The ‘grey area’ between employment and self-employment: implications for official statistics

Teemu Kautonen, and Ewald Kibler*

INTRODUCTION

Official statistics traditionally classify work in terms of employment or self-employment. This is a useful classification for policy regulating, for example, unemployment, pension and other welfare schemes, where employed and self-employed individuals are often treated differently. However, two current phenomena question the policy relevance of sole reliance on the traditional classifications of employment and self-employment. One concerns individuals who receive a salary and a self-employed income at the same time (Folta et al., 2010; Thorgren et al., 2016). The other is the emergence of new forms of work that fall into the ‘grey area’ between the traditional classifications of employment and self-employment (Kautonen et al., 2010).

We argue that policy makers would benefit from official statistics that capture the contemporary forms of work in a more fine-grained manner than the employment versus self-employment dichotomy. This information would not only allow the policy makers to understand how the world of work evolves, but through this understanding, they could ensure the relevance of regulations and welfare regimes for all individuals notwithstanding what form of work they engage in. In the following, we explore several extensions to the dichotomy of employment versus self-employment. We also present initial ideas for how these concepts could be operationalised in survey studies.

HYBRID FORMS OF WORK

With the decline of career patterns where workers spend their whole career in one organisation, combining elements of paid employment and self-employment is becoming more typical in contemporary careers. This reflects the concepts of ‘protean’ and ‘boundaryless’ careers (Briscoe et al., 2006; Hall, 2004) where the individual, not the organisation, is in charge of the career. Switching employers frequently is as normal as are varying spells of self-employment followed by employment, and vice versa. Portfolio careers, where an individual might have a job and run a business at the same time, are also not untypical.

Maintaining the relevance of the pension and social security systems in the face of evolving patterns of work is a challenge for European policy makers. Often employees enjoy a higher level of protection and a more generous benefits status compared to the self-employed, who have more responsibility over their own pensions and insurances. If careers that combine employment and self-employment become more common, the question arises whether making a distinction between the traditional forms of work in welfare policy is meaningful, efficient and equitable.

Against this backdrop, we propose that official statistics such as the Labour Force Survey should allow for hybrid forms of work and contain variables that capture career dynamics. Instead of inquiring, for example, for the present self-defined employment status, survey studies could ask about the relative importance of paid employment and self-employment for the respondent. The question could concern the relative importance of those forms of work in terms of the individual’s total income or the weekly number of hours worked. Furthermore, surveys could capture this information for...
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the recent past such that the policy analyst would see how much fluctuation there is in the relative importance of self-employment and employment. Similarly, surveys could inquire about the number of jobs and spells of self-employment that the respondent has had in the past two to three years in cross-sectional studies, and in the period since the previous wave in longitudinal surveys. This would give information on the dynamics of people’s careers.

**QUASI SELF-EMPLOYMENT**

In this section, we explore a ‘hidden’ form of work that lies in the regulatory grey area between employment and self-employment. We use the term ‘quasi self-employment’ (Kautonen et al., 2010; Schmidt and Schwertdner, 1999) to refer to work arrangements where an individual is formally self-employed but in many ways, de facto an employee. This phenomenon has received media attention especially on the initiative of trade unions, which have expressed concerns about employers ‘pushing’ employees to become self-employed subcontractors in order to avoid the obligations inherent in employment relationships.

Policy concerns related to these work arrangements concern the disadvantages experienced by the individuals from being self-employed compared to being in an employment relationship. These include loss of trade union representation, being outside the protective sphere of laws regulating employment relationships, and a social security status that is inferior compared to employees (Kautonen et al., 2010). Moreover, research suggests that these individuals may experience higher levels of stress due to the low and fluctuating levels of income related to operating in the margins of entrepreneurship (Block and Wagner, 2006; Bögenhold and Fachinger, 2007).

Although the evidence on the prevalence of quasi self-employment is mostly anecdotal with the exception of one relatively small study in Finland (Kautonen et al., 2009), official statistics accounting for this phenomenon would provide policy makers a realistic picture of how widespread quasi self-employment actually is, how it evolves over time, and with inferential analysis, also what implications these work arrangements have for the individuals. For this purpose, we next follow Kautonen et al. (2009) in proposing five empirical criteria that could be used to identify quasi self-employment.\(^1\)

The more of these criteria that a work arrangement meets, the more likely it is quasi self-employment. At the same time, it should be noted that none of these criteria in and by themselves define quasi self-employment and many of them are perfectly typical in ‘genuine’ self-employment (see Kautonen et al., 2009 for a detailed discussion).

The first criterion is the individual being classified as self-employed. We propose that instead of self-defined employment status, an objective criterion can be used, such as how the individual’s work status is defined for tax purposes. The second criterion is that the self-employed individual does not have any employees. This can be asked as a follow-up question to all individuals identified as self-employed in survey studies. An additional advantage of this question is that it gives us data on the economic externality of job creation by the self-employed.

The third criterion is a strong economic dependence on a single principal, possibly the former employer. This dependence limits the individual’s freedom to develop their business as they wish, which is typical of ‘genuine’ self-employment. Survey questions suitable for capturing this facet of quasi self-employment include the number of clients the self-employed worker has or the share of turnover generated by the most important client. Another question could inquire whether the self-employed individual works within a third organisation that is not their direct client but to whom they pay part of their income as rent (e.g., Uber drivers; self-employed hairdressers renting a chair in a salon). This would capture work arrangements where the employer offers work in a subcontracting relationship, thus shifting the demand risk from the employer to the self-employed worker.

