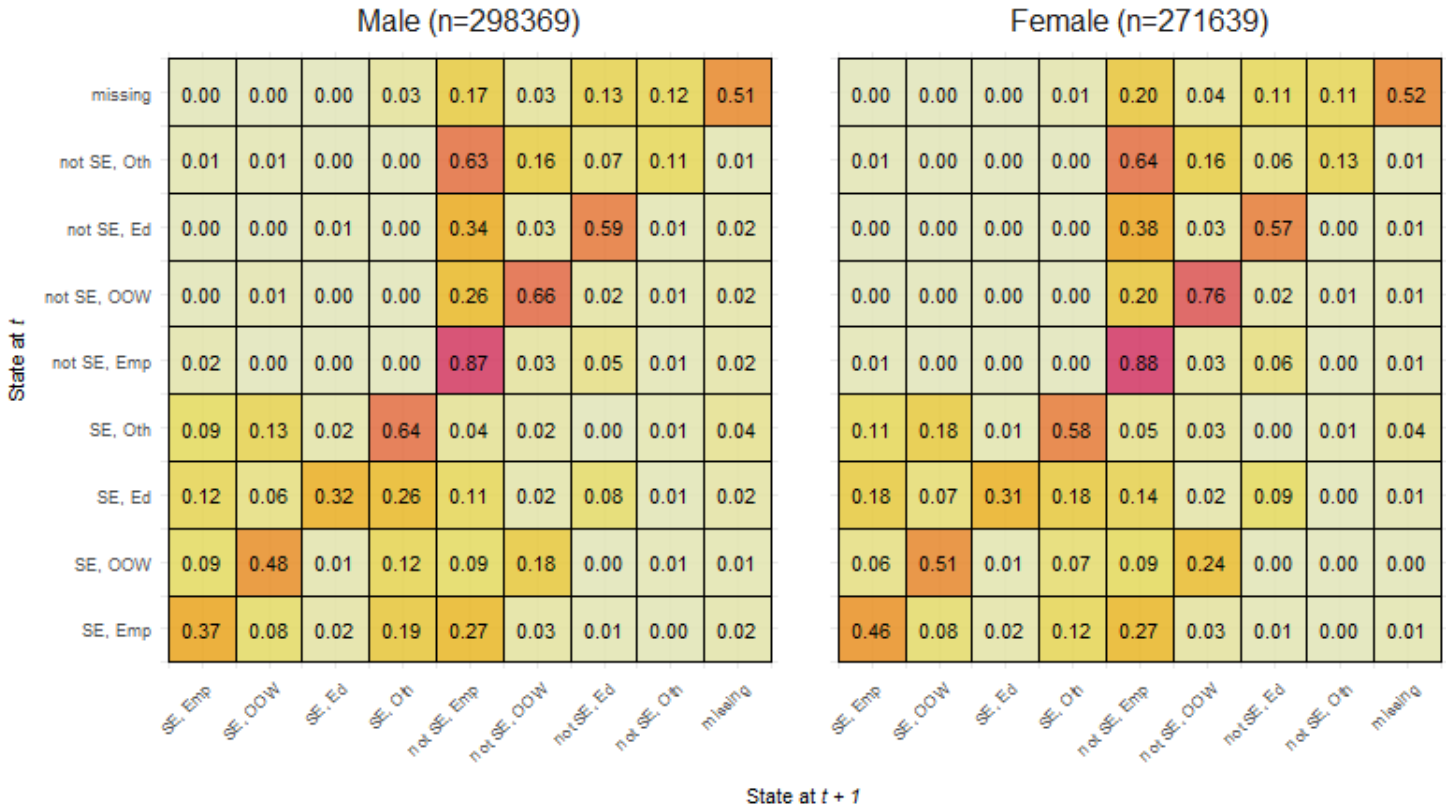


Figure 31 shows the amount of movement between states year on year up to age 23. The rows correspond to the origin states. The figures on the lead diagonal give an impression of how stable a state is, showing the proportion of individuals who remain in the same state on average. Cells are shaded according to the numbers in the cells, so darker cells indicate that transitions from the row state to the column state are relatively common.

Figure 31: Transition probabilities



Looking across both tables, the most stable state for both males and females is to be employed, without any self-employment; 87-88% will be similarly employed in the following year. Being self-employed (without any other status) is also stable. For men, 64% will have the same status the following year, while for females, stability is slightly lower, at 58%. Stability of self-employment in combination with education/training (roughly a third) or out of work benefits (a half) is similar for males and females. Year-to-year, around 49% of men and 46% of women who are in 'SE + Emp' remain in that same combined status the following year.

Males and females look remarkably similar in respect of their exits from self-employment states. At a high level, the darker shading of the bottom-left quadrant of the table conveys the impression that those changing states often remain in a state that involves self-employment in some way. Where this is not the case, the most common destination varies according to the origin state. For those combining self-employment and employment, more than a quarter will be employed without self-employment in the next year. This is also the largest category for those combining self-employment with education/training (11% and 14% for males and females, respectively). On the other hand, those combining self-employment with out-of-work benefits who change states are most likely to be on out-of-work benefits without self-employment in the next period (18% for males, 24% for females).

Turning to entry into self-employment, the lighter colouring of the upper-left quadrant indicates that only a small proportion of individuals make such a transition. It is among those who are employed that transitions into self-employment are most common, mainly in combination with employment. While the proportions are low (1-2%), the large number of people who are employed means that this accounts for a substantial proportion of the newly self-employed.

Next Steps offers a longer period over which to observe outcomes and the ability to observe monthly status. We therefore use Next Steps as the basis for identifying groups of individuals sharing broadly similar patterns of transitions. To do this, we use a statistical approach that combines sequence analysis and cluster analysis. This method captures the complexity of individuals' labour market experiences by analysing entire sequences of events rather than isolated occurrences.

The analysis involves two steps. First, through pairwise comparison of all individuals' sequences, a measure of dissimilarity for the full sample is constructed. For each pair of individuals, the dissimilarity measure reflects the number of months where their activities differ. It also reflects the nature of the difference, with more distant states contributing more to dissimilarity.[7]

Second, cluster analysis is applied to the dissimilarity matrix to identify groups of individuals who share similar pathways and whose pathways are different from individuals in other groups. The resulting groupings (or clusters) can be depicted

[7] To operationalise the question of how different states are, we use the dynamic Hamming distance. This is a data driven approach that treats states as more different the rarer it is to see transitions between them. Moreover, it allows this to vary over time, calculating substitution costs as the inverse of the conditional transition probability at each point in the sequence.

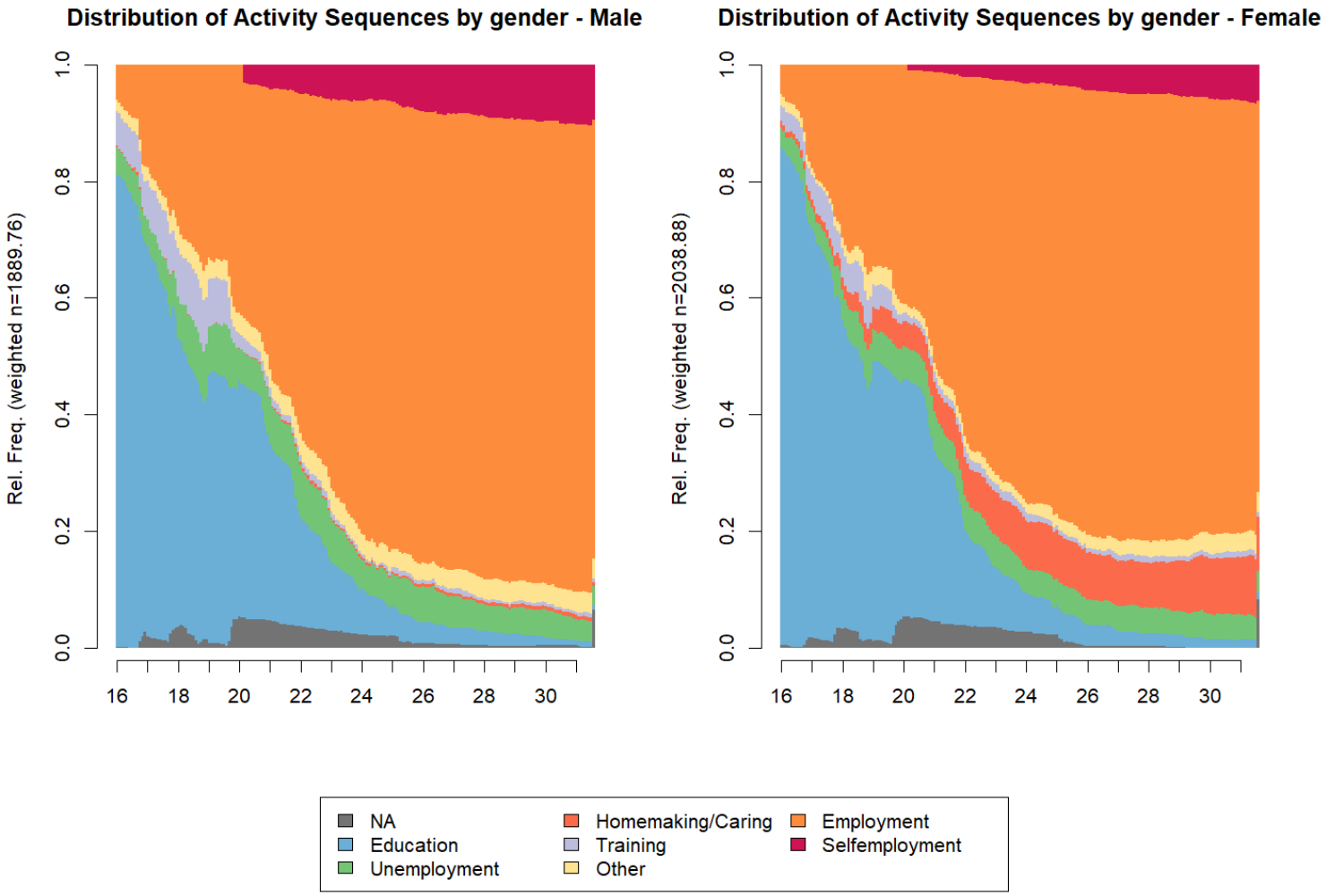
graphically to provide a clear visualisation of pathways featuring self-employment. This provides an alternative lens to consider self-employment and one that more holistically accounts for the dynamic nature of labour market transitions.

Figure 32 illustrates the proportion of individuals across various activities (or states) at each age between 16 and 32, separately for males and females, in the Next Steps data. These activities are based on individuals' self-reported main activities, selected from a list of available options that vary across survey waves. We grouped these responses into eight states: education, full- and part-time employment, full- and part-time self-employment, unemployment, caring and homemaking activities, training, other and 'not available' statuses.

Employment represents the most common activity for young people, with similar trends for both males and females. As age increases, the proportion of individuals in employment rises, corresponding to a decline in the number remaining in education. Self-employment grows over time, particularly for males.[8] By age 32, 10.1% of males are self-employed compared to 6.8% of females. By contrast, caring and homemaking activities account for a sizeable minority of females but very few males.

[8] In figure 32 it appears that self-employment does not exist prior to about age 20. This is a reflection of the data collection which, prior to wave 7 of Next Steps, did not distinguish between self-employment and working as an employee. Consequently, those working as self-employed when very young are not identified but instead are implicitly treated as being employees.

Figure 32: Sample activity sequence, % of cohort, by gender, 16-32 years old



Identifying typical pathways

The cluster analysis resulted in the identification of six clusters for the full sample.[9] The resulting clusters can be visualised in full detail using index plots. Each individual's sequence consists of 188 elements, one for every month over the roughly 16-year period September 2006 to April 2022. Each month, one of the eight activity states is possible. Each individual's history can then be represented as a horizontal series of colour-coded dots. When these series are stacked for all individuals in a cluster, they create an index plot that provides a clear visual representation of the general labour market dynamics within that cluster.

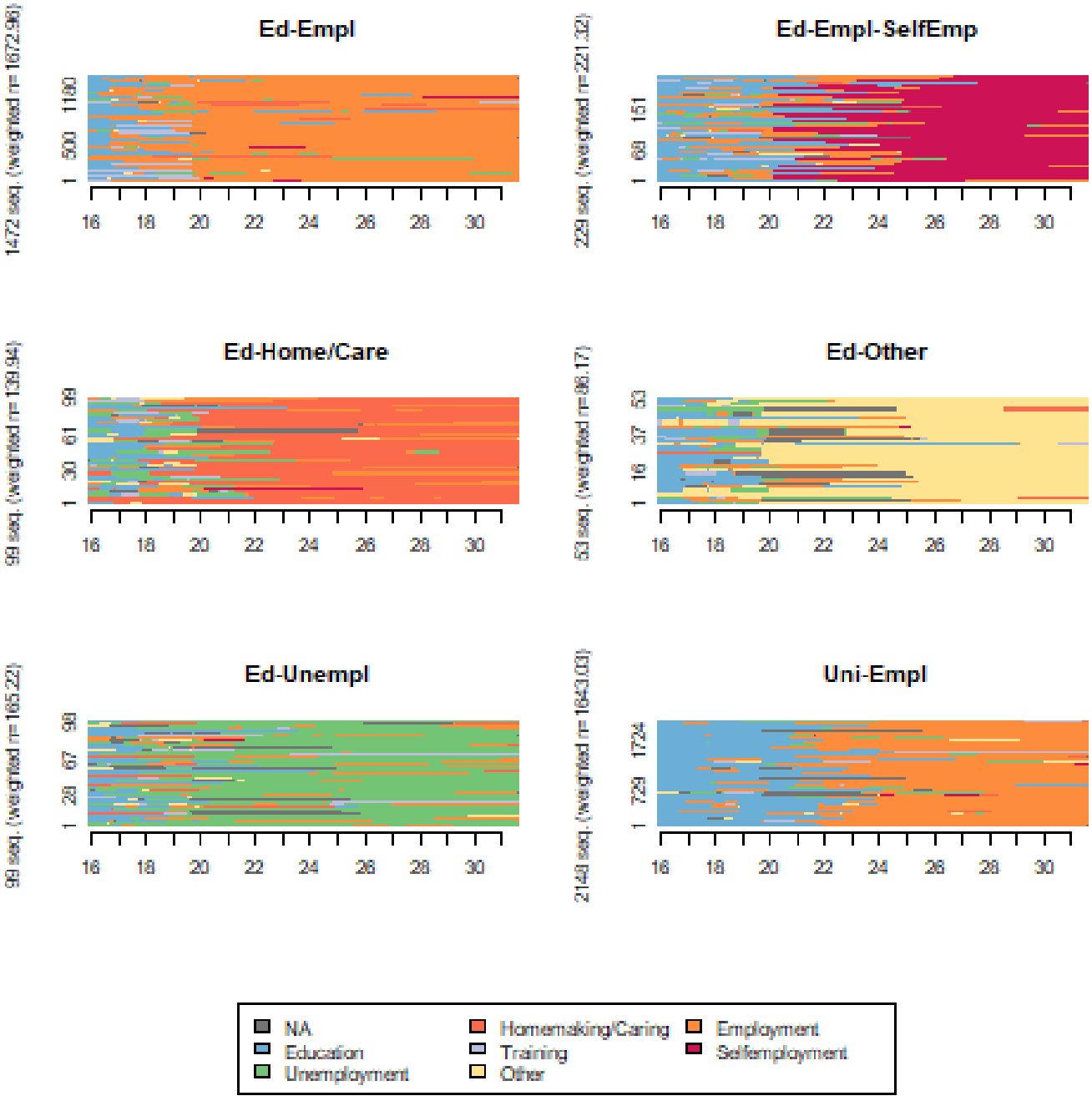
Figure 33 shows that the most common pathway in the sample as a whole involves movement into employment. Those moving from education to employment collectively account for approximately 88% of the full sample. This finding aligns broadly with patterns observed in previous research using similar approaches, in the UK and elsewhere (Brzinsky-Fay, 2007; Quintini and Manfredi, 2009; Dorsett and Lucchino, 2014). Individuals in the top-left cluster enter employment shortly after leaving education at ages 16–20, whereas those in the bottom-right cluster remain longer in education – consistent with completing undergraduate and postgraduate studies – and then usually progress to stable employment, perhaps after brief spells in other states such as unemployment, education or training.

The group of most interest is the cluster shown in the top-right panel. This is the group dominated by self-employment. It is a smaller group (5.6% of the sample) but highlights the diverse pathways leading into self-employment, with individuals transitioning from various prior states, including education, employment, unemployment, and training. Exits from self-employment up to age 32 are less frequent, with most individuals maintaining their self-employment status, although occasional interruptions involve transitions back into employment and, more rarely, into unemployment.

[9] The number of clusters was chosen partly on the basis of measures of statistical fit and partly with the goal of identifying meaningful patterns related to pathways into self-employment. Technically, we formed clusters using the Partitioning Around Medoids (PAM) algorithm (Kaufman & Rousseeuw, 1990), initialised with hierarchical clustering via Ward's method. We evaluated cluster solutions (from 2 to 20 clusters) across several metrics that assess clusters quality: average silhouette width; Hubert's gamma; point-biserial correlation and the homogeneity criterion.

The other clusters are even smaller. Of these, one group is characterised by extended periods of unemployment, one by periods as a carer/homemaker and one by other activities, such as sickness/disability or waiting to start a course or job.

Figure 33: Cluster pathways, full sample



Further insight is possible by considering males and females separately.

Figure 34 illustrates the case of males, for whom there were five distinct clusters. Again, those dominated by employment account for the majority of cases (roughly 89%). The self-employment cluster (top-right) accounts for 7.7% of males. As with the full sample, individuals in this cluster vary considerably in the path they follow into self-employment, mostly transitioning from education, employment, unemployment, or training. These self-employment spells are sometimes interrupted by returns to employment or unemployment, reflecting the fluid and varied nature of self-employment transitions.

For females, only four clusters were identified.

Figure 35 shows the employment clusters to account for a comparable proportion of females (90 per cent) as seen for males. The self-employment cluster (top right) accounts for 5.1% of all females. Pathways into self-employment for women are most commonly preceded by education or employment and, less frequently, by unemployment or training. Compared to men's, women's self-employment spells are more often interrupted by returns to employment, highlighting a greater instability in their self-employment trajectories.

It is also worth highlighting that homemaking/caring activities feature more prominently for females. At 4.7 per cent of the sample, it is similar in size to the self-employment cluster. This cluster is unique to the female group only. This group is characterised by sequences with extended periods dedicated to homemaking and caregiving. Entry into this pathway is most often preceded by spells of unemployment and, less frequently, by education. Interruptions in this trajectory are typically due to periods of employment and, more rarely, self-employment.

Figure 34: Cluster pathways, males

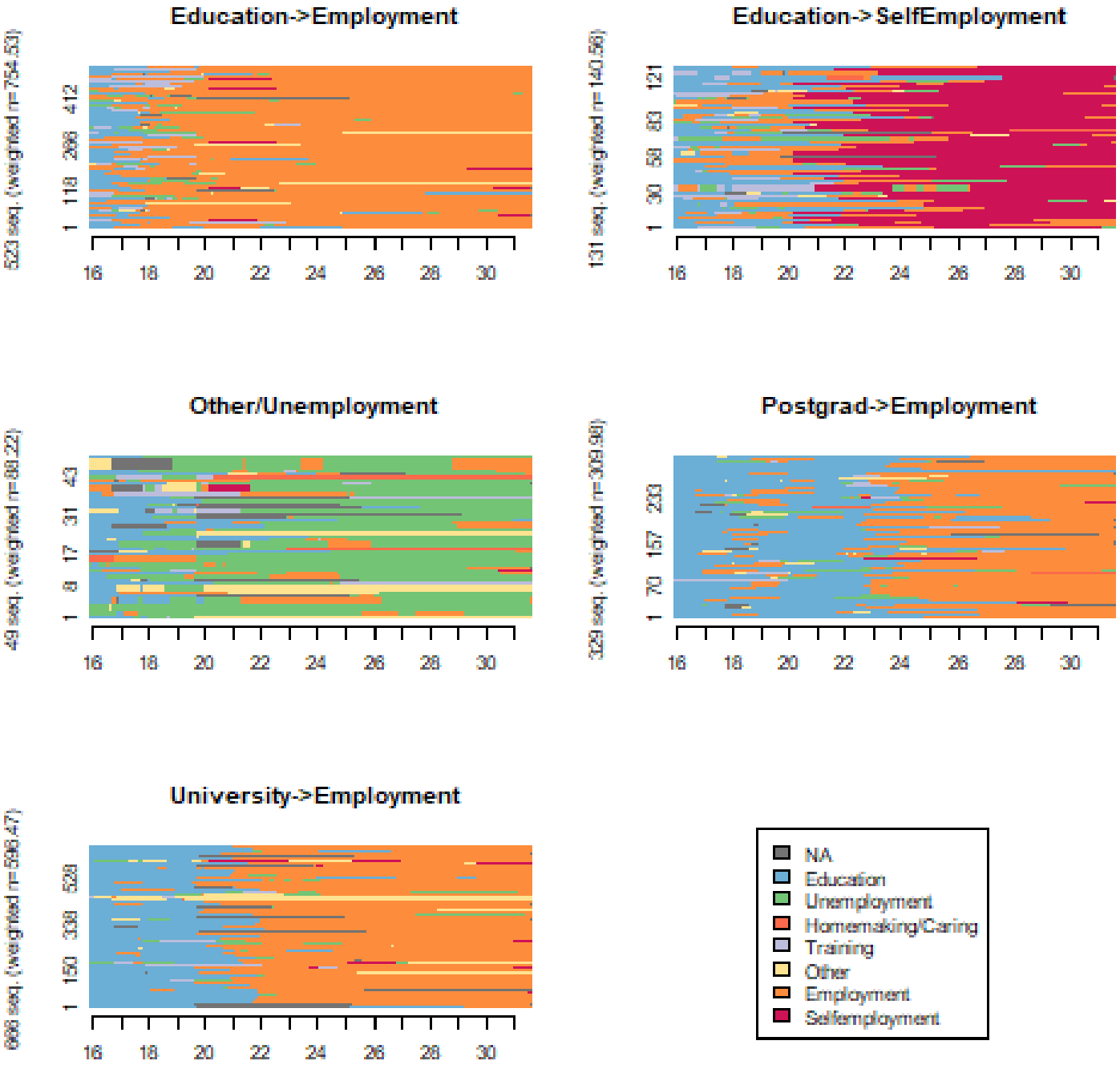
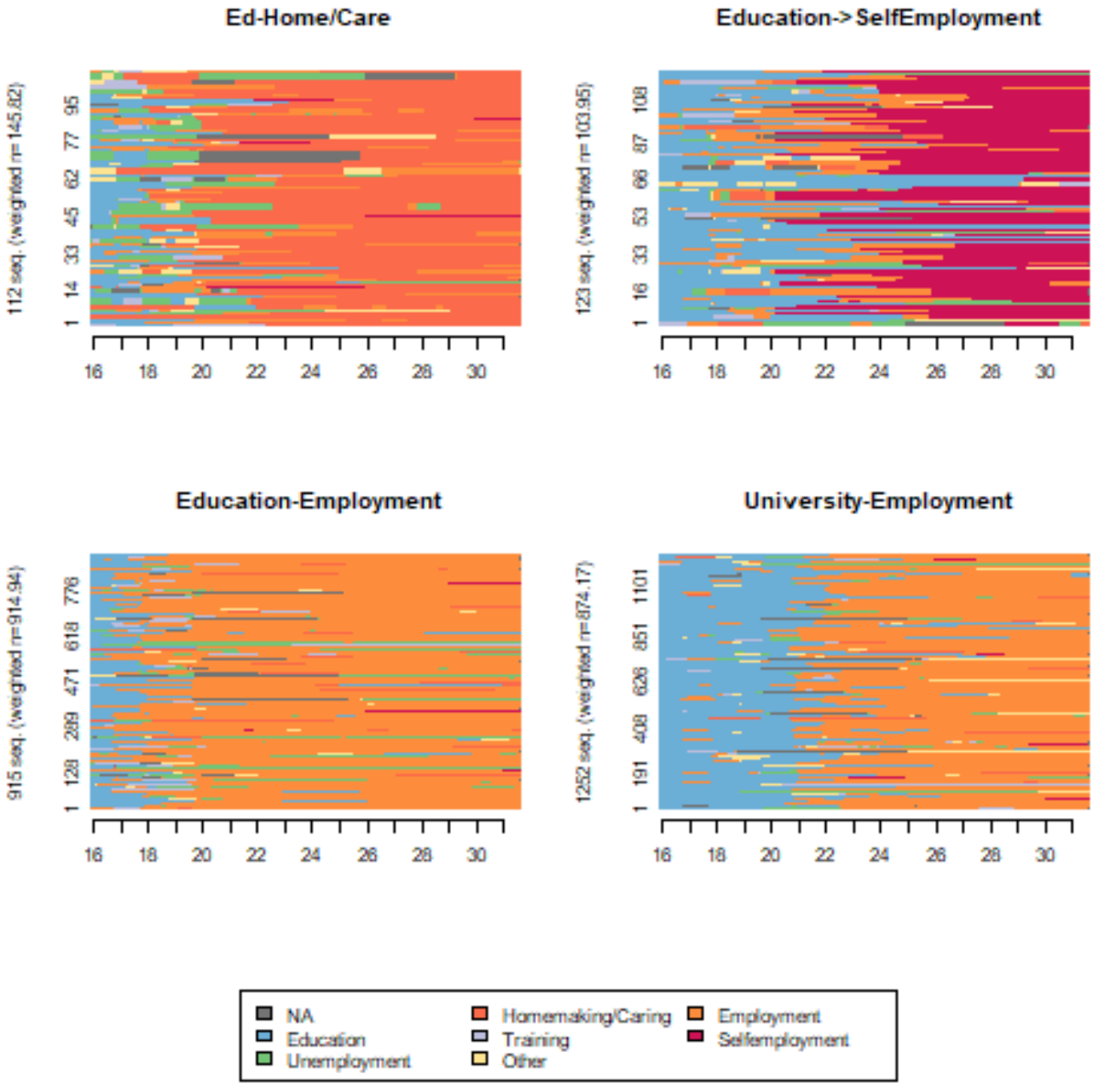


Figure 35: Cluster pathways, females



Predicting membership of the self-employment cluster

This section examines the factors associated with membership of the self-employment cluster, focusing on both individual and contextual characteristics. A probit regression is used to estimate the probability of following the self-employment pathway. This is conducted for the pooled sample and separately by gender. Controls include variables that capture gender (in the pooled sample case) and ethnicity, as well as individual agency, explored through variables that capture traits, preferences, ambitions, and constraints, such as health conditions. We also incorporate family factors, including the main parent's qualifications, employment status, and income, to recognise the broader context influencing opportunities and constraints related to self-employment.

We incorporate a set of covariates to capture the influence of personal and attitudinal characteristics on the likelihood of following the self-employment pathway. These factors are challenging to measure and are rarely available in datasets. However, the Next Steps study offers valuable proxies for these variables by assessing individuals' responses to questions about the importance they assign to key dimensions of their future aspirations and priorities when they are aged 15 to 17.

Locus of control, an individual trait, is included as a control variable. It measures whether individuals attribute life events to their own actions or to external factors. Those with a strong internal locus of control believe their outcomes are shaped by their own decisions, while individuals with a dominant external locus of control attribute events to external forces like fate or luck. The Next Steps study measures locus of control at age 15 using the Internal-External Locus of Control Short Scale-4.

Career aspirations are measured through three variables assessed at age 15. One variable captures strong agreement with the importance of "having a job or career" in the future. Two other variables measure agreement with the importance of being "your own boss/owning a business" and whether the respondent agrees that they "don't think much about future career plans". Ambition towards self-employment or owning a business in the future is measured at age 17.

We control for health conditions, specifically whether an individual has a long-standing illness, disability, or infirmity. Family-related variables include the main parent's working status at age 16, whether the parent is self-employed or unemployed. Parental occupations, income, and qualifications are recorded at age 17. Parental occupations are categorised into four groups: managerial and professional roles (both higher and lower), intermediate and independent roles (small employers), technical and

operational roles (supervisory/routine jobs), and not working (unemployed). Parental income is grouped into four brackets, roughly corresponding to quartiles: above £3,899, £2,600 - £3,899, £1300 - £2,599, and below £1300. Finally, parental qualifications are categorised into three levels: higher qualifications (degree or higher education), secondary and vocational qualifications (A-Level to GCSE A-C), and foundational or no formal qualifications (below GCSE or no formal qualifications).

Figure 36 displays the marginal effects from the probit estimates for the entire sample (top panel), females (second panel), and males (third panel).[10] These convert the estimated coefficients to show their relation (relative to a reference case) with the probability of being in the self-employment cluster. The marginal effects are shown with 95 per cent confidence intervals, and statistical significance is highlighted in blue.

Figure 36 indicates that family background variables and illness do not appear to play a role in being in the self-employment cluster. A woman is, on average, 3.6 percentage points less likely than an otherwise identical male to be in that cluster. Individuals who disagree strongly with the statement "Don't think much about future career plans" are 4.6 percentage points more likely to be in the self-employment cluster than those who agree strongly with it. Additionally, individuals for whom it matters a little or a lot to be self-employed are, respectively, 2.8 and 4.3 percentage points more likely to be in the self-employed cluster than those for whom it does not matter.

Among females, parental unemployment when 16 is associated with a lower probability of being in the self-employment cluster (by 3.2 percentage points). The only other significant predictor is black ethnicity, which is associated with increased probability of 12.6 percentage points, although this is imprecisely estimated.

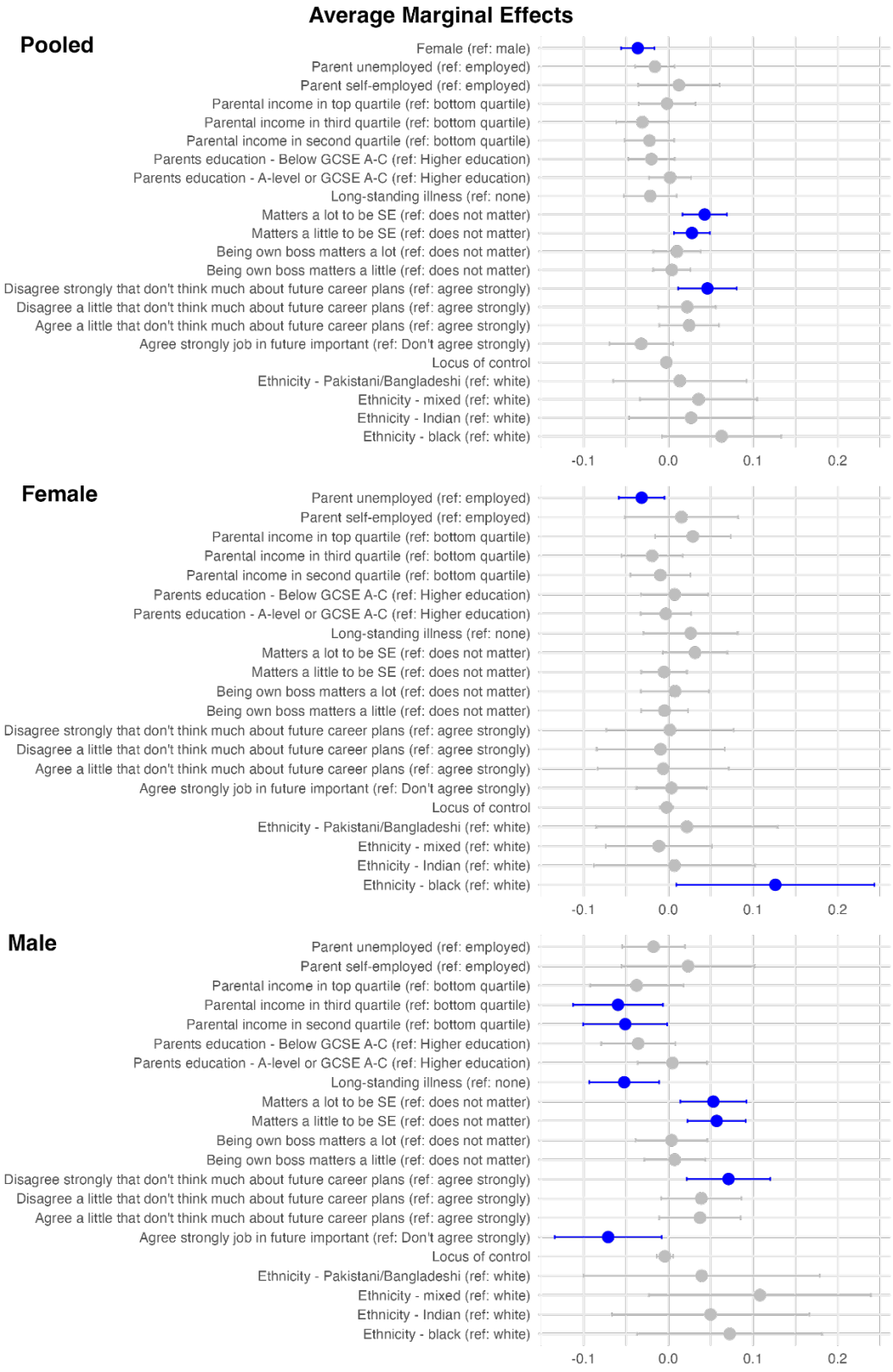
For males, many of the variables significant in the full sample are similarly significant. Those who disagree strongly with the statement "Don't think much about future career plans" are 7.1 percentage points more likely to be in the self-employment cluster than those who agree strongly.

Males with strong self-employment ambitions at 16 are 5.3 percentage points more likely to be in the self-employed cluster, while those with a mild preference for self-

[10] As typical with non-linear estimators, the magnitude of a variable's effect cannot be directly interpreted from the estimation coefficients. Instead, it must be calculated based on a specific set of values for the explanatory variables. This allows for the estimation of the percentage-point change in the probability of an individual with a particular characteristic (compared to a reference value for that characteristic) being in the self-employment cluster. Average marginal effects, which represent the average of these estimates across all individuals in the sample, are provided in Figure 11.

employment are 5.7 percentage points more likely. Conversely, those who agree strongly at 16 that having a job in the future is important are 7.1 percentage points less likely to follow the self-employment route. Those with a long-standing illness are 5.2 percentage points less likely to be in the self-employment cluster. There is also a negative association among those whose parents had income above the bottom quartile. This is only significant for quartiles 2 and 3, with probability lower by 5-6 percentage points.

Figure 36: Marginal effects of membership to the self-employment cluster



Chapter 5: Characteristics of the self-employed and their businesses

In answering this question, we focus on the period 2010-19. This is useful as a means of capturing the situation prior to COVID-19, which is therefore able to represent trends free of pandemic-related disruption. The drawback to this pooling is that we are unable to take into account other important influences during this time, such as recovery from the 2008 financial crisis or the Brexit referendum result in 2016.

We show most results broken down by age. Specifically, we distinguish the age bands 16-25, 26-30, 31-35 and 36-40. We include these upper categories both because they are useful comparators and serve to indicate the expected progression among those in the younger categories.

The analysis is mostly based on the LFS and UKHLS, using data pooled across 2010-19 in order to achieve a sufficient sample size with the statistics. Survey weights are applied to achieve representativeness for each year, and these representative results are combined to yield the overall 2010-19 statistics. While this approach is useful to provide a sufficient sample size, its drawback is that it does not allow us to comment on trends within this period.

To provide some context for this, Figure 37 shows the change over time in the proportion of people aged 16-40 reporting that they are self-employed. The solid lines show rates calculated from the LFS (which should therefore be consistent with official statistics). Two points are apparent. First, self-employment is more common among males than females. The tendency to be self-employed among males is consistently roughly twice that among females. For this reason, we maintain this distinction throughout the report. Second, the rates of self-employment for both males and females have been quite stable over the period considered, showing only a very gradual increase. This provides some reassurance about pooling multiple years. The dashed lines in figure 37 show the proportion of self-employment among those in work. For males in this age range, self-employment accounted for 13% of those in work by 2019. For females, the rate was lower at 7%.

Figure 37: The prevalence of self-employment among 16-40 year olds by year (%)

Proportions self-employed

Table 3 shows that the proportion of individuals who report themselves as self-employed increases with age. This should be seen in the context of the well-established humped-shaped age profile of entrepreneurship. Parker (2018) offers a discussion of the factors that contribute to this and notes the tendency for studies to find that self-employment peaks between ages 35 and 44. The first column of Table 3 shows that, for males, 4% of 16-25s report themselves as self-employed compared to 16% of 36-40s. Among females, the corresponding increase is from 2% to 8%. For both males and females, the biggest jump happens between the 16-25 and 26-30 age bands, when the self-employment rate more than doubles. This comparison is complicated by the fact that many young people are in education. We control for this by showing in the second column self-employment as a proportion of those in work. Now the increase between these two age groups is from 8% to 12% for males and 3% to 6% for females: in both cases, a bigger jump than between other age bands.

These figures are based just on those who report themselves as self-employed. The LFS also asks employees working as managers whether they own or have a controlling interest in the business they work for. Such individuals can be viewed as self-employed according to the definition used in this report. The final two columns of Table 3 reproduce the first two columns after allowing for such cases. This gives a fuller measure of self-employment. Clearly, this will serve to increase the self-employed proportion, but it also increases the age gradient, reflecting the fact that managerial jobs are also more common among older individuals, so the extent of this type of self-employment is correspondingly greater.[11]

[11] The variable that records company managers is only collected in even-numbered years. Columns 3 and 4 of Table 3 assumes that the proportions estimated on the pooled 2012, 2014, 2016 and 2020 sample holds true for the pooled 2010-2019 sample.

Table 3: Self-employed, overall and among those in work (%), Calculations based on LFS, April-June quarters, 2010-19. Columns 3 and 4 are adjusted using calculations based on April-June quarters, pooled across 2012, 2014, 2016 and 2018.

			Including managers who own company:	
Age band	Overall	Among those in work	Overall	Among those in work
		Males		
16-25	4.1	7.6	4.5	8.3
26-30	10.7	12.3	11.8	13.6
31-35	13.7	15.3	16.2	18.1
36-40	16.1	18.0	19.5	21.8
Total	9.8	13.0	11.5	15.3
		Females		
16-25	1.8	3.3	2.0	3.7
26-30	4.6	6.2	4.9	6.7
31-35	6.4	8.6	7.5	10.0
36-40	8.2	10.9	9.7	12.9
Total	4.6	6.9	5.3	8.0

Characteristics of self-employed businesses

Type of self-employment

Under the broad heading of self-employment, there are several possible models. LFS respondents are able to provide multiple descriptions of the nature of their self-employment. For example, they may describe themselves as both freelancers and working for themselves.

Table 4 shows that by far the most common description given by male and female respondents is that they are working for themselves (67% and 75%, respectively). In fact, gender differences are very slight for all categories except sub-contracting, which is mentioned by 20% of males but hardly any (5%) of females. Furthermore, among males, this is a term reported most by the youngest age group (about a quarter), and it declines with age. Off-setting this, there is an increased tendency for older self-employed to report themselves as being a sole director, or to be running or a partner in a business or practice. For these three responses – arguably, suggestive of a less casual form of self-employment – the differences between males and females are quite small.

