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Home Based Business and Local Economic Growth: Exploring Entrepreneurial Growth Motivations

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Home based business in the aftermath of the gobal financial crisis

- Major changes in enterprise and labour market:
  - growth of self-employment, micro enterprises, home working and HBB activity
- Models of local economic growth
  - HBBs as part of development of neo-liberal, flexibilised, local enterprises spaces
  - HBBs as part of alternative, sustainable growth models

Scalar and spatial dimensions of HBB activity

- Scalar dimension of HBB growth
  - household
  - neighbourhood/local
  - urban/suburban/rural
  - national
  - global

- Reregulation and recasting of domestic space

- New emerging spatiality of enterprise

Enterprise and labour market trends