The fourth characteristic relates to the degree of integration of the self-employed worker in the principal’s organisation: to what extent the principal can exert managerial authority on the economic externality of job creation by the self-employed worker. A survey can operationalise this, for example, by asking to what extent the principal client can determine the time and place of work and whether the

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\(^1\) Because the discourse on quasi self-employment often assumes that individuals only take up self-employment for lack of viable employment alternatives, it is sometimes referred to as ‘involuntary self-employment’ (Kautonen et al., 2010). However, we contend that because involuntariness is subjective, it is mainly relevant for policy analyses where the objective of analysis are phenomena such as job satisfaction, stress, or quality of life. In this note, we constrain the discussion to the regulatory perspective and use the neutral term quasi self-employment.
The fifth possible characteristic of dependent self-employment is that the impulse for the individual’s becoming self-employed came from the former employer and/or from the present exclusive client. An example of such an external impulse is the employer’s decision to outsource a function formerly performed by an employee and contract the same employee to perform this function as a self-employed worker. One possible way to operationalise this criterion would be to identify respondents who meet the other four criteria and then ask whether the idea for the current self-employment came from the individual her- or himself, or the current principal client or the third party firm under whose banner the self-employed worker operates.

QUASI EMPLOYMENT

The underlying logic of the discussion surrounding quasi self-employment is the potentially incorrect classification for welfare purposes of a de facto employed person as self-employed. Could the opposite case also exist and if so, what are its policy implications?

We argue that project-based work can be close to self-employment. This is more so if the individual is responsible for project acquisition in order for their employment to continue beyond the current project, or if the individual moves between units or organisations, de facto selling their expertise to the projects that need it. Consultancy and research work in externally funded projects are typical examples of this type of work arrangement that we in this note call quasi employment.

The policy implications in this case are (even) less straightforward than in the case of quasi self-employment. In principle, individuals in quasi employment enjoy an employee’s legal and social security status, and they can also be members of a trade union. It is however possible that their status differs from those in permanent employment relationships, for example because a full benefits status requires a certain amount of time with the same employer that the individual’s project work does not achieve. Even though quasi employed individuals received a monthly salary, the security of income only concerns the fixed period of the project. Hence, the work contains an element of uncertainty over the longer-term level of income, similar to self-employment (Kautonen et al., 2014). Assuming for the sake of argument that the benefits status in quasi employment was below that in permanent employment, and the income secure for a short fixed period of time, the following policy questions emerge: do and/or should regulations incentivise quasi employment and are people in such work arrangements treated equitably in the welfare regime?

Having information on the magnitude and individual-level consequences of such precarious employment would allow the policy maker to adjust the unemployment, pension and other elements of the welfare regime to ensure their relevance to this possibly growing group of workers. Empirical indicators could include variables such as the number of employment contracts within a reference time period, the number of employers in the same time period, the share of total income that is based on performance, and the degree of responsibility for acquiring the work that earns the income. Similar to quasi self-employment, the more of these criteria an individual’s work meets, the more ‘entrepreneurial’ or akin to self-employment their employment is.

CONCLUDING REMARKS

In this note, we argued that forms of work that are more precarious than traditional permanent employment relationships appear in the legal forms of employment and self-employment. Figure 1 summarises the above discussion on hybrid forms of work (being employee and self-employed at the same time), quasi self-employment (Type 2) and quasi employment (Type 3) as a fruitful way forward to capture the multifaceted contemporary forms of work more accurately than the traditional dichotomy of employment versus self-employment.

Further, we suggest that even though these precarious forms of work are often associated with disadvantages especially when compared to permanent employment relationships, this is not the whole story. For example, Hytti et al. (2013) demonstrated that work characteristics often associated with self-employment, such as the degree of autonomy and variety in work, were significantly and positively related to job satisfaction. In fact, the study found that these characteristics of work predicted job satisfaction much better than the official employment status (employee versus self-employed). Therefore, individuals whose work meets the criteria for quasi self-employment or quasi employment – which both involve entrepreneurial elements such as an uncertain level of income – might be quite happy with their work. If that was the case,
excessive regulation making these types of work difficult might do more harm than good. Official statistics that follow the development of the forms of work in the grey area between employment and self-employment would aid in making these assessments.

In addition to the forms of work addressed in this note, other related extensions that official statistics such as the Labour Force Survey could consider relate to assessing the entrepreneurial potential in society. Official statistics have limited information to offer on entrepreneurship beyond the employment versus self-employment dichotomy. But self-employment comes in many forms. Some of them differ little from employment relationships and contribute little more to society than a person in an employment relationship, whereas more growth-oriented entrepreneurship and new forms of ambitious social enterprises can provide significant benefits to society. The Global Entrepreneurship Monitor (www.gemconsortium.org) and the Panel Study of Entrepreneurial Dynamics (www.psed.isr.umich.edu) offer a number of easy-to-implement measures for assessing the types of entrepreneurship within the employment status category of self-employment, as well as the latent entrepreneurial potential among those who are employed, unemployed and outside the labour force.

In summary, we make the following suggestions of how the ‘grey area’ of employment relationships could be better captured in official statistics such as the Labour Force Survey:

- Identify individuals who are employees and self-employed at the same time and measure the relative importance of these forms of work to them.
- Include variables to identify quasi self-employment: (1) self-employment status as defined for tax/social security purposes; (2) number of employees; (3) dependence on a single client or a third-party organisation to which the self-employed worker pays rent and under whose brand they operate; (4) the degree of managerial authority that the client or third-party organisation can exert over the self-employed worker; and (5) the origin of the idea to become self-employed (the respondent’s own idea versus an external party’s idea).
- Incorporate new variables to identify quasi employment: (1) employee for tax/social security purposes; (2) the number of employment contracts and employers over a certain period of time, such as the last 12 months; (3) length of current employment contract, (4) the share of performance-based salary from total salary; (5) the degree of responsibility for acquiring new projects/contracts for continuation of employment.
References:


