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**LESSONS LEARNED ON  
OWN-ACCOUNT  
SELF-EMPLOYMENT IN  
CANADA**

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**Technical Report**

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# TABLE OF CONTENTS

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<b>EXECUTIVE SUMMARY .....</b>	<b>i</b>
<b>1.0 INTRODUCTION.....</b>	<b>1</b>
<b>2.0 DATA AND LITERATURE REVIEW .....</b>	<b>3</b>
2.1 Methodology.....	3
2.2 Findings.....	3
2.3 Success Factors.....	29
2.4 Failure Factors.....	30
<b>3.0 KEY INFORMANT INTERVIEWS .....</b>	<b>33</b>
3.1 Methodology.....	33
3.2 Summary of Opinions.....	34
<b>4.0 FOCUS GROUPS .....</b>	<b>41</b>
4.1 Methodology.....	41
4.2 Focus Group Findings.....	42
4.3 Future Plans.....	49
<b>5.0 SUMMARY OF RESULTS AND LESSONS LEARNED.....</b>	<b>53</b>
5.1 Trends, Incidence and Profile.....	53
5.2 Job Quality.....	54
5.3 Business Start-up.....	55
5.4 Motivations, Advantages and Disadvantages.....	55
5.5 Impacts.....	57
5.6 Internet.....	58
5.7 Success Factors and Lessons Learned for Individuals.....	58
5.8 Role of the Government.....	59
5.9 Research Gaps.....	61
<b>6.0 BIBLIOGRAPHY .....</b>	<b>65</b>

**APPENDICES**

**APPENDIX A: INCIDENCE OF OWN-ACCOUNT SELF-EMPLOYMENT  
BY INDUSTRY AND SEX,1996 ..... 69**

**APPENDIX B: KEY INFORMANT INTERVIEW GUIDE ..... 71**

**APPENDIX C: LIST OF INTERVIEWEES FOR THE KEY INFORMANT  
INTERVIEW ..... 75**

**APPENDIX D: FOCUS GROUP MODERATOR GUIDE..... 77**

**APPENDIX E: RECRUITMENT SCRIPT..... 83**

**APPENDIX F: QUESTIONNAIRE FOR THE FOCUS GROUP  
SURVEY ..... 85**

**APPENDIX G: RESULTS OF THE FOCUS GROUP SURVEY FOR THE  
SELF-EMPLOYMENT STUDY ..... 87**

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# EXECUTIVE SUMMARY

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This is a study of own-account self-employment in Canada. This study forms part of a larger exercise, the Collective Reflection, which Human Resources Development Canada (HRDC) has initiated to learn about the changing nature of work. As self-employment becomes the reality for a growing number of Canadians, it is important that we extract the lessons learned from those experiences. Both governments and the public can learn from the successes and failures of the self-employed.

The study focus is on the *own-account* self-employed, who do not usually have paid help. This group includes independent contractors, both incorporated and unincorporated, who do not employ others.

There are seven main study issues driving the research, as follows:

1. *Overall trends:* What has the overall trend been in own-account self-employment? Is the recent growth in self-employment part of a longer-term trend?
2. *Incidence and profile:* Who are the self-employed and what type of work do they do? Are males or females or older or younger Canadians more likely to be self-employed? How does self-employment incidence vary across occupations and industries?
3. *Job quality:* How does the quality of the jobs the self-employed occupy compare to paid jobs?
4. *Reasons for growth:* What factors explain the rapid growth of self-employment? Are individuals being pushed or pulled into self-employment? If the latter, what are the reasons individuals have for entering self-employment?
5. *Advantages and disadvantages:* What are the advantages of being self-employed? Do the self-employed enjoy being their own boss and doing things when and how they want to do them? Or does this independence and flexibility translate into insecurity and social isolation?
6. *Determinants of success and failure:* What factors contribute to the success and failure of the self-employment experience? Do networks and partnerships play a role in the sustainability of self-employment? To what extent are the self-employed turning to horizontal and vertical links to overcome disadvantages of being self-employed? What about personality? Is the Internet seen as a useful tool for the self-employed?

7. *Lessons learned:* What lessons may be extracted from the experiences of the self-employed for both the potential self-employed and policy-makers? What kind of role does government have in regard to the self-employment phenomenon? Should its role be to encourage individuals into self-employment or merely to provide information on the pitfalls and ways of overcoming them?

In addition, there are two methodology questions considered in this study, as follows:

1. *Data quality:* What is the quality of the information from which conclusions about self-employment are being drawn?
2. *Research gaps:* What are the gaps that past research and this study have left unfilled? What areas should future research focus on?

The study brings multiple lines of evidence to bear on these issues. Published data and results from past research are used to set the context for the study and provide some quantitative background regarding trends, profile, incidence, and job quality. The study relies on qualitative evidence, gleaned from both key informant interviews and focus groups, on the motivations for, and the advantages and disadvantages of self-employment.

### ***Trends, Incidence and Profile***

In 1996, there were almost 1.4 million own-account self-employed, representing almost 10 percent of total employment in Canada. Since 1989, own-account self-employment has grown by 50 percent and, since 1976, it has almost doubled while total employment grew by less than 40 percent.

The growth in own-account self-employment is a relatively recent phenomenon, however. It is only since the 1970s, and particularly during the 1990s, that self-employment has been on the rise. Prior to that, the incidence of self-employment had been falling, owing to structural shifts in employment from agriculture to manufacturing.

The growth in self-employment has been fairly cyclically insensitive. Since 1976, the increase in self-employment has been steady and not much faster during downturns. The growth over the last two decades can be attributed both to a shift to services, where self-employment opportunities are more numerous, and to a general rise in self-employment in all sectors of the economy. The secular and pervasive nature of the rise in self-employment incidence suggests continued growth in the future.

The increasing incidence of own-account self-employment (OASE) has been observed for both females and males, for all age groups, in all education groups

(at least in the 1990s), in all regions (again at least in the 1990s) and in all industry and occupation groups but agriculture. During the 1990s, the largest increase in the incidence of own-account self-employment was reported in business services and construction. As for occupations, the growth in incidence has been greatest in construction, and in other professional sales and service occupations.

Comparing across population sub-groups, OASE incidence rises with age and is higher among males than females. Faster own-account self-employment growth for women and youth, however, suggests that the profile of OASE is shifting away from men and older workers. The age incidence patterns contrast with the *desire* to be self-employed, which appears to fall with age, implying a basic dissonance. Also OASE incidence rises from eastern to western Canada and is particularly high for those with little education but is also high for those with a post-secondary degree or certificate.

Compared to paid employees, the own-account self-employed are more likely to be male, older, married, and, to some extent, have no more than a high school diploma. The self-employed are also more likely to work in agriculture, business services, and accommodation, food and other services, and to be in primary, sales, service and other professional occupations. The most popular occupations for own-account self-employed women are in services, particularly hair dressing and child care, sales and bookkeeping, while those for self-employed men are in sales, carpentry, and truck driving.

### ***Job Quality***

Though there is no doubt that self-employment has contributed significantly to the *quantity* of new jobs, the *quality* of self-employed jobs has been questioned. At first glance, the data would suggest the job quality of the self-employed is lower than that of the paid employed. Evidence suggests that the self-employed work longer hours than paid workers, that the own-account self-employed earn only about two-thirds of what paid workers earn on a mean annual basis (though the gap has closed since the mid-1980s) and that the self-employed have lower benefits coverage than the paid employed. The data also suggest that own-account self-employed women have closed the earnings gap with their male counterparts faster than paid employed women, and that the premium to higher education is greater among the paid employed than among the own-account self-employed.

With respect to total income, self-employed unattached individuals earn much less and have a more polarized income distribution than families with a self-employed head. The reliance on self-employment rises with income level. But since 1987 at least, there has been a diminishing dependence on self-employment income at all income levels but particularly at the bottom and top quintiles, despite the growing incidence of self-employment.

These findings, however, are open to question, owing to methodological and conceptual concerns with the underlying data. First, with regard to hours, it is not clear what hours worked really mean for self-employed. Does time spent on activities benefiting the business and not contracts *per se* constitute work hours? Second, with respect to earnings, the self-employed are able to write off expenses and "hide" income, which means that self-employment earnings may be higher than they ostensibly are. These issues point to an inability to draw firm conclusions about the relative job quality of the self-employed and the need for better data on and further research into self-employment job quality.

### ***Business Start-up***

Business start-up is difficult for most own-account self-employed, with lack of capital and information being the biggest problems. Marketing and promotion were difficult during the first year. Few had formally prepared for self-employment in terms of planning and training, relying instead on informal contacts. Of those who did prepare themselves, most were older and had been "pulled" (voluntarily) into self-employment.

### ***Motivations, Advantages and Disadvantages***

Some observers noted the qualitative change in the make-up of the self-employed. Now there are greater numbers of higher-skilled managers and professionals who are more motivated and better able to succeed than their lower skilled counterparts in the blue collar trades who used to dominate the ranks of the self-employed. There was a belief among those interviewed that, in today's labour market, the latter have less confidence and fewer of the skills needed to survive as a self-employed business person. Today, there is less stigma attached to being laid off and forced into self-employed because there are increasing numbers "in the same boat".

There was a number of contradictions concerning the motivations and advantages of self-employment. First, there were diverging views on the pull-*versus*-push explanation for the growth of self-employment. The general consensus is that employer practices such as downsizing and subcontracting have been mainly responsible. Most agreed that self-employment will continue to grow for the same reasons (though it was also suggested that outsourcing had levelled off). This would imply "push" would be the predominant reason/motivation for self-employment. This is confirmed by the fact that a number of self-employment professionals indicated that a number of their clients would not have been self-employed without the security of a severance package or a self-employment assistance benefit (EI).

On the other hand, several individuals indicated that, though they were initially pushed into self-employment, with time they had come to enjoy "pull"-like aspects of their self-employment experience. In particular, they enjoyed the



independence, flexibility, and the variety that self-employment had to offer. Commentators also identified technology, demography and the growth of niche markets as factors that pulled individuals into self-employment.

Similarly, there was dichotomy of opinion over the financial impacts of self-employment. While some had difficulty withstanding the irregular income flow of self-employment, others enjoyed the fact that their income was directly tied to their work effort despite the unevenness of the flow. Also, while some noted that income was considerably lower for the self-employed, others pointed out that commuting and clothing costs were lower for those who worked at home and that there were certain tax advantages for the self-employed (e.g., business expense deductions). A related advantage is that the self-employed realize capital gains through their efforts, a possibility not open to the paid employee.

Another contradiction arose over the issue of security. On the one hand, some of the self-employed felt more secure in the fact that they had control over their own destiny and could alter work effort to make up for downturns. Also, by having multiple clients they were not "putting all their eggs in one basket", they did not have to depend on the good fortunes of one employer. On the other hand, several experienced a lot of anxiety over the irregular income flow ("feast or famine"), which made credit and purchases of supplies and equipment difficult. Participants complained about the long hours they had to put in to protect themselves against downtime. Fear of failure and the pressure of being primarily responsible for yourself and your livelihood were also mentioned.

Besides the unpredictable cash flow, lack of employment benefits was viewed as a serious drawback. Few of the self-employed realized there were private companies selling benefits at group rates to individuals. Also, many were under the incorrect impression that few individuals were supported by employer-provided pensions. Despite that sentiment, few of the self-employed felt they had put aside enough in their own pension plan last year. Other disadvantages mentioned were isolation from fellow employees, lack of training opportunities, negative attitudes of family and friends, and having to perform all tasks required of a business, including accounting, purchasing, debt collecting, researching, and marketing.

Among the self-employed, it has been observed that there are two major groups, each with different intentions and needs. These differences may explain some of the dichotomy described above. One group consists of those whose aim is merely to earn a "decent" wage and typically not to expand their business. Another group has more grandiose plans to "grow" their business into a larger enterprise. The former could be characterized as the truly own-account self-employed and the latter the employers. Their motivational and financial needs differ. Research has shown that the own-account self-employed are less likely to be driven by a desire for independence than employers, and, because of a lack of expansion plans, their capital requirements are less significant.

Still, for a good proportion of the self-employed, the lack of adequate financing is a problem. Banks are resistant to lending money to those perceived as high-risk and without much physical collateral. To some extent, this may be attributed to, among other things, an inability to evaluate the human capital embodied in the OASE, which is in effect his or her key business asset.

Contradictions over the advantages of self-employment may be also attributable to the fact that many of the benefits revolving around "independence" and "control" are often more perceived than real. The self-employed often operate in situations where their client becomes in effect their boss (quasi-employment).

### ***Impacts***

The impacts of self-employment were identified both in the literature and by participants in this study. Self-employment was seen to have both positive and negative economic and social impacts, for individuals, the community and society at large. Many of the impacts identified were speculative, anecdotal, and otherwise unsubstantiated by quantitative evidence. This suggests areas for further research.

At the individual level, the impact of self-employment depends critically on the characteristics and actions of the individual. Older workers who have come out of a traditional school system and a stable, longstanding employment relationship would have much more difficulty adjusting to self-employment than younger persons today who are products of an education system and a labour market which mentally prepared them for, and exposed them to, "flexible" employment relationships. Even controlling for age and prior employment tenure, the impact of self-employment on higher-skilled, white-collar employees with greater capital and connections is likely be more positive than on lower-skilled, blue-collar workers without those attributes. The impacts also, of course, depend on the economic conditions and market under which the business is started up.

At the community level, observers suggested that the growth of self-employment is leading to a number of changes in settlement and economic patterns within the urban system. Among the changes observed were: greater numbers of people working at home; the location and construction of residences in so-called "edge cities" away from downtown; less dependence on the core and the relocation of other businesses into the edge cities to serve the business and family needs of the self-employed; less commuting, less car pollution, and less need for public transportation; less-restrictive zoning bylaws permitting home-based businesses; the construction of houses with home offices and the renovation of existing houses to add a home office; and greater industrial diversification, i.e., less dependence on a single, large employer.

A number of negative social and economic outcomes of self-employed growth were also identified, though evidence was not produced to substantiate them. This is why the costs of self-employment are included in the list of research gaps below. The suggested costs included the following:

- the economic costs of the heightened number of bankruptcies due to the high failure rate among the increasing number of self-employment businesses;
- rising incidence of marriage breakdown, possibly attributed to increasing numbers of persons working long hours at home leading to increased tensions within families;
- possibly reduced social cohesion or at least the attenuation of the workplace as a centre of social convocation, owing to the increasing numbers of persons working in isolation;
- increasing numbers of persons without access to disability insurance, pension coverage and training, of which the workplace is normally the major source and to which the increasing numbers of persons "disenfranchised" from a workplace do not have access; and
- the possible growth of "hidden" employment or, at any rate, some erosion of the tax base through the greater proportion that can be written off as business-expense deductions, if not the complete concealment of income.

It was also observed, however, that there has been a rising incidence of informal networks among the self-employed to compensate for the perceived greater isolation. Within these networks, the self-employed can take advantage of the camaraderie, contacts, and support provided by their self-employed friends and acquaintances, as well as the economies of scale in banding together on group-discounted benefits packages and pensions and, possibly, overhead. Also, the fact that, for some of the self-employed, the alternative might be unemployment, means that self-employment can help reduce dependence on social security. Finally, there is the potential for employment-generation resulting from the own-account self-employed expanding their business and hiring employees.

### ***Internet***

Self-employment practitioners and officers felt that there was potential for the Internet to provide information and open up business opportunities. It was also seen as a way of overcoming isolation and lack of employer-provided training. However, it appears that the self-employed were not aware of this tool or, if they were, did not have the perseverance, know-how or focus to use it to find opportunities. It was also pointed out that, for those whose business required person-to-person contact, the Internet was not necessarily suitable.

## ***Success Factors and Lessons Learned for Individuals***

Though success depends to some extent on external circumstances such as the economy and the market, most research and the qualitative intelligence gathered in this study focused on how the actions and traits of the individual self-employed person can contribute to his or her ultimate success or failure. Among the determinants of a successful self-employment experience identified were the following:

- *personality*: having commitment, perseverance, courage and flexibility;
- *expectations*: being reasonable about success of the enterprise, particularly in the first year when long hours and low income are distinct possibilities;
- *job content*: doing something you enjoy, you are good at, in a niche market, and, ideally, in the high-tech field;
- *thrift*: buying used equipment in first year and otherwise being thrifty;
- *financing*: getting adequate financing or having a sufficient nest egg;
- *business plan*: having a vision of what you are going to do and earn;
- *skills*: having business skills acquired through previous employment and maintaining ties to previous employers;
- *Internet*: finding out about, getting access to, and being trained on the Internet for marketing and information purposes;
- *training*: getting adequate training with respect to the different skills that are needed to run a business on your own;
- *information/advice*: getting information about the advantages and disadvantages of self-employment prior to start-up, and information about the supports that exist for the self-employed such as mentoring and training;
- *networks*: joining forces with other self-employed to save on overhead costs and to exchange services (e.g., bartering) or joining a self-employment pool; and
- *benefits*: signing up with companies that offer, or otherwise banding together to get, group health benefits, and putting money aside into a personal retirement savings plan.

## ***Role of the Government***

Market failure constitutes the rationale for government intervention regarding self-employment. A market failure occurs where externalities, information gaps and intangible factors result in outcomes that are socially suboptimal. Where these factors are identified, governments face the challenge of determining

whether any intervention might lead to outcomes that are more desirable in a social sense. This determination should be based on social cost-benefit calculations.

Our review suggests various dimensions of market failure relating to self-employment. Illustrations of self-employment hurdles suggested by respondents include the following. It was suggested that the self-employed have inadequate access to financing, possibly because of irregular income flow and the fact that their chief business asset, their human capital, cannot be used as collateral. Further, because the self-employed typically are isolated, they often lack information regarding professional development, health, marketing opportunities, and advice. And, on the surface, the data indicate that, compared to the paid employed, the conditions under which the self-employed work are of poorer quality in terms of wages earned and hours worked; qualitative evidence indicates that benefits coverage and training opportunities are less for the self-employed.

If there was market failure and it could be alleviated, society would realize both efficiency and equity gains. With regard to efficiency, a reduction in the high bankruptcy rate of self-employment businesses would translate into increased employment and economic growth as well as lower dependence on public assistance. In addition, this may lead to equity gains by removing the disparities between the self- and the paid employed (horizontal equity) and, possibly, between lower and higher income groups (vertical equity).

While there would be obvious social benefits to these interventions, there would be associated costs as well. For example, there would be the basic costs of administering the program. There might also be the dead-weight costs of funding something that the program client would have undertaken without government assistance (windfall). Empirical evaluation would be required to determine definitively whether the benefits of the government intervention outweighed the costs and, therefore, whether it could be justified.

If we assume that government intervention would be a cost-effective means of overcoming barriers and reducing the high rate of self-employment market failures, i.e., at a net benefit to society, what form would this action take? Several suggestions were received from focus group participants and key informant interviewees in this study. Some suggested that the government should do no more than provide a climate amenable to new and existing self-employment businesses. Other more active interventions suggested (including the barriers they would potentially overcome) included the following:

- establishing unemployment and disability insurance funds for the self-employed to make up for their lack of access to the same;

- making up for a lack of bank financing by making capital more easily available or at least persuading banks to lend money to the self-employed;
- providing more information and training to prepare individuals for the self-employment experience, given the high failure rate for the self-employed;
- providing training in Internet skills to help the self-employed access training and market opportunities;
- relieving paper burden;
- filling research gaps (see below) which would not only contribute to more effective policy but would also help prospective and existing self-employed prepare for the future;
- providing advice and mentoring for those who are already self-employed given the isolated conditions in which the self-employed typically work; and
- making individuals aware of the network supports for the self-employed, particularly the companies selling group benefits, the savings from pooling resources with other self-employed individuals, and joining pools of self-employed individuals.

Whatever role government plays, it should be recognized that there is much diversity within the target population. Government should be aware that it is dealing with a client group that has widely diverging characteristics, skills, expectations, and, therefore, needs. Some enter the ranks of the self-employed because they have no other option, are interested only in earning a decent living and hence have no business plans and therefore are not able to obtain, or do not want, financial backing. Another group enters self-employment as entrepreneurs, enjoy the independence and may be in need of capital for expansion purposes.

Another source of diversity is age and experience. Government should be cognizant of the fact that younger individuals may be better able to sustain the self-employment experience because they have up-to-date skills, are more amenable to a challenge and have greater interest in self-employment. Older workers with outdated skills, on the other hand, have been in a traditional employment arrangement for some time and may be in greater need of assistance, despite their greater connections, life skills and capital. Similarly, those coming from layoff situations who have been in high-skilled management and professional positions are probably better equipped, have greater motivation and connections (informal networks), and therefore have less need for help than those in lower- skilled, blue-collar occupations.

## **Research Gaps**

A number of research gaps were identified by the key informants as well as by us based on our reading of the results of all three data-gathering processes. Some of the issues that require further research to answer questions raised regarding success factors and the proper role of government are as follows:

- *self-employment organizations*: more research is required into these organizations, in terms of their numbers, the possible role of the government, the services they offer, the need to have standards in the services offered, and the quality of these services and their usefulness in helping the self-employed overcome the barriers associated with self-employment such as lack of training, information, and employment benefits;
- *networks*: the extent to which the self-employed make use of informal and formal networks to overcome the lack of connection to a workplace, by getting business contacts, bartering services, saving on overhead, and participating in discounted benefits packages;
- *employment benefits and training*: we need to know whether the self-employed lack workplace-based employment benefits such as insurance and training, and how they overcome this lack whether it is on their own (self-financed), through their employed spouse, through self-employment organizations or networks, or through companies that sell group plans to self-employed persons;
- *hours and wages*: what these mean for the self-employed and the quality of the jobs the self-employed occupy;
- *impact of public policy*: the extent to which public policy adversely or positively affects the self-employed, in terms of assisting and encouraging self-employment, taxation, and coverage under public social-security and training programs, employment standards, and freedom of association;
- *quasi-employment*: the extent to which self-employment is effectively employment, i.e., where an "independent" contractor has a long-term arrangement with a single business that controls most aspects of his or her business and the implications of this for tax policy; (this is really a problem of definition: when is a self-employed person self-employed in the eyes of the law?);
- *hidden employment*: the extent to which the self-employed work in the black market and the implications of this for the tax base;
- *impacts of self-employment*: the overall social and economic impacts of self-employment in terms of the level of benefits coverage, human capital development, the cost of bankruptcies, social cohesion, family breakdowns, and the erosion of the tax base;

- *financing*: the extent to which the self-employed need and have difficulty obtaining capital, the reasons for that difficulty, and the extent to which they rely on alternative sources of income such as friends and family (other than themselves, banks and government) for start-up, expansion and slow periods;
- *sources of income*: the reason why the incidence of self-employment has risen while self-employment has declined as a source of income;
- *push-pull motivations*: the extent to which there exists among the self-employed two groups with different characteristics and motivations, where one group is composed of those who may have been forced into self-employment through layoff and who are content in earning a decent living without expanding the business, and the other is composed of those who have willingly entered self-employment in search of independence and entrepreneurialism and who have expansion plans and, thus, the potential for employment generation;
- *advantages*: the extent to which flexibility, independence and control are more perceived than real among the self-employed, and the extent to which that depends on the characteristics of the individual and the reasons for their joining the ranks of the self-employed;
- *transitions into self-employment*: we need to know more about the transition of employees into self-employment in terms of aspects of the individual and the transition itself, and in terms of the resulting changes in wages, benefits and occupation;
- *success factors*: the extent to which success is dependent on the motivations, activities and characteristics of the person and on outside factors such as the government, the banks, the market, and the economy; and
- *self-employment exits*: the circumstances of, and factors associated with, the failure of, and repeated re-entry into, self-employment, in terms of the length of the self-employment tenure(s), the characteristics of the individual and his or her business, his or her activities before and during the experience, and the role played by external factors such as the economy, the market, and the banks.

At present, there do not exist sufficient data to fill many of the above-noted research gaps. The longitudinal Survey of Labour Income Dynamics captures employment transitions, but currently suffers from insufficient sample size for analyzing paid-to-self-employment transitions and, at any rate, does not yield data permitting an examination of the job quality of the self-employed. Tax files also have potential, but suffer from an inability to look at transitions in any detail in terms of short-duration self-employment and the reasons for entry and exit, among other issues.



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# 1.0 INTRODUCTION

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This is a study of own-account self-employment in Canada. This study forms part of a larger exercise, the Collective Reflection, which Human Resources Development Canada (HRDC) has initiated to learn about the changing nature of work. As self-employment becomes the reality for a growing number of Canadians, it is important that we extract the lessons learned from those experiences. Both government and the public can learn from the successes and failures of the self-employed.

There are seven main study issues driving the research, as follows:

1. *Overall trends:* What has the overall trend been in own-account self-employment? Is the recent growth in self-employment part of a longer-term trend?
2. *Incidence and profile:* Who are the self-employed and what type of work do they do? Are males or females or older or younger Canadians more likely to be self-employed? How does self-employment incidence vary across occupations and industries?
3. *Job quality:* Taking earnings and hours as measures of job quality, how do the jobs the self-employed occupy compare with paid jobs? How are self-employment earnings distributed?
4. *Reasons for growth:* What factors explain the rapid growth of self-employment? Are individuals being pushed or pulled into self-employment? If the latter, what are the reasons individuals have for entering self-employment?
5. *Advantages and disadvantages:* What are the advantages of being self-employed? Do the self-employed enjoy being their own boss and doing things when and how they want to do them? Or does this independence and flexibility translate into insecurity and social isolation?
6. *Determinants of success and failure:* What are the factors contributing to the success and failure of the self-employment experience? Do networks and partnerships play a role in the sustainability of self-employment? To what extent are the self-employed turning to horizontal and vertical links to overcome disadvantages of being self-employed? What about personality? Is the Internet seen as a useful tool for the self-employed?
7. *Lessons learned:* What lessons may be extracted from the experiences of the self-employed for both the potential self-employed and policy makers?

What kind of role does government have in regard to the self-employment phenomenon? Should its role be to encourage individuals into self-employment or merely to provide information on the pitfalls and ways of overcoming them?

In addition, there are two methodology questions considered in this study, as follows:

1. *Data quality*: What is the quality of the information from which conclusions about self-employment are being drawn?
2. *Research gaps*: What are the gaps that past research and this study have left unfilled? What areas should future research focus on?

The study brings multiple lines of evidence to bear on these issues. To set the context for the study and provide some quantitative background, in the next chapter employment and other data are manipulated to shed some light on the trends in self-employment to provide a comparative profile of the self-employed *vis-à-vis* paid employment, to present self-employment incidence results by age, sex, industry and other variables, and to examine self-employment job quality. A brief literature review is also included. In the third and fourth chapters, relying on the results gleaned from key informant interviews and focus groups respectively, we present qualitative evidence on the motivations for, advantages and disadvantages of, success and failure factors of, research gaps in the study of, and lessons learned from the experience of self-employment. The final chapter summarizes the results by key issue raised above, focusing on research gaps and the lessons learned from self-employment for both policy makers and individuals.

The study focus is on the *own-account* self-employed, who do not usually have paid help. This group includes independent contractors, both incorporated and unincorporated, who do not employ others.

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# 2.0 DATA AND LITERATURE REVIEW

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## 2.1 METHODOLOGY

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This review sets the context for the study. Secondary data analysis will be used to construct a profile of the self-employed, look at the incidence, and examine trends. The literature review will provide information on many, but not all, of the other research issues raised above. It should be noted that existing sources do not always distinguish the own-account self-employed from self-employed owners, and this will be noted.

The main source of data on which this review is based is Statistics Canada's Labour Force Survey (LFS). The LFS permits the distinction between own-account self-employed (OASE) and employers, and the disaggregation by various socio-economic variables, in unpublished form. These data also provide a retrospective look at OASE back to at least the mid-1970s, thus giving us historical context for the project. In this report, we provide measures of the incidence of own-account self-employment by sex, age, education, marital status, occupation, and industry. We also compare the composition of OASE to that of paid employment (which excludes all self-employment and unpaid employment), by the same variables.

These data were supplemented with data from other Statistics Canada surveys. In particular, the Survey of Work Arrangements, a supplement to the LFS, provides information on reasons for self-employment. The Census of Canada provided a longer-term perspective on the trends in self-employment. And the Survey of Consumer Finances yielded data on the incomes of the self-employed.

We also provide relevant results from an Ekos poll of Canadians' views on a variety of issues. One question on that survey asked individuals about the degree of interest in self-employment. The results are shown by sex, age, education level, region, and income level.

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## 2.2 FINDINGS

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### ***Definition***

The focus in this report is on the own-account self-employed (OASE). Two elements of this group need defining. The *self-employed* are defined as those who operate their own incorporated or unincorporated business, farm or

professional practice, alone or in partnership. Of these, the *own-account* self-employed<sup>1</sup> are those who work without paid workers (Cohen 1996; Gardner 1994) and are distinguished from employers who, though self-employed, employ paid workers. Unless otherwise stated, results presented in this report refer just to the own-account self-employment and not to employers. In the Labour Force Survey, self-employment status is determined on the basis of one's *main* job in the reference month, the job where most of one's hours are worked. Those who are self-employed in their second job, but whose main job is a paid job, are classified with the paid employed.

Some authors have also defined self-employment based on earnings source. For example, Steinmetz and Wright (1989) contrast self-employment with two employment states: being employed by someone else (a wage earner) or earning an income without being employed at all. Loufti (1991) draws a remuneration-based distinction between the self-employed and paid workers: contrary to paid workers who receive a wage for the services they offer, the self-employed derive a return from their input of capital, entrepreneurial skills and risk-taking behaviour, as well as their services.

There are also differences between paid and self-employment in non-wage aspects of compensation, attribute to differences in the legal treatment of the self-employed and paid workers. As England points out, paid-work status provides the gateway to the vast majority of benefits provided under the common law contract of employment, labour standards, and other protective legislation such as collective bargaining legislation. In most cases<sup>2</sup>, self-employed workers, unlike paid workers, are not protected by standards and other labour legislation, except for health and safety protection legislation which in general applies to all workers.

### ***Longer-Term Trends***

To put this study in context, we provide a picture of the longer-term trends in self-employment. Exhibit 2.1 plots the incidence of total and own-account self-employment from the 1940s to the 1990s, based on the results of the decennial Census of Canada. The exhibit clearly indicates that, from the 1940s to the 1970s, there had been steady decline in the incidence of self-employment; it has only been over the more recent period that the incidence of self-employment has increased.

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<sup>1</sup> Also defined as independent workers according to Gardner (1994).

<sup>2</sup> The protection offered under provincial labour standards laws varies from province to province.

**Exhibit 2.1**  
**Long-Term Trends in Self-Employment\* 1931-1991**



\* For the non-agricultural labour force, as a percentage of the total in each category.

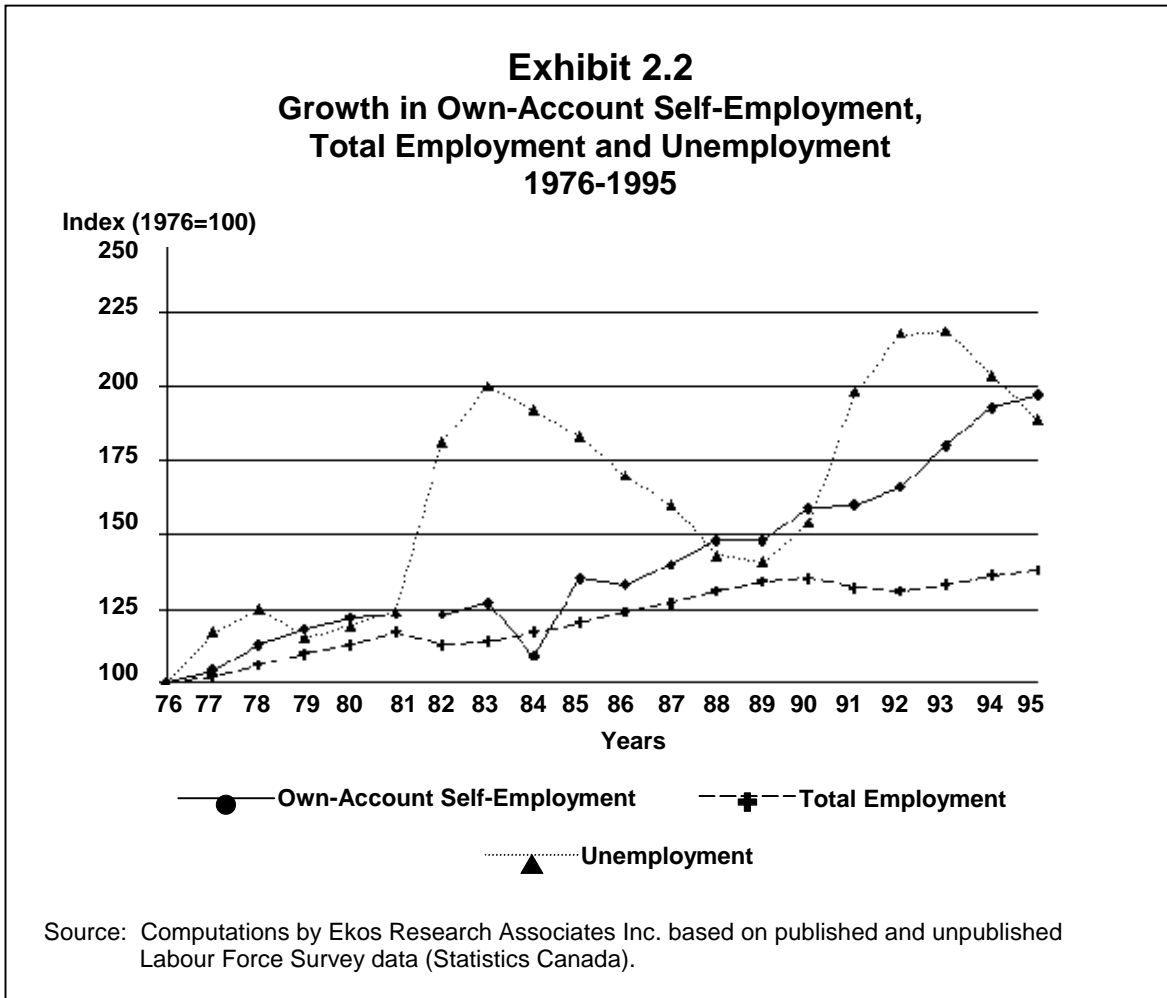
Source: Gardner 1994 (1991 Census).

Observers have suggested that the changing industrial composition partly explains the decline in self-employment during the post-war period up to the 1970s. Gardner (1994) and Crompton (1993) suggest that the fall is due mainly to the steep decline observed in agricultural employment (where there is a high incidence of self-employment) and the expansion of mass production (where self-employment is low). On the other hand, other factors likely played a role, as the decline in the incidence of own-account self-employment occurred in most non-agriculture sectors since the 1940s (Gardner 1994). In the period from the 1970s on, the rising overall incidence of self-employment could partly be explained by the shift to services where self-employment is more prevalent (see discussion below on industry). But Crompton (1993) also notes the rising self-employment incidence *within* most industries in the 1980s.

The decline in self-employment before the 1970s was observed in most industrialized countries (Loutfi 1991). And, during the 1980s, self-employment rose in most countries.

To track the relative growth in self-employment over the more recent period, in Exhibit 2.2 we plot the year-by-year increase in own-account self-employment compared with the growth in total employment and total unemployment. Two methodological points should be noted about Exhibit 2.2. First, the underlying

data source is the Labour Force Survey, which provides a slightly different measure of the incidence of self-employment than the Census, from which data for 1996 are not yet available. The second point is that the observations in the Exhibit are in index form indicating the percentage change since 1976 (= 100 percent).



Two observations about Exhibit 2.2 are noteworthy. One is that the growth in own-account self-employment has considerably outstripped total employment growth. OASE has almost doubled its numbers since 1976, whereas total employment has grown by less than 40 percent. The second observation is that OASE has grown steadily throughout most of the 1976-95 period, unlike unemployment which rises and falls with the cycle. This implies that entry into self-employment is fairly insensitive to business conditions, which is confirmed elsewhere by Devine (1994) and OECD (1986).

## ***Incidence and Profile***

In 1996, the own-account self-employed numbered about 1,357,000, representing almost 10 percent of the total employment in Canada, which is up from 7.6 percent in 1990. As shown in Table 2.1, OASE incidence is higher among men than among women. However, during the 1990s and since 1976, the incidence has risen somewhat more rapidly for females than for males, suggesting a growing share of the OASE who are women. Exhibit 2.3 shows that men represent a greater proportion of OASE than they do of paid employment.

**Table 2.1**  
**Incidence of Own-Account Self-Employment<sup>1</sup>**  
**by Age and Sex, 1976, 1990 and 1996**

	1976	1990	1996
	<b>Percent</b>		
<b>Total</b>	<b>6.4</b>	<b>7.6</b>	<b>9.9</b>
Male	7.6	8.7	11.0
Female	4.5	6.2	8.6
<b>15-24 years</b>			
<b>Total</b>	<b>3.5</b>	<b>4.0</b>	<b>5.8</b>
Male	N/A	3.7	5.1
Female	N/A	4.4	6.4
<b>25-44 years</b>			
<b>Total</b>	<b>5.8</b>	<b>7.1</b>	<b>8.9</b>
Male	N/A	8.0	9.7
Female	N/A	6.0	8.0
<b>45-64 years</b>			
<b>Total</b>	<b>9.0</b>	<b>9.9</b>	<b>12.4</b>
Male	N/A	11.4	14.0
Female	N/A	7.7	10.3
<b>65 years and over</b>			
<b>Total</b>	<b>41.4</b>	<b>30.3</b>	<b>40.4</b>
Male	N/A	35.0	43.6
Female	N/A	20.0	33.0

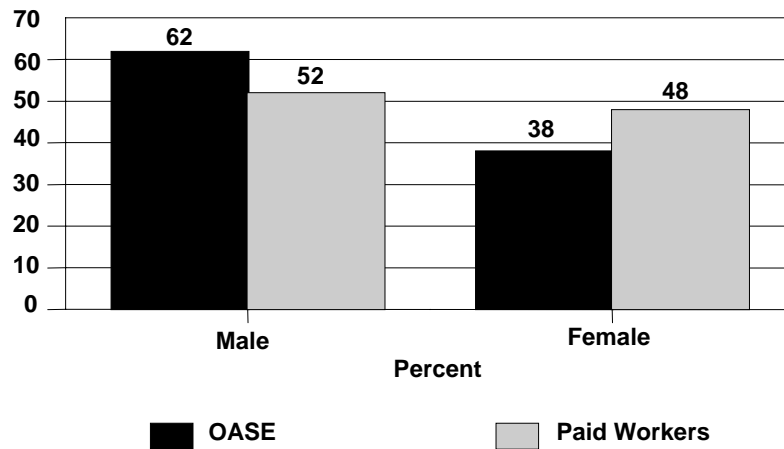
<sup>1</sup> For each sex-age group, own-account self-employment as a proportion of total employment in the corresponding sex-age group.

N/A Data not available.

Source: Computations by Ekos Research Associates based on published and unpublished Labour Force Survey data from Statistics Canada.



**Exhibit 2.3**  
**Sex Composition\* of OASE and Paid Employees, 1996**



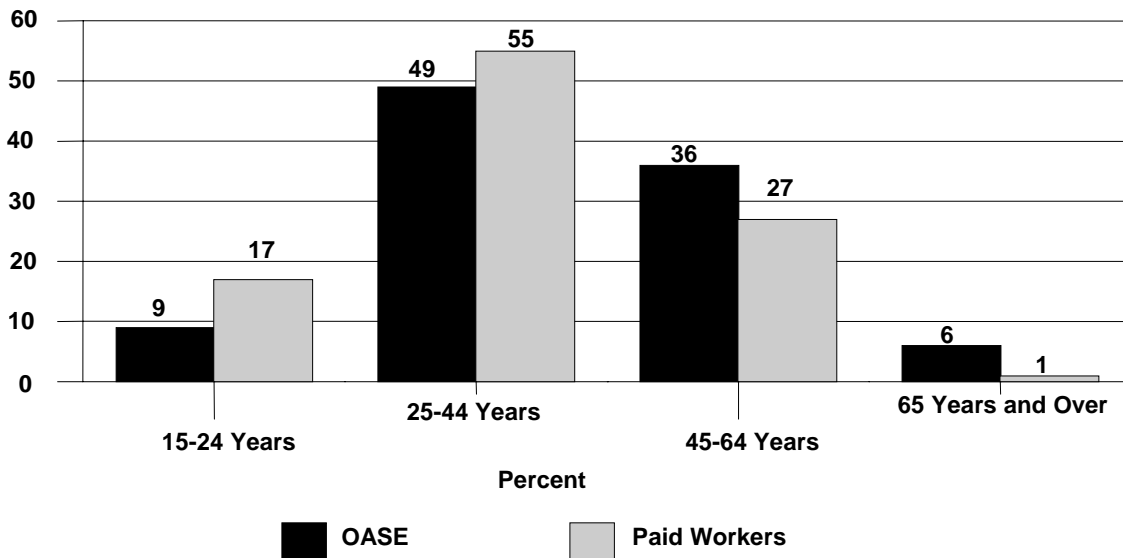
Source: Computations by Ekos Research Associates Inc. based on published and unpublished Labour Force Survey Data (Statistics Canada).

\* Figures sum to 100 percent, for OASE and Paid Workers.

Table 2.1 also indicates that the older one is, the greater the likelihood of being OASE, particularly in the 65 years and older age group, for which OASE incidence is triple the rate in the next-younger age bracket<sup>3</sup>. During the 1990s and since 1976, the incidence of own-account self-employment has risen most rapidly in the younger groups; the only age group where there was a decline from 1976 for 1990 was the 65+ age group. These patterns are similar for men and women. Finally, Exhibit 2.4 compares the age composition of OASE and paid employment and confirms that the OASE tend to be older than paid workers, but age patterns over time (not shown) suggest that the average self-employed person is getting younger.

<sup>3</sup> It should be emphasized that employment (the denominator) for the 65+ age is small.

**Exhibit 2.4**  
**Age Composition\* of OASE and Paid Workers, 1996**



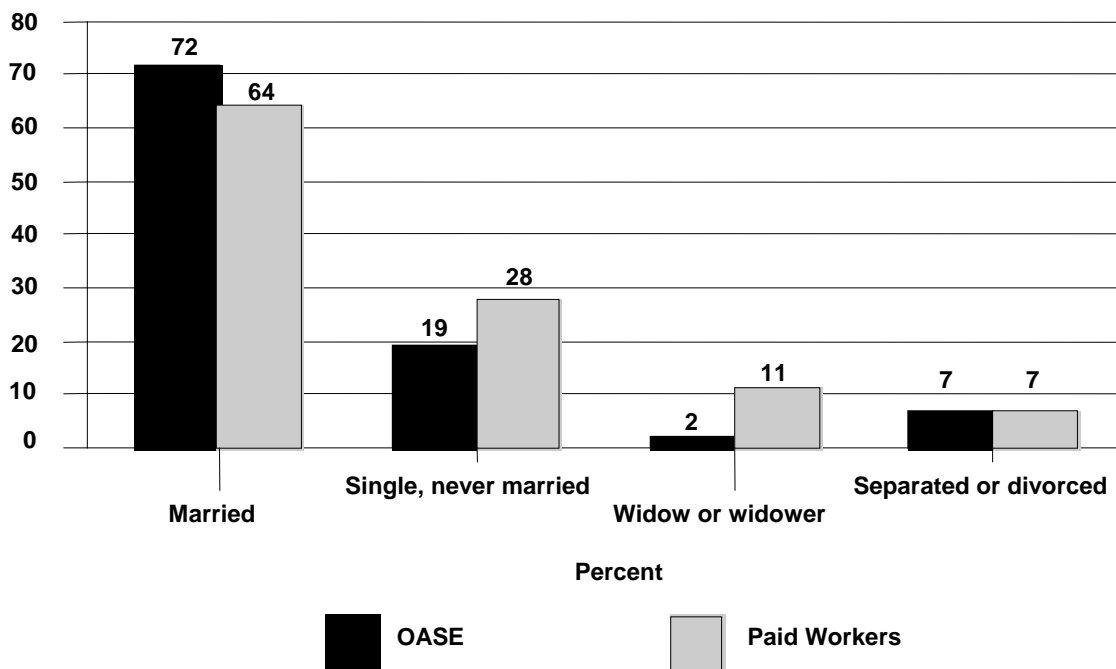
Source: Computations by Ekos Research Associates Inc. based on published and unpublished Labour Force Survey Data (Statistics Canada).

\* Figures sum to 100 percent, for OASE and Paid Workers.

The marital status profile of own-account self-employed compared with paid workers is revealed in Exhibit 2.5. The exhibit indicates that the percentage who are married is greater among the OASE than among paid workers. Incidence patterns (not shown) reflect the age patterns. Widows and widowers are much more likely to be OASE (15.1 percent) than other marital status groups, while singles are the least likely (7.4 percent). As for the role of children, results from the 1992 General Social Survey indicate that the incidence of self-employment is much higher among women with children than those without. This implies that women may be motivated to become self-employed for family reasons (Fast and Frederick, 1996).

What types of jobs do the own-account self-employed have? By industry, there is much variation in OASE. As Table 2.2 indicates, OASE incidence tends to be much higher in service industries than in manufacturing. At a more detailed level, OASE incidence is highest in agriculture, business services, other services and construction. And, apart from government services, OASE incidence is lowest in manufacturing, accommodation and food, and educational services, where less than three percent of the employment is represented by own-account self-employment.

### Exhibit 2.5 Marital Status Composition\* of OASE and Paid Workers, 1996



Source: Computations by Ekos Research Associates Inc. based on published and unpublished Labour Force Survey Data (Statistics Canada).

\* Figures sum to 100 percent, for OASE and Paid Workers.

Over time, increases in OASE incidence have been reported in all industries but agriculture, accommodation and food (1976-1990) and other services (1976-1990). The fact that OASE is rising *within* most industries explains why Crompton (1993) does not attribute the overall growth in OASE incidence *just* to restructuring *among* industries, i.e., toward industries with high OASE incidence. During the 1990s, the increase in OASE incidence has been particularly great in construction and business services. Little (1997) uses LFS data to show that business services, other services, and health and social services were the biggest job creators for *total* self-employment (i.e., including employers), together accounting for almost 60 percent of new self-employed jobs in the 1990s.

In Exhibit 2.6, we compare the industry makeup of paid and self-employment. The results indicate the greatest concentration of OASE opportunities is in accommodation, food and other services (23.9 percent) compared with paid workers, who are concentrated in so-called non-market services, e.g., education, health, social and government (22.7 percent). Reflecting the incidences in Table 2.2, the primary construction, business services, accommodation and food, and other services industries each account for a bigger share of OASE than paid employment.

**Table 2.2**  
**Incidence of Own-Account Self-Employment<sup>1</sup>**  
**by Industry, 1976, 1990 and 1996**

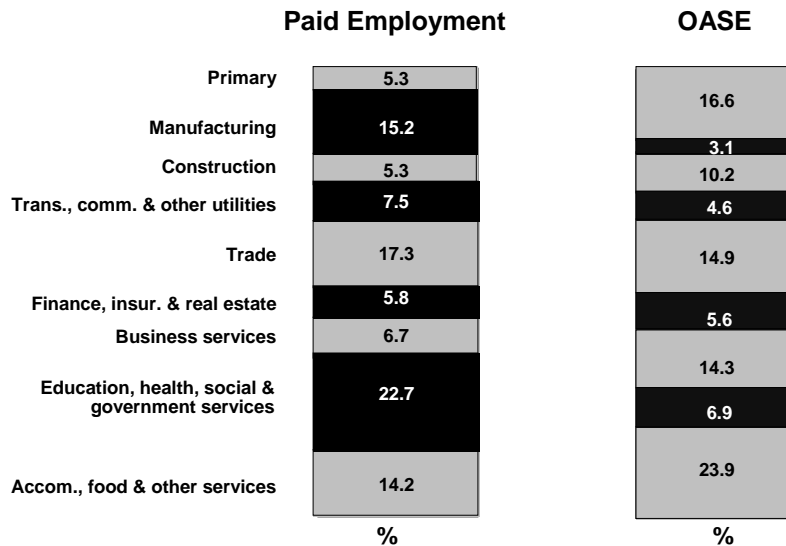
	1976	1990	1996
	Percent		
<b>Total</b>	<b>6.4</b>	<b>7.6</b>	<b>9.9</b>
Agriculture	43.4	43.4	44.6
Other primary	5.5	7.1	8.1
Manufacturing	0.8	1.0	2.0
Construction	9.9	14.1	19.2
Transportation, communication and utilities	3.0	5.4	6.1
Trade	6.0	6.6	8.6
Finance, insurance and real estate	2.4	6.0	9.6
Business services	5.7	13.2	21.1
Educational services	1.4	1.9	2.6
Health and social services	1.2	3.0	5.1
Accommodation and food services	3.2	2.0	2.6
Other services <sup>2</sup>	27.9	25.6	28.7
Government services	0	0	0

<sup>1</sup> For each industry, own-account self-employment as a proportion of total employment in the corresponding industry group.

<sup>2</sup> Amusement and recreation services; personal and household services.

Source: Computations by Ekos Research Associates based on unpublished Labour Force Survey data from Statistics Canada.

## Exhibit 2.6 Industry Composition\* of Paid Employment and Own-Account Self-Employment, 1996



Source: Computations by Ekos Research Associates Inc. based on published and unpublished Labour Force Survey data (Statistics Canada).

\* Figures sum to 100 percent for OASE and Paid Workers.

In most industries, the male own-account self-employment rate is higher than the female rate (Appendix A). Male-female differences are greatest in the agriculture, construction, finance, insurance and real estate, and other services categories. More detailed data indicate that, within the last category, amusement, recreation, personal and household services and education services are the only industry groups with higher incidence for females than males, making this the only sector where this is true (Gardner 1994).

Turning to occupations, Table 2.3 indicates high incidence of OASE in primary occupations, construction, and sales occupations. Not shown is the fact that OASE is also high within the artistic, literacy and recreational sub-groups of the other professional group (24.2 percent in 1986, Cohen 1988). Over time, the results show that OASE has risen in all occupations but particularly construction, other professional, sales and service during the 1990s. Little (1997) points out that the biggest contributors to the growth in *total* self-employment in the 1990s were: other professional (particularly artistic and recreation occupations); mathematics, statistics and systems analysis; and medical and health (particularly non-physician) occupations.

**Table 2.3**  
**Incidence of Own-Account Self-Employment<sup>1</sup>**  
**by Occupation, 1986, 1990, 1996**

Occupation	1986	1990	1996
	<b>Percent</b>		
<b>All occupations</b>	<b>7.2</b>	<b>7.6</b>	<b>9.9</b>
Managerial and administrative	1.7	2.1	4.0
Teaching	2.2	3.1	4.1
Medicine and health	2.1	2.8	4.1
Other professional <sup>2</sup>	10.9	10.3	14.8
Clerical	0.7	0.8	1.4
Sales	12.5	13.8	17.8
Service	10.9	10.6	13.4
Primary occupations	33.3	35.9	38.4
Processing, machining and fabricating	3.3	3.3	5.3
Construction	11.9	13.6	18.3
Transport equipment operating	10.8	10.6	11.5
Material handling	0.9	2.1	3.0

<sup>1</sup> For each occupation, own-account self-employment as a proportion of total employment in the corresponding sex-education group.

<sup>2</sup> Comprising the natural science, engineering, mathematics, social sciences, religion, arts, literacy and recreation occupations.

Source: Computations by Ekos Research Associates based on unpublished Labour Force Survey data from Statistics Canada and Cohen (1988).

Turning to occupation patterns by sex, Table 2.4 compares the incidence of own-account self-employment by occupation for males and females. The results indicate that men are more likely than women to be OASE in medicine and health, other professional, sales, and transport equipment operating occupations. The reverse is true in service occupations where women are almost three times more likely than men to be own-account self-employed.

**Table 2.4**  
**Incidence of Own-Account Self-Employment<sup>1</sup>**  
**by Occupation and Sex, 1996**

Occupation	Male	Female
	Percent	
<b>All occupations</b>	<b>10.1</b>	<b>8.6</b>
Managerial and administrative	4.5	3.3
Teaching	2.8	4.8
Medicine and health	7.9	3.2
Other professional <sup>2</sup>	15.4	13.8
Clerical	1.5	1.4
Sales	20.2	15.1
Service	6.6	18.5
Primary occupations	37.9	40.2
Processing, machining and fabricating	4.9	7.2
Construction	18.2	22.9
Transport equipment operating	11.8	8.5
Material handling	2.5	4.7

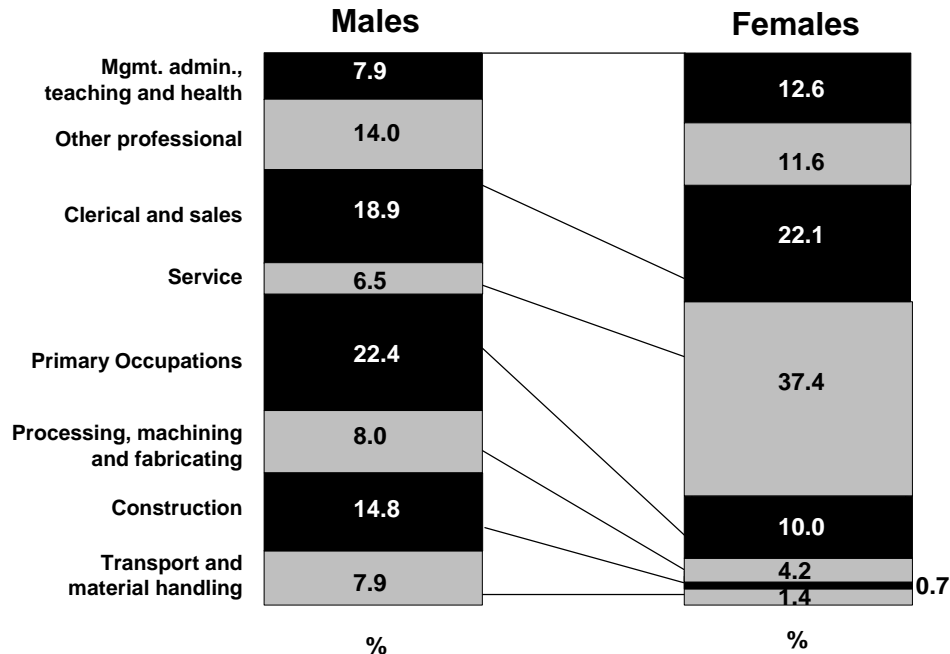
<sup>1</sup> For each occupation, own-account self-employment as a proportion of total employment in the corresponding sex-education group.

<sup>2</sup> Comprising the natural science, engineering, mathematics, social sciences, religion, fine arts, literacy and recreation occupations.

Source: Computations by Ekos Research Associates based on unpublished Labour Force Survey data from Statistics Canada.

Exhibit 2.7 provides another take on male-female differences by occupation. It compares the occupational make-up of male and female own-account self-employment. The results indicate, not surprisingly, a much greater concentration of women in white-collar occupations, particularly service occupations, and a greater concentration of men in blue-collar occupations, particularly primary industry occupations and construction trades.

**Exhibit 2.7**  
**Occupation Composition\* of Male and Female**  
**Own-Account Self-Employment, 1996**



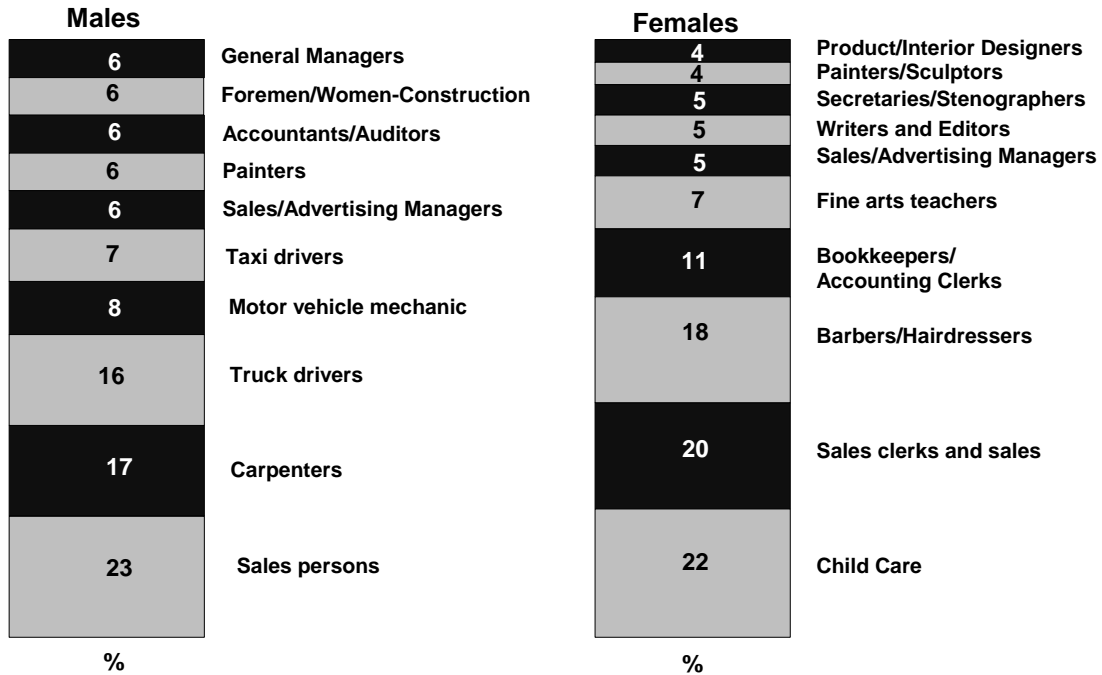
Source: Computations by Ekos Research Associates Inc. based on published and unpublished Labour Force Survey data (Statistics Canada).

\* Figures sum to 100 percent for OASE and Paid Workers.

In Exhibit 2.8 we offer more occupational detail, based on data from the 1991 Census. The results indicate, once again, clear differences between the sexes. For men, the top four occupations are sales persons, carpenters, truck drivers and motor vehicle mechanics; for women, they are child care, sales, hairdressing and bookkeeping and accounting.



**Exhibit 2.8**  
**Ten Highest-Ranked Detailed Occupations\* for the**  
**Own-Account Self-Employed, 1996 by Sex, 1991**



Source: Gardner 1994 (1991 Census).

\* The 10 occupations with greatest labour force, exclusive of agriculture. Percentages are calculated on the sum of the top 10 occupations (sum to 100%).

The link between education and own-account self-employment follows a u-shaped pattern (Table 2.5). The incidence is greatest for the least educated and falls with education level until the post-secondary degree or certificate holders, for whom OASE incidence rises. During the 1990s, all education groups exhibited an increasing tendency to be own-account self-employed in roughly proportional terms. Exhibit 2.9 indicates that the OASE are modestly less educated than paid workers, but overall the educational composition of the two groups is similar.

Three other observations on the role of education and training in self-employment based on other Statistics Canada sources are worth noting:

- Results from the 1984 National Graduate Survey (NGS) indicate relatively high incidences of self-employment among 1982 university and college graduates, despite their brief experience in the labour market and

provincial accreditation requirements (Akyeampong 1990). It would be interesting to see if incidence of self-employment was high among more recent graduates using a more recent version of the NGS.

- Results from the 1987 National Apprenticeship survey indicate that apprentice drop-outs are more likely to be self-employed than graduates (Akyeampong 1991). The author suggests that the reason for this is that drop-outs were more likely to know the economic potential of their trades and feel comfortable starting their own business, or that they could not find anyone to hire them.
- Results from the 1994 Adult Education and Training Survey indicate that the self-employed are much less likely (18 percent) than paid workers (30 percent) to participate in job-related adult education and training (Shiple 1997). It is suggested by the author that cost may be a factor in the lower incidence among the self-employed, who cannot derive the benefits of economies of scale that employers can from training employees in groups.

**Table 2.5**  
**Incidence of Own-Account Self-Employment<sup>1</sup>**  
**by Education Level, 1990 and 1996**

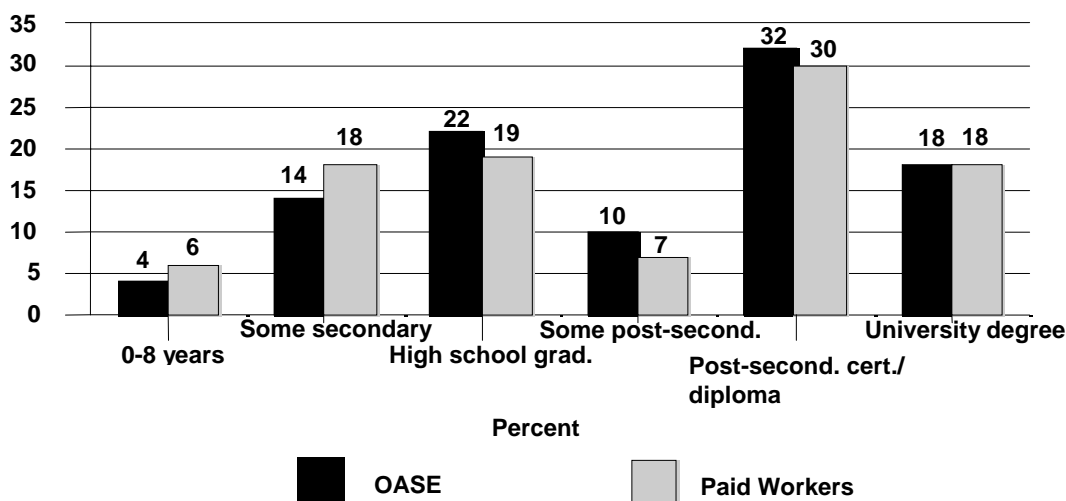
	1990	1996
	Percent	
<b>Total</b>	<b>7.6</b>	<b>9.9</b>
0-8 years	13.3	17.1
Some secondary	9.2	12.1
High school graduate	6.2	8.6
Some post-secondary	5.9	7.8
Post-secondary certificate/diploma	6.8	9.6
University degree	7.0	9.6

<sup>1</sup> For each education level, own-account self-employment as a proportion of total employment in the education group.

Source: Computations by Ekos Research Associates based on published and unpublished Labour Force Survey data from Statistics Canada.

## Exhibit 2.9

### Education Composition\* of OASE and Paid Employees, 1996



Source: Computations by Ekos Research Associates Inc. based on published and unpublished Labour Force Survey Data (Statistics Canada).

\* Figures sum to 100 percent, for OASE and Paid Workers.

Computer ownership among the self-employed may be expected to be high, given that the self-employed do not, by definition, have access to employer-supplied computers. Results from Statistics Canada's Household Facilities and Equipment Survey indicate, however, that in 1996 the proportion of households with a computer and a self-employed head (18 percent) is much lower than the proportion in employed-headed households with computers (30 percent) (Dickinson and Sciadas 1996). Furthermore, results from the 1994 General Social Survey indicate that a much higher proportion of paid employees (50 percent) use computers at work than the self-employed (18 percent) (Lowe 1996).

Turning to the pattern by region, Table 2.6 indicates that the incidence of own-account self-employment tends to rise from eastern to western Canada. The OASE rate is highest on the prairies (12.8 percent), due to the importance of agriculture in these provinces. British Columbia comes second while Atlantic Canada has the lowest rate (8.6 per cent), despite the large number of self-employed fish harvesters in those provinces. The incidence of OASE has risen in all regions of the country during the 1990s, with the smallest gains reported on the Prairies.

Another set of issues regarding the self-employed concerns moonlighting and location. According to the 1995 Survey of Work Arrangements, those who are self-employed in their main job outnumber those who are self-employed in their second job by a factor of almost 5 to 1 (Lipsett and Reesor 1997). However, just over half (53.4 percent) of the main-job self-employed work at home, while more than three-quarters of second-job self-employed do so.

**Table 2.6**  
**Incidence of Own-Account Self-Employment<sup>1</sup>**  
**by Region, 1990 and 1996**

	1990	1996
	Percent	
<b>Canada</b>	<b>7.6</b>	<b>9.9</b>
Atlantic	6.9	8.6
Quebec	6.2	8.8
Ontario	6.6	9.1
Prairies	11.4	12.8
British Columbia	8.3	11.1

<sup>1</sup> For each region, own-account self-employment as a proportion of total employment in the corresponding region.

Source: Computations by Ekos Research Associates based on published and unpublished Labour Force Survey data from Statistics Canada.

In concluding this section, it should be pointed out that the results presented above are largely confirmed by results from a question on interest in self-employment in recent polling carried out as part of the *Rethinking Government* project (Ekos 1997). The results (not shown) indicated that the proportion of those who were strongly interested in self-employment was higher for men than women and rose from east to west in Canada, which is similar to the OASE incidence results. On the other hand, the proportion who are very interested in self-employment fell with age, which is the opposite of the incidence results based on LFS data. The difference may be explained either by the fact that the former results are for total self-employment and the latter for own-account, or by the presence of a basic dissonance between the wishes of older workers and what they are forced to do. Other findings of note from the Ekos survey are that there is no variation in self-employment interest across education-attainment levels.

## ***Job Quality***

Two measures of job quality are described here: hours worked and employment income. Jobs where one is forced to work long weeks or where one's pay is low may be considered of poor quality. Another typical job-quality measure is benefits coverage, for which data for the self-employed do not exist. However, as a study of small firms Ekos (1996) conducted for Industry Canada found, benefits coverage is lower in small firms (less than 20 employees) than in firms in other size groups.

Starting with hours, the definition of hours needs clarification from the perspective of the self-employed. The results presented below are based primarily on the Labour Force Survey and the hours worked represent the usual hours worked in the main job. A self-employed person is one who was self-employed in their main job in the reference week. Thus, hours reported for the self-employed are for just their self-employment activities, even if they also had a paid job. Published hours results based on LFS data are for the total self-employed including employers, but give us the picture over time. To get hours for the own-account self-employed for a single year, we turn to published Census results. They indicate that employers work longer hours than the own-account, implying that the LFS hours results presented here are biased upward with respect to what the OASE actually work (Gardner 1994).

Another problem with the hours measure is: what does it mean for the self-employed, and does their concept of hours differ from that of the paid employed? When a self-employed person works long hours, all the hours may or may not be devoted to projects or to providing services to clients. A large portion of the self-employed work efforts are for building up their own business *per se*. Indeed, the time the self-employed devote to their business is an important source of capital for them (Cohen 1992). In contrast, all the hours that the paid employed work would be considered to be associated with providing labour services.

LFS data indicate that in 1995 the total self-employed were more than twice as likely to work long hours, i.e., 41 or more hours a week (44 *versus* 15 percent) (Sheridan, Sunter and Diverty 1996)<sup>4</sup>. Gardner (1994) further points out, on the basis of 1991 Census data, that the proportion working more than 50 hours a week is also higher among the self-employed and that, within the self-employed group, employers tend to work longer weeks than the own-account self-employed (whom he calls independents).

Over time, the incidence of long weeks has been falling for the self-employed as a whole. In 1976, the incidence of long weeks among the self-employed was about 50 percent. Sheridan *et al.* (1996) and Gardner (1994) attribute the

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<sup>4</sup> The same source indicates that the self-employed were also more likely to work on a part-time basis (i.e., less than 35 hours a week) than the paid employed (29 *versus* 24 percent).

decline to the increasing proportion of self-employed women, who tend to work shorter hours than men. In 1991, OASE women worked on average 34 hours in the week preceding the Census, whereas men worked almost 43 hours (Gardner 1994). On the other hand, self-employed women are increasingly working longer weeks, meaning that the overall decline in long hours among the self-employed should eventually level off (Sheridan *et al.* 1996).

As for second job quality measure — income — the definition is even more problematic than it is for hours. The Survey of Consumer Finances (SCF), on which the earnings data are based, asks respondents to identify their labour force status in the reference week (in April) but asks for their income over the previous year. Thus, it is quite possible that a good part of the indicated earnings of the self-employed person may in fact be from paid employment, especially given the large numbers moving into self-employment. For example, a respondent may have been self-employed at the time of the survey, yet he or she may have been in paid employment the entire previous year, so that the earnings for this individual are really from paid employment rather than self-employment.

It should also be noted that the definition of income/earnings is somewhat different between the self- and paid employed (Statistics Canada 1994). Income from self-employment is net of expenses and income in kind. Income from paid employment is gross wages and salaries, net of fringe benefits and income in kind, and before deductions for income taxes, employment insurance, and pension plans.

Besides those methodological concerns, there are conceptual issues, similar to hours, regarding the comparability of income definitions between the employed and self-employed. For example, unlike the paid employed, the self-employed are able to write off expenses which not only reduces their net income but also contributes considerably to the quality of their non-working life. We also note the tendency for the self-employed to hide portions of their income. In addition, the self-employed are more likely to occupy lower-skilled positions than the paid, which drags down their overall mean earnings level.

We start with earnings levels, which are based on unpublished SCF tabulations obtained from Statistics Canada covering the years 1985 and 1995. In the next two tables, we are looking at total earnings from employment (paid plus self-employment) during the year, which are associated with individuals identified by their labour market status (own-account self-employed or paid employed) in April of 1986 and 1996, respectively. To control for hours worked during the year, we focus on full-time full-year (FTFY) workers, who are those who worked 30 or more hours (full-time) for 49 or more weeks (full-year) during the year.

In Table 2.7, we compare the mean annual earnings of the FTFY own-account self-employed and the paid employed, by sex. We note three findings. First, the

own-account self-employed earned on an annual basis about three-quarters (73.5 percent) of what paid workers earn (last row). Second, the gap has closed somewhat since 1985, when the OASE earned 68.3 percent of the paid worker annual salary, reflected in the faster earning growth for the self-employed (columns 3 and 6). Third, OASE females have made greater strides in closing the earnings gap with males since 1985 than the female paid employed: in 1985 OASE females earned a smaller percentage (54.1 percent) of what OASE males earned than female paid workers (64.9 percent) but by 1995 the relative income of OASE women (compared with men) was about the same as paid employed women (about 72 percent).

**Table 2.7**  
**Mean Annual Earnings of Full-time Full-Year Workers,**  
**for the Own-Account Self-Employed and Paid Employed,**  
**by Sex, Current 1985 and 1995**

	Own-Account Self-Employed			Paid Employed		
	1985	1995	1985-1995 Percent Change	1985	1995	1985-1995 Percent Change
<b>Total</b>	\$17,284	\$27,041	56.5%	\$25,300	\$36,792	45.4%
Males	\$18,803	\$29,335	56.0%	\$29,399	\$41,650	41.7%
Females	\$10,165	\$21,213	109.7%	\$19,175	\$30,353	59.1%
Female/male	54.1%	72.3%	-	64.9%	72.9%	-
OASE/paid	68.3%	73.5%	-	-	-	-

Source: Calculations by Ekos based on unpublished Survey of Consumer Finances data from Statistics Canada.

Earnings patterns by education level are presented for the OASE and paid employed in Table 2.8. The results indicate that for the OASE, annual earnings rise with education level, as they do for paid workers. However, as indicated by the last two rows of Table 2.8, the education earnings differentials are higher and have been rising for the OASE, while those for the paid employed have barely moved. For example, the university premium (fifth row) has exhibited no growth for paid workers, while for the OASE it rose from about 175 percent to about 186 percent.

**Table 2.8**  
**Annual Earnings of Full-time Full-Year Workers**  
**for the Own-Account Self-Employed and Paid Employed,**  
**by Education, Current Dollars 1985 and 1995**

	Own-Account Self-Employed		Paid Employed	
	1985	1995	1985	1995
Less than high school	\$14,186	\$20,355	\$21,969	\$30,521
High school graduation	\$17,424	\$22,885	\$22,368	\$32,563
PSE certificate or diploma	\$17,150	\$26,487	\$25,361	\$36,045
University degree	\$30,438	\$42,549	\$35,715	\$49,736
University vs. high school graduation	174.7%	185.9%	152.8%	152.7%
High school graduate vs. less than high school graduation	122.8%	112.4%	106.4%	106.7%

Source: Computations by Ekos Research Associates based on unpublished Survey of Consumer Finances data from Statistics Canada.

In this part of the discussion of income, we turn to its distribution. Here, "self-employed" status refers to employers and the OASE as head of Census family units in 1994; "total income" refers to total income from all sources in 1993, not just earnings from employment and self-employment of census family units; and "census family unit" refers to the traditional nuclear family and to unattached individuals. It should be pointed out that published results were not available for families and unattached individuals combined.

Table 2.9 indicates first that, if we treat Census families and unattached individuals together, there appear to be greater concentrations in lower income strata for the self-employed headed units than the paid employed units. Differences in the upper strata are not as great. Other sources indicate a greater degree of skew at the upper end of the income distribution among the total self-employed: the lower income cut-off of the top decile of the self-employed was more than twice that of paid workers (Bernhardt 1994). Second, among unattached individuals particularly, there are greater concentrations at the ends of the distribution among the self-employed than among the paid employed, implying a more polarized income distribution for self-employed singles. This is corroborated by the dispersion measure (standard error/mean) which is by far the highest (9.04) for the unattached self-employed. Third, unattached individuals earn a lot less than families, regardless of whether the head is self-employed or paid employed.



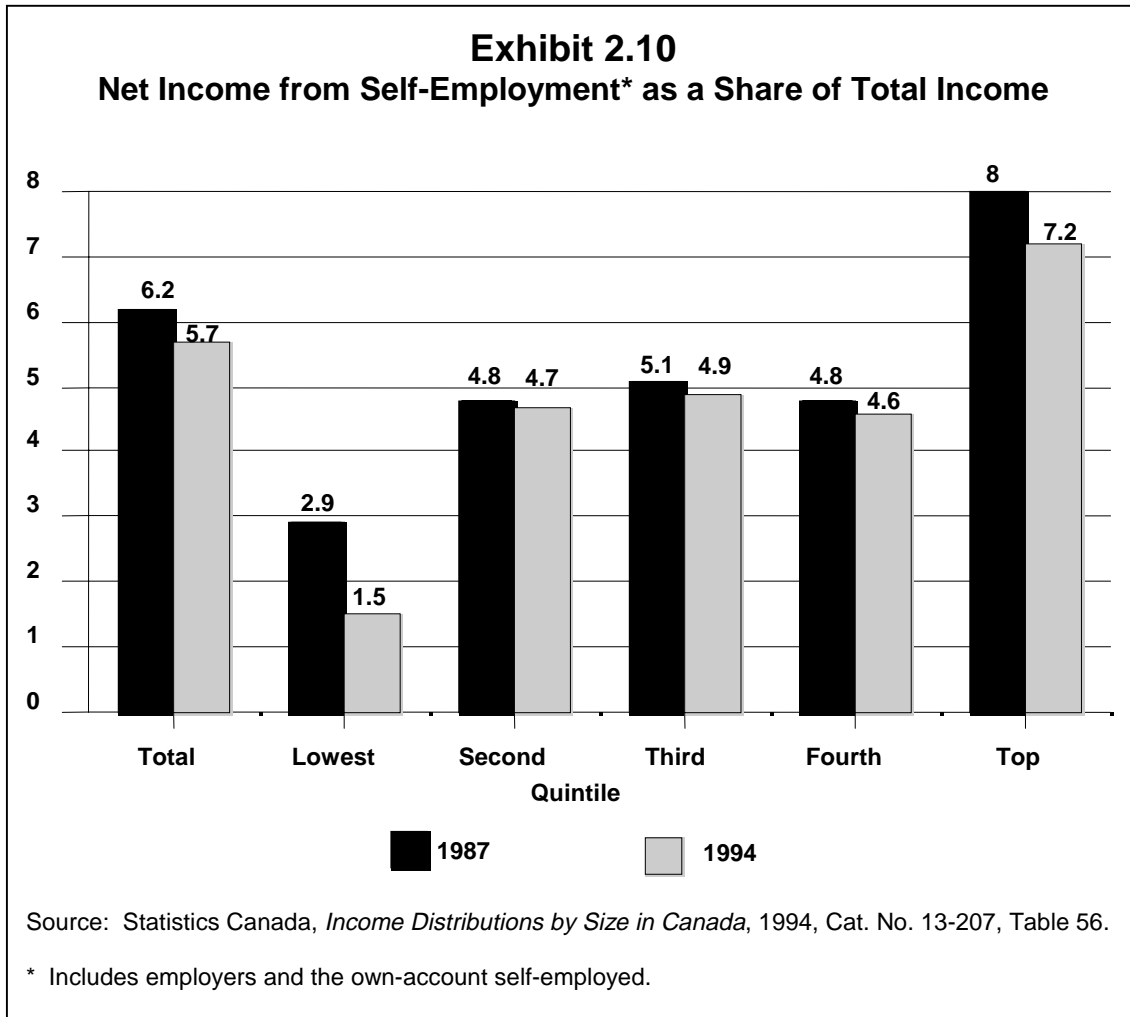
**Table 2.9**  
**Distribution of Families and Unattached Individuals by Income Level,**  
**Mean and Median Income and Standard Error,**  
**by Employment Status of Head of the Census Family Unit, 1994**

	Self-Employed <sup>1</sup> Head		Paid Employed Head	
	Families	Unattached Individuals	Families	Unattached Individuals
< 10,000	3.1	19.0	1.3	15.6
10,000-19,999	8.6	34.4	5.6	22.5
21,000-29,999	16.7	15.0	8.1	21.2
30,000-39,999	15.8	10.2	12.2	18.6
40,000-49,999	12.0	4.4	14.2	12.5
50,000-99,999	33.9		47.6	
100,000+	9.8	16.8	11.1	12.7
<b>Total</b>	100.0	100.0	100.0	100.0
Mean (\$)	53,916	30,986	61,664	29,175
Median (\$)	45,378	18,758	56,337	26,978
Standard error (\$)	1,063	2,802	395	351
Standard error/mean (%)	1.97	9.04	0.64	1.20

<sup>1</sup> Includes employers and own-account self-employed.

Source: Calculations by Ekos based on Survey of Consumer Finances tabulations from Statistics Canada, *Income Distributions by Size in Canada, 1994*, Cat. No. 13-207, Tables 8 and 28.

Exhibit 2.10 compares the share of total income of census family units that is from self-employment, across income quintiles and over time. Two findings are clear. First, reliance on self-employment is a function of income level: more than 7 percent of the income of high-income units came from self-employment in 1994 compared to only 1.5 percent for the lowest quintile. The share is fairly similar across the middle three income quintiles. This is contrary to the patterns shown for interest in employment by income level from Ekos (1997), which indicate that interest in self-employment is greatest in the lowest income category. Second, the reliance on self-employment as an income source has fallen somewhat since 1987 in all income quintiles. This is paradoxical in light of the labour market trend results presented above, which indicated increasing incidence of self-employment over time.



### ***Explanations and Motivations***

The factors contributing to the recent rise in self-employment may be categorized as "pull" and "push" factors. Pull factors would be those drawing individuals into self-employment, i.e., wherein there is an element of voluntariness; push factors, on the other hand, capture the element of involuntariness.

In this section, we present findings from the literature on self-employment organized according to push and pull explanations for why persons enter it and why it is growing. It is important to bear in mind, however, that the line between push and pull is blurry. For example, an individual could ostensibly have entered self-employment voluntarily, indicating he or she entered self-employment to gain independence and control over his or her life, but in reality saw no future in his or her former organization because there was no chance of career progression and every chance of being laid off. The blur between push and pull

is demonstrated in the literature and in the qualitative results we report in the next two chapters by the lack of consensus about what is driving the growth of self-employment and why individuals enter self-employment.

Before proceeding, two other points need to be made. First, much of the relevant literature applies to *all* self-employed and not just the own-account. Work cited below indicates there may be clear differences in motivation between employers and the own-account self-employed. Second, the literature on explanations and motivations for rising self-employment is skimpy and mostly from outside Canada. This is the reason that we used interviews and focus groups in other stages of this project to enlighten us on this qualitative dimension of self-employment.

We begin by showing how push and pull motivations can be surmised from the characteristics of the self-employed. For example, Evans and Leighton (1990) used empirical analysis to show that men who believe their performance depends on their own actions are more likely to enter self-employment. Devine (1994) found that those with rising earnings are more likely to enter self-employment than those with falling earnings. Both these findings are consistent with pull motivations for self-employment. By contrast, Leighton and Evans (1990) demonstrated that disadvantaged wage earners (unemployed, low paid, high-turnover) have a greater tendency to enter self-employment or be self-employed than workers in standard employment relationships. This is consistent with a push motivation.

Turning to explicit motivations, we start with pull factors. The desire for independence is by far the most important reason for engaging in self-employment. In the 1995 Survey of Work Arrangements, 42 percent of self-employed Canadians cited this reason (Akyeampong 1997). Breaking this down between own-account and employers indicates that independence is the strongest motivation for both groups, but it is stronger for employers (49 percent *versus* 37 percent) (Lipsett and Reesor 1997). This would imply that employers are more likely to have been pulled into self-employment by a desire for independence and to want to see their business grow than the own-account self-employed, who are more likely to be in this position for push reasons.<sup>5</sup> Other pull-related reasons for voluntarily opening one's own business include: to use own working methods, to increase earnings, to be successful, to reach a higher social status (Gresle 1980), and to carry on a family business (Akyeampong 1997). These would likely be reasons why persons become self-employed under any circumstances, though perhaps such motivations are stronger now than they were in earlier era. Finally, a recent survey indicates the majority of the self-

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<sup>5</sup> Lipsett and Reesor (1997) have noted that, among moonlighters (those who have a second job), those who are self-employed and operate out of their home identify "building up a business" as the major reason for moonlighting. This contrasts with all multiple job holders whose main reason for moonlighting is to meet household expenses.

employed are voluntary self-employed: only eight percent of respondents said they were self-employed because they were fired or laid off (Royal Bank 1997).<sup>6</sup>

There are other pull-related explanations for self-employment growth of a more secular nature linked with demographic changes. One is the ageing baby-boom bulge in the workforce, which means that there is a large proportion of older individuals who are better skilled, more experienced and, for these reasons, maybe more willing to become self-employed (Crompton 1993). Other age-related reasons not mentioned are the accumulation of sufficient capital, the desire or need for less work, and the existence of an informal network of former business clients. Also, the fact that there are more and more double-income couples may explain the rise of self-employment: two sources of income in the same household increases the chances of a steady total income flow from self-employment (Steinmetz and Wright 1989).

Other factors that may be playing a role include new, cheaper technologies, which are enabling small businesses (including the self-employed), who have a limited amount of capital, to meet the increased demand for business services by firms that are increasingly outsourcing (Steinmetz and Wright 1989; Powell 1990). Also, demand for personal services such as nursery and food preparation are on the rise, and this may be a result of a higher labour-market participation among the female population (Crompton 1993).

The literature has suggested that push factors can also explain the rising incidence of self-employment. Layoffs and limited employment opportunities are the dominant push motivations. For example, more people choose self-employment because promotions are frozen in larger organizations and in government (Gresle 1980). Similarly, people become self-employed simply because they have no other professional options (Crompton 1993; Akyeamong 1997). This is particularly the case for the own-account self-employed among whom this is a much stronger motivation than among employers (15 percent *versus* seven percent) (Lipsett and Reesor 1997). This push motivation relates to the ageing workforce mentioned above: as persons age, their employment options diminish (Crompton 1993). A similar demographic explanation for the growth of self-employment has been offered by Foot (1996). Attempts to squeeze a rectangular demographic structure (the baby boomer bulge) up a pyramidal organizational structure have resulted in the squeezing out of a number of high-skilled, middle-aged workers who have no option but self-employment.

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<sup>6</sup> This rather low incidence of push-motivated self-employment may possibly be explained by the fact that the population surveyed by the bank may be primarily their client base who, by dint of the fact that they have been lent money, are more likely to have been pulled into self-employment than the population at large.

Larger business practices may also be at the heart of the recent rise in self-employment according to many studies. Businesses are downsizing as well as subcontracting and outsourcing more work to smaller businesses and self-employed individuals (Morgan 1994; England). Among the reasons for these strategies are: to face competition from abroad and budget restrictions in the public sector (England); to increase production flexibility (Piore and Sabel 1984); and to avoid unions and payroll taxes and benefits (Steinmetz and Wright 1989).

### ***Factors Contributing to the Success of Own-Account Businesses***

Although self-employment is increasing, many small businesses close after a short period of time following start-up. Some estimates suggest that fewer than half of all small businesses survive beyond the three-year mark (De Laurentiis 1994). This suggests that the (*net*) rise in self-employment is due only to the fact that more businesses are being created than are disappearing. In this section, we use the literature to demonstrate the many causes of small business success and small business failure. It should be pointed out these findings apply to the entire small and medium-sized enterprise (SME) sector and not just to the own-account self-employed. Once again, the literature is mainly from outside Canada.

The factors that determine success or failure of self-employment may be divided into two groups: those that are attributable to the traits and actions of the individual, and those that are attributable to factors external to the individual. Obviously, a business's success depends heavily on its owner and, for the most part, the literature deals with the role of the individual. But it must be noted that factors outside the self-employed business, such as the banks, the market, the product or service, and the local economy, also have an important influence on its ultimate success. Often, the self-employed individual can improve the chance of success by gathering information, conducting market studies, and getting training before starting up. Some of these latter success factors were identified in the key informant interviews and focus groups, as subsequent chapters will reveal.

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## **2.3 SUCCESS FACTORS**

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Many factors may contribute to the success of a small business. Skills and knowledge acquired at school or through work experience are seen as key success factors (OECD 1986). Through previous work experiences, either in a paid job or self-employment, individuals may acquire the necessary qualifications to run a successful SME. It has even been suggested that, as most self-employed do come from paid employment, firms are in effect often training their employees for eventual self-employment (OECD 1986).

Networks have also been shown to be a success factor. Research in the French construction industry shows that experience enables individuals to join networks with other similarly self-employed individuals which provides them with access to clients, market information, capital, as well as human resources (Roy 1995). Similarly, other research has indicated that the survival rates have been found to be higher in areas where there are strong network links between self-employed individuals (Loutfi 1991). The Italian industrial districts are a well-known example of areas where many small businesses establish subcontracting and other exchange links that ensure their success (Beccatini 1989). There are Canadian examples of such districts, such as St-Georges-de-Beauce in Quebec (Billette and Carrier 1994).

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## **2.4 FAILURE FACTORS**

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Just as good skills and knowledge may explain small-business success, a lack of such qualities may explain why some small businesses fail. Many entrepreneurs lack the necessary skills to run a business and may also have difficulties assessing markets. According to research in Europe, many individuals who considered starting their own business overestimated their potential clientele and underestimated their competition and the marketing effort needed to reach their potential clients (Amat and Bertrand 1988). The authors found that new entrepreneurs also underestimated the costs involved in opening and running a business, and lacked the necessary accounting skills. To some extent, banks have been able to compensate for this lack of knowledge. Recently, Canadian banks have made an effort to fill small businesses' knowledge gap by providing them with pamphlets, teaching aids and seminars on how to develop a business plan (De Laurentiis 1994).

Beside a lack of skills and knowledge, lack of financing is a problem for the self-employed. Banks in general are reluctant to lend money to small businesses. According to De Laurentiis (1994), the reason for this reluctance is mainly the cost: it is just as labour-intensive for banks to review, approve, secure and service a, say, \$50,000 loan for a small business as it is for a, say, \$5 million loan to a larger business. De Laurentiis notes that "availability of small business financing is a broader problem. Canada suffers from a shortage of venture capital and equity financing sources in the area of business start-ups ... Due to the level of risk, the banks tend to avoid start-up financing where there is no proven track record, collateral or equity in place. This is where other financing sources are essential" (De Laurentiis 1994). However, there is recent evidence that the attitude of banks to small business is changing, as they are increasing the amounts of funds available for small-business loans (Church 1997).

## ***The Role of Government***

An important objective of this study is to identify a role for government, if any, with respect to self-employment. Given the high failure rate referred to above, there may be grounds for government intervention. But what form should that intervention take? Should start-up funds be made available and should they be made available to all or just to those who are most in need? Or should government assistance come in the form of training, advice, or research and information dissemination? Or, less interventionistic still, should the government's role simply be to loosen regulations affecting the self-employed? A few of these questions are addressed in the literature review, as well as in subsequent chapters.

The international literature has indicated that many governments have developed programs to promote the creation of small businesses (Loutfi 1991). The reason often given is that small business contributes significantly to economic and employment growth. However, empirical studies have suggested that government support for new SMEs is either ineffective because supported SMEs do not survive long once they are left to themselves (Loutfi 1991), or unneeded because many who receive support to open their own business would have done so anyway (windfall) (Ekos research Associates 1995).

Others have argued, however, that those who would have opened their business without government financial assistance may not have had access to other sources of financing. Sources cited earlier indicate that financing is a problem for SMEs, and many argue that the government should directly or indirectly support funding mechanisms for small businesses. Morgan (1994) argues that the financial infrastructure must be improved to increase SMEs' access to risk capital. More initiatives such as the *Small Business Development Corporation Act*, which provides tax breaks for individuals investing in small firms, are needed (Morgan 1994). The author also suggests that tax breaks for new businesses, export incentives, and support programs, as well as measures to relieve the burden of over regulation (e.g., interprovincial barriers) be initiated by government.

Human capital development for entrepreneurs and future business owners is another key area for public intervention. With respect to the education system, Morgan (1994) suggests that an important role for schools is to produce graduates with entrepreneurial skills and flexibility. And, according to Amat and Bertrand (1988), the state has a role in promoting the training of new business owners to equip them with basic business skills and know-how; communication skills; and the ability to anticipate and adapt to market and technological changes.

For Loutfi (1991), government intervention can contribute to an "optimal" level of self-employment in each sector. Total freedom of choice may lead to an

inefficient allocation of resources and self-employment crowding in certain industry sectors with easier entry (e.g., retail trade and other services). On the other hand, ill-designed regulations and restrictions to business start-ups may increase illegal activity. Although there are limits to the government's ability to control the level of self-employment, specific interventions can contribute to overall economic development by limiting the number of business failures, which can impose social and economic costs on both the individual and society as a whole.



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## **3.0 KEY INFORMANT INTERVIEWS**

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### **3.1 METHODOLOGY**

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To supplement the material gathered through the literature review and analysis of secondary data, we conducted a round of seven key informant interviews. The key informant interviews were used to confirm or dispute patterns or hypotheses that are evident in the literature, on the basis of "experiential wisdom" of practitioners and labour market analysts. Among the issues addressed in the interviews were the perceived reasons for the rising incidence of OASE, the role of the Internet, the advantages and disadvantages of self-employment, the chief causes of failure and predictors of success, changes in the profile, and the perceived impact on the community and society. In addition, the interviews were used to identify impacts, future trends and emerging issues that are relevant to own-account self-employment as well as to point the researchers toward policy lessons and research gaps with respect to the self-employed.

An interview guide was prepared to capture the above issues. To ensure that all relevant issues were covered in the interview, while still allowing room for the expression of individual opinion and experience, the interview guide was composed of unstructured, predominantly open-ended questions. The interview guide is presented in Appendix B.

Before the interview, candidate key informants were asked to participate in the study and provided with information identifying the sponsor of the study (Human Resources Development Canada), the contractor (Ekos), the purpose of the study, and general topic areas to be covered in the interview. A copy of the interview guide was faxed to participants in advance of the interview to allow them time to provide more thoughtful responses, and a time for the interview was set.

The interviews lasted between 45 and 60 minutes. Interviews were conducted in person with key informants in the National Capital Region (NCR) and by telephone with representatives and officials located outside the NCR. All interviews were carried out by members of the research team in the official language of the interviewee's choice.

Respondents were selected on the basis of their practical or conceptual knowledge of self-employment, i.e., those who had a professional interest in the self-employed either in a practitioner or research capacity. Key informants included a government official involved in the administration of the self-

employment benefit (SEB) under the EI program, private sector individuals involved as SEB co-ordinators, a private sector individual involved in an association that provides advice and training to the newly self-employed, a representative of the Canada Business Development Bank involved in providing for-fee advice and training for small business, a representative of a Board of Trade, a representative of a regional development corporation under Industry Canada (ACOA), a researcher involved in entrepreneurial research, and an individual involved in an entrepreneurial journal. The list of interviewees is contained in Appendix C.

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## **3.2 SUMMARY OF OPINIONS**

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The following is a summary of the responses to the questions posed in the key informant interviews. It should be pointed out that the material presented represents the opinions of the interviewees and may or may not be corroborated by quantitative evidence.

During the course of these interviews, one respondent offered the following typology or model for self-employment. According to this individual, there are two types of own-account self-employed. One is the truly self-employed, who has no employees and is interested in only earning a decent living by replacing employment income and not expanding. They may be either contract workers under a long-term contract with one business at a time, or those who have a number of clients at any one time. Such persons usually do not need to borrow money, nor would they likely be able to do so because they do not have a business plan. The other type is the small business owner who, though he or she may not have any employees currently, is interested in expansion and success. Such individuals have a business plan, which makes obtaining capital easier.

### ***Reasons for Growth***

At the economy-wide level, one major reason suggested for the growth in self-employment was the shift to the service sector, where it is easier to become self-employed because of low capital requirement in that sector. Another reason was the significant amount of downsizing, contracting out and the drying-up of employment opportunities. At an individual level, there appears to be an increasing desire for independence and for self-sufficiency, i.e., not being on unemployment insurance.

Key informants were of the opinion that being pushed as opposed to pulled into self-employment is the predominant reason for becoming self-employed. However, many individuals are expressing pull motivations such as the desire for independence (see Advantages section below). Several professionals, in particular, have said that they had worked for someone else and now wanted to

work on their own. This has been associated with a maturing population desiring to be their own boss.

### ***Role of the Internet***

Respondents all agreed that the Internet should have a positive impact on self-employment by providing market intelligence, other information and the potential to work for clients many kilometres away. It also means they can save on hiring costs and overcome problems of isolation and lack of training. However, some interviewees felt that many self-employed are not aware of the potential of the Internet or, if they are, they do not have the patience and self-discipline to stick with it until they find opportunities. In addition, the Internet is not suitable for self-employed individuals who must rely on personal contact with their clients.

### ***Changing Profile of the Self-Employed***

There were opposing views among self-employment professionals on the changing attitudes of their self-employed clients. One view held that today the self-employed have a positive attitude toward their condition. One respondent observed that the newly self-employed today are less resentful, fearful, and reluctant about their lot and their future because there is less stigma about being laid off today than, say, six years ago, since it is now affecting increasing numbers of individuals. Another interviewee said that the self-employed were more motivated than before. It was also noted that there has been a change in the profile of displaced workers opening a self-employment business. Compared to the past, many now are higher-skilled, white-collar workers who have maintained their contacts with their former employer, which has helped their business.

Another group of key informants had an opposing view of the self-employed attitude. One respondent indicated that his clients (Self-Employment Beneficiaries) were more hostile and upset ("they owe me") than a few years ago, when they were more highly motivated. Similarly, the self-employed in the past were more entrepreneurial and opportunistic and more likely to come from a background of self-employment; today, many of the self-employed are forced into that position, often without the required skills. Also, many of the self-employed are more likely than in the past to be self-employed only because they had the security of a severance package or a government benefit.

The biggest growth areas for the self-employed that the interviewees observed are high-tech positions, engineering, software development, and desk-top publishing. One respondent contradicted the last occupational category, suggesting the market was crowded and that firms now had the software to do their own desk-top publishing.

## ***Advantages and Disadvantages***

Independence/autonomy was suggested as the biggest advantage of being self-employed. Related advantages included the ability to decide what to do and how, when and how long to do it (flexibility), being one's own boss. Also suggested was the challenge, the personal satisfaction derived from being creative and receiving value for one's own product; making more money just by working harder (the ultimate performance-based pay) particularly if you are good at what you do; and the tax breaks provided the self-employed.

However, one interviewee felt that many of the benefits of self-employment are more perceived than real. The self-employed, in fact, are not always in control because they must ultimately report to a client who functions like a boss. Flexibility is not always apparent because clients determine how many hours the contractor must work. And there are tax advantages, but these are offset by lower earnings and benefits. Still, self-employment can be rewarding because it challenges you to be your best.

There were conflicting views on whether self-employment affords more time with family. One respondent felt that this was an advantage, while another thought that this was not a factor, as a large number did not have a family.

The most frequently cited disadvantage of self-employment suggested was the irregular income flow ("feast or famine"). Most self-employed do not know when and where the next contract will be. Related to this is the problem of seeking new contracts at the same time as current contracts had to be completed. However, to have several, often different, contracts going at the same time was seen by one observer as an advantage compared with paid employment: if self-employment business in one area dries up, the self-employed worker can switch to another; if business dries up for a paid worker, he or she may be laid off.

Getting financing was also seen as a problem. Banks are not willing to lend money before profitability can be demonstrated, which means getting money in the first year of operation is difficult. Those not risking any of their own capital in their business will find it hard for banks to risk any of their money either.

Other problems included: the difficulty in being a "master of all trades" (bookkeeper, office manager, purchaser, etc.), the long hours ("you have to do everything yourself"), drawing the line between work-life and family-life, intrusion of family and friends into the business ("they know you're home all the time"), social and professional isolation from colleagues, and lack of employment benefits, including health and disability insurance and pensions, and not being able to rely on unemployment insurance if contracts dry up. Conversely, with respect to the last problem, one observer noted the large number of businesses offering benefits and support to the self-employed and the fact that several self-employed came from jobs where they had no benefits anyway.

## ***Success and Failure Factors***

According to key informants, the most important success factors were adequate financing, up-to-date business and communication skills and knowledge, access to computers and the Internet, knowledge of the market which comes with experience, and networks ("individuals need to depend on others to get ahead"). This last, which the self-employed should rely on to overcome deficiencies, include: a large group of clients to call upon, umbrella organizations which the self-employed can join as associates to save on overhead and provide contacts, organizations that provide the self-employed with advice, information and training (e.g., the Association for Self-Employment of Ontario and the Home-Based Network), and organizations to get group discounts for health insurance and pensions. Having a sound business idea and finding a niche are also important. With respect to personality, drive, commitment, passion and a propensity for risk-taking are important. Recognizing one's limitations and having spousal support are also important. Doing something in the high-tech area stands a good chance of success.

The lack of the above attributes were all identified as predictors of failure. Also identified was an inability to find a niche, a lack of computer skills, a crowded market (e.g., desktop publishing) and mental barriers (lack of risk-taking).

## ***The Future and Expected Impacts***

Most respondents agreed that self-employment will continue to increase, with or without government assistance. The reason is that heavy competition will continue to spur firms to downsize and contract out. Most opportunities for self-employment will be in the service sector, where the need for physical capital and, therefore, financial backing is less than in the goods sector. However, one observer indicated that we have reached a plateau with respect to self-employment growth because there is nothing left for firms to outsource.

What impacts will the continued growth of self-employment have? For society at large, key informants offered a number of predictions. One suggested that the continued trend toward greater self-employment may mean greater insecurity, fewer persons covered by benefit plans, more individualism and less social cohesion, greater family breakdown, and the erosion of the tax base. Another observer predicted that, to compensate for isolation, there will be greater numbers of individuals banding together to acquire returns to scale with respect to employment benefits, overhead, and business contacts. It was also suggested that, eventually, self-employment could be equalizing, by empowering the formerly disadvantaged individuals to get ahead on their own but, in the medium term, inequality may increase as a result. Once again, these forecasts were not based on quantitative evidence.

## ***Public Policy Issues***

There was general agreement that "creaming" does take place: mainly those with the best chance of success are selected into programs assisting the self-employed. ("Why spend public money on those with a small chance of success?") Besides, one respondent observed, program success is judged by how many clients end up in self-employment.

Respondents indicated that self-employment programs have been helpful despite creaming. One view was that self-employment assistance has helped those who had been "sitting on the fence" about becoming self-employed and would not have done so without the stimulus of assistance. Also, government support has been helpful to those who would otherwise be distracted by worries over food and shelter. These programs have also provided financial backing and training to potential self-employed individuals who would not otherwise have been able to borrow money for their endeavour or received training to avoid mistakes down the road. Also, clients' confidence and attitudes have been positively affected by their experience in the program. On the other hand, the observer indicated the government should not be involved in providing start-up capital to the self-employed.

For communities, the growth of self-employment will mean the growth of home-based businesses and the growing need for house builders to construct homes that are "home office-ready" (e.g., with greater sound-proofing and separate entry). Also, municipalities might benefit from the fact they are no longer dependent on one or two types of business and have a more diversified base.

For younger individuals, who have come through a school system and lived through turbulent times that have prepared them for the new work world, the growth in self-employment opportunities will not negatively, and perhaps may even positively affect them. For older workers, however, self-employment will likely be a much more disruptive and traumatic experience.

There was general agreement that public policy has not kept up with the rise in self-employment and the impacts thereof, although there was approval of Strategies, the one-stop web site for small business. There does not appear to be an articulated self-employment policy with respect to the government's treatment of the self-employed.

Among the specific suggestions was that governments should offer assistance to self-employment associations providing mentoring advice and training to the self-employed and to educational facilities providing human development opportunities to the self-employed. But one person suggested there should be standardization of the training offered by these organizations. The government's role should also be to provide support to those getting started and information about the benefits and risks of self-employment. Indeed, self-employment

should not be pushed as a panacea for labour market ills; it should be promoted cautiously because not everyone is cut out to be self-employed. Another interviewee indicated governments are going to have to re-think their social security system as a result of the increasing proportion of the population being without employment-based health and pension coverage. The establishment of a disability insurance fund was suggested as a solution by one interviewee. Also, governments need to make programs flexible enough to accommodate the fact that different self-employed individuals have different needs.

With respect to regulations, it was suggested that governments maintain tax rules favouring self-employment (e.g., business expense deductions). At the same time, they need to loosen rules to allow the self-employed to subcontract from one large employer, and to permit establishing pension plans through associations. Other respondents talked about simplifying reporting procedures to reduce paper burden for the self-employed and other small-business owners. In general, it was suggested that governments should be creating a hospitable climate for self-employment by loosening and streamlining regulations and laws, including those dealing with business set-up. On that note, it was recommended that there should be one telephone number for dealing with all regulations.

At the community level, municipalities need to change zoning laws to accommodate the growing demand for home-based businesses. Also, there should be more strategic planning within the community between, for example, entrepreneurship centres and economic development organizations.

### ***Research Gaps***

One major research gap identified by interviewees is the need to examine associations that help the self-employed. What types of organizations help the self-employed? Is it the Board of Trade or professional associations? We need more information on the needs of these organizations and how their effectiveness in helping the self-employed can be enhanced by government support.

Another suggested area for self-employment research was the social and economic costs of bankruptcies, which are particularly high for the self-employed. With the rapid growth of self-employment, the commensurate increase in bankruptcy would not be good for the new economy.

Three other areas suggested for research are to define the predictors of self-employment success, to evaluate the effectiveness of training for the self-employed, and to find out about the specific needs of the self-employed at every stage of their development.

One observer said that the government should be conducting this research. Another thought the government should be funding organizations who have expertise in the area.



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## 4.0 FOCUS GROUPS

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### 4.1 METHODOLOGY

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In addition to secondary sources and the perspective of key professionals, the first-hand views of those who are themselves (or who have been) self-employed was obtained using a focus group methodology. The focus group setting allowed us to address study questions in significant detail by focusing on the experiences and impressions of a relatively small number of self-employed Canadians. While these experiences are not representative of all self-employed, they are *indicative* of the range of experiences, motivations and expectations of self-employed Canadians.

The primary issue areas covered in the focus groups included the following: motivation to become self-employed; perceived advantages and disadvantages of self-employment; factors/barriers to successful self-employment; future plans; and role of government in supporting self-employment. The focus-group moderator guide used is included as Appendix D.

Eight focus groups were conducted in four cities: Montreal and Halifax (March 5 and 6) and Toronto and Calgary (March 12 and 13). The focus groups in Montreal were conducted in French. The focus groups each lasted approximately two hours. Total attendance was 78, varying between eight and 11 participants out of the 12-14 candidates who were recruited to each session. All participants received an honorarium.

Recruitment<sup>7</sup> for participation in the focus group was conducted according to the following criteria: currently self-employed or had been self-employed within the last year and having no employees or, if formerly self-employed and currently employees, hired only within the last year. The recruitment script is attached as Appendix E. Efforts were made to recruit individuals from various industry sectors and to provide a mix in terms of gender and age. The composition of the groups was intended to reflect, to the extent possible, the diversity of the self-employed population and their experience and expectations.

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<sup>7</sup> Given the highly selective nature of the target group — own-account self-employed — we made use of the services of a professional recruiting firm through a sub-contract arrangement. Such firms maintain databanks of basic demographic information collected through other research assignments on many thousands of households in specific areas where one or more members of the household have participated in qualitative research or have asked to be placed in a databank. Also recorded is any past participation on qualitative studies that the participant was involved in. In addition, participants, regardless of stated previous focus group attendance, are checked against the PMRS Central Files to ensure they have not participated in focus groups for other firms.

To supplement the oral proceedings, a brief questionnaire was administered to focus group participants at some point during the sessions. Information was collected on such items as basic descriptive variables (e.g., sex, age, marital status, occupation, etc.), reasons for becoming self-employed, business skills, use of the Internet, intentions, and the role of networks, banks and the government. The questionnaire is attached as Appendix F. The results are presented by city in Appendix G and referred to throughout the chapter.

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## **4.2 FOCUS GROUP FINDINGS**

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### ***Personal and Business Profile***

The results of the survey of participants indicated that there was an even split between men and women among those who participated in the focus groups. The average age was about 40, with more than one-half of participants being in the 31-44 age bracket. Participants had been in their business, on average, for about 5.5 years, with only 16 percent of businesses being older than 10 years. Last year's sales for participants averaged a little over \$55,000, with 40 percent generating between \$20,000 and \$40,000.

Individuals who participated in the groups were drawn from a wide variety of sectors. However, the majority could be broadly categorized as working in service sector industries. This is reflected in the survey results which indicated that 72 percent of businesses were in services. The range of industries included, for example; professional or business services (accounting, word processing, editing, translation); arts/crafts (writing, visual arts, weaving, goldsmith, photography); home improvement-related services (painting, renovating, decorating) or traditional retail businesses (gift shop, clothing store). Several participants combined different types of (often unrelated) self-employment (e.g., writing and teaching, catering and tutoring, courier service and electronic repair, personal counselling services and publishing).

The use of technology and the Internet is very dependent on the type of job the self-employed occupied. For example, painters and decorators, carpenters, editors, visual artists, and couriers do not use technology and their self-employment is not dependent on technology. For others – business services, consulting engineers – technology is integral to their business. Only a small minority of participants used the Internet as part of their business, though other participants felt that the Internet could be valuable to them in terms of advertising, networking and research. Web page advertising and research were the most common uses of the Internet.

Most participants worked in a field similar to one in which they had worked in wage employment in the past or had trained for during post-secondary education. Alternatively, several participants established their business idea

based on an interest, hobby or part-time business which evolved into a full-time self-employment. The majority of participants were first-time self-employed.

The majority considered themselves to be full-time self-employed, though there were seasonal aspects to some businesses, as well as periods of "feast or famine" which precluded full-time year-round work. A minority supplemented their self-employment with wage employment. Some participants combined self-employment with school or with homemaking/caring for children.

As far as the location of the business was concerned, the vast majority of focus group participants were working out of their home. Only a minority had premises outside their home.

Participants were working under a variety of arrangements. For example, some worked on a strictly commission sales basis for larger organizations. Others were working on a contract basis, with contracts lasting from several weeks to more than a year in some cases. Still others operated their business by having several clients to whom they provide services.

### ***Business Start-up***

Few participants had prepared extensively for their move into self-employment. In many cases, participants described this transition as something they simply "fell into". Others felt that they did not need to prepare — their self-employment closely paralleled their previous wage position and they had developed their business sufficiently without the need for extensive preparation. Only a minority prepared for self-employment in a more traditional way — entrepreneurial training, market research, business plan and so on. These tended to be older participants or those who more closely identified themselves with the pull kinds of motivations. More participants depended on some informal planning such as talking to friends, family and colleagues or assessing competitors in order to set prices for products.

Business start-up was difficult for most participants. Access to financing was a concern for some. Few had secured outside financing to start their business. The survey results indicated that only 38 percent had sufficient capital to start their business, a result that was inversely related to revenues and positively to the age of the business. Halifax stood out from the rest (53 percent). The results also indicated that a very small minority (14 percent) felt that the government had provided them with sufficient advice and information to start their business. This proportion was highest in eastern Canada and for young businesses, and lowest in Calgary. Marketing and obtaining new clients were viewed as very difficult in the beginning. ("When you're starting out and you don't have reputation, you don't have a name built up. (What is hard) is to get that reputation. The majority of businesses run on reputation.")

## ***Reasons for Growth and Individual Motivations***

When participants were asked why they thought self-employment had been increasing in Canada over the last two decades, a number of theories were suggested. Among the most prevalent were the following:

- downsizing in the workplace/less employment;
- lack of security ("you're not secure in a regular job so why not trade that for the insecurity of self-employment, you have less to lose now");
- technology (permitted more people to work on their own);
- growth of niche markets (greater specialization and inability of larger organizations to respond); and
- businesses offering training are actually training their employees for self-employment.

At a personal level there was a wide variety of reasons why participants had become self-employed. These motivations included:

- layoff/unemployment (lack of employment opportunities was often related to the age of participant, with some older participants feeling shut out of regular employment because of their age);
- increase earnings (get full value from their work);
- flexibility ("I hate 9 to 5");
- desire for independence ("I didn't want to work for anyone else"); and
- personal satisfaction ("I used to do this (work) as a hobby. I'm making half what I used to make in my previous job, but I'm 100 times happier. Your priorities change.")

On balance, when asked to categorize their initial motivation for becoming self-employed into push or pull, more participants described their experience as being pushed into self-employment, rather than pulled. This seems to confirm the survey results which indicated that just over one-half of respondents reported lack of employment opportunities as the main reason for opening their self-employed business, but contradicts the Royal Bank (1997) results that indicated that a minority have been forced into self-employment. Also, many noted that, while their initial reasons for self-employment were related to push factors, they had increasingly come to enjoy their experience and to appreciate attributes of self-employment that could be associated with pull-like motivations such as "being my own boss". Interestingly, just less than half (45 percent) of survey respondents indicated they would trade their self-employed jobs for wage employment.

The decision to be self-employed was often a product of one's job or one's upbringing. For some, it was related to the type of industry or occupation in which the individual worked. For example, for those in arts-related occupations – fiction writer, visual artist, photography – wage employment is virtually non-existent anyway. Other participants noted that self-employment was a "natural" for them: they were sons or daughters of self-employed people. ("My mom worked for the school board, my dad was self-employed, so I grew up in that environment.") In some cases, their spouses were also self-employed.

### ***Advantages and Disadvantages of Self-Employment***

Participants mentioned many advantages of self-employment during the course of the focus group discussions. One of the primary advantages of self-employment is *flexibility*. Participants noted that they were able to set their own hours, arrange their schedules to suit other priorities, and spend more time with their families. ("I can work at three o'clock in the morning if I want to"; "I can be with my kids"; and "I can take time off when I want to".)

Other advantages of self-employment that were mentioned by participants included:

- *"being the boss"* or "being in control";
- *greater earning potential* and a more direct connection between effort and reward ("The profit you make is your own. You don't give it to someone else");
- *personal satisfaction* or pride in providing a service or product of their own making;
- tax benefits;
- *convenience and cost-saving* of not having to commute every day to work or to dress up; and
- the *variety* offered by working on a number of different projects and the mobility of working anywhere.

As with the advantages, focus group participants identified a variety of disadvantages of being self-employed. Among the most often mentioned was the difficulty in coping with the *unpredictable cash flow* that is associated with self-employment. This lack of a regular earnings flow made it difficult to plan and to make purchases.

Another common drawback mentioned was the *lack of benefits*, in particular, sick leave and health benefits. With respect to private pensions, however, most focus-group participants felt that, as self-employed, they were no worse off than most (employed) Canadians. They were relying on private contributions like most Canadians ("How many people these days have a company pension

plan?")<sup>8</sup>. On the other hand, the survey results indicated that less than one-quarter (24 percent) felt they had put sufficient resources in their pension plan. This percentage rose with the age of businesses, though the relationship was not statistically significant.

Self-employment, particularly during the early stages of the business, often means *long hours* according to participants ("When you work day and night, you don't get much of a life.") Most felt they were not yet in a position in their business where they could afford to turn down work or contracts. As a result, most worked erratic and long hours to guard against future downtime.

Other disadvantages mentioned by participants included:

- *collections*: having to chase clients to get paid;
- *social isolation* ("You can't brainstorm with other employees like at a regular job.");
- *perceptions of family and friends* ("They don't think you have a real job");
- *the pressure*: having sole responsibility for your livelihood and the company;
- *fear of failure*: those who have loans are worried about going bankrupt or of losing their house; and
- difficulty in *securing personal credit*.

While some entered into self-employment to improve their earnings, there were mixed views about the financial advantages and disadvantages of self-employment. Many liked the fact that their income was more directly tied to their effort ("If I work a lot, I make a lot"). Some participants, however, openly described themselves as "impoverished" and noted that there were some months they had to be "prepared to starve", particularly during the early stages of the business. Others noted that, while their actual earnings had decreased since becoming self-employed, this was balanced by fewer expenses (e.g., parking, clothes) and by tax advantages associated with self-employment.

Similarly, the extent to which self-employment was perceived to be less secure than wage employment was mixed in the groups. Some felt that their self-employment was very insecure: irregular cash flow, the prospect of not finding the next contract, competition in the market, difficulties in getting established all combined to give these participants a profound sense of uncertainty.

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<sup>8</sup> In fact, according to the 1995 Survey of Work Arrangements (SWA), 56-58 percent of full-time and professional workers are covered by a company pension plan. Unfortunately, comparative data for the self-employed are not available from the SWA.

For others, however, self-employment was viewed as increasing their level of security. This sentiment was expressed in terms of control: participants felt better positioned in self-employment to determine their own security by expending more effort if necessary and by making the right business decisions with regard to strategy and product. Those who had multiple clients also felt a measure of security at not having to rely on any *one* person or organization for their livelihood. ("Over the last ten years, I worked for four SMEs that have all closed. At my age, I had enough of continuously looking for a new job.")

Several participants also indicated that their feelings of security were related to the skills, knowledge and confidence they had gained from being self-employed. Participants viewed their self-employment experience as very valuable and transferable to other future ventures. Overall, however, almost all agreed that there is virtually no security in anything: wage employment or self-employment.

### ***Factors of Success and Barriers to Success***

The majority (60 percent) of participants felt their business was successful, according to the survey. This sentiment was directly related to revenue level and was greatest in Halifax. In the focus groups, individuals were asked what they believed were the key factors or elements of successful self-employment. The factors which were most frequently mentioned by participants in all groups involved the personal characteristics of the individual – drive, ambition, motivation, patience, self-confidence, flexibility, sense of humour and adaptability.

Other factors of success which were mentioned by participants included:

- access to resources (stable family income, nest egg, financing) to carry through the periods of famine;
- networks: many participants noted that referrals by word of mouth are the key source of new business ("just as in anything else it's who you know");
- ability to promote oneself, deal with the public, satisfy clients and listen to customers;
- access to information and finding suppliers; and
- moral support from spouse, family and friends.

Participants in the groups did not often spontaneously mention skills and knowledge as factors of success. When prompted, however, participants generally believed skills and knowledge to be very important, including both the skills specific to their product or service, as well as some general business skills (e.g., knowing where to find things and information, marketing and promoting oneself, and management skills). With regard to the last, almost three-quarters of survey respondents indicated that they had the necessary administrative skills

to run a successful business. On the other hand, just over one-half (56 percent) indicated on the survey that they had the necessary computer skills, with Calgary participants having, by far, the highest percentage (90 percent).

Access to the Internet was not seen as a success factor to the self-employed. Just over one-quarter (27 percent) felt the Internet considerably benefited their business; Toronto had the highest proportion (37 percent).

Like the factors of success, barriers to successful self-employment identified by participants were associated with the individual themselves. These included lack of motivation/self-discipline, inability to manage one's time adequately and unease in the role of self-promoter.

Another important barrier related to a lack of access was financing. Most found the banks very reluctant to lend them money and participants were frustrated by the lack of knowledge displayed by individuals making financing decisions ("Its insulting to go ask financing from someone who never owned a business before"). This is confirmed by the survey results which indicated that only about one-fifth felt that banks gave excellent service and advice; the proportion was particularly low in Calgary and Toronto.

A number of other barriers were mentioned, including:

- lack of information about income reporting and tax deductions;
- poor health/lack of benefits;
- government bureaucracy;
- a poor network;
- lack of technical support/access to resources; and
- defaulting clients.

Participants were asked how they had overcome some of the barriers to self-employment. The responses included the following:

- buying used equipment and invest later in newer equipment/buy equipment slowly;
- bartering between businesses;
- education and training;
- obtaining support through government programs (e.g., Self-Employment Assistance Program);
- joining informal networks with other similarly self-employed people (some had on occasion hired these individuals in work-overflow situations); and



- formal trade and professional associations as a source of information and networking.

Despite the fact that the self-employed identified lack of benefits as a disadvantage, few tried to overcome this barrier. No participants were involved in group insurance plans (many were not even aware that these existed) nor did they typically pool resources, space, or equipment with other self-employed individuals to save on overhead. Also, as shown in the survey results, few had put aside much money in their personal pension plan, particularly in Toronto.

### ***Overall Assessment of Self-Employment Experience***

For the most part, participants described their overall experience with self-employment as positive. As indicated above, the majority of survey respondents considered their business to be successful. There are many rewards and advantages in being self-employed and, for many, self-employment is well-suited to their lifestyle and interests. However, when asked whether they would accept an offer of wage employment with similar earnings and comparable work, the response was mixed. About half (45 percent in the survey) said they would accept or a least seriously consider the offer.

In weighing their decision to accept a job offer, participants said they would consider the type of company, culture, expectations, the flexibility the position would offer. Of those who would continue in self-employment, many noted that their responses would have been different when they first started self-employment when times were a lot more difficult.

Focus group participants were asked what kind of advice they would provide if someone approached them who was starting their own business. Advice from participants included the following:

- research: your idea, your market, the location;
- prepare financially: have a nest egg or cushion so that you can spend your first year on getting your business established;
- start slowly: make low initial investments, work part-time initially;
- be realistic: do not set unreasonable expectations; and
- do something that is enjoyable.

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## **4.3 FUTURE PLANS**

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The majority of participants expected to be still self-employed in five years. However, very few anticipated expanding their business and hiring employees in the future – these participants were the truly self-employed and were not

"building an empire;" rather, they were simply earning a decent livelihood. This is confirmed by the survey finding that a majority (63 percent) were not expecting to expand their business or hire an employee in the next year, though this feeling was directly linked to sales level. To the extent that participants expected to hire, it would be on a short-term or contract basis "to finish a job or project".

Participants viewed hiring employees as an enormous step. Among the reasons for not hiring an employee, participants cited the following:

- the daunting paperwork associated with hiring an employee (payroll, taxes, etc.);
- the responsibility ("you're responsible for their life");
- the need to expand business to make up for the extra expense ("to hire an extra person would mean doubling your business");
- the lack of infrastructure: in working out of their home, there was no place to put an employee; and
- inability to delegate and scepticism at being able to find someone who could do work to their standards for quality and speed.

### ***Role of Government***

There were diverging views on whether and how the government should intervene on behalf of the self-employed. Some expressed strong views that the government should have only a minimal role to play in self-employment. Its main role should be just to set the right climate for economic growth. These participants expressed considerable scepticism about the ability of government to intervene in businesses without associated waste and red tape.

Many participants, however, desired greater intervention from government because of expected growth in their numbers. There was also the feeling that because the self-employment cut down on employment costs and because the alternate was often unemployment which entailed paying benefits, the government should help the self-employed. While many admitted that there were significant tax advantages to being self-employed, most did not feel that government was meeting their needs ("We're invisible to government" or "Government pays only lip service to the self-employed and small business").

A number of specific recommendations were made with respect to the role of government. Among suggestions raised with the greatest frequency or greatest amount of support were the following:

1. *Financing.* There was a general feeling that the banks, concerned about their bottom line and lacking open market competition, would not voluntarily become more friendly lenders for the self-employed. This was

confirmed by the results from the survey mentioned above that indicated the self-employed were less than satisfied with the advice and service offered by banks. For this reason, some participants believed that government should have a greater involvement in financing issues, either in terms of directly financing or simply providing incentives for third-party financing of self-employment ventures (the latter being preferable). It should be noted, however, that most participants in the groups had not themselves sought financing when they became self-employed. For some, financing was simply not necessary. For others, the decision not to seek financing was the product of a belief that securing a loan would not have been possible. Many participants, however, expressed an aversion to debt, arguing that their start in self-employment was accompanied by enough insecurities without having to worrying about servicing a debt as well. Nor did participants wish to risk their existing assets (e.g., home) by offering them as collateral in securing a loan.

Some participants also talked about the need for the government to establish some kind of a fund to help self-employed "over the rough periods." This would be like a self-employment insurance fund that individuals could pay into when times were good and withdraw from when times were not. Or the fund could take the form of a temporary loan program. It was noted, however, that strict eligibility requirements and subsequent monitoring and control of this type of fund would be necessary to avoid abuse.

2. *Education and training.* This would involve support for self-employed individuals in upgrading their skills. This would include, for example, support for management or technological training. Some mentioned that supporting the self-employed in gaining access to the Internet would also be helpful. The survey results indicated a lack of computer skills and a degree of scepticism about the usefulness of the Internet. On the other hand, as noted above, respondents to the survey felt their administrative skills were adequate to run a successful business.
3. *Information.* The survey results indicated that the self-employed were significantly dissatisfied with the information provided by government in starting their business. A small minority of survey respondents were satisfied, falling from the east (29 percent in Halifax) to the west (0 percent in Calgary). Suggestions for the type of information governments should supply were: labour market-type information which would identify opportunities for self-employed in areas of high demand; information that would raise awareness about what kinds of programs and supports are available to self-employed individuals; and "one-stop" information on the legal, regulatory, and tax implications of self-employment, training and financing.

4. *Administration/bureaucracy.* Participants were virtually unanimous in criticizing government reporting and administrative requirements for self-employed individuals, licensing and permits. This was accompanied by typical recommendations for a reduction in red tape.
5. *Promoting self-employment.* When prompted about whether the government should actively promote self-employment as a potential option for Canadians, most agreed that this would be a good idea ("It is better than unemployment"). When probed about the potential danger of promoting self-employment, participants acknowledged that promotion must be carefully done, complemented by providing some idea of the risks of self-employment.
6. *Facilitating networks.* There were few ideas about how government could facilitate networks.

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## **5.0 SUMMARY OF RESULTS AND LESSONS LEARNED**

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In this chapter, we bring together the findings from the various lines of evidence used in this study. The findings are organized according to various research issues, including the important issues of the role of government and research gaps, which conclude this chapter.

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### **5.1 TRENDS, INCIDENCE AND PROFILE**

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In 1996, there were almost 1.4 million own-account self-employed, representing almost 10 percent of total employment, in Canada. Since 1989, own-account self-employment has grown by one-half; and since 1976, it has almost doubled, while total employment grew by less than 40 percent.

The growth in own-account self-employment is a relatively recent phenomenon, however. It is only since the 1970s, and particularly during the 1990s, that self-employment has been on the rise. Prior to that, the incidence of self-employment had been falling, owing to structural shifts in employment from agriculture to manufacturing.

The growth in self-employment has been fairly cyclically insensitive. Since 1976, the increase in self-employment has been steady and not much faster during downturns. The growth over the last two decades can be attributed both to a shift to services, where self-employment opportunities are more numerous, and to a general rise in self-employment in all sectors of the economy. The secular and pervasive nature of the rise in self-employment incidence suggests continued growth in the future.

The increasing incidence of own-account self-employment (OASE) has been observed for both females and males, for all age groups, in all education groups (at least in the 1990s), in all regions (again at least in the 1990s) and in all industry and occupation groups but agriculture. During the 1990s, the largest increase in the incidence of own-account self-employment was reported in business services and construction. As for occupations, the growth in incidence has been greatest in construction, other professional, sales, and service occupations.

Comparing across population sub-groups, OASE incidence rises with age and is higher among males than females. Faster own-account self-employment growth for women and youth, however, suggests that the profile of OASE is shifting away from men and older workers. The age incidence patterns contrast with the

*desire* to be self-employed, which appears to fall with age, implying a basic dissonance. Also OASE incidence rises from eastern to western Canada and is particularly high for those with little education but is also high for those with a post-secondary degree or certificate.

Compared with paid employees, the own-account self-employed are more likely to be male, older, married, and, to some extent, have no more than a high school diploma. The self-employed are also more likely to work in agriculture, business services, accommodation and food, and other services, and to be in primary, sales, service and other professional occupations. The most popular occupations for own-account self-employed women are in services, particularly hair dressing and child care, sales and bookkeeping, while those for self-employed men are in sales, carpentry, and truck driving.

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## **5.2 JOB QUALITY**

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Though there is no doubt that self-employment has contributed significantly to the *quantity* of new jobs, the *quality* of self-employed jobs has been questioned. At first glance, the data would suggest the job quality of the self-employed is lower than that of the paid employed. Evidence suggests that the self-employed work longer hours than paid employees, that the own-account self-employed earn only about two-thirds of what paid employees earn on a mean annual basis (though the gap has closed since the mid-1980s) and that the self-employed have lower benefits coverage than the paid employed. The data also suggest that own-account self-employed women have closed the earnings gap with their male counterparts faster than paid-employee women, and that the premium to higher education is greater among the paid employed than among the own-account self-employed.

With respect to total income, self-employed unattached individuals earn much less and have a more polarized income distribution than families with a self-employed head. The reliance on self-employment rises with income level. But since 1987 at least, there has been a diminishing dependence on self-employment income at all income levels but particularly at the bottom and top quintiles, despite the growing incidence of self-employment.

These findings, however, are open to question, owing to methodological and conceptual concerns with the underlying data. First, with regard to hours, it is not clear what hours worked really mean for the self-employed. Does time spent on activities benefiting the business and not contracts *per se* constitute work hours? Second, with respect to earnings, the self-employed are able to write off expenses and "hide" income, which means that self-employment earnings may be higher than they ostensibly are. These issues point to an inability to draw firm conclusions about the relative job quality of the self-employed and the need for better data on and further research into self-employment job quality.

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### **5.3 BUSINESS START-UP**

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Business start-up is difficult for most own-account self-employed, with lack of capital and information being the biggest problems. Marketing and promotion were difficult during the first year. Few had formally prepared for self-employment in terms of planning and training, relying instead on informal contacts. Of those who did prepare themselves, most were older and had been "pulled" (voluntarily) into self-employment.

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### **5.4 MOTIVATIONS, ADVANTAGES AND DISADVANTAGES**

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Some observers noted the qualitative change in the make-up of the self-employed. Now there are greater numbers of higher-skilled managers and professionals who are more motivated and better able to succeed than their lower-skilled counterparts in the blue-collar trades who used to dominate the ranks of the self-employed. There was a belief among those interviewed that, in today's labour market, the latter have less confidence and fewer of the skills needed to survive as a self-employed business person. Today, there is less stigma attached to being laid off and forced into self-employed because there are increasing numbers "in the same boat".

There was a number of contradictions concerning the motivations and advantages of self-employment. First, there were diverging views on the pull-versus-push explanation for the growth of self-employment. The general consensus is that employer practices such as downsizing and subcontracting have been mainly responsible. Most agreed that self-employment will continue to grow for the same reasons (though it was also suggested that outsourcing had levelled off). This would imply push would be the predominant reason/motivation for self-employment. This is confirmed by the fact that a number of self-employment professionals indicated that a number of their clients would not have been self-employed without the security of a severance package or a self-employment assistance benefit (EI).

On the other hand, several individuals indicated that, though they were initially pushed into self-employment, with time they had come to enjoy pull-like aspects of their self-employment experience. In particular, they enjoyed the independence, flexibility, and the variety that self-employment had to offer. Commentators also identified technology, demography and the growth of niche markets as factors that pulled individuals into self-employment.

Similarly, there was dichotomy of opinion over the financial impacts of self-employment. While some had difficulty withstanding the irregular income flow of self-employment, others enjoyed the fact that their income was directly tied to their work effort despite the unevenness of the flow. Also, while some noted that

income was considerably lower for the self-employed, others pointed out that commuting and clothing costs were lower for those who worked at home and that there were certain tax advantages for the self-employed (e.g., business expense deductions). A related advantage is that the self-employed realize capital gains through their efforts, a possibility not open to the paid employee.

Another contradiction arose over the issue of security. On the one hand, some of the self-employed felt more secure in the fact that they had control over their own destiny and could alter work effort to make up for downturns. Also, by having multiple clients they were not "putting all their eggs in one basket": they did not have to depend on the good fortunes of one employer. On the other hand, several experienced a lot of anxiety over the irregular income flow ("feast or famine"), which made credit and purchases of supplies and equipment difficult. Participants complained about the long hours they had to put in to protect themselves against downtime. Fear of failure and the pressure of being primarily responsible for yourself and your livelihood were also mentioned.

Besides the unpredictable cash flow, lack of employment benefits was viewed as a serious drawback. Few of the self-employed realized there were private companies selling benefits at group rates to individuals. Also, many were under the incorrect impression that few individuals were supported by employer-provided pensions. Despite that sentiment, few of the self-employed felt they had put aside enough in their own pension plan last year. Other disadvantages mentioned were isolation from fellow employees, lack of training opportunities, negative attitudes of family and friends, and having to perform all tasks required of a business, including accounting, purchasing, debt collecting, researching, and marketing.

Among the self-employed, it has been observed that there are two major groups, each with different intentions and needs. These differences may explain some of the dichotomy described above. One group consists of those whose aim is merely to earn a decent living and typically not to expand their business. Another group has more grandiose plans to "grow" their business into a larger enterprise. The former could be characterized as the truly own-account self-employed and the latter the employers. Their motivational and financial needs differ. Research has shown that the own-account self-employed are less likely to be driven by a desire for independence than employers, and, because of a lack of expansion plans, their capital requirements are less significant.

Still, for a good proportion of the self-employed, the lack of adequate financing is a problem. Banks are resistant to lending money to those perceived as high risk and without much physical collateral. To some extent, this may be attributed to, among other things, an inability to evaluate the human capital embodied in the OASE, which is in effect his or her key business asset.



Contradictions over the advantages of self-employment may be also attributable to the fact that many of the benefits revolving around independence and control are often more perceived than real. The self-employed often operate in situations where their client becomes in effect their boss (quasi-employment).

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## **5.5 IMPACTS**

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The impacts of self-employment were identified both in the literature and by participants in this study. Self-employment was seen to have both positive and negative economic and social impacts, for individuals, the community and society at large. Many of the impacts identified were speculative, anecdotal, and otherwise unsubstantiated by quantitative evidence. This suggests areas for further research.

At the individual level, the impact of self-employment depends critically on the characteristics and actions of the individual. Older workers who have come out of a traditional school system and a stable, longstanding employment relationship would have much more difficulty adjusting to self-employment than younger persons today who are products of an education system and a labour market which mentally prepared them for, and exposed them to, "flexible" employment relationships. Even controlling for age and prior employment tenure, the impact of self-employment on higher skilled, white-collar employees with greater capital and connections is likely to be more positive than on lower-skilled, blue-collar workers without those attributes. The impacts also, of course, depend on the economic conditions and market under which the business is started up.

At the community level, observers suggested that the growth of self-employment is leading to a number of changes in settlement and economic patterns within the urban system. Among the changes observed were: greater numbers of people working at home; the location and construction of residences in so-called "edge cities" away from downtown; less dependence on the core and the relocation of other businesses into the edge cities to serve the business and family needs of the self-employed; less commuting, less car pollution, and less need for public transportation; less restrictive zoning bylaws permitting home-based businesses; the construction of houses with home offices and the renovation of existing houses to add a home office; and greater industrial diversification, i.e., less dependence on a single, large employer.

A number of negative social and economic outcomes of self-employed growth were also identified, though evidence was not produced to substantiate them. This is why the costs of self-employment are included in the list of research gaps below. The suggested costs included the following:

- the economic costs of the heightened number of bankruptcies due to the high failure rate among the increasing number of self-employment businesses;

- rising incidence of marriage breakdown, possibly attributed to increasing numbers of persons working long hours at home leading to increased tensions within families;
- possibly reduced social cohesion or at least the attenuation of the workplace as a centre of social convocation, owing to the increasing numbers of persons working in isolation;
- increasing numbers of persons without access to disability insurance, pension coverage and training, of which the workplace is normally the major source and to which the increasing numbers of persons not attached to an employer's workplace do not have access; and
- the possible growth of "hidden" employment or, at any rate, some erosion of the tax base through the greater proportion that can be written off as business expense deductions if not the complete concealment of income.

It was also observed, however, that there has been a rising incidence of informal networks among the self-employed to compensate for the perceived greater isolation. Within these networks, the self-employed can take advantage of the camaraderie, contacts, and support provided by their self-employed friends and acquaintances as well as the economies of scale in banding together on group-discounted benefits packages and pensions and, possibly, overhead. Also, the fact that, for some of the self-employed, the alternative might be unemployment means that self-employment can help reduce dependence on social security. Finally, there is the potential for employment-generation resulting from the own-account self-employed expanding their business and hiring employees.

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## **5.6 INTERNET**

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Self-employment practitioners and officers felt that there was potential for the Internet to provide information and open up business opportunities. It was also seen as a way of overcoming isolation and lack of employer-provided training. However, it appears that the self-employed were not aware of this tool or, if they were, did not have the perseverance, know-how or focus to use it to find opportunities. It was also pointed out that, for those whose business required person-to-person contact, the Internet was not necessarily suitable.

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## **5.7 SUCCESS FACTORS AND LESSONS LEARNED FOR INDIVIDUALS**

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Though success depends to some extent on external circumstances such as the economy and the market, most research and the qualitative intelligence gathered in this study focused on how the actions and traits of the individual self-employed person can contribute to his or her ultimate success or failure. Among the

determinants of a successful self-employment experience identified were the following:

- *personality*: having commitment, perseverance, courage and flexibility;
- *expectations*: being reasonable about success of the enterprise, particularly in the first year when long hours and low income are distinct possibilities;
- *job content*: doing something you enjoy, you are good at, in a niche market, and, ideally, in the high-tech field;
- *thrift*: buying used equipment in first year and otherwise being thrifty;
- *financing*: getting adequate financing or having a sufficient nest egg;
- *business plan*: having a vision of what you are going to do and earn;
- *skills*: having business skills acquired through previous employment and maintaining ties to previous employer;
- *Internet*: finding out about, getting access to, and being trained on the Internet for marketing and information purposes;
- *training*: getting adequate training with respect to the various skills that are needed to run a business on your own;
- *information/advice*: getting information about the advantages and disadvantages of self-employment prior to start-up, and information about the supports that exist for the self-employed such as mentoring and training;
- *networks*: joining forces with other self-employed to save on overhead costs and to exchange services (e.g., bartering) or joining a self-employment pool; and
- *benefits*: signing up with companies that offer, or otherwise banding together to get, group health benefits, and putting money aside into a personal retirement savings plan.

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## **5.8 ROLE OF THE GOVERNMENT**

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Market failure constitutes the rationale for government intervention regarding self-employment. A market failure occurs where externalities, information gaps and intangible factors result in outcomes that are socially suboptimal. Where these factors are identified, governments face the challenge of determining whether any intervention might lead to outcomes that are more desirable in a social sense. This determination should be based on social cost-benefit calculations.

Our review suggests various dimensions of market failure relating to self-employment. Illustrations of self-employment hurdles suggested by respondents

include the following. It was suggested that the self-employed have inadequate access to financing, possibly because of irregular income flow and the fact that their chief business asset, their human capital, cannot be used as collateral. Further, because the self-employed typically are isolated, they often lack information regarding professional development, health, marketing opportunities, and advice. And, on the surface, the data indicate that, compared to the paid employed, the conditions under which the self-employed work are of poorer quality in terms of wages earned and hours worked; qualitative evidence indicates that benefits coverage and training opportunities are less for the self-employed.

If there was market failure and it could be alleviated, society would realize both efficiency and equity gains. With regard to efficiency, a reduction in the high bankruptcy rate of self-employment businesses would translate into increased employment and economic growth as well as lower dependence on public assistance. In addition, this may lead to equity gains by removing the disparities between the self- and paid employed (horizontal equity) and, possibly, between lower and higher income groups (vertical equity).

While there would be obvious social benefits to these interventions, there would be associated costs as well. For example, there would be the basic costs of administering the program. There might also be the dead-weight costs of funding something that the program client would have undertaken without government assistance (windfall). Empirical evaluation would be required to determine definitively whether the benefits of the government intervention outweighed the costs and, therefore, whether it could be justified.

If we assume that government intervention would be a cost-effective means of overcoming barriers and reducing the high rate of self-employment market failures at a net benefit to society, what form would this action take? Several suggestions were received from focus group participants and key-informant interviewees in this study. Some suggested that the government should do no more than provide a climate amenable to new and existing self-employment businesses. Other more active interventions suggested (including the barriers they would potentially overcome) were as follows:

- establishing unemployment and disability insurance funds for the self-employed to make up for their lack of access to the same;
- making up for lack of bank financing by making capital more easily available or at least persuading banks to lend money to the self-employed;
- providing more information and training to prepare individuals for the self-employment experience, given the high failure rate for the self-employed;
- providing training in Internet skills to help the self-employed access training and market opportunities;

- relieving paper burden;
- filling research gaps (see below), which would not only contribute to more effective policy but would also help prospective and existing self-employed prepare for the future;
- providing advice and mentoring for those who are already self-employed given the isolated conditions in which the self-employed typically must work; and
- making individuals aware of the network supports for the self-employed, particularly the companies selling group benefits, the savings from pooling resources with other self-employed individuals, and joining pools of self-employed individuals.

Whatever role government plays, it should be recognized that there is much diversity within the target population. Government should be aware that it is dealing with a client group that has widely diverging characteristics, skills, expectations, and, therefore, needs. Some enter the ranks of the self-employed because they have no other option, are interested only in earning a decent living and hence have no business plans and therefore are not able to obtain, or do not want, financial backing. Another group enters self-employment as entrepreneurs, enjoy the independence and may be in need of capital for expansion purposes.

Another source of diversity is age and experience. Government should be cognizant of the fact that younger individuals may be better able to sustain the self-employment experience because they have up-to-date skills, are more amenable to a challenge and have greater interest in self-employment. Older workers with outdated skills, on the other hand, have been in a traditional employment arrangement for some time and may be in greater need of assistance, despite their greater connections, life skills and capital. Similarly, those coming from layoff situations who have been in high-skilled management and professional positions are probably better equipped, have greater motivation and connections (informal networks), and, therefore, have less need for help than those in lower-skilled, blue-collar occupations.

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## **5.9 RESEARCH GAPS**

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A number of research gaps were identified by the key informants as well as by us based on our reading of the results of all three data-gathering processes. Some of the issues that require further research to answer questions raised regarding success factors and the proper role of government are as follows:

- *self-employment organizations*: more research is required into these organizations, in terms of their numbers, the possible role of the government, the services they offer, the need to have standards in the

services offered, and the quality of these services and their usefulness in helping the self-employed overcome the barriers associated with self-employment such as lack of training, information, and employment benefits;

- *networks*: the extent to which the self-employed use informal and formal networks to overcome the lack of connection to a workplace, by getting business contacts, bartering services, saving on overhead, and participating in discounted benefits packages;
- *employment benefits and training*: we need to know whether the self-employed lack workplace-based employment benefits such as insurance and training, and how they overcome this lack, whether it is on their own (self-financed), through their employed spouse, through self-employment organizations or networks, or through companies that sell group plans to self-employed persons;
- *hours and wages*: what these mean for the self-employed and the quality of the jobs the self-employed occupy;
- *impact of public policy*: the extent to which public policy adversely or positively affects the self-employed, in terms of assisting and encouraging self-employment, taxation, and coverage under public social security and training programs, employment standards, and freedom of association;
- *quasi-employment*: the extent to which self-employment is effectively employment, i.e., where an "independent" contractor has a long-term arrangement with a single business that controls most aspects of his or her business and the implications of this for tax policy; (this is really a problem of definition: when is a self-employed person self-employed in the eyes of the law?);
- *hidden employment*: the extent to which the self-employed work in the black market and the implications of this for the tax base;
- *impacts of self-employment*: the overall social and economic impacts of self-employment in terms of the level of benefits coverage, human capital development, the cost of bankruptcies, social cohesion, family breakdowns, and the erosion of the tax base;
- *financing*: the extent to which the self-employed need, and have difficulty obtaining, capital, the reasons for that difficulty, and the extent to which they rely on alternative sources of income such as friends and family (other than themselves, banks and government) for start-up, expansion and slow periods;
- *sources of income*: the reason why the incidence of self-employment has risen while self-employment has declined as a source of income;
- *push-pull motivations*: the extent to which there exists among the self-employed two groups with different characteristics and motivations, where one group is composed of those who may have been forced into self-

- employment through layoff and who are content in earning a decent standard of living without expanding the business, and the other is composed of those who have willingly entered self-employment in search of independence and entrepreneurialism, and who have expansion plans and, thus, the potential for employment generation;
- *advantages*: the extent to which flexibility, independence and control are more perceived than real among the self-employed and the extent to which that depends on the characteristics of the individual and the reasons for their joining the ranks of the self-employed;
  - *transitions into self-employment*: we need to know more about the transition of employees into self-employment in terms of aspects of the individual and the transition itself, and in terms of the resulting changes in wages, benefits and occupation;
  - *success factors*: the extent to which success is dependent on the motivations, activities and characteristics of the person and on outside factors such as the government, the banks, the market, and the economy; and
  - *self-employment exits*: the circumstances of, and factors associated with, the failure of, and repeated re-entry into, self-employment, in terms of the length of self-employment tenure, the characteristics of the individual and his or her business, his or her activities before and during the experience, and the role played by external factors such as the economy, the market, and the banks.

At present, there do not exist sufficient data to fill many of the above-noted research gaps. The longitudinal Survey of Labour Income Dynamics captures employment transitions but, currently, suffers from insufficient sample size for analyzing paid-to-self-employment transitions and, at any rate, does not yield data permitting an examination of the job quality of the self-employed. Tax files also have potential, but suffer from an inability to look at transitions in any detail in terms of short-duration self-employment and the reasons for entry and exit, among other issues.





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# APPENDIX A: INCIDENCE OF OWN- ACCOUNT SELF-EMPLOYMENT BY INDUSTRY AND SEX, 1996

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Incidence Of Own-account Self-employment  
by Industry and Sex, 1996<sup>1</sup>

	Males	Females
	Percent	
<b>Total</b>	<b>11.0</b>	<b>8.6</b>
Agriculture	49.3	34.8
Other primary	8.5	5.5
Manufacturing	1.8	2.6
Construction	20.4	8.6
Transportation, communications and other utilities	7.5	2.3
Trade	9.9	6.9
Finance, insurance, and real estate	16.3	5.2
Other services <sup>2</sup>	13.0	1.2
Government services	0	0

<sup>1</sup> For each industry, own-account self-employment as a proportion of total employment in each sex-industry group.

<sup>2</sup> Includes business services; accommodation and food services; amusement and recreational services; personal and household services; and health, education, and social services.

Source: Cohen, 1996 (Labour Force Survey).



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# APPENDIX B: KEY INFORMANT INTERVIEW GUIDE

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## Study of Own-Account Self-Employment in Canada Interview Guide

*Ekos Research Associates Inc. has been commissioned by Human Resources Development Canada to conduct a study of own-account self-employment in Canada, as part of its "Collective Reflections" dialogue with Canadians on the changing nature of work. In this interview, we would like to hear your views on the nature of self-employment in Canada, reasons for self-employment growth, obstacles to success, public policy issues for tomorrow, and the research gaps that need to be addressed. Your comments will be kept strictly confidential — we will not link your response with your name in any of the reporting of the interview findings.*

### BACKGROUND

1. Could you please describe your background or area of interest/expertise with respect to self-employment?
  - practitioner;
  - government program; and
  - research.

### NATURE OF SELF-EMPLOYMENT

2. Over the past two decades, self-employment in Canada has more than doubled. What are the most important reasons for this trend?
  - growing entrepreneurship and desire for control (pull factors);
  - lack of alternative employment (push factors);
  - changing economic conditions (greater specialization, technological advances);
  - changing expectations for work/leisure;
  - growth of workplace strategies such as contracting out;
  - government policy (e.g., assistance programs); and
  - other.
3. To what extent will the information highway have any impact on self-employment in the future?
4. Have there been changes in the profile of the self-employed during this time?

- socio-demographic characteristics;
  - motivation for self-employment; and
  - occupation, sector.
5. What are the most important advantages of self-employment?
- autonomy, independence;
  - flexibility;
  - more time with family;
  - earnings/earnings growth;
  - career progression;
  - personal satisfaction, well-being; and
  - other.
6. What are the most important disadvantages of self-employment?
- financial insecurity;
  - irregularity of income flow;
  - lack of career progression;
  - lack of benefits (e.g., health benefits, EI, pension);
  - risk of bankruptcy;
  - hours of work;
  - social isolation;
  - high unit costs (office space, etc.);
  - intrusion of work into family time;
  - lack of access to training opportunities, research facilities; and
  - other.
7. In your experience, what are the key elements or factors of successful self-employment? What is a profile of a "typical" successful self-employment experience?
- adequate financing;
  - networks or links with large employers;
  - access to counselling, training, coaching;
  - business knowledge, skills, experience;
  - personal characteristics (e.g., age, gender, motivation, propensity to take risks);
  - family resources;
  - previous self-employment experience;
  - work history;
  - economic characteristics of the community;
  - type of employment (occupation, sector);
  - supportive public policy; and
  - other.



8. What are the key barriers that prevent individuals from becoming successfully self-employed?
- lack of capital, banks;
  - lack of business skills — e.g., accounting, marketing;
  - lack of sound business idea;
  - poor networks; and
  - lack of personal suitability, lack of risk-taking.

## **PUBLIC POLICY ISSUES**

9. In the implementation of self-employment programs, do you feel creaming (choosing those with greatest chance of success) or windfalls (assisting those who would have become self-employed without assistance) are problems?
10. Do you think there will be a trend toward more and more self-employment in the future? Why? What are the major economic or social trends affecting self-employment?
11. What will be the impact of this trend for individuals? for communities? for the Canadian economy?
12. To what extent do current government programs and policies address these potential impacts? What do you think will be the major emerging public policy issues around self-employment?
13. Are there any lessons to be learned from the Canadian experience or the experience in other countries to guide public policy?
14. What role, if any, do you think the federal government should play in supporting the development of self-employment?
- regulatory — e.g., expanding regulatory protection to the self-employed;
  - promotion — e.g., encouraging individuals to pursue self-employment or warning individuals of the risks of self-employment;
  - research — e.g., examining the trends, needs of self-employed, disseminating information;
  - information provider — e.g., services available to self-employed such as loans, training;
  - direct assistance — e.g., programs that provide financial assistance and training to help the unemployed become self-employed;
  - facilitating networks and partnerships;
  - tax reform; and
  - other.

## **RESEARCH GAPS**

15. What are the most important or pressing research gaps that need to be addressed with respect to self-employment?
16. Do you have any other comments?

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# APPENDIX C: LIST OF INTERVIEWEES FOR THE KEY INFORMANT INTERVIEW

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## List of Interviewees

- Robert Goulet  
Self-Employment Benefit  
HRDC
- Diane King  
Business Development Bank of Canada  
Ottawa
- Lucien Bosse and Kathy Turnbull  
Enterprise Centre  
YMCA-YWCA of Ottawa-Carleton
- Yvon Gasse  
Laval University
- Mr. Henson  
Vancouver Board of Trade
- Rick Martin  
ACOA, Halifax
- Mr. Berticat  
Editor of a journal for the self-employed  
Montreal
- Ross Darling  
Centre for Entrepreneurship  
UNB
- Pandar Morag  
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# APPENDIX D: FOCUS GROUP MODERATOR GUIDE

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## Study of Own-Account Self-Employment in Canada Focus Group Guide

### I. INTRODUCTION

Before the discussion begins, the moderator briefly introduces her/himself and explains the purpose of the discussion, mentioning that:

- The focus group is being conducted as a key component of a study of self-employment, on behalf of Human Resources Development Canada as part of their Collective Reflections exercise to elicit views of Canadians on the changing nature of work;
- Group discussions are being held in various centres across the country with individuals who are self-employed to get an understanding of their experiences with self-employment. The results will be used to gather "lessons learned" about self-employment and the most important public policy issues that the government should address with respect to self-employment.

The moderator also explains that:

- Participants are encouraged to discuss their opinions. There are no right or wrong answers, and differences of opinion are perfectly acceptable.
- Both positive and negative comments are welcomed.
- The discussion will last approximately two hours.
- The discussion is being tape recorded so that an accurate summary can be prepared. All comments are strictly confidential.
- (If applicable) Representatives from Human Resources Development Canada responsible for the study are observing the discussion from the next room. They are present to observe comments first hand.

The moderator goes around the table asking each participant to introduce themselves and fill out a one-page questionnaire describing themselves and their self-employment experience.

Also, please briefly tell the group two things:

- the type of work you do; and
- how long you have been self-employed.

## II. MOTIVATION

1. What were the main reasons why you decided to become self-employed?
  - importance of push factors such as a layoff or buyout;
  - contracting arrangement with former employer;
  - desire for greater flexibility, work at home near family;
  - challenge, interest in entrepreneurship, independence;
  - desire to be my own boss, do it my way;
  - desire to receive full value for labour and skills;
  - make more money and grow into a large business;
  - to make a living and/or to replace income lost from employment;
  - avoid government regulations; and
  - other.
2. Is this your first experience with self-employment?
  - how often have you moved between self-employment and employment?
  - do you combine self-employment with employment?
3. Thinking back to the time when you first decided to pursue self-employment, what did you do to prepare?
  - consulted with professional counsellor, bank, government official;
  - consulted with friends, family, colleagues; and
  - read, took training (e.g., business skills, how to develop a business plan).
4. Which of these was most important in helping you make your decision to become self-employed? to the success of your self-employment?

## III. BUSINESS PROFILE

5. What was the origin of your business idea? Was this a new field or the same type of work you were doing in a previous job?

6. How difficult was it for you to get started in self-employment (i.e., securing work)? How far in advance are you able to plan your work and income flow?
7. Are you self-employed on a full-time or part-time basis? Year-round or seasonally?
8. Do you work out of your home or do you rent space?
  - is rented space shared with other individuals? companies?
9. In your work, do you make use of new technology?
  - what kind of technology? what role does the information highway play?
  - how important is this technology for you to be able to be self-employed?

#### **IV. SELF-EMPLOYMENT EXPERIENCE**

10. What are the most important advantages of self-employment?
  - autonomy, independence;
  - flexibility, being at home with family;
  - earnings/earnings growth;
  - benefit directly from skills and effort;
  - career progression;
  - personal satisfaction, well-being; and
  - other.
11. What are the most important disadvantages of self-employment?
  - financial insecurity;
  - irregularity of income flow;
  - lack of career progression;
  - lack of benefits (e.g., health benefits, EI, pension);
  - risk of bankruptcy;
  - long hours of work, intrusion of work into family time;
  - social isolation;
  - workplace conditions;
  - lack of access to training opportunities, research and marketing facilities; and
  - other.
12. In your experience, what are the key elements or factors of successful self-employment?
  - adequate financing;
  - networks;
  - access to counselling, training, coaching;

- business knowledge, skills, experience;
  - personal characteristics (e.g., age, gender, motivation, propensity to take risks);
  - family resources;
  - previous self-employment experience;
  - work history;
  - economic characteristics of the community;
  - type of employment (occupation, sector);
  - supportive public policy; and
  - other.
13. What are the key barriers that prevent individuals from becoming successfully self-employed?
- lack of capital;
  - lack of business skills — e.g., accounting, marketing;
  - lack of sound business idea and/or plan;
  - poor networks;
  - personal suitability, wrong temperament;
  - irregular income flow, poor benefits;
  - inability to market oneself, lack of control; and
  - paper burden, regulations.
14. In what ways have you tried to overcome some of the barriers or disadvantages of being self-employed? Could you describe that experience?
- networks among other self-employed;
  - use of technology such as information highway;
  - pooling office space, resources with other individuals;
  - participation in group insurance or pension coverage;
  - professional or trade association such as CFIB; and
  - other, such as use of temporary help pool, link to a large firm.
15. Overall would you say your experience with self-employment has been positive or negative?
- if you were offered a comparable job in your field by an employer, would you accept it?
  - if someone were to ask you for advice on becoming self-employed what is the most important thing you would tell them?

## V. FUTURE PLANS

16. Do you think you will be self-employed five years from now?



17. What do you think you need in order to be successfully self-employed five years from now?
- financing;
  - training; and
  - other.
18. Do you have plans to eventually expand your business or to hire employees?
- what is the main reason why you do/do not plan to hire;
  - what is your timeframe for expanding; and
  - what factors/potential barriers are most important in expanding your business.

## **VI. ROLE OF GOVERNMENT**

19. Do you think current government policies and programs meet the need of self-employed Canadians?
20. What role, if any, do you think the federal government should play in supporting the development of self-employment?
- regulatory — e.g., changing rules to include self-employed;
  - promotion — e.g., encouraging individuals to pursue self-employment or warning individuals of the risks of self-employment;
  - research — e.g., examining the trends, needs of self-employed;
  - service provider — e.g., making services available to self-employed such as loans and training and publicizing them;
  - direct assistance — e.g., programs that provide financial assistance and training to help the unemployed become self-employed (e.g., SEA and new Self-Employment Benefit of EI);
  - facilitating networks and partnerships;
  - tax reform; and
  - other.

## **VII. CONCLUSION**

21. Do you have any final comments you would like to make about what we have talked about tonight?

**THANK YOU FOR YOUR PARTICIPATION! THANK YOU FOR YOUR TIME**



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# APPENDIX E: RECRUITMENT SCRIPT

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## Self-Employment – Recruitment Script

Hello, my name is \_\_\_\_\_ and I am calling from \_\_\_\_\_ on behalf of Ekos Research Associates. Ekos has been hired by Human Resources Development Canada to conduct a study on self employment. Part of this research being conducted for Human Resources Development Canada involves conducting a number of focus group discussions with individuals who are currently or have been self-employed.

Before I continue, may I ask you a few questions? (if no: thank and terminate)

Q1. Are you self-employed or an independent contractor? (it's okay to be self-employed and employed) *If yes: go to Q3*

Q2. Were you self-employed or an independent contractor in the last two years?  
*If no: thank and terminate*

Q3. Do you have any employees? *If no: go to Invite*

Q4. How long have you had employees? *If longer than 1 year: thank and terminate*

Invite:

A focus group will be taking place in <city> on February <date> from <time> to <time>. The topics of discussion will include motivation, the advantages and disadvantages that self-employment offers, the factors of success and failure, ways of overcoming barriers, future plans and the role of government. Should you agree to attend, all of your views will be kept completely confidential; your name will never be associated with the remarks you make during the discussion. Also, please be aware that you will be offered a \$50 honorarium to thank you for your participation. While your participation is entirely voluntary, it would be greatly appreciated. Will you be able to attend this discussion?

If No: Thank you anyway for your time.

If Yes: Thank you very much. Once again, the group will be held on <date> from <time> to <time>. The discussion will take place at <location> at <address>. At this time, I should inform you of the following:

- the discussion will be audio-tape recorded for the sole purpose of analysis by Ekos Research consultants; and
- a light snack and refreshments will be served at the discussion.

Do you have any questions? Someone from my firm will contact you a day or so before the discussion in order to confirm your participation and answer any last-minute questions you may have. Thank you again for agreeing to participate in this very important research endeavour.

If they ask for a contact name: Ekos Research — Janice Remail or Sandy Wilson at (613) 235-7215; HRDC — Sylvie Soucie at (613) 957-1910.

# APPENDIX F: QUESTIONNAIRE FOR THE FOCUS GROUP SURVEY

## Own-Account Self-Employment Survey Confidential - do not write name

	Strongly Disagree		Neither Agree or Disagree			Strongly Agree	
I consider my business to be very successful	1	2	3	4	5	6	7
The government provided me with sufficient information and advice to start my business	1	2	3	4	5	6	7
I had a sufficient amount of capital (loans or savings) to start my business	1	2	3	4	5	6	7
I opened my business mainly because there were no good employment opportunities available	1	2	3	4	5	6	7
I would accept a similar job from an employer if the pay was reasonable	1	2	3	4	5	6	7
I plan to expand my business by hiring one or more employees in the next year	1	2	3	4	5	6	7
My banker gives me excellent service and advice for my business	1	2	3	4	5	6	7
I have MANY connections with business owners who provide me with customers and good advice for my business	1	2	3	4	5	6	7
I have the necessary administrative skills to run a successful business	1	2	3	4	5	6	7
I have sufficient computer skills to run my own business	1	2	3	4	5	6	7
Access to Internet benefits my business considerably	1	2	3	4	5	6	7
I have put aside a sufficient amount of money over the last year for my personal pension fund (RRSPs, etc)	1	2	3	4	5	6	7

Sex: Man \_\_\_ Woman \_

Personal year of birth: 19\_\_

Year of business start-up (current business): 19\_\_

Type of business (industry and product):

Total sales last year (to nearest dollar):

**THANK YOU VERY MUCH FOR YOUR CO-OPERATION**

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# APPENDIX G: RESULTS OF THE FOCUS GROUP SURVEY FOR THE SELF-EMPLOYMENT STUDY

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## Results of the Focus Group Survey for the Self-Employment Study, by City

	% agreeing (indicating 5, 6, 7 on a 7-point scale)				
	Total	Calgary	Toronto	Montreal	Halifax
<b>Overall assessment</b>					
<i>I consider my business to be very successful</i>	60	58	53	52	82
<b>Motivations</b>					
<i>I opened my business mainly because there were no good employment opportunities available</i>	56	63	53	57	53
<i>I would accept a similar job from an employer if the pay was reasonable</i>	45	37	47	48	47
<b>Skills</b>					
<i>I have the necessary administrative skills to run a successful business</i>	73	79	58	70	88
<i>I have sufficient computer skills to run my own business</i>	56	90	58	26	59
<b>Support</b>					
<i>The government provided me with sufficient information and advice to start my business</i>	14	0	11	17	29

	% agreeing (indicating 5, 6, 7 on a 7-point scale)				
	Total	Calgary	Toronto	Montreal	Halifax
<i>I had a sufficient amount of capital (loans or savings) to start my business</i>	<b>38</b>	37	26	29	53
<i>I have MANY connections with business owners who provide me with customers and good advice for my business</i>	<b>46</b>	58	37	52	35
<i>Access to Internet benefits my business considerably</i>	<b>27</b>	24	37	22	24
<i>My banker gives me excellent service and advice for my business</i>	<b>21</b>	5	11	30	35
<b>Plans</b>					
<i>I plan to expand my business by hiring one or more employees in the next year</i>	<b>37</b>	32	26	44	47
<i>I have put aside a sufficient amount of money over the last year for my personal pension fund (RRSPs, etc)</i>	<b>24</b>	32	16	26	24
<i>Sample size (n)</i>	<b>76</b>	<b>19</b>	<b>19</b>	<b>23</b>	<b>17</b>