

# From self-employed to employed

# 10

*Nicole Braams*

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## Explanation of symbols

.	= data not available
*	= provisional figure
**	= revised provisional figure
x	= publication prohibited (confidential figure)
–	= nil or less than half of unit concerned
–	= (between two figures) inclusive
0 (0,0)	= less than half of unit concerned
blank	= not applicable
2008–2009	= 2008 to 2009 inclusive
2008/2009	= average of 2008 up to and including 2009
2008/'09	= crop year, financial year, school year etc. beginning in 2008 and ending in 2009
2006/'07–2008/'09	= crop year, financial year, etc. 2006/'07 to 2008/'09 inclusive

Due to rounding, some totals may not correspond with the sum of the separate figures.

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## **From self-employed to employed**

### *Introduction*

This article shows the results of a study of self-employed workers who made the switch to become paid employees. This study was a follow-up to a study on employees who started up their own business and became self-employed (Urlings, 2008).

Private enterprises are one of the driving forces behind economic growth in the Netherlands. Others are - for example - innovation and a free market system (CBS, 2006). Enterprises that leave the market also have a role in the economic process. They are often less efficient and their removal creates space for new enterprises. The numbers of liquidations and newly established enterprises gives an idea of the dynamics of business economics. Since 1995 more new businesses have been set up than been liquidated in the Netherlands. As a result the number of enterprises has increased annually.

There were over 600 thousand self-employed people in the Netherlands in 2004. Statistics Netherlands publishes many statistics on economic activity, including statistics on the self-employed. Most self-employed people (15 percent) work in the agricultural sector, but many also work in business services and the retail trade. Only few self-employed are active in education and in the government sector.

The Dutch government has shown an increased interest in enterprise in recent years. The investment climate in the Netherlands has improved in the last few years but there is still a lot of ground to be gained. The main focus of Dutch statistics is on numbers of business establishments and closures. Closures comprise bankruptcies as well as general liquidations of active enterprises, including voluntary liquidations. Other forms of closure are mergers, takeovers or development into a different company structure. The number of business closures in the Netherlands grew by only 1 percent between 1995 and 2005.

EIM Business and policy research and the Ministry of Economic Affairs have also studied self-employment. They examined the survival rate of enterprises, i.e. the percentage of new businesses still active two years after starting up. The studies showed that the survival rate of new businesses is high: almost 74 percent were still active two years after starting up. In general, Dutch self-employed survive the first year because they have prepared thoroughly (EIM/Ministry of Economic Affairs, 2002). According to EIM, starters of new businesses are not driven by financial motives, but more by a wish to be their 'own boss'.

As the Ministry of Economic Affairs is very interested in people starting their own businesses and in how they get on through the years, they requested the study of self-employed people who switch over becoming employed by somebody else.

## Definitions and scope of the research

Self-employed people are people who earn an income by working in their own business or practise an independent profession on their own account and at their own risk. Family members helping in an own business and freelancers are also considered to be self-employed workers. Businesses of self-employed people may take a number of legal forms; one-man business, partnership firm, or a limited partnership. A self-employed person may work alone, or may employ others to work for him or her. The definition used here for self-employed persons is the one used in at Statistics Netherlands, among other things in its Social Statistics Database SSB. Businesses of self-employed people which change from one legal form to another fall outside the scope of this study. For example a person whose one-man business develops into a private or public limited company. Owners of these companies become managing directors/ large shareholders and are employed by the company.

The study *'From employee to self-employed'* (Urlings, 2008) examined the characteristics of employees who started up their own business. In addition, it analysed legal forms of the new establishments. To be able to connect Urlings' study with the one described in this paper, we shall analyse the same variables for the years 2004–2005. Table 1 shows the characteristics analysed in this study.

This study answers the following questions:

How many self-employed businessmen move to paid employment and what characteristics are related to this move?