Table 4: Type of self-employment reported by self-employed (%)

	Paid by employment agency	Sole director	Running a business/ practice	Partner in business/ practice	Working for self	Sub-contractor	Freelance work
Age band							
				Males			
16-25	3.8	6.1	9.9	5.3	67.4	26.4	14.7
26-30	3.0	9.3	12.0	7.6	68.1	22.8	11.0
31-35	2.9	12.5	16.8	10.5	67.1	17.2	11.6
36-40	2.8	14.6	20.2	13.9	66.0	15.9	10.8
Total	3.0	11.5	15.7	10.1	67.0	19.5	11.7
				Females			
16-25	3.0	6.6	10.6	3.7	80.6	4.0	15.4
26-30	2.8	7.4	16.1	7.7	76.5	5.8	14.2
31-35	2.3	8.7	19.7	9.2	74.1	4.1	15.1
36-40	2.5	10.4	23.4	12.9	71.3	5.0	16.6
Total	2.6	8.8	19.0	9.4	74.5	4.8	15.5

Calculations based on LFS, April-June quarters, 2010-19

Whether businesses have employees

Table 5 shows the proportion of the self-employed who employ others. Among the youngest age band, this is rare; 5% for females and slightly higher for males. This increases with age, particularly for males. In the oldest age group, one fifth of self-employed males employ others. While this is consistent with the idea that, over time, self-employment generates jobs, there are competing explanations. For example, it may be that older people are more likely to start-up businesses employing others.

Table 5: Whether those who are self-employed have any employees (%) Calculations based on LFS, April-June quarters, 2010-19

Age band	*Males*	*Females*
16-25	6.5	5.0
26-30	10.5	9.0
31-35	15.2	12.2
36-40	20.0	13.3
Total	14.3	10.9

Nevertheless, the results shown in T able 5 highlight the potential for self-employment not just to offer a viable form of work for individuals but in the longer-term to also offer employment opportunities to others.

We can probe this a little further using information collected in the LFS on activity states 12 months earlier. Using this, we can examine 1-year transitions between employment, solo self-employment, self-employment with employees, unemployment and inactivity. Allowing transition matrices to be age-specific, we can chain consecutive matrices to simulate changes over time in the proportion self-employed.[12]

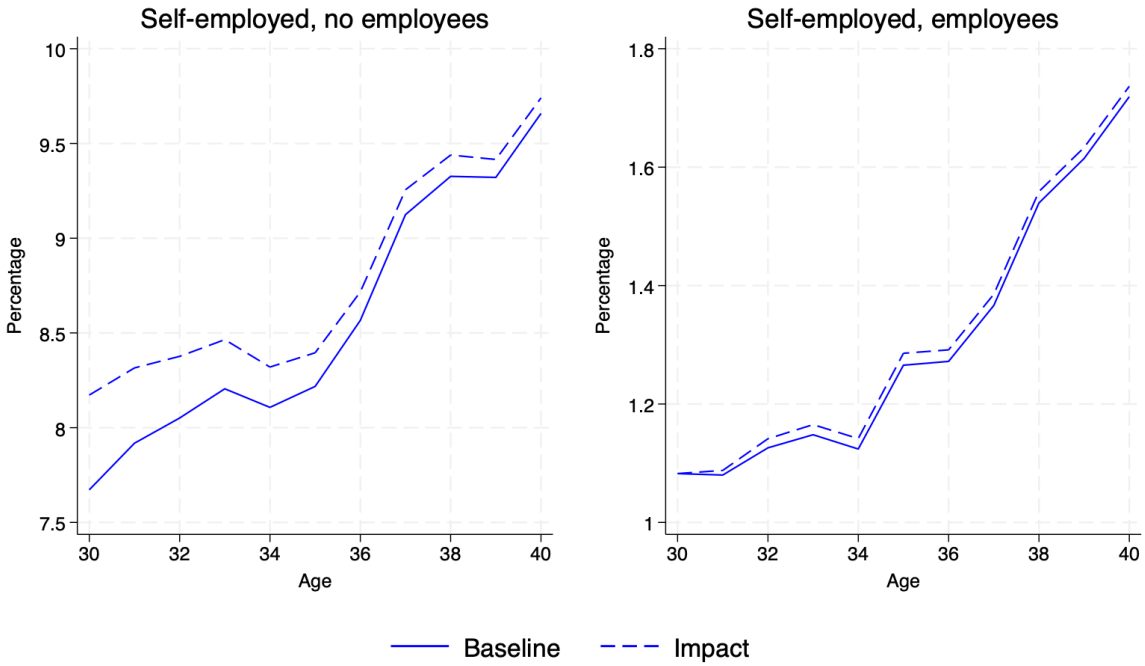
[12] Since each of these matrices is based on the subsample of individuals of a given age, some transitions from and into self-employment are relatively uncommon, particularly for females. To reduce the degree of volatility in the measured transitions, we pool males and females.

Figure 38 uses the observed distribution of activity states at age 30 and then simulates 'baseline' levels of solo self-employment and self-employment with employees up to age 40. Doing this confirms an age profile of self-employment whereby it is more common among older individuals. This is shown by the solid line ('Baseline').

More interesting, though, is the dashed line ('Impact'). This shows an alternative age profile corresponding to the case where, at age 30, the proportion of individuals who are solo self-employed is higher by 0.5 percentage points than the age-30 baseline (achieved by a similar-sized reduction in the proportion inactive). The resulting age profile is therefore intended to illustrate the longer-term consequences of an intervention to increase the number of solo self-employed.

Three points are evident. First, the higher level of solo self-employment persists to age 40. Second, the age-40 difference from baseline self-employment is smaller than the age-30 difference; evidently, some of the initial 'impact' dissipates through transitions to other states, without compensating inflows from those states. Third, part of this dissipation includes an increased proportion of self-employment among employees. Hence, the results suggest that encouraging solo self-employment will have a multiplier effect on job creation. While this effect is small, its significance depends on the number of people employed.

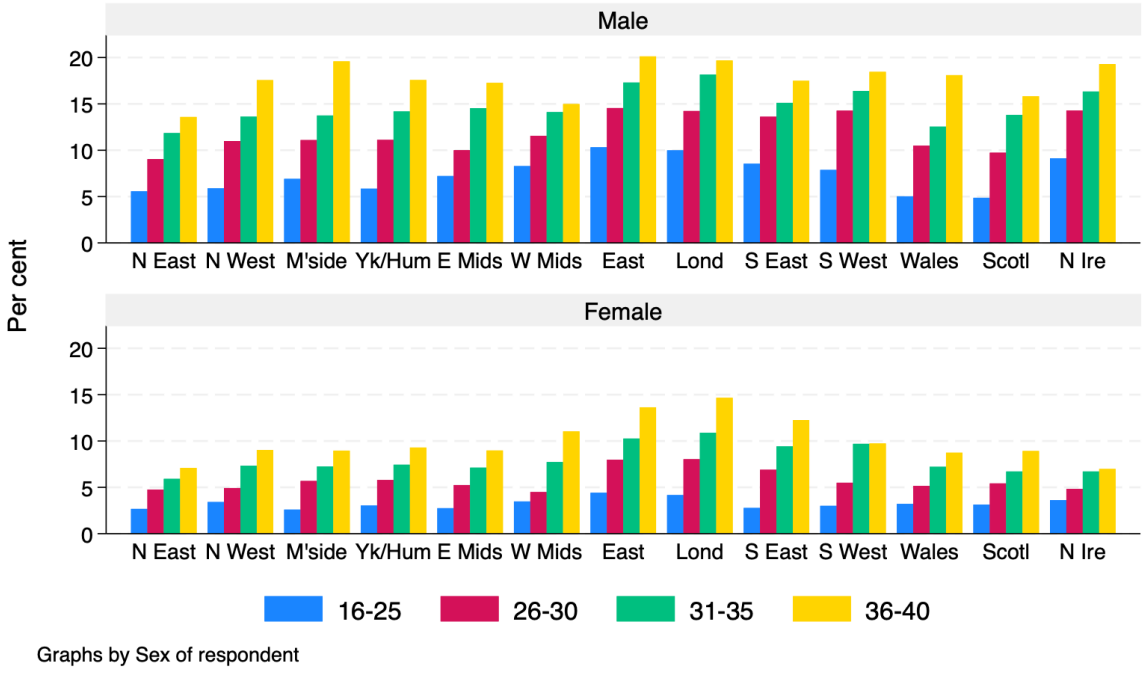
Figure 38: Simulated levels of self-employment and the impact of increasing solo self-employment at age 30 (%)



Region

The increased tendency towards self-employment among older working individuals is clearly visible within all regions. However, there are also important differences across regions. For males in the youngest age group, self-employment in London and Eastern regions accounts for 10% of those in work, compared to about 5% in Scotland and Wales and slightly more in the North. Northern Ireland is something of an outlier, with a rate close to that seen in London. Among the oldest age group, the regional gap is much less marked, with self-employment accounting for close to a fifth of those in work in many regions. The rate is lowest in the North East, at 14%. For females, the picture is a little different. London and Eastern regions have the highest rates of self-employment among the youngest group, but they retain this position among the oldest group. Unlike males, Northern Ireland does not show the same level of entrepreneurship and, in fact, is similar to the North East in having the lowest level of self-employment among the oldest group.

Figure 39: Self-employment among those in work, by region (%) Calculations based on LFS, April-June quarters, 2010-19



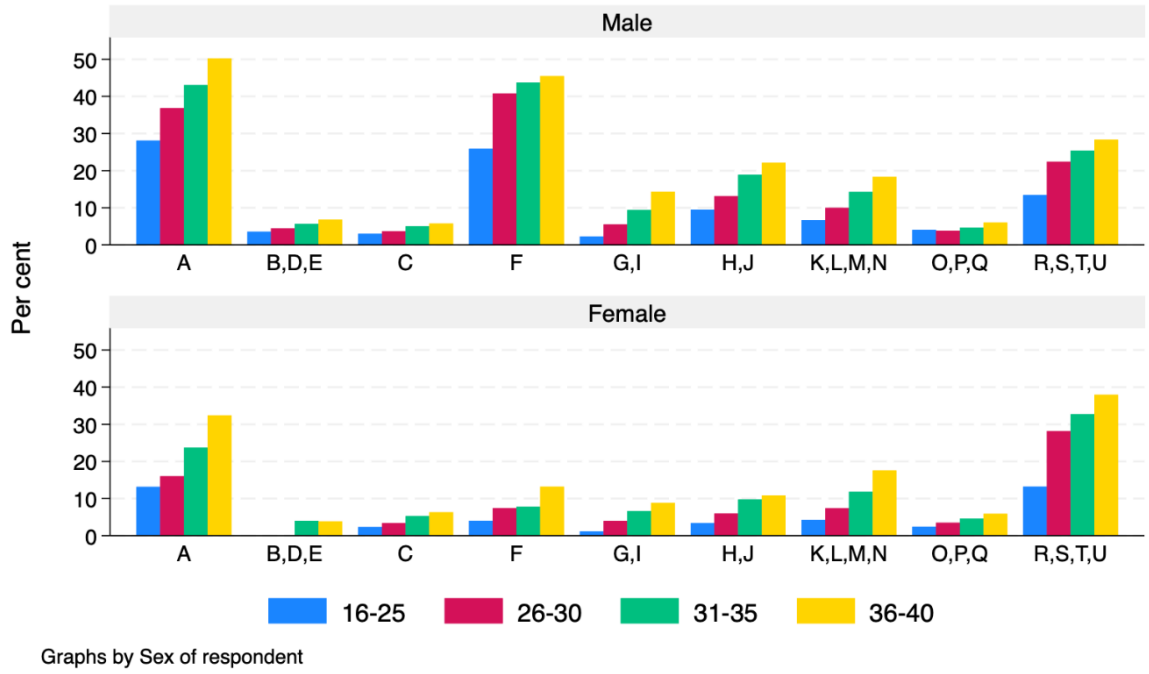
Industry sector

Part of the explanation behind this pattern may be the regional differences in industrial composition and sectoral differences in gender mix. Some industry sectors are more characterised by self-employment than others. This is most noticeably the case for Agriculture, Forestry and Fishing and for Construction, where the proportion for males increases from about a quarter among 16-25s to close to one half among 36-40s. Other sectors where self-employment is well-represented for males include Transport and Communication, Banking and Finance and Other Services.

For females, Agriculture, Forestry and Fishing is again a sector where self-employment is strongly represented (rising to about one third among 36-40s). However, Other Services is the sector with the highest concentration by this age (close to two-fifths). Furthermore, as with males, Other Services is a much bigger sector than Agriculture, Forestry and Fishing.

Figure 40: Self-employment among those in work, by industrial sector (%)

Note: A - Agriculture, forestry and fishing; B,D,E - Energy and water; C -Manufacturing; F - Construction; G,I -Distribution, hotels and restaurants; H,J -Transport and communication; K,L,M,N - Banking and finance; O,P,Q - Public admin, education and health; R,S,T,U - Other services. Calculations based on LFS, April-June quarters, 2010-19



Characteristics of the self-employed

Educational attainment

For males, self-employment is most concentrated among those with no qualifications or 'other' qualifications and becomes successively less likely as qualifications increase. Among 36-40s, more than a quarter of working males are self-employed, nearly double the rate among degree-holders. For females, the gradient is much less apparent. Indeed, with older age groups, the position reverses. In the oldest age group, self-employment is least common among working females with no qualifications. This gender difference may be due to differences in the nature of inactivity for men and women. Women were more likely than men to have been economically inactive 12 months previously. Furthermore, inactive women tend to be more educated than inactive men. The greater tendency among educated women than among educated men to be self-employed may be partly attributable to highly-qualified women returners opting for self-employment, perhaps to avoid the earnings penalty from career breaks among paid employees.

Table 6: Self-employment among those in work, by highest qualification (%) Calculations based on LFS, April-June quarters, 2010-19

Age band	Degree or equiv	Higher educ	GCE A Level or equiv	GCSE grades A-C or equiv	Other	None	Total
				Males			
16-25	6.7	8.7	7.3	7.1	11.0	10.1	7.6
26-30	8.1	11.7	14.7	14.6	15.3	20.2	12.3
31-35	11.6	13.5	18.2	16.4	18.5	24.5	15.2
36-40	14.3	17.3	19.9	19.2	21.7	26.5	17.8
Total	10.6	13.2	13.4	12.9	17.0	19.9	13.0

Table 6 cont.

Age band	Degree or equiv	Higher educ	GCE A Level or equiv	GCSE grades A-C or equiv	Other	None	Total
				Females			
16-25	3.7	3.9	3.5	2.3	4.8	5.3	3.3
26-30	5.3	6.4	8.0	5.5	8.3	7.2	6.2
31-35	8.5	8.9	9.2	7.2	10.6	8.1	8.6
36-40	11.8	11.0	11.6	8.7	10.7	7.9	10.9
Total	7.6	7.9	6.7	5.2	8.7	7.0	7.0

Ethnicity

Pooling the LFS across a full decade allows the relationship between ethnicity and self-employment to be considered in more detail than is usually the case. The pattern is, unsurprisingly, complex. For males, self-employment features for White, Indian and Black respondents are roughly the same degree at all ages. Pakistani respondents, in particular, but also Bangladeshi respondents, have the highest rates of self-employment at age 36-40. For Chinese respondents, self-employment is higher than for any other ethnicity among those in the youngest age group, but this gap declines with age, and among the oldest group is similar to that of males as a whole. For females, the differences in self-employment by ethnicity are less marked when younger. Among the older age group, some differences are apparent with self-employment, particularly high among Pakistani respondents, but also women of mixed and 'other' ethnicity.

Table 7: Self-employment among those in work, by ethnicity (%)Calculations based on LFS, April-June quarters, 2010-19

Age band	White	Mixed ethnic groups	Indian	Pakistani	Bangladeshi	Chinese	Any other Asian	Black British	Other
					Males				
16-25	7.6	9.2	8.3	9.9	3.6	13.0	3.4	5.4	8.6
26-30	12.5	8.5	9.6	16.1	10.5	7.6	7.8	10.0	15.1
31-35	15.1	14.4	11.8	28.4	10.7	11.7	14.8	12.9	18.7
36-40	17.3	20.3	15.2	35.8	27.8	16.8	19.0	16.9	23.9
Total	12.8	12.1	11.8	23.6	13.7	12.1	12.1	11.6	17.4
					Females				
16-25	3.4	2.7	3.3	3.6	1.4	3.5	3.2	1.9	3.7
26-30	6.1	10.9	6.0	8.2	6.7	6.6	5.9	4.3	10.8
31-35	8.5	9.7	8.5	11.1	5.7	8.4	8.4	5.1	16.1
36-40	10.9	17.6	9.3	17.2	12.7	11.7	8.4	6.0	16.8
Total	6.9	8.6	7.2	9.2	5.5	7.9	6.8	4.4	12.3

Country of birth

It is also possible to examine how self-employment prevalence varies according to country of birth. Across age groups and genders, self-employment is consistently higher among those born outside the UK than it is for those UK-born.

Table 8: Self-employment among those in work, by whether UK-born (%)Calculations based on LFS, April-June quarters, 2010-19

	Males		*Females*	
Age band	UK born	Non-UK born	UK born	Non-UK born
16-25	7.5	9.3	3.2	5.3
26-30	11.9	14.4	5.8	8.2
31-35	15.0	16.6	8.0	10.9
36-40	17.6	20.1	10.5	13.4
Total	12.6	15.7	6.5	9.7

Partnership status

Here also, we see a small gender difference. For males, there is little difference in the rates of self-employment among those living with partners and those who are not. The exception is among the youngest age group, where self-employment is more common among those with a partner than among those without. For females, self-employment is higher among those with partners at all ages. The differences are small but consistent, nonetheless.

Table 9: Self-employment among those in work, by partnership status (%)Calculations based on LFS, April-June quarters, 2010-19

	Males		*Females*	
Age band	No partner	Partner	No partner	Partner
16-25	7.5	11.1	3.2	6.9
26-30	12.1	13.0	5.6	7.5
31-35	15.4	15.2	7.8	9.2
36-40	18.2	17.9	9.4	11.9
Total	11.5	15.8	5.4	9.8

Other household earnings

Being part of a household with other earners can alleviate the risks and uncertainty associated with self-employment. We can use UKHLS to calculate the amount of income in the household other than that arising from the respondents themselves. Unsurprisingly, this is the lowest among the youngest age group. Self-employed individuals at this age live in households with other income of about £570-580 per month.[13] Employed respondents live in households with slightly more other income: £60 for males and £90 for females. With older age groups, this position reverses. Among 36-40 year old males, those who are self-employed live in households with £50 more other income than those who are employed. For females, the difference is £240. Hence, the evidence is consistent with greater household resources facilitating self-employment among older individuals but not for younger individuals.

Table 10: Earnings of other household members, by whether worker is employed or self-employed (£)Calculations based on UKHLS, 2010-19

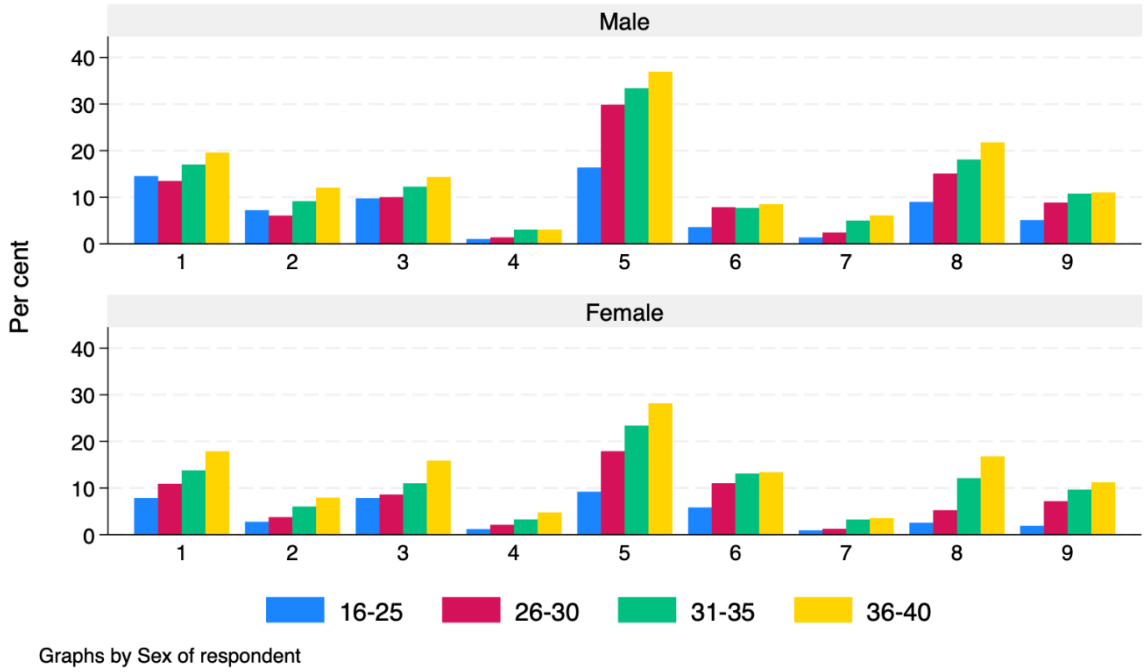
	Males		*Females*	
Age band	Employed	Self-employed	Employed	Self-employed
16-25	641	579	659	568
26-30	839	776	1,072	1,104
31-35	1,015	1,005	1,244	1,383
36-40	972	1,020	830	1,073

[13] The figures are pooled across multiple years but do not adjust for inflation. Instead, they are intended to show the differences between employed and self-employed individuals and between individuals of different age groups.

Occupation

For both males and females, self-employment is very uncommon among those working in Administrative and Secretarial or Sales and Customer Service occupations. The main categories for the youngest are Managers, Directors, Senior Officials and Skilled Trades occupations. For young females, there is also a concentration of self-employment among Associate, Professional and Technical occupations and among Caring, Leisure and Other Service occupations. Rates of self-employment are somewhat elevated among young men in Elementary occupations, while, for young women, those working in Elementary occupations are somewhat less likely than those in other occupations to be self-employed. However, among older females in Elementary occupations, the rates of self-employment are comparable to (in fact, slightly higher than) those for similar-aged men.[14]

Figure 41: Self-employment among those in work, by occupation (%)



[14] By way of context, we note that some researchers have introduced a working definition to identify freelancers as that subsection of the solo self-employed population who are working in the three highest skilled occupational categories (SOC1 to SOC3), see https://www.ipse.co.uk/policy/research/the-self-employed-landscape/the-self-employed-landscape-in-2023.html

Note: 1 Managers, Directors and Senior Officials; 2 Professional Occupations; 3 Associate Professional and Technical Occupations; 4 Administrative and Secretarial Occupations; 5 Skilled Trades Occupations; 6 Caring, Leisure and Other Service Occupations; 7 Sales and Customer Service Occupations; 8 Process, Plant and Machine Operatives; 9 Elementary Occupations. Calculations based on LFS, April-June quarters, 2010-19

Health

Self-employment is more common among those in work who have a long-term health problem that limits the amount of work they can do (Table 11). This is true for both males and females in every age band. A similar pattern is seen when considering health problems that limit the *type* of work that can be done (Table 12). Again, self-employment is higher among individuals with such a restriction, regardless of age or gender.

Table 11: Self-employment among those in work, by whether health problem affects the *amount* of paid work that can be done (%)Calculations based on LFS, April-June quarters, 2010-19

	Males		*Females*	
Age band	No	Yes	No	Yes
16-25	7.5	10.7	3.2	5.9
26-30	12.2	15.9	6.0	10.7
31-35	15.0	22.0	8.4	11.5
36-40	17.7	24.1	10.5	15.9
Total	12.8	18.6	6.7	11.0

Table 12: Self-employment among those in work, by whether health problem affects the *type* of paid work that can be done (%)Calculations based on LFS, April-June quarters, 2010-19

	Males		*Females*	
Age band	No	Yes	No	Yes
16-25	7.5	9.4	3.2	4.9
26-30	12.3	13.2	6.0	10.0
31-35	15.2	17.5	8.5	10.2
36-40	17.7	22.1	10.6	14.5
Total	12.9	15.7	6.8	9.9

Personality

It is of interest to consider whether certain personality types are particularly suited to self-employment. This is possible using UKHLS, which collects information on the so-called Big 5 traits: Openness, Conscientiousness, Extroversion, Agreeableness and Neuroticism ("OCEAN"). There is evidence to suggest that these traits are quite stable over time, likely to undergo only modest changes on average in working-age adults (Cobb-Clark & Schurer, 2012).

Figure 42 compares the distribution of each of these traits among the self-employed and employees for the population of 16–40-year-olds as a whole. Relative to employees, self-employed people are concentrated among those with higher levels of agreeableness, conscientiousness, extroversion and Openness. They also tend to have lower levels of neuroticism. This overall pattern is seen for both males and females.

Figure 42: Distribution of Big 5 personality traits

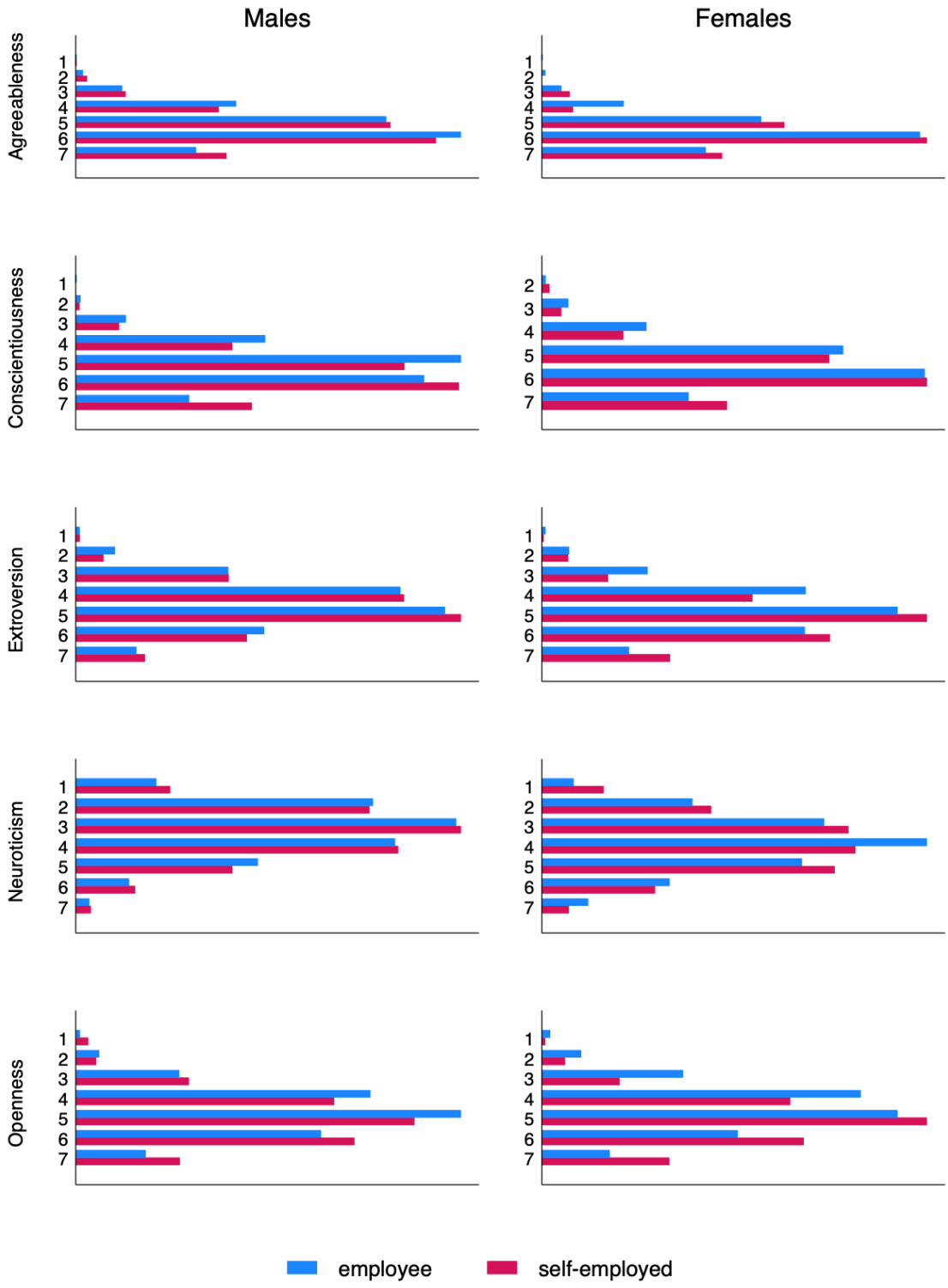


Table 13 shows mean scores among 16–25-year-olds for each of these traits. For young females, the pattern for self-employed relative to employees is consistent with the population as a whole. Specifically, self-employment is associated with higher levels of all traits except neuroticism. For males, this distinction is a little less apparent. Indeed, male employees in this age range tend to score higher on agreeableness and openness than their self-employed counterparts. It is also apparent that female self-employed score higher than male self-employed on all traits.

Table 13: Mean score for Big 5 personality traits among 16-25 year-olds. Calculations based on UKHLS, 2010-19

	Males		*Females*	
	Employee	Self-employed	Employee	Self-employed
Personality trait:				
- Agreeableness	5.3	5.0	5.6	5.8
- Conscientiousness	5.0	5.2	5.3	5.4
- Extroversion	4.7	4.8	5.0	5.2
- Neuroticism	3.4	3.1	4.1	3.4
- Openness	4.8	4.7	4.7	5.0

Cognitive ability

Table 14 summarises the mean cognitive ability as captured by the performance across a number of tests administered during the course of the UKHLS interview. The results suggest lower cognitive ability among male self-employed than male employees, although this difference narrows with age. Among females, the pattern is quite different, with self-employed having somewhat higher cognitive ability than employees in all cases except the 31-35 year olds. A further point to note is that cognitive ability is broadly similar across male and female employees in all age groups (although slightly higher for male than female 16–25-year-old employees). It is among the self-employed, there are apparent gender differences in cognition, with female self-employed scoring comfortably higher on average than their male counterparts.

Table 14: Average cognitive ability (standardised scores). Calculations based on UKHLS, 2010-19

	Males		*Females*	
Age band	Employed	Self-employed	Employed	Self-employed
16-25	0.08	-0.21	0.03	0.06
26-30	0.10	-0.05	0.11	0.16
31-35	0.11	0.03	0.13	0.09
36-40	0.12	0.02	0.12	0.20

Chapter 6: Comparing hours, earnings and job satisfaction of self-employed and employees

For those who become self-employed, how do their outcomes differ from employees? There are multiple perspectives from which the quality of work can be assessed. In this section, we provide some statistics to inform the question of how self-employment compares with working as an employee, both in terms of concrete outcomes such as hours and earnings and more subjective assessments.

Hours and earnings

Table 15 shows that self-employed males tend to work longer than their employed counterparts. This difference is most marked among those in the youngest age group, whose working weeks are four hours longer. Among those in the oldest age group, the difference is two hours. Female self-employed, on the other hand, work, if anything, slightly fewer hours than employees. Across all age groups, women are likely to work two to three hours per week less if they are self-employed than if they work as paid employees. This may reflect greater flexibility afforded by being your own boss.

Table 15: Hours worked per week. Calculations based on LFS, April-June quarters, 2010-19

	Males		*Females*	
Age band	Employee	Self-employed	Employee	Self-employed
16-25	33.6	38.0	28.9	27.1
26-30	40.2	43.0	34.3	31.3
31-35	41.0	42.9	32.1	28.7
36-40	41.3	43.2	31.1	28.3
Total	38.7	42.3	31.3	28.9

Earnings

Measuring self-employment income is hard, due to often irregular patterns of work, the need to take account of costs associated with working and the fact that many self-employed people will only assess their financial position in detail once a year, at the time of submitting their tax return.[15]

Table 16 compares males' and females' net earnings from self-employment (for those who are self-employed). The upper panel shows that mean earnings are higher among males than females. These amounts can be adjusted by hours worked to provide an estimate of hourly net pay. This results in female hourly rates being lower than male rates among those aged 30 or younger, but the situation reverses among the over-30s.

The bottom panel of Table 16 shows the median earnings instead. Medians are less affected by outliers, so the influence of negative earnings or very high earnings is removed. Median pay rates are mostly quite similar for males and females, although in the oldest group, the male rate is more than £1 above the female rate.

[15] https://blog.ons.gov.uk/2017/08/14/why-is-measuring-self-employed-income-so-hard/

Table 16: Net monthly earnings and implied hourly pay rate for self-employed people (£)

	Males		*Females*	
Age band	Net earnings	Implied net pay/hour	Net earnings	Implied net pay/hour
		Mean		
16-25	1,048	9.66	688	9.39
26-30	1,314	9.04	813	7.57
31-35	1,502	9.03	971	10.4
36-40	1,652	10.62	970	10.82
Total	1,438	9.71	900	9.86
		Median		
16-25	776	5.56	500	6.00
26-30	1,001	6.04	580	5.61
31-35	1,128	6.59	642	6.25
36-40	1,241	7.33	621	6.18
Total	1,056	6.57	589	6.07

Calculations based on UKHLS, 2010-19. As with Table 10:, figures are pooled across multiple years but do not adjust for inflation. Instead, they are intended to show the differences between employed and self-employed individuals and between individuals of different age groups.

HMRC tax return data provide information on reported earnings from self-employment. Furthermore, tax returns identify individuals who report being a director, thereby providing a partial insight into the nature of earnings from employment that are paid as dividends. Using SPI data for 2018/19, Table 17 provides a measure of total annual earned income, including dividend amounts. Individuals who operate as incorporated businesses rather than as sole traders can opt to receive payment via dividends in addition to (or instead of) pay from their company. This can reasonably be viewed as earnings from work, so it should be included in estimates of overall income.

To avoid results being distorted by outliers, we show median rather than mean earnings and focus on just four statuses: employed, self-employed, employed & self-employed, and employed and director (of a close company).[16] The age bands are different from those considered elsewhere in this report since they are pre-defined in the data (and there is no underlying age variable). The youngest group are the under-25s. Employees show the smallest annual earnings at this age, with self-employed earning more, and those reporting being both employees and self-employed earning more still. Being a director of a close company attracts a further premium. This pattern is the same for males and females, although for females the director premium is somewhat higher. By age 25-34, paid employment becomes substantially more lucrative than self-employment, and those who combine employment and self-employment earn less than those who are employees only. There is no longer any evidence of a director premium. In fact, employees in this age group who are also directors now earn less than employees who are not directors. Among the oldest age group, 35–44-year-olds, the pattern is broadly unchanged, although earnings for males who are both employed and self-employed are higher than among the 25-24s.

Those running their own business may form a limited company and pay themselves partly through a dividend. This is financially attractive since dividend earnings are taxed at a lower rate than earnings from employment. We provide some insight into this by showing earnings after including dividend payments. However, dividends can arise from sources other than earnings, and it is not possible from the data to know the extent of this. In recognition of this, we provide a lower bound estimate of earnings (excluding dividends) and an upper bound (including dividends in full).[17]

[16] Cell sizes become small for some of the other categories

[17] Note that we focus on close companies with the aim of making it more likely that the dividends come from a limited company that the respondent works for.

Including dividends substantially increases the earnings of employees who are also directors. This is true across all age groups and both males and females. Among the oldest group, median earnings, including dividends, are more than three times median earnings excluding dividends.

Table 17: Median earnings, 2018/19. Calculations based on SPI, 2018/19

	Employee	Self-employed	Employee & self-employed	Employee & director (close), excl dividends	Employee & director (close), incl dividends
Males					
Under 25	8,540	11,700	13,120	9,500	17,910
25 - 34	23,340	15,500	18,940	10,050	28,470
35 - 44	29,400	14,200	23,040	10,900	37,350
Females					
Under 25	6,850	7,670	11,540	11,900	18,700
25 - 34	17,800	8,950	15,020	10,400	25,500
35 - 44	18,600	8,480	15,490	10,300	31,100

A further attraction of receiving income via dividends is that, because they are taxed in the year they are paid, company directors have some flexibility to structure their income in a way that minimises their total tax. Most efficient is for directors to pay themselves a salary of an amount that uses up their tax-free allowance and, beyond that, to pay themselves in dividends. The savings from this approach can be substantial; in 2018/19, the basic tax rate on dividends was 7.5%, compared with 20% for income tax. Furthermore, dividend payments can spread over tax years in a way that allows for further tax savings (Miller et al., 2024).

Figure 43 compares the distribution of income with and without dividends of employees who are also directors of a close company and who received total income of up to £100,000 in 2018/19.

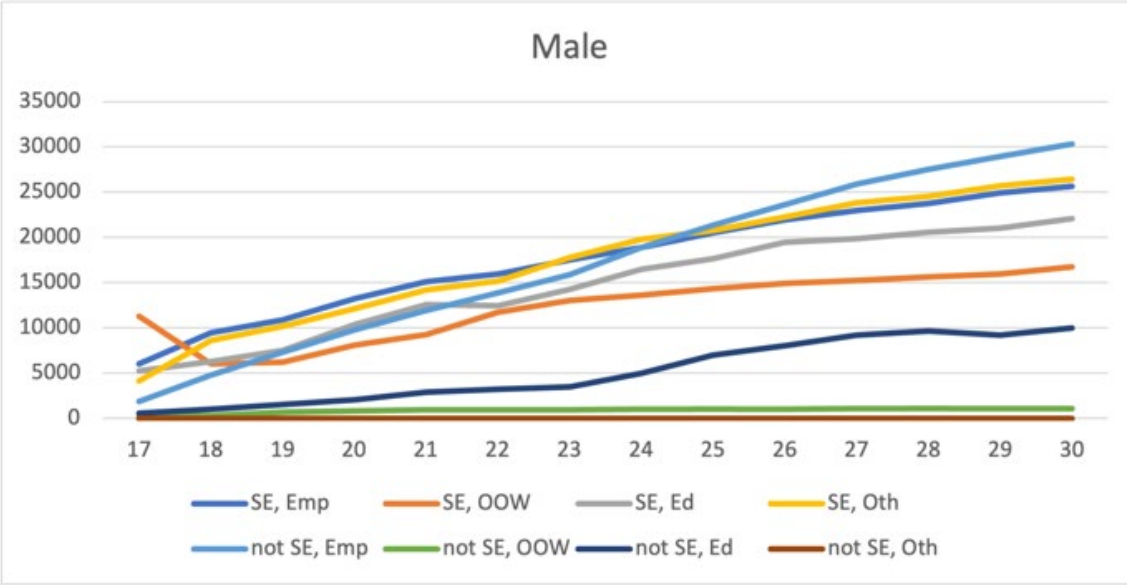
The height of each bar shows the percentage falling within a specific £1,000 range, and the typical composition of income at that point is also shown. The first spike in the distribution is around the National Insurance primary threshold (£8,424), at which point nearly all income is from employee earnings. There is also some clustering around the income tax allowance (£11,850), again mainly from employee earnings. Dividends begin to become more important beyond this point.

The most pronounced spike in the distribution is at the basic rate tax limit (£46,350). The concentration of individuals at this point and the fact that it is mostly due to dividend income is consistent with such 'tax planning'.

Figure 43: Distribution of earnings for individuals who are employees and directors 2018/19 Calculations based on SPI, 2018/19

Using LEO data, Figure 44 illustrates the evolution of earnings for the 2014 KS4 cohort up to age 23 and uses earlier cohorts to impute earnings to age 30. For those observed to be in self-employment, Figure 45 shows what percentage of total earnings are accounted for by self-employed earnings.

Figure 44: Total earnings by gender



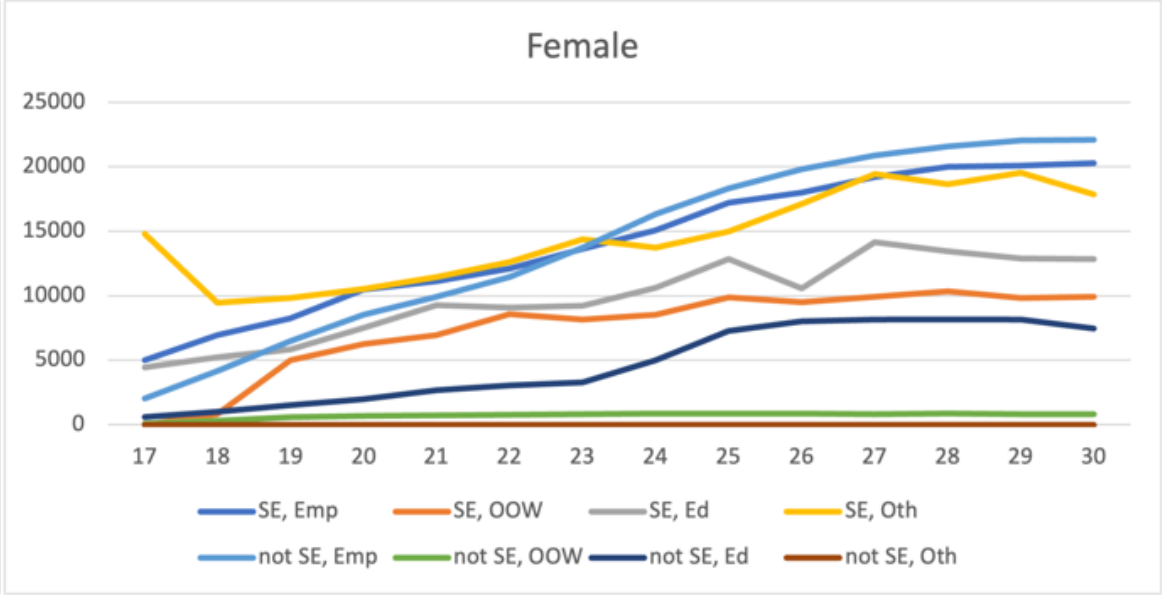
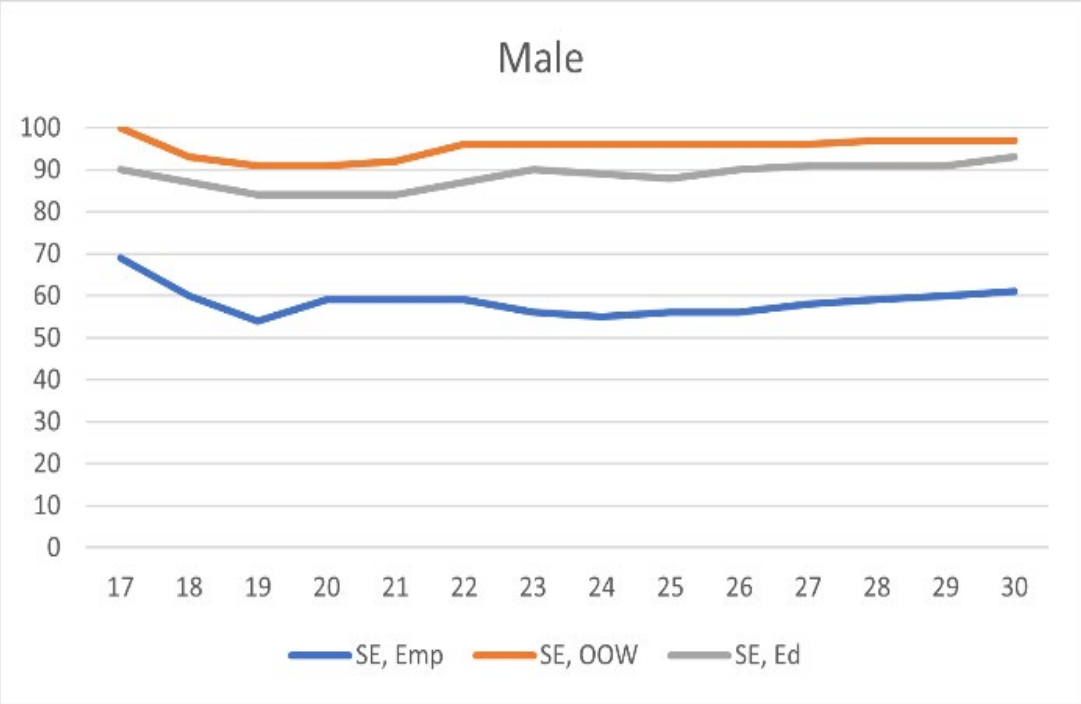
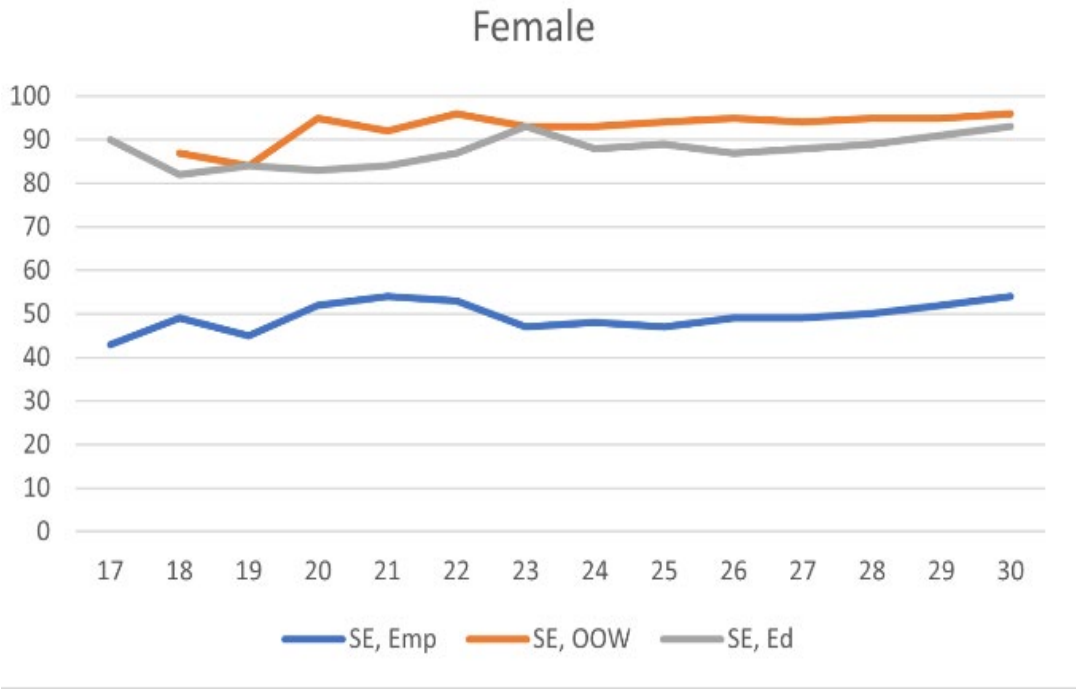


Figure 45: SE earnings as a % of total earnings by gender





In the early post-school years (ages 17–20), total earnings are relatively modest across all categories (as expected) but grow steadily thereafter. For males, the highest earnings are among those who are self-employed either with or without an employee job too ('SE, Emp', 'SE, Oth'). Over time, relative earnings among the 'not SE, emp' group grow and, from age 25 onwards, outstrip all others. For females, earnings are highest for 'SE, Oth' over this period. This category captures those for whom self-employment is their only source of earnings. 'SE, Emp' is the second-highest category but grows over time to surpass 'SE, Oth' after age 23. Earnings among 'not SE, Emp', i.e. paid employees, also grow over time and emerge after age 23 as the highest earning category. Across both genders 'SE, Emp' and 'SE, Oth' move together in terms of total earnings, despite the earnings share of self-employment being very different between the two.

In the 'SE, Emp' category, mean earnings for females increase to about £20,300 (in 2020/21 prices) by age 30, with the self-employment share rising to just over half (54%). For males, average earnings climb to around £25,600 by age 30, with self-employment contributing 61% of the income at that age. These figures suggest that while earnings from employment remain a substantial component of income, the share of self-employed earnings grows over time.

By age 30, the highest absolute earnings for both genders are observed in the 'not SE, Emp' category, reaching around £30,000 for males and £22,000 for females by age 30. This highlights the strong income-generating potential of traditional employment. The earnings combination from employment and self-employment is a close second. For males, 'SE, Emp' records mean earnings of roughly £25,600, with self-employment contributing about 61% of total income by age 30. For females, the combination of wage work and self-employment yields a mean of about £20,300, with over half of the income derived from entrepreneurial activity. By contrast, while categories such as 'SE, OOW' and 'SE, Ed' exhibit very high self-employment shares (often above 90%) and 'SE, Oth' shows a full reliance on self-employment, their absolute earnings tend to be more modest.

Overall, these data reveal a gradual increase in total earnings as young adults transition from their late teens into their early thirties and a continuing sizeable contribution of self-employment earnings. Although standard employment remains the strongest income source in absolute terms, combining employment with self-employment – particularly as seen in the 'SE, Emp' category – emerges as a viable pathway, with men in this group achieving higher earnings and a greater self-employment income share than women by age 30. This nuanced picture underscores that self-employment in early career trajectories often coexists with, rather than replaces, regular employment, and its role grows steadily as individuals gain experience and explore alternative income sources.

Subjective assessment of work situation

Satisfaction with income

While comparing earnings from self-employment and paid employment faces measurement and definitional challenges, it is possible to ask the fundamental question of how satisfied individuals are with their earnings. Figure 46 shows that, across all age groups and for both males and females, there is little difference between self-employed and employees in the proportion reporting that they are completely satisfied with their income. Such levels of satisfaction are considerably more common among the youngest respondents. Overall, though, the self-employed are more likely than employees to register some dissatisfaction with their income. Among the 16-25 group, this is particularly the case for females.

Other aspects of job quality

There may be aspects of being self-employed that offset the dissatisfaction with income. Figure 47 suggests job satisfaction may be one such consideration. Self-employed people – male and female, across all age groups – are much more likely to be completely satisfied on this front (overall, roughly one quarter report this, compared to 15 per cent among employees).

To probe this further, Figures 48 and 49 report on what respondents cite as the main attraction of their current job. This is shown for all age groups combined. For self-employed people, the most commonly mentioned attraction is the ability to "be your own boss". This is the case for males and females, across all age groups. Among women, self-employment has the appeal of more flexible hours. This is not apparent for the youngest age group, but kicks in for those older than 25. Employees most often gave "better money" as the main attraction, although this was also a common response among the self-employed, particularly males. Less prominent among the self-employed was the second most common response given by employees: "better career prospects."

Figure 46: Satisfaction with income (%) Calculations based on UKHLS, 2010/19. A value of 1 indicates "completely dis-satisfied", a value of 7 indicates "completely satisfied".

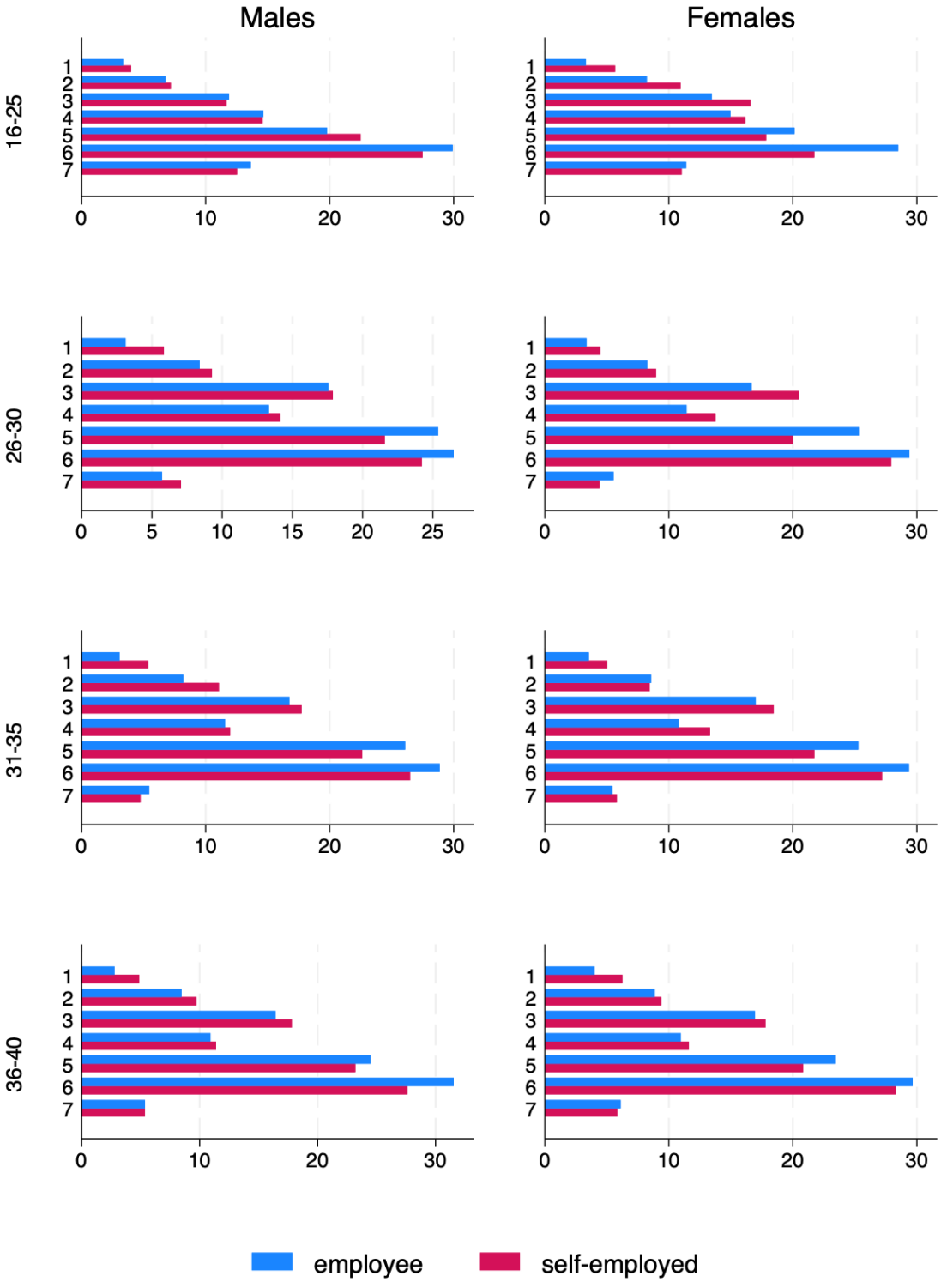


Figure 47: Satisfaction with present job %. Calculations based on UKHLS, 2010/19. A value of 1 indicates "completely dissatisfied", a value of 7 indicates "completely satisfied".

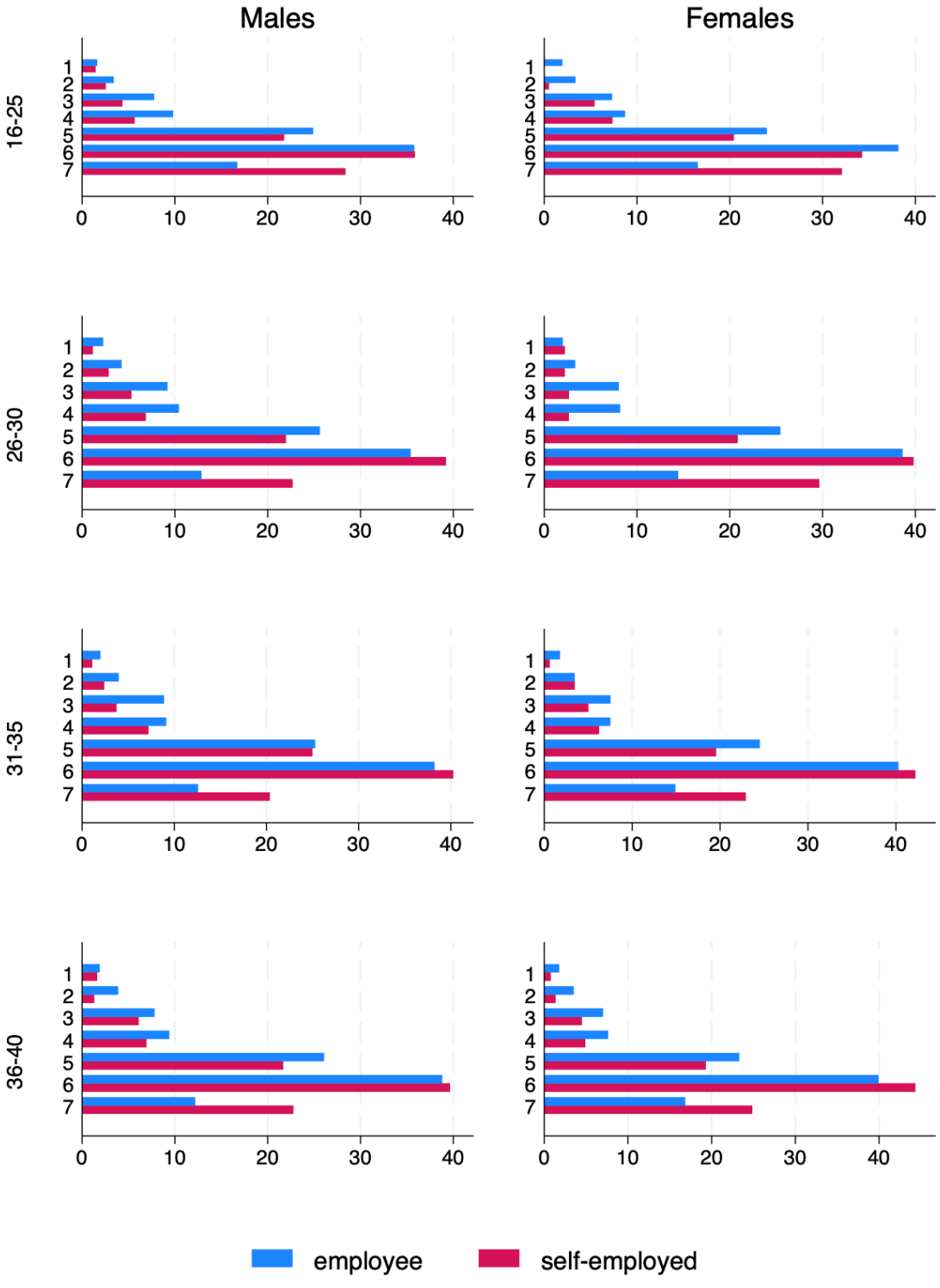


Figure 48: Main attraction of current job, males. Calculations based on UKHLS, 2010/19.

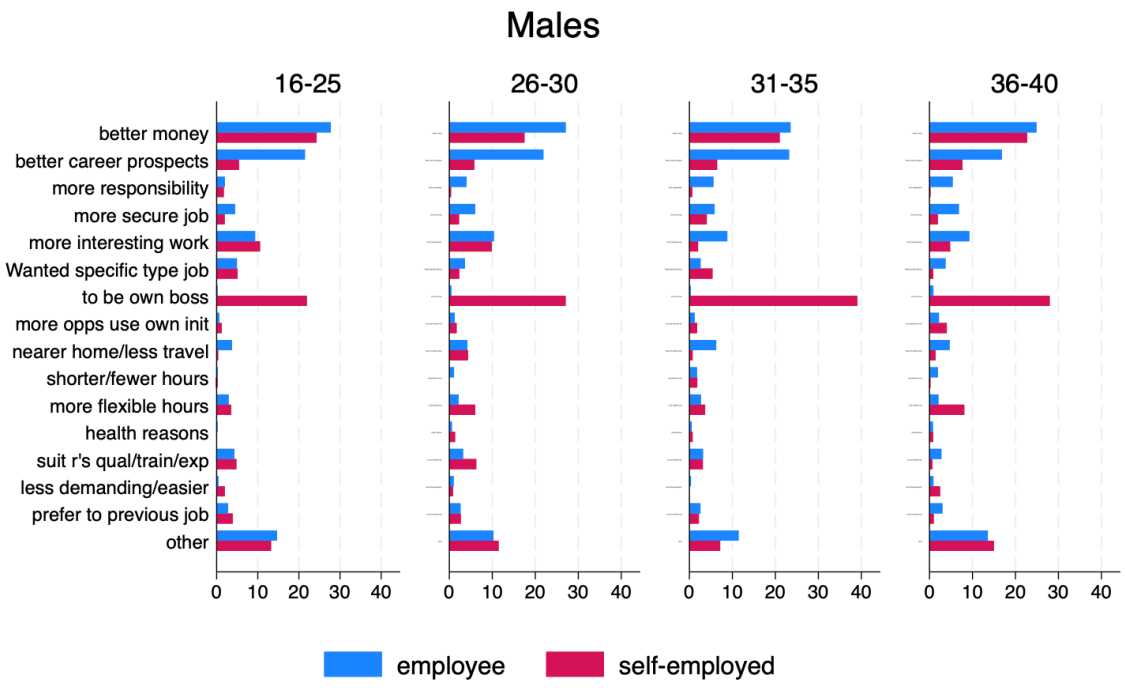


Figure 48: Main attraction of current job, female. Calculations based on UKHLS, 2010/19.

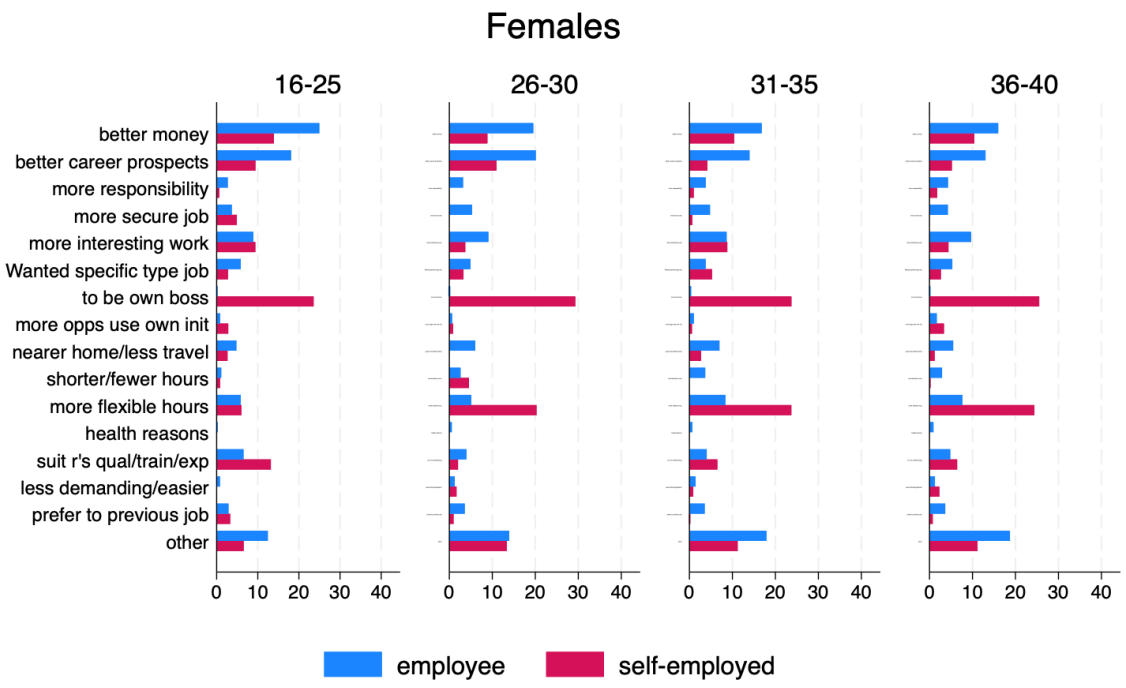


Table 18 shows levels of job-related anxiety. In all cases, average anxiety levels are at least as high (as evidenced by a low score) among employees as they are among the self-employed. For females, this distinction is more marked with self-employed women appearing notably less anxious about their job than employed women, especially in the youngest two age groups. This difference is of roughly 20-25% of a standard deviation.

Table 18: Mean job-related anxiety (high=least anxious). Calculations based on UKHLS, 2010/19. Measures are standardised to be mean-zero and unit standard deviation, so a positive amount indicates lower anxiety than in the population as a whole.

	Males		Females	
	employee	self-employed	employee	self-employed
16-25	0.25	0.28	0.03	0.26
26-30	0.01	0.04	-0.15	0.10
31-35	-0.03	-0.03	-0.09	0.04
36-40	-0.01	0.01	-0.09	0.16

Table 19 provides analogous results for job-related depression. These results are even more emphatic, showing self-employed people to be less depressed about their job than employed people. Furthermore, unlike with job-related anxiety, this is strongly evident for males as well as females.

Table 19: Job-related depression (high=least depressed). Calculations based on UKHLS, 2010/19. Measures are standardised to be mean-zero and unit standard deviation, so a positive amount indicates less depression than in the population as a whole

	Males		Females	
	employee	self-employed	employee	self-employed
16-25	0.11	0.24	-0.03	0.29
26-30	-0.08	0.16	-0.08	0.36
31-35	-0.08	0.03	-0.03	0.17
36-40	-0.01	0.06	-0.02	0.31

Chapter 7: New businesses and their survival

Companies being set up by 18-30 year-olds, 2023

The questions in this subsection focus on individuals up to the age of 30 who, at the time of interview, were trying to start up a business. The most common legal status was to set up as a sole trader (Figure 50). This accounted for close to two-fifths of cases. Limited companies accounted for a quarter of cases, and partnerships roughly one-fifth.

Figure 50: Legal form of company to be set up, 2023

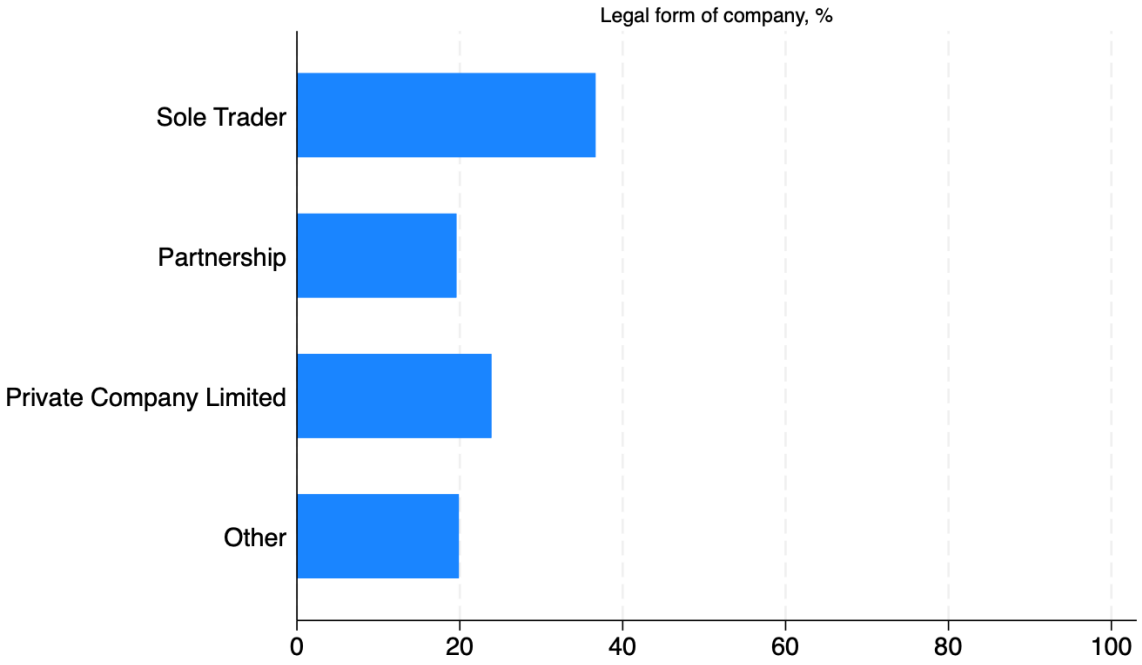


Table 20 shows the industry of the start-up according to the International Standard Industrial Classification (ISIC). The majority of businesses are within the "Wholesale & retail trade; repair of motor vehicles and motorcycles" ISIC section. Within this, the largest single 4-digit (i.e. most detailed) category is "Retail sale via mail order houses or via Internet". This is consistent with data from Companies House that likewise shows this to be the most common industry among newly-incorporated companies whose oldest director is at most 30.

Table 20: Industry of start-up

ISIC section	%	
Manufacturing	7.4	
Construction	2.6	
Wholesale & retail trade; repair of motor vehicles and motorcycles	36.9	
of which:		
- Retail sale of clothing, footwear and leather articles in specialized stores		*20.6*
- Retail sale via mail order houses or via Internet		*31.8*
Transportation & storage; Accommodation and food service activities	6.5	
Information and communication	5.5	
Financial and insurance activities; Real Estate activities	3.0	
Professional, scientific and technical activities; Administrative and support service activities	15.5	
Public administration and defence; compulsory social security; Education; Human health and social work activities	7.5	
All Other activities	15.0	
Unweighted number of observations	102	

Young entrepreneurs devote substantial amounts of time to setting up the new business, with more than half spending in excess of 10 hours a week (Figure 51). Most anticipate trading from home, and in nearly all cases, they expect to serve customers in their local area. Most also expect to have customers further afield in the UK. Nearly half also expect to have customers overseas.

Figure 51: Time spent setting up the company and trading intentions, 2023

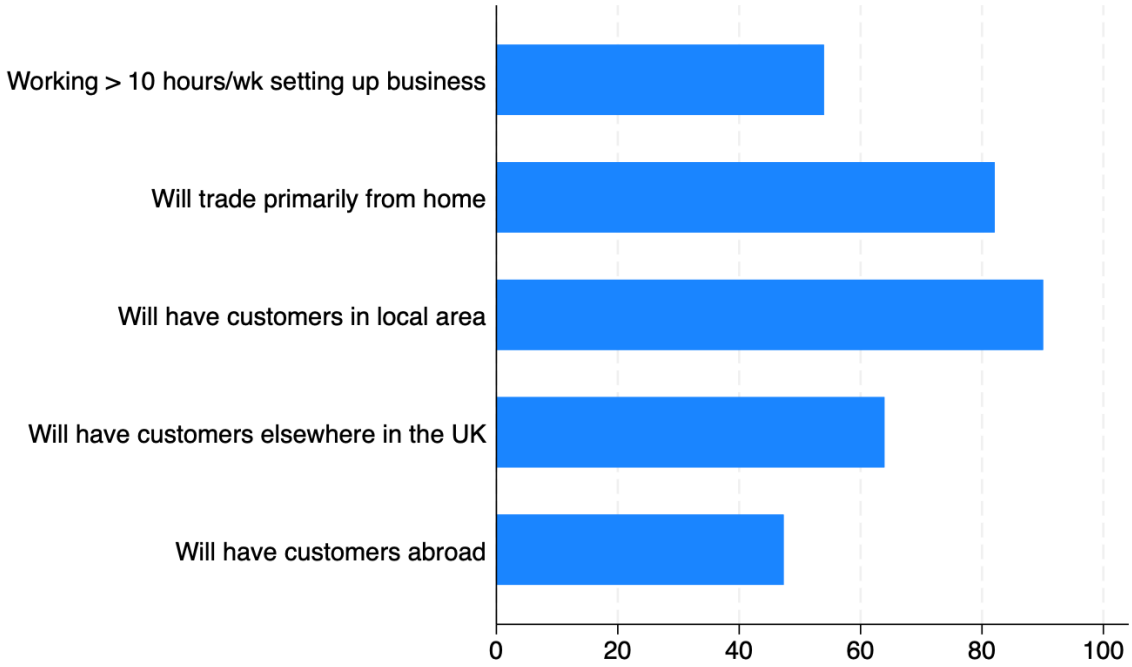


Figure 52 reports the reasons young people give for wanting to start up their business. Most appealing is the flexibility offered by being your own boss. There is also evidence of both economic push factors ("Because jobs are scarce") and pull factors ("To build great wealth"). Many are also drawn to the possibility of making a difference in the world. Continuing a family tradition is less often a reason.

Figure 53 shows how young people's new businesses are funded. In two-thirds of cases, it is the entrepreneur who funds the start-up entirely. Where other sources of funding are sought, these tend to come mainly from close family (spouse, parent, sibling), from banks or from the government. However, other, less obvious, sources account for a significant minority of cases. For instance, funding is expected from colleagues, friends/neighbours and crowdfunding.

Figure 52: Reasons for starting up the company, 2023

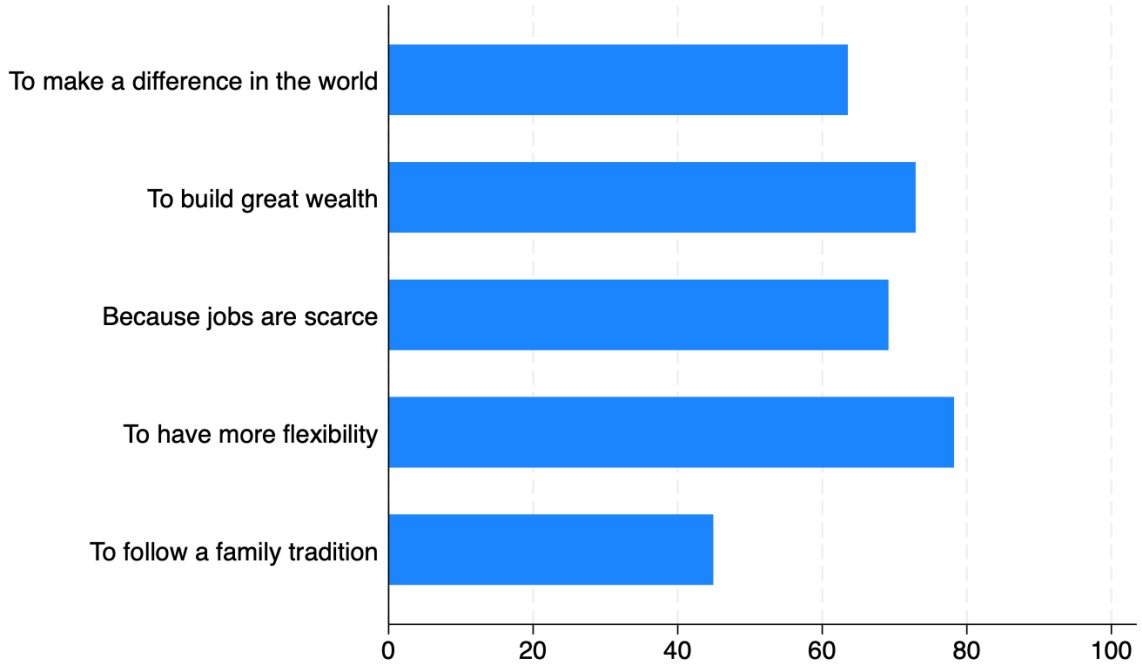


Figure 53: Expected funding of start-ups, 2023

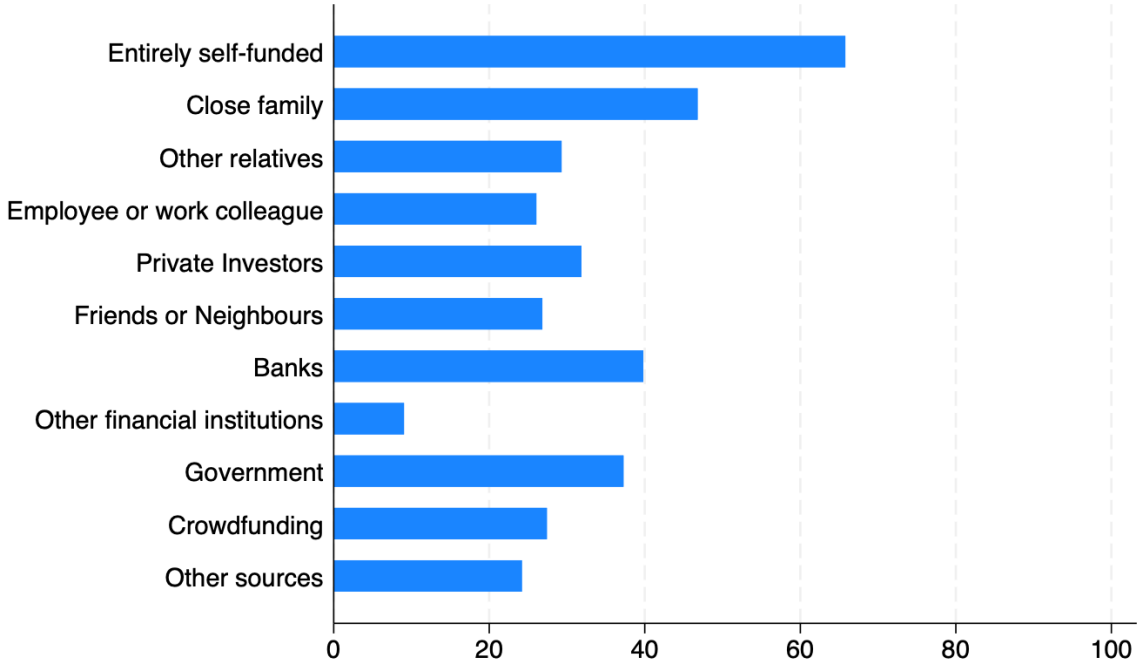


Table 21 shows the amount of money those aged 18-30 expect to need to start up their business. The majority (83%) do not require any money. Where some money is required, the median expectation is £2,200. The distribution of amounts required has a long right tail, though; the lower quartile is £500 while the upper quartile is over £17,000. This pattern is evident when considering the amount that individuals expect to fund from their own money. The median in this case is £4,000.

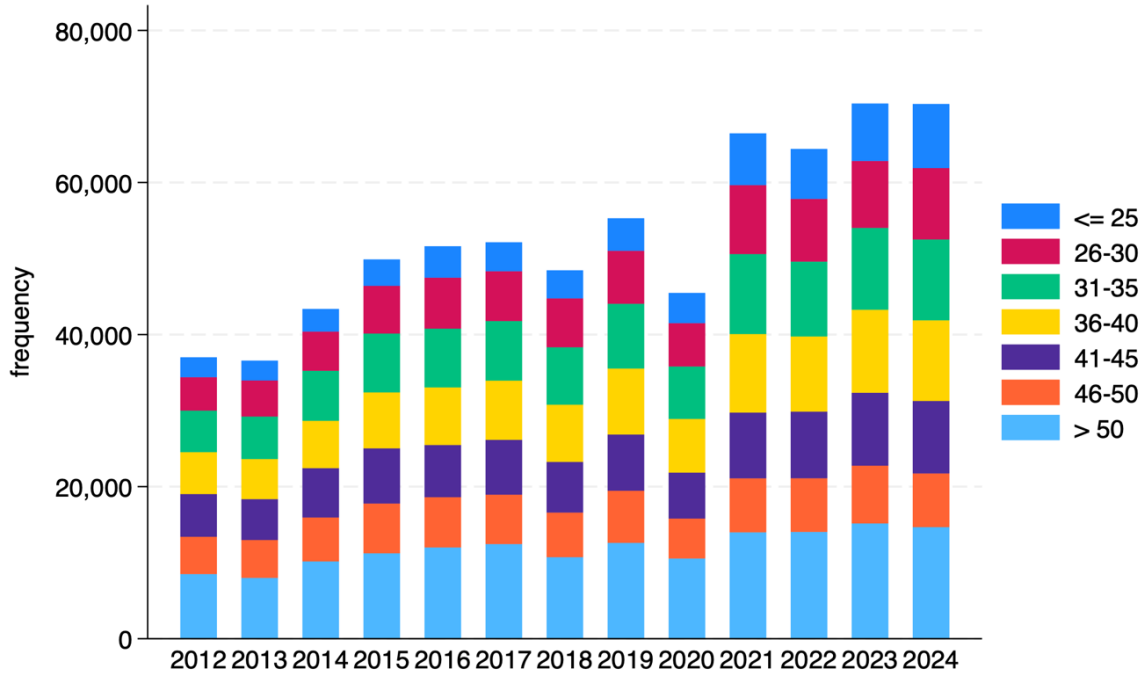
Table 21: Amount of money expected to be required to start-up companies

No money required	83.4%
Amount of money, where required:	
- 25th percentile	£500
- Median	£2,200
- 75th percentile	£17,282
Amount of own money used, where any:	
- 25th percentile	£500
- Median	£4,000
- 75th percentile	£15,000

Newly-incorporating companies, 2012-24

Figure 54 shows the breakdown by age of the oldest director of companies incorporated in March over the period 2012 to 2024. Over time, there has been a shift towards younger entrepreneurs. In 2012, the oldest director was over 40 in just over half (51%) of all new companies. By 2024, this had fallen to 44%, with the biggest increase being among those aged 25 or younger; from 7.0% to 12.0%. Younger people have been leading the observed surge in company formations.

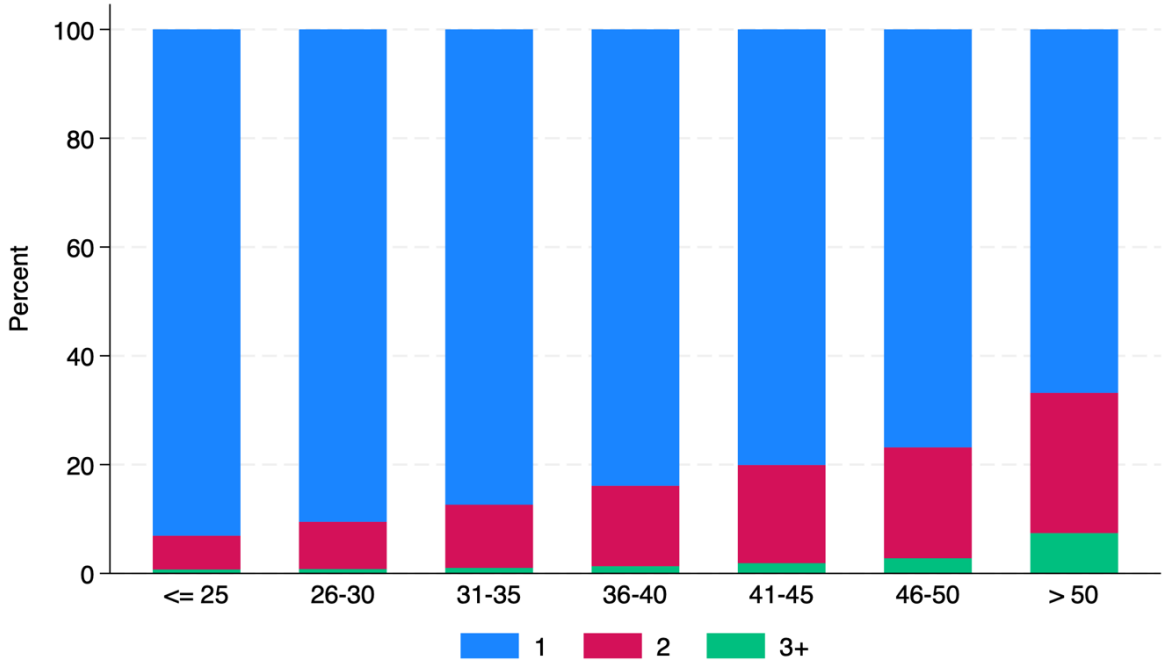
Figure 54: Number of March start-ups by age of oldest director, 2012-2024



Start-ups vary in the number and mix of their directors. Figure 55 shows that more than 80% of companies are started by single individuals. There is notable variation by age. Companies with younger directors (in the sense of their oldest director being in a younger age band) are more likely to be sole directors than companies with older directors.

Among the under-25s, 93% of companies have just one director compared to 67% among the over-50s. Where there are multiple directors, the most common is for there to be two. Again, this is age-related, and it is very rare for there to be more than two founding directors among the younger age bands.

Figure 55: Number of directors of March start-ups

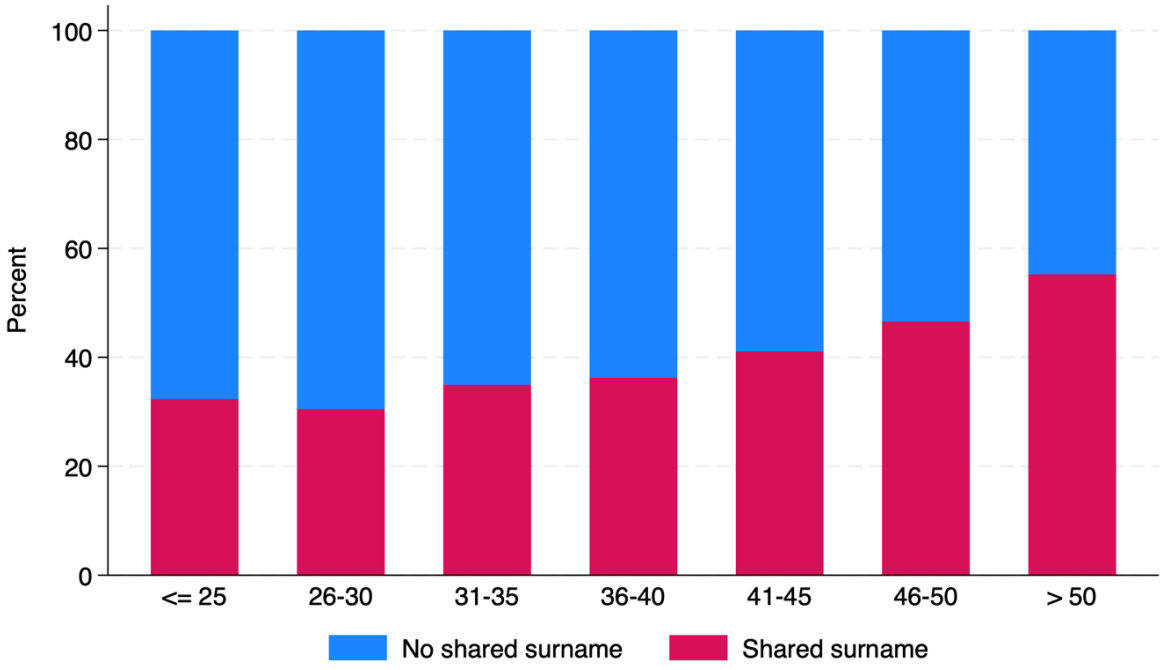


Where there is more than one director, it is often the case that directors share a surname. While not an exact measure, this may be suggestive of family members setting up companies. Figure 56 shows that in roughly one-third of multi-director companies where the youngest director is 25 or under, at least one of the other directors has the same last name.

This proportion increases with age to the point where, among over-50s, the proportion is nearly one-half. The increase with age is unbroken, other than the 26-30s being somewhat less likely than the under-25s to share a surname.

One interpretation of this might be that the tendency to set up a company with a parent reduces with age, and the tendency to set up a company with a spouse increases with age, and the 26-30 age band represents the point where the two trends intersect to minimise the tendency to work with a relative, however defined. Although the proportion in the 26-30 group is only slightly below that of the 25 and under group (a difference of two percentage points), it is a pattern that has held in each of the last seven years.

Figure 56: Shared surname among start-up directors



Company survival

Not all businesses survive. Table 22 shows that the probability of shutting down a business is highest among 18–25-year-olds. Note that this is calculated across all respondents rather than just those who have a business. Coupled with the lower rates of entrepreneurship amongst this group, the impression is of businesses started by the youngest people being at a higher risk of closure. For the next youngest group, 26-30 year olds, business closures are less likely.

Among both groups, closures were often due to personal reasons, having another job or a business opportunity. For 18-25s, profitability and bureaucracy were mentioned more often than among 26-30s, who were more likely to cite difficulty of raising finance as the main reason.

Among incorporated companies, start-ups with younger directors tend not to survive as long as those with older directors. Figure 57 shows this variation. Nearly all companies are recorded as surviving their first year, but beyond this, there is a clear age gradient, with younger directors associated with shorter survival. Most of the shake-out is by year two.

Among start-ups with no founding director over the age of 25, more than half will no longer be observed as active after two years. By contrast, the majority of companies with directors over the age of 35 survive more than three years. The positive correlation between director age and company survival is maintained at all durations. Figure 58 shows predicted survival probabilities (with 95% confidence intervals) from multivariate (probit) regressions of activity status at various durations post-incorporation for companies whose youngest director is 25 or younger. These regressions control for the director characteristics, the region where the company is registered, the local unemployment rate at the time of incorporation and the calendar year.

Companies where directors share a surname tend to survive longer than companies where directors do not share a surname. Companies where the directors sharing a surname have an age difference of 20 or more years are most likely to remain, followed by same-surname, same-generation director companies. These survival rates are significantly higher than those for sole director and different-surname multi-director companies.

Table 22: Business closures

	Age group:				
	18-25	26-30	31-35	36-40	41-64
Did you shut down your business last year? (col %):					
- Yes	10.7	7.5	9.0	7.3	4.7
- No	86.6	91.2	88.6	91.9	93.9
- Refused	2.7	1.3	2.4	0.8	1.4
What was the main reason? (col %):					
- An opportunity to sell the business	3.5	2.7	7.5	0.0	7.6
- The business was not profitable	13.1	4.4	15.8	12.1	19.7
- Problems getting finance	9.0	20.6	8.4	14.5	4.3
- Another job or business opportunity	16.6	17.4	17.9	10.3	12.6
- Retirement	2.9	3.9	4.9	1.8	7.6
- Family or Personal reasons	21.5	26.0	19.5	19.8	15.3
- Government/tax policy/bureaucracy	12.3	5.4	6.0	10.8	8.8
- The coronavirus pandemic	4.5	7.8	4.2	10.1	9.4
- Another business opportunity	8.2	4.3	10.1	10.4	5.1
- Problems with supply	5.3	4.4	5.6	6.4	3.6
- Other	0.4	0.0	0.0	0.3	5.9
- Refused	2.7	3.0	0.0	3.5	0.2

Figure 57: Company survival, by age of oldest director

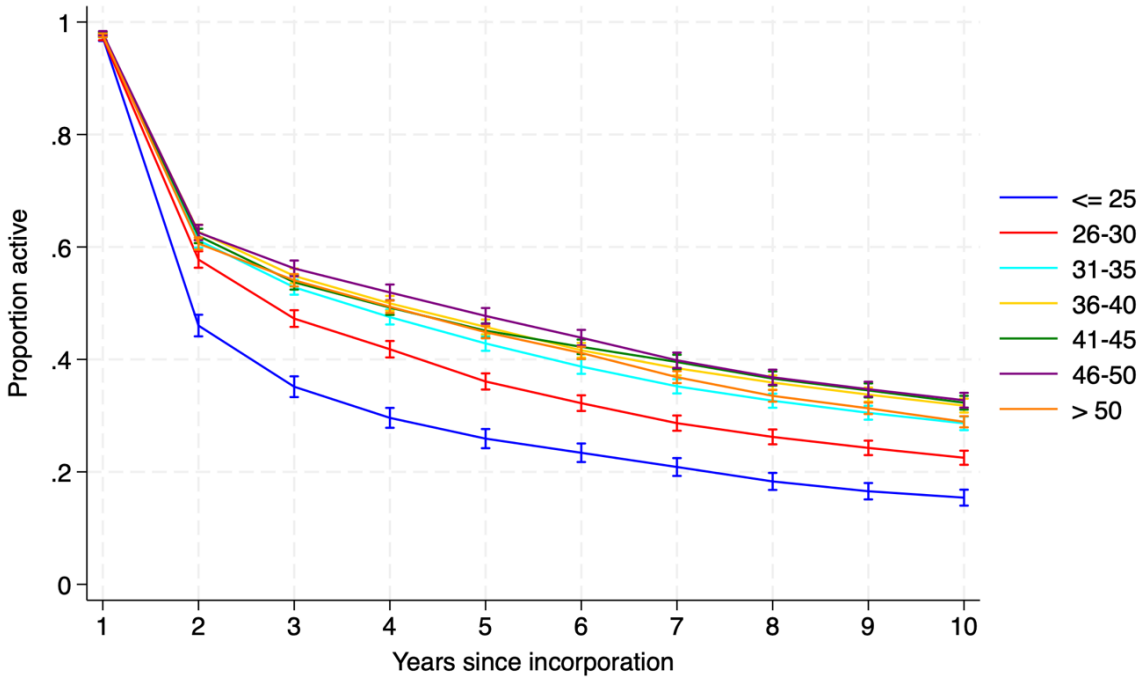
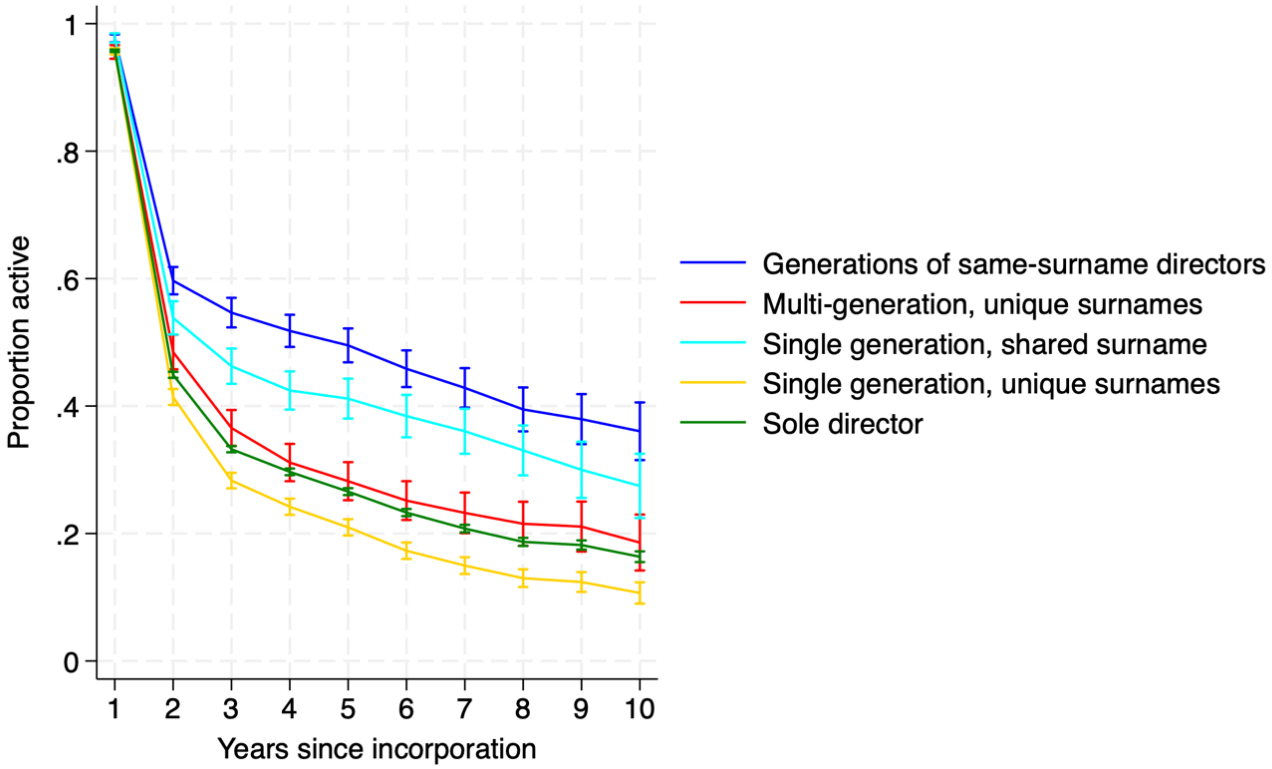


Figure 58: Average adjusted predictions of survival for start-ups with a director aged 25 or under, by director composition



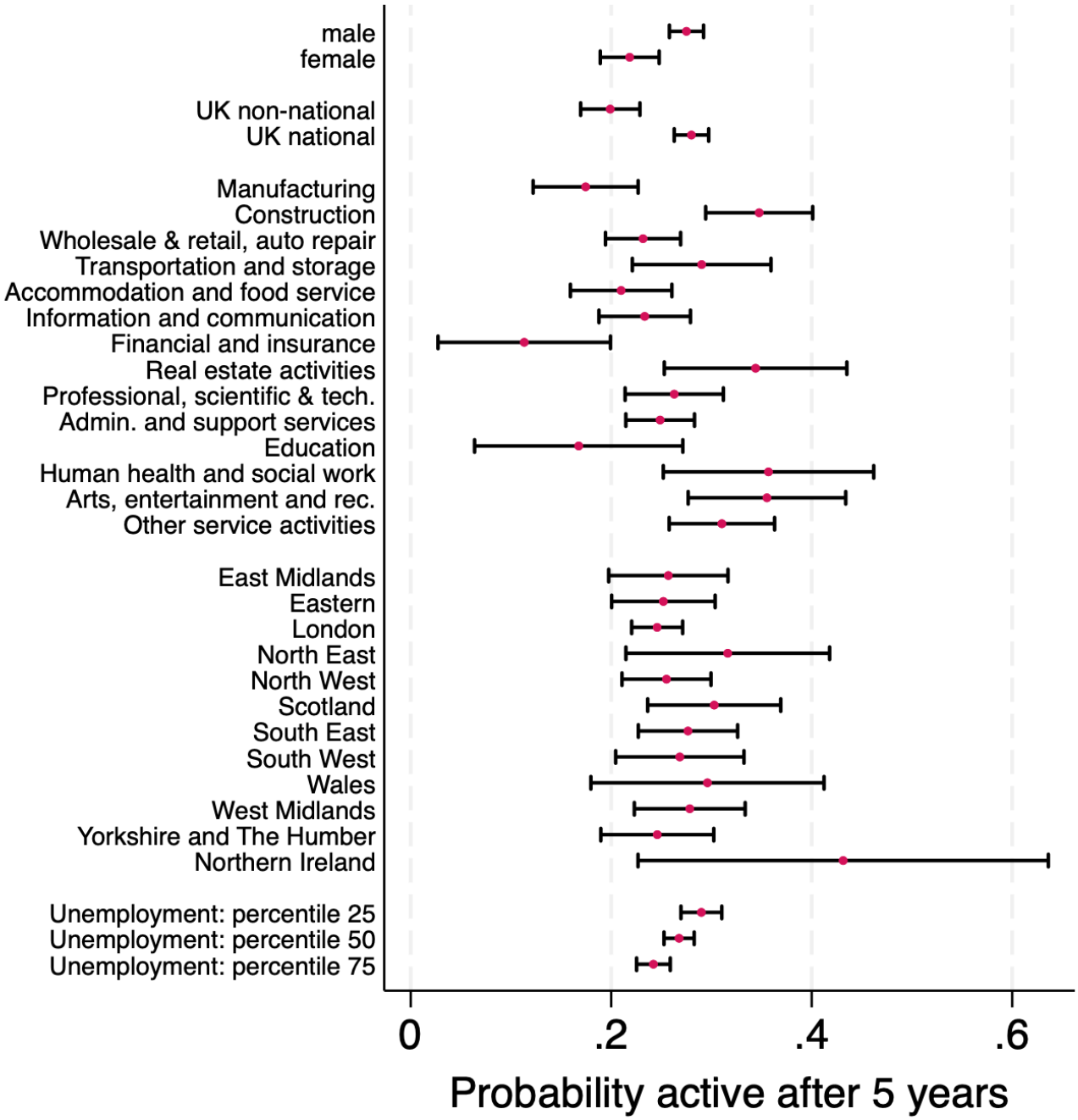
The extent to which other characteristics are associated with company survival is shown Figure 59. The focus here is on companies started by a single director aged 25 or younger. Single director companies are chosen not only because they constitute the majority of start-ups for this age group but also because they lend themselves more readily to a consideration of the role of personal characteristics.

For a range of grouped characteristics, the probability of companies still being active five years after incorporation. Point estimates are shown along with 95% confidence intervals to provide an indication of the significance of the variation. By gender, companies started by young males are more likely to still be active five years later than companies started by young females. Companies started by UK nationals are more likely to be active than companies started by non-nationals. Industry reveals a complicated pattern, with high survival rates for Construction companies and low rates for Financial and Insurance companies.[18] However, the confidence intervals are quite wide, indicating some imprecision in the estimates.

Interestingly, the results do not provide much evidence of regional variation. Indeed, tests of the estimated coefficients cannot reject the null hypothesis of no such variation. There is, though, variation in the relationship with unemployment. Specifically, survival rates are higher when the rate of unemployment is lower. The measure of unemployment used is defined at the level of the local authority. One conclusion might be that the region is too coarse a level by which to expect differences in company survival; what is more important is the strength of the local labour market.

[18] For visual clarity, industry categories accounting for very few companies (less than 1%) are excluded and those companies dropped from the data used to estimate the probit regression.

Figure 59: Average adjusted predictions of 5-year survival among companies started up in March 2017 by a single director aged 25 or younger



Conclusion

This report attempts to inform the question of whether a suitably-designed programme of support might offer an opportunity for young people who are not in employment, education or training to fruitfully enter self-employment. Here we look across the wide range of statistics presented to distil key findings and their implications this broader aim.

A point to highlight is that the proportion of adults who are self-employed is substantially below the proportion who, when younger, anticipate being self-employed. This is suggestive of either obstacles to employment or of preferences changing with age. If the former applies, there is a role for support to address obstacles and allow the preference for self-employment to be realised. The report provides clues as to what such obstacles may be. For instance, some young people may be unaware of opportunities, may lack the networks where entrepreneurism exists or may be held back by a fear of failure. Limited companies set up by young people tend not to survive as long as those with older directors. Where there are co-directors who are relatives, particularly older relatives, survival is significantly longer. Again, this points to how young people can benefit from support and the experience of others.

Average earnings for self-employed young people are higher than those of their employed peers, but do not grow as quickly. By their mid-20s, employees' earnings are higher and remain so thereafter. Nevertheless, job satisfaction tends to be higher and job-related anxiety and depression lower for self-employed people relative to employees. This is especially marked for women, who value the flexibility that self-employment can offer. It appears then that self-employment can provide a good option for some people. This both justifies encouraging young people to consider self-employment and may help in convincing them to do so.

However, there is a great deal of variation across individuals. A distinction made throughout the report is between males and females. Self-employment is concentrated among males with low/no qualifications, while for females, it is more common among those with higher qualifications. Accordingly, self-employed males have lower average levels of cognition than their employed counterparts, while the opposite is the case for females. Aside from this gender dimension, there is important variation by other characteristics such as ethnicity, migrant status, health and personality.

Overall, the results presented in this report are suggestive of there being a group of young people currently outside the labour market who might benefit from pursuing self-employment. A programme of support that is sufficiently tailored to their individual needs and circumstances could help tap into this pool and, in doing so, offer improved prospects to a marginalised group of young people.

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Annex

A complication surrounding the results showing trends over time is that the format of questions asked of respondents changed in 2019. Prior to this, questions relating to perceptions simply asked respondents whether they "agreed" or "disagreed" with a statement. The longitudinal results pre-2019 are calculated as the number responding "agree" divided by the sum of the number responding "agree" plus the number responding, "not agree" (those refusing to answer or who don't know are excluded from the calculation). Beginning 2019, respondents were asked whether they "strongly agreed", "agreed", "neither agreed nor disagreed", "disagreed" or "strongly disagreed". The convention followed by GEM was to calculate the proportion agreeing as the number who "agree" or "strongly agree" divided by the number who expressed a preference. This essentially treats the "neither agree nor disagree" response in the same way as the "don't know" response (which remains an option on the questionnaire). This change may affect the reported trends over 2002-2023. To provide a sense of this, this Annex presents statistics for 2023 using two definitions: first, "strongly agree" or "agree" divided by the number of responses other than "don't know" and "refused"; second, "strongly agree", "agree" or "neither agree nor disagree" divided by the number of responses other than "don't know" and "refused".

Figure 60: Respondents who report having the skills and experience to start a business by entrepreneurship orientation, 2023: sensitivity to treatment of "Neither agree nor disagree" responses

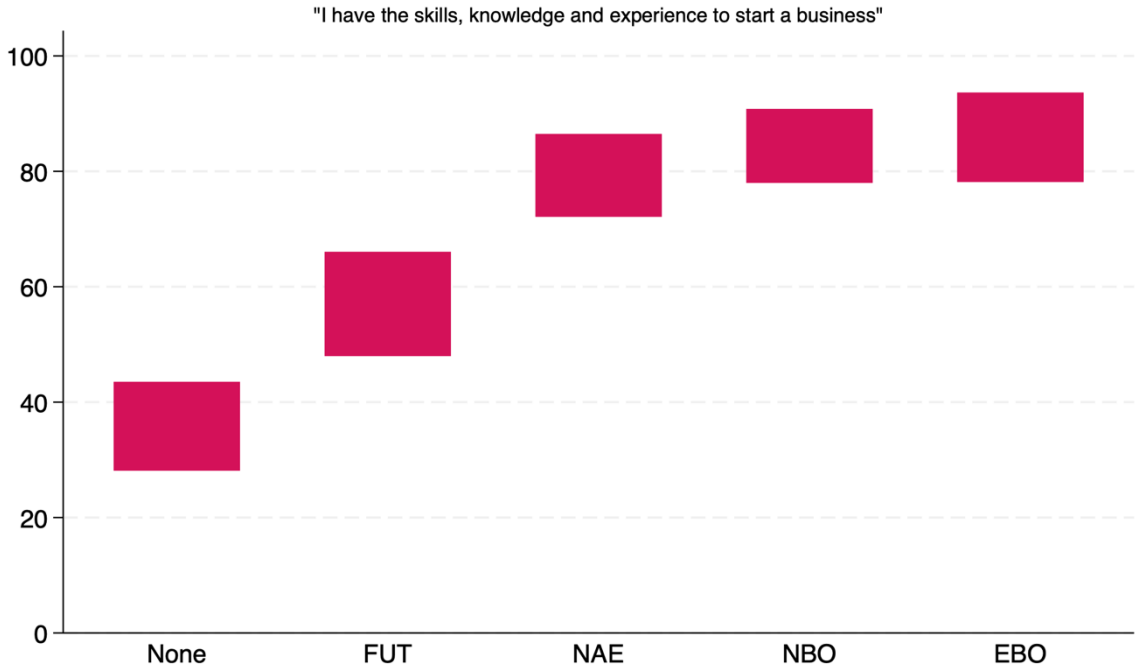

Figure 61: Respondents who see good start-up opportunities locally in the next six months by entrepreneurship orientation, 2023: sensitivity to treatment of "Neither agree nor disagree" responses

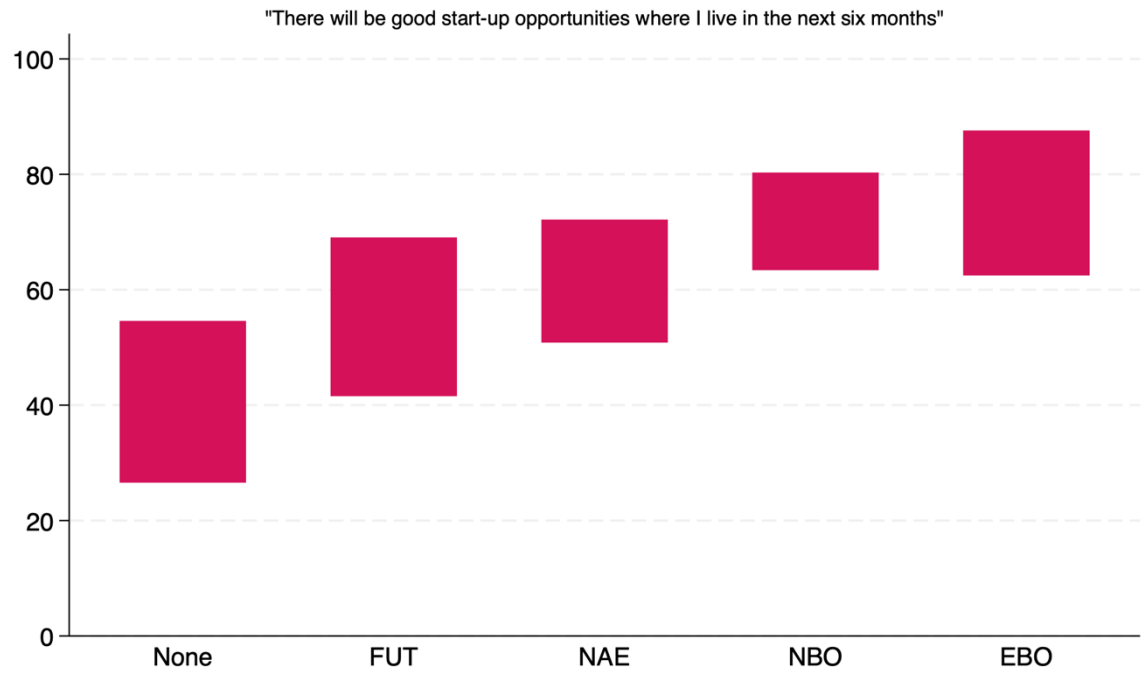

Figure 62: Respondents for whom fear of failure would prevent them from starting a business by entrepreneurship orientation, 2023: sensitivity to treatment of "Neither agree nor disagree" responses

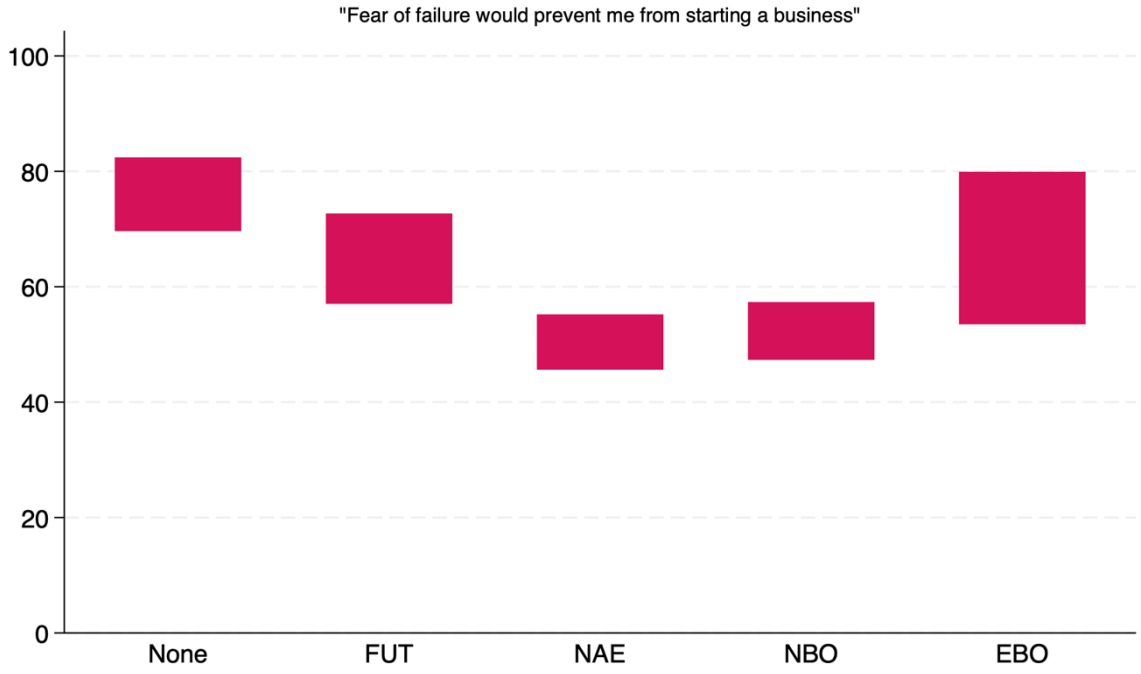

Figure 63: Respondents who feel that most people consider starting a business is a good career choice by entrepreneurship orientation, 2023: sensitivity to treatment of "Neither agree nor disagree" responses

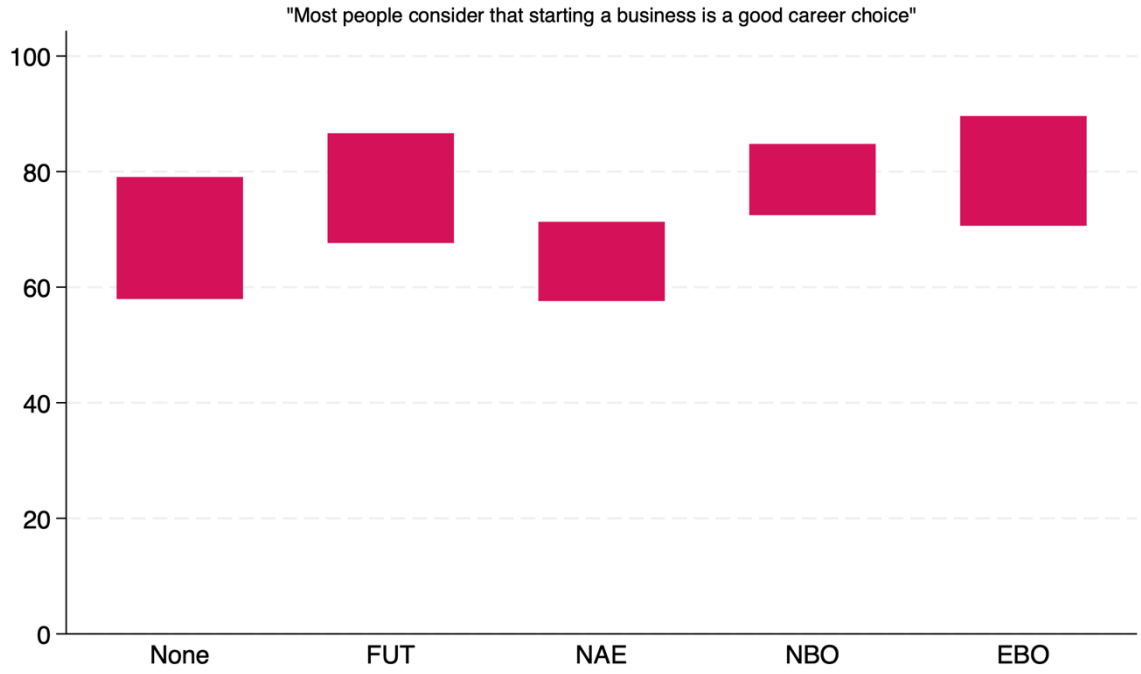

Figure 64: Respondents who agree that individuals who successfully start a business have a high level of status and respect by entrepreneurship orientation, 2023: sensitivity to treatment of "Neither agree nor disagree" responses

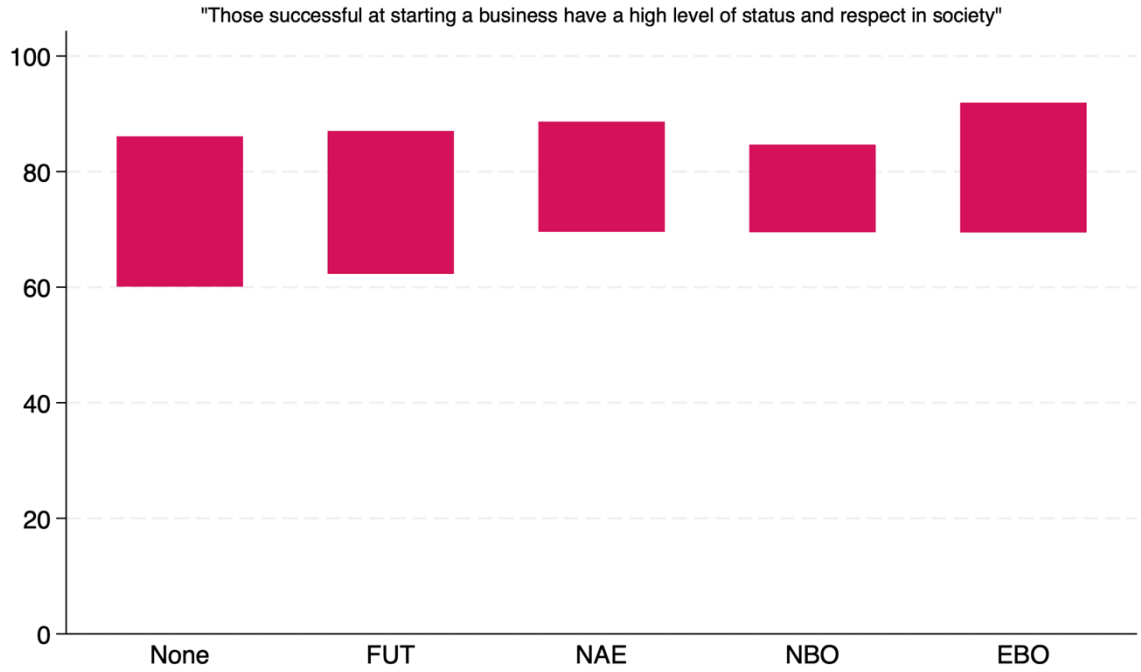

Figure 65: Respondents who agree that individuals who successfully start a business are often reported in the media by entrepreneurship orientation, 2023: sensitivity to treatment of "Neither agree nor disagree" responses

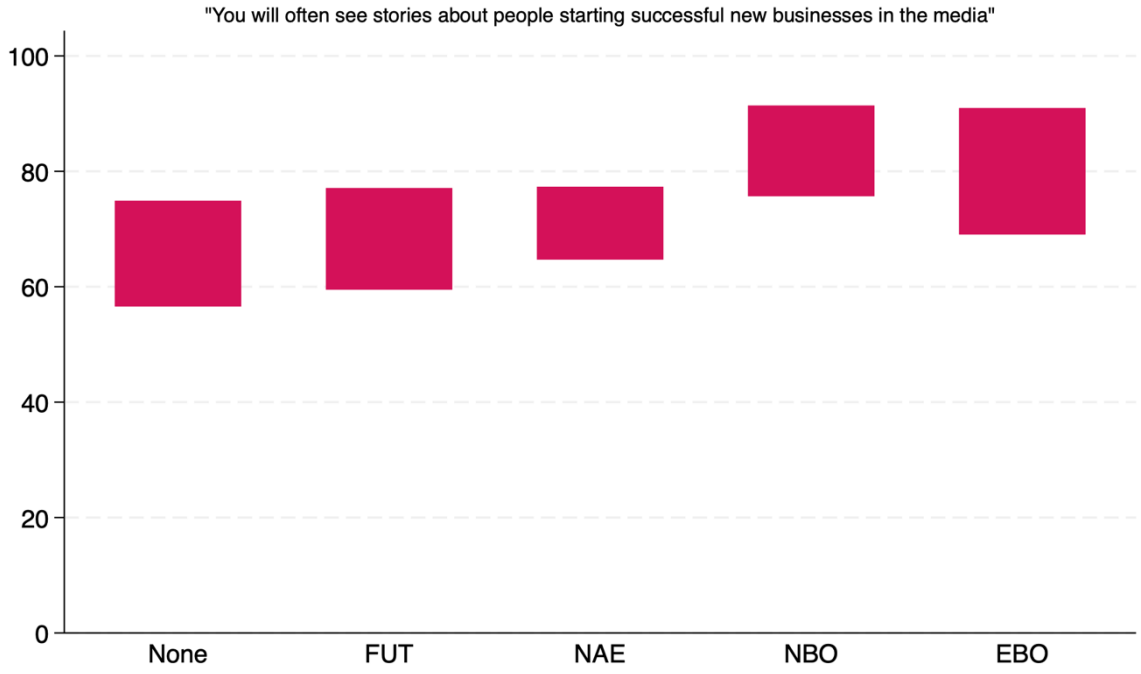

Figure 66: Respondents who agree that it is easy to start a business in the UK, 2023: sensitivity to treatment of "Neither agree nor disagree" responses