**Table 1**  
**Characteristics of self-employed workers and employees**

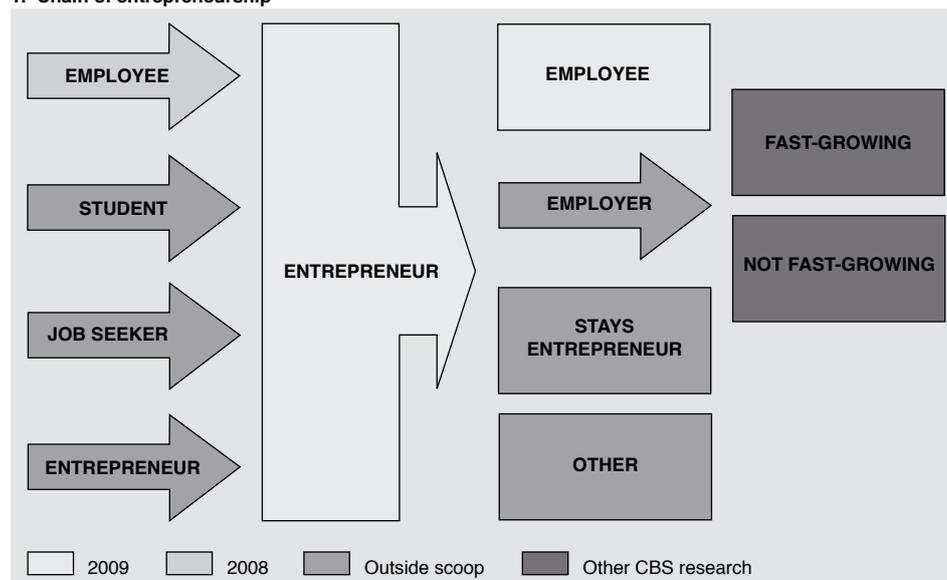
Self-employed	Employee
Personal characteristics Gender Age Marital status Number of children Age of children Origin	Job characteristics Type of employment: fulltime/parttime/stand-by Income
Business characteristics Economic activity Size: small/medium/large Legal form Region Profit	Business characteristics Economic activity Size: small/medium/large Legal form
Type of enterprise Self-employed without personnel Self-employed with personnel Hybrid entrepreneur Parttime entrepreneur	

## Background

One of the goals of current Dutch Cabinet policy is to stimulate enterprises. Measures have been implemented to make it easier for people to set up their own business. Although more and more small businesses have been set up, many are also closed down every year.

The various stages of enterprises are illustrated in figure 1. Businesses of self-employed can start out from different situations. This study works out the step from self-employed to paid employment in more detail.

### 1. Chain of entrepreneurship



### *Employee*

An employee has paid employment and is in a dependent position with respect to his employer. There are legal minimum provisions for employees in the Netherlands, such as minimum wage rates and employee insurance. Many rights and entitlements are laid down in collective labour agreements.

### *Steps after self-employment*

A self-employed worker can take one of a number of steps after self-employment: he can become an employer, remain self-employed, or choose to study or to retire.

### *From self-employment to employee*

When someone who is self-employed switches to becoming an employee, his business can continue to exist or may close down. Closure may be voluntary, but may also be the result of bankruptcy or a takeover. By moving to paid employment, formerly self-employed persons choose for more certainty.

### *From self-employment to employer*

When someone who is self-employed switches to becoming an employer, his business is in a period of growth. Not all self-employed have the ambition to grow. Government policy is aimed at stimulating one-man businesses with the potential and the desire to grow

(Dutch House of Representatives, 2007-2008). As a result of this policy, measures have been taken to remove impediments to recruiting staff.

#### *Fast-growing and slow-growing businesses*

The most often used definition of a fast-growing enterprise is a business that realises an annual growth of at least 20 percent in terms of employees and/or turnover in the space of three years. Not all self-employed businessmen want to grow. Some want to stay in control of their business, while others do not have enough work to expand. The question of how fast-growing enterprises differ from slow-growing ones is answered in a study by Ramaekers (Ramaekers et al., 2009).

#### *Self-employed stays self-employed*

A self-employed person can remain self-employed, but change the legal form of his business, for example into a private or public limited company. If his business goes into liquidation or is taken over, he can set up a new business.

#### *From self-employed to other status*

If a self-employed person liquidates his business, he can, for example, choose to start a study, or to retire.

## Description of the study

### Sources

This study is based on data from the Social Statistics database (SSB) and the General register of Businesses (ABR). The SSB contains related data on persons, jobs and benefits in the Netherlands. The data are based on registrations by municipalities, the tax administration and the Institute for Employment Benefit Schemes (UWV). In addition it also contains data from surveys. The ABR contains all statistical units with characteristics necessary for observing production factors. The ABR is based on the registry of companies and the Chambers of commerce.

As the results of this study are not identifiable, they reveal no information about individual enterprises.

### Explanation

This study looks at people who take the step from self-employed to employee (switchers). These switchers are people who were self-employed on the last Friday in September 2004 and employed by someone else on the last Friday in September 2005. The last Friday in September is the standard reference date in the SSB.

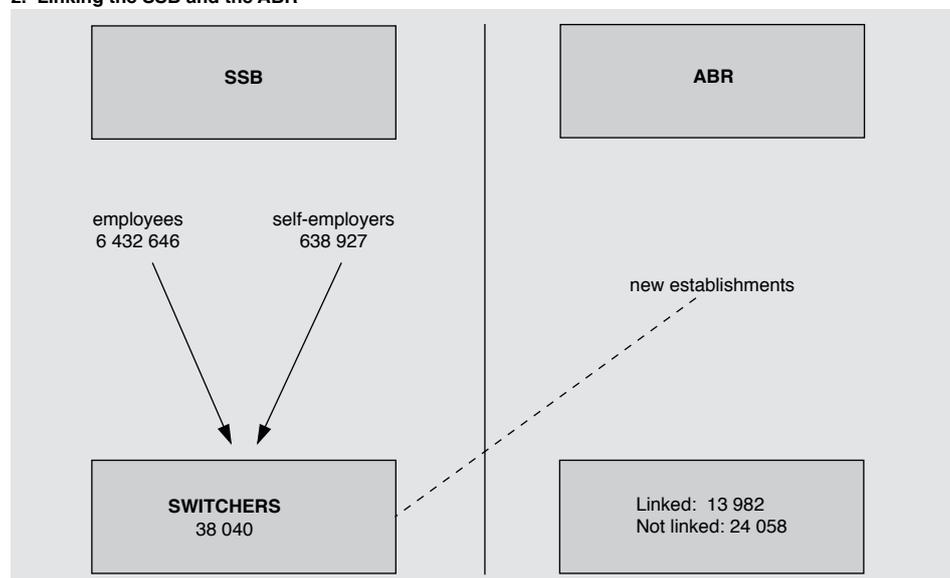
The following variables were obtained from the SSB:

- Personal characteristics of self-employed people who switch to employment: sex, age, ethnic origin, marital status and number of children. The SSB does not contain information on education level. Personal characteristics are taken for year T, 2004.
- Characteristics of the business that closed down: economic activity, municipality of location, profits and whether the self-employed person also had a position of paid employment (the so-called hybrid self-employed). These characteristics are taken for year T, 2004.
- Characteristics of the enterprise for which the employer starts to work: economic activity, size and type of employment contract. These characteristics are taken for year T+1, 2005.

The definitions of the variables can be found in annex 1.

After the analyses of the SSB data, information is still missing about the closed own businesses. The SSB contains information on the self-employed and the ABR on the businesses. Matching the two sources provides information about the businesses that have been discontinued: size, legal form and type of enterprise. The SSB was linked to the ABR and 3,628 of the 23,444 switchers (13 percent) were matched (see figure 2).

### 2. Linking the SSB and the ABR



Most (84 percent) of the switchers could not be linked to the ABR. There are a number of reasons for this:

- Partnerships cannot be easily linked
- For a number of activities, natural persons are not required to register with the Chamber of Commerce. These include businesses in the agriculture and fishery sector, and the free professions (e.g. accountants, medical professions and artists). Enterprises conducting these activities are not included in the ABR, but are in the SSB. Over 40 percent of switchers cannot be linked to the ABR because of this.
- Over 34 percent of switchers combine self-employment with paid employment; 40 percent of these people can be matched in the ABR. The remaining 60 percent are wrongly qualified as switchers, as hybrid self-employed people are included both in the employee and in the self-employed database. It is not possible to determine when the self-employed persons moved to paid employment.
- In addition to incomplete coverage there is also a processing delay for the businesses deregistering from the Chamber of Commerce and removed from the ABR.

#### *Checking procedure*

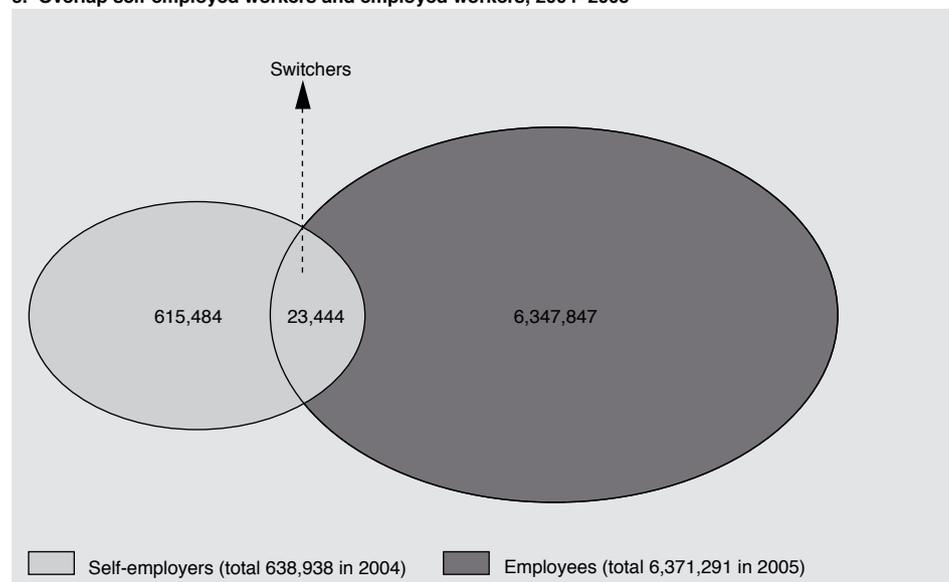
A check was done to determine whether switchers matched in the ABR (3,648) are representative for all switchers (23,444 based on the SSB). After analysing the variable economic activity, it turns out that despite the fact that most records from the various classes appear to be representative, there is some bias. The percentage of linked records (13 percent of the enterprises from the SSB are linked with the ABR) is also very low. Therefore variables from the ABR will not be used in the study.

## Results

This chapter discusses the results of the study and gives a description of self-employed people who switch to paid employment and the characteristics of this group.

There were 638,938 self-employed workers in the Netherlands in 2004. The number of paid employees was 6,371,291 in 2005, of which 23,444 were what this study calls switchers, i.e. had made the switch from self-employed to paid employment (figure 3).

### 3. Overlap self-employed workers and employed workers, 2004–2005



### Business characteristics

The numbers of self-employed and switchers differ between the various sectors of industry, as illustrated in table 2. The business services sector has the largest number of switchers from self-employment to employment. In retail trade, agriculture and other services, too, many self-employed businessmen opt for paid employment. In the government sector, education, car sales and services and financial services fewer people change over from self-employment to employment.

**Table 2**  
Switchers per sector of industry

Business sector	Outflow from entrepreneurship		Inflow in paid employment	
		%		%
Agriculture	2,130	9	650	3
Manufacturing	1,110	5	1,410	6
Construction	2,090	9	1,040	4
Car sales	560	2	390	2
Wholesale trade	1,550	7	1,580	7
Retail trade	2,960	13	1,640	7
Hotels and restaurants	1,880	8	1,150	5
Transport	930	4	1,260	5
Financial intermediation	780	3	1,310	6
Commercial services	5,350	23	5,430	23
Government and education	470	2	1,690	7
Health and social care	890	4	2,310	10
Other services	2,620	11	1,430	6
Unknown	160	1	2,160	9
Total	23,444	100	23,444	100

Not all switchers had a business in the sector as where they are now employed. Table 3 presents an overview of the sectors in which they used have a business. The share of switchers who stay in the same sector of industry ranges from 19 to 57 percent. Table 3 shows that only 19 percent of formerly self-employed in agriculture now have paid

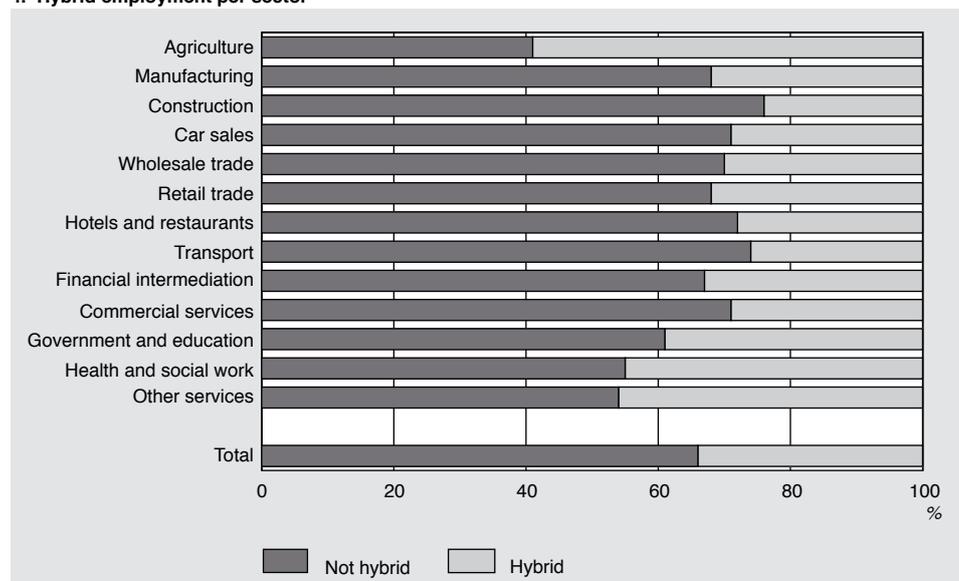
employment in the same sector. Compared with other sectors this percentage is quite low. In health care the number of previously self-employed who is now employed in the same sector is much higher: 57 percent. Moreover, between 10 and 23 percent of formerly self-employed in all sectors switch to a paid job in the business services sector.

**Table 3**  
Moving out of entrepreneurship compared to moving into paid labor

	Moving into paid labor													Total
	Agriculture	Manufacturing	Construction	Car sales	Wholesale trade	Retail trade	Hotels and restaurants	Transport	Financial intermediation	Commercial services	Government and education	Health and social care	Other services	
<i>Moving out of entrepreneurship</i>	%													
Agriculture	19	8	4	1	8	3	1	5	4	15	8	14	4	100
Manufacturing	1	23	4	1	6	7	2	3	4	18	7	7	4	100
Construction	2	6	28	1	4	4	2	5	6	20	3	5	2	100
Car sales	0	7	1	28	6	4	2	6	6	15	4	4	2	100
Wholesale trade	2	6	2	2	23	7	3	5	6	18	4	5	3	100
Retail trade	1	5	2	1	9	24	5	5	4	20	4	8	3	100
Hotels and restaurants	1	3	2	1	5	6	32	5	3	24	3	6	4	100
Transport	2	4	2	2	5	3	2	35	5	21	3	5	3	100
Financial intermediation	1	3	2	2	4	4	3	5	34	17	3	5	4	100
Commercial services	1	6	2	1	5	3	2	3	6	38	9	7	5	100
Government and education	1	2	1	1	4	3	2	10	3	22	30	12	4	100
Health and social care	0	1	0	0	2	1	1	1	3	10	11	57	4	100
Other services	1	5	1	1	4	7	4	3	3	19	12	11	24	100
Total	3	6	4	2	7	7	5	5	6	23	7	10	6	100

People who want to run less risk may opt for a (temporary) combination of paid employment and self-employment, so-called hybrids. In the start-up stage of self-employment, they often choose to keep their paid job. In this way their business has time to grow before they become completely dependent on it. But self-employed people may also choose for the security of a paid job alongside their own business as they do not necessarily have the ambition to grow to full-time self-employment (EIM, 2008). Over 34 percent of switchers in 2004 combined self-employment with a paid job. As these hybrids do not have different characteristics they are included with the switchers in this study.

#### 4. Hybrid employment per sector



There are more hybrids in some business classes than in others. In business services, agriculture and in other services, the number of hybrids is quite high (see figure 4).

It is not clear how many self-employed people combine their business with care activities or retirement. Although women probably more often combine running their own business

with other activities like childcare (EIM, 2008), just as many men as women have a hybrid position.

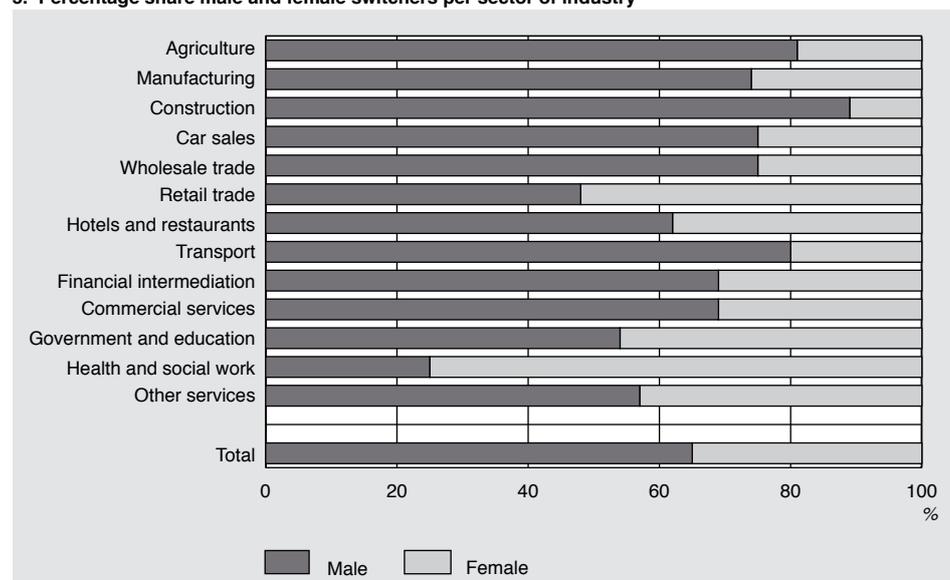
### *Personal characteristics*

More men than women choose to make a switch to paid employment; 66 percent are male and 33 percent are female. The share of women varies per sector of industry (figure 5). Women often choose for a paid job in health care, retail sector or government and education. The share of women in construction and agriculture is quite low; only 11 percent of the switchers to the construction sector is female and in agriculture 19 percent is female.

### *Financial position of switchers*

Financial motives may play an important part when a self-employed person chooses to close down his business. Income formation is important for an enterprise's development. For the business' owner, income has multiple functions: on the one hand it is private income that is used to live on or for savings. On the other hand it is used to invest in the business and for as input for financial reserves. An employee's income is primarily used for private consumption and for savings. The switch from self-employed to paid employment results in a smaller financial risk and fewer income fluctuations.

**5. Percentage share male and female switchers per sector of industry**

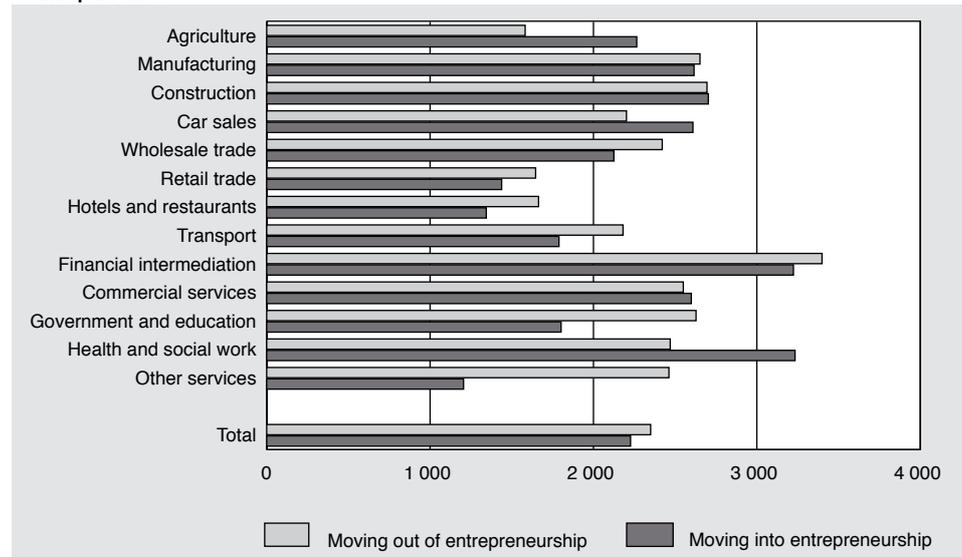


There are huge differences between the income of self-employed people who liquidate their business and paid employees. In general switchers have a higher income as paid employees than as self-employed businessmen (figure 6). Especially in the sectors other services, government and education, they receive a higher income in paid employment. The differences are smallest in construction and business services. Switchers who choose for a paid job in agriculture or in car sales and maintenance earn less than when they were self-employed. This may explain the small number of switchers in these sectors.

Profits may fluctuate strongly and may even be negative. Table 4 shows the average profit that switchers realised in 2004 when they were self-employed. There are substantial differences between the sectors. Health care and financial services show the highest average profits. These sectors also show the lowest outflow of switchers. The average profit is lowest in the hotels and restaurants sector. This is a varied sector which includes hotels, restaurants, camp sites and canteens. Canteens and catering businesses in particular push down average profits in this sector. The outflow from the hotels and restaurants sector is relatively high. Self-employed people in this sector choose for more financial security and higher wages in paid employment.

Based on a study by EIM (2008), women's profits will be lower than men's. Fewer women probably need a high profit level, as they are often not completely dependent on their

**6. Average monthly pay when moving out of entrepreneurship compared to the monthly pay when moving into paid labor**



business for their livelihood. This is different for men: more of them depend on the business for their livelihood. The results of the study do indeed show that women's profits are lower than men's. The largest differences are in health care and financial services. The smallest differences are in the hotels and restaurants and transport sectors.

**Table 4**  
**Average annual profit per sector of industry**

	Total	Males	Females
Agriculture	27,180	33,100	16,340
Manufacturing	31,400	36,050	21,240
Construction	32,020	33,710	23,070
Car sales	31,300	33,220	24,540
Wholesale trade	25,490	28,820	17,340
Retail trade	17,260	20,980	12,470
Hotels and restaurants	16,130	16,370	15,730
Transport	21,460	22,150	19,030
Financial intermediation	38,440	44,630	22,980
Commercial services	31,180	35,610	20,720
Government and education	21,190	23,500	17,840
Health and social care	38,800	61,440	25,600
Other services	14,310	21,330	8,240

## Conclusions and recommendations

This study examines the switch from self-employment to paid employment and its characteristics.

A total 23,444 people switched gave up being self-employed and switched to paid employment in the period 2004–2005. This is 4 percent of the total number of self-employed in 2004. It is not possible to determine whether this is low or high compared with previous years. Other periods will have to be studied in a systematic way to establish this.

Most switchers can be found in business services, health care, government and education. An average 30 percent of switchers move into paid employment in the same sector they had their own business in. More men than women switch to paid employment. Switchers earn more in the first year as a paid employee than they did when they had their own business.

### *Recommendations for future studies:*

- Policy-makers, particularly at the Ministry of Economic affairs, will have a great interest the coming years in self-employed people who close down their businesses. Therefore it is recommended that a survey of this group be conducted systematically on an annual basis. As the methods and software are available, it would cost relatively little effort to do this.
- The different phases in the chain of enterprise are all very interesting for follow-up studies (figure 1). As policy-makers want more insight into enterprises which recruit their first employee, a study of the switch from self-employed to employer would be useful. Another important question is: what happens to enterprises that have just started up? Measuring economic performance (investment, turnover and value added) of just-started enterprises and following them through time will give an indication of the growth performance. In the article 'From employee to self-employed' (Braams and Urlings, 2009), switchers from paid employment to self-employment in the period 2003–2004 are linked to switchers from self-employment to paid employment in the period 2004–2005, and their characteristics are analysed. For a longitudinal study, a cohort could be monitored for say 5 years to get a better insight into this group.

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## Annex 1. Definitions

The economic activities used in this paper are based on the NACE (*Nomenclature générale des Activités économiques dans la Communauté Européenne*).

**Table 5**  
**Business sector classification**

Business sectors	SBI'93
Agriculture	01–14
Manufacturing	15–41
Construction	45
Car sales	50
Wholesale trade	51
Retail trade	52
Hotels and restaurants	55
Transport	60–64
Financial intermediation	65–67
Commercial services	72–74
Government and education	75–80
Health and social care	85
Other services	90–93

### *Taxable monthly income*

The taxable monthly income is calculated by adding together a person's various sources of income in the month under review. These include revenues from:

- income support benefit;
- disability benefit;
- unemployment benefit;
- pension;
- other benefits;
- earnings from employment;
- earnings from self-employment;
- earnings from other labour;
- study grant;
- labour in a foreign country;
- benefits from other countries.

For employees the monthly income consists primarily of earnings from a paid job. The taxable monthly income from jobs in the month under review of persons with paid employment in that month.

For a self-employed worker, the monthly income consists primarily of revenues from self-employment. The income of a self-employed person equals the taxable profit per month, i.e. the taxable annual profit divided by 12.

### *Taxable profit*

The taxable profit for self-employed persons is composed as follows:

1. Profit/loss from the enterprise  
Net (revenues minus expenses) = *operating result*
2. Add: adjustments for private use of company home/company car, small businesses VAT allowance, disinvestment, adjustments for amounts that are not or only partly deductible and decrease in non-taxable reserves
3. Subtract: investment incentives, adjustments for exempted profit components and increase in non-taxable reserves.  
Net = *taxable income*
4. Subtract: self-employed person's allowance, profits exempt under small businesses regulation, allowance for R&D, allowance for additional work, allowance for industrial action and accountable losses from other tax years.  
Net = *chargeable income*

## **Legal forms**

### **Natural persons**

Ordinary people who are liable as independent persons. They declare their income for tax purposes. Examples are one-man businesses, and various forms of partnerships.

#### *One-man business*

Business run by one person, who is sole proprietor of the company. A one-man business may employ others. The proprietor is liable for all debts of the business.

Dutch law distinguishes three types of partnerships:

#### *Vennootschap onder firma (vof)*

A vof is an association of persons (general partners) who manage a business and are equally liable for its debts. Each partner shares equal responsibility for the company's profits and losses and its debts and liabilities. The partnership itself does not pay income taxes but each partner has to report their share of business profits or losses on their individual tax return.

#### *Maatschap*

Similar to vof (see above), this form of partnership is often used in the free professions, e.g. medical professions.

#### *Commanditaire vennootschap*

Limited partnership. Similar to vof (see above), but in addition to general partners also has limited partners who invest in the business but are not involved in its management. Limited partners are liable only to the extent of their investment.

### **Legal persons**

An organisation that as a legal unit is liable for obligations. Legal persons are liable to pay corporation tax. Examples are *private limited companies and public limited companies*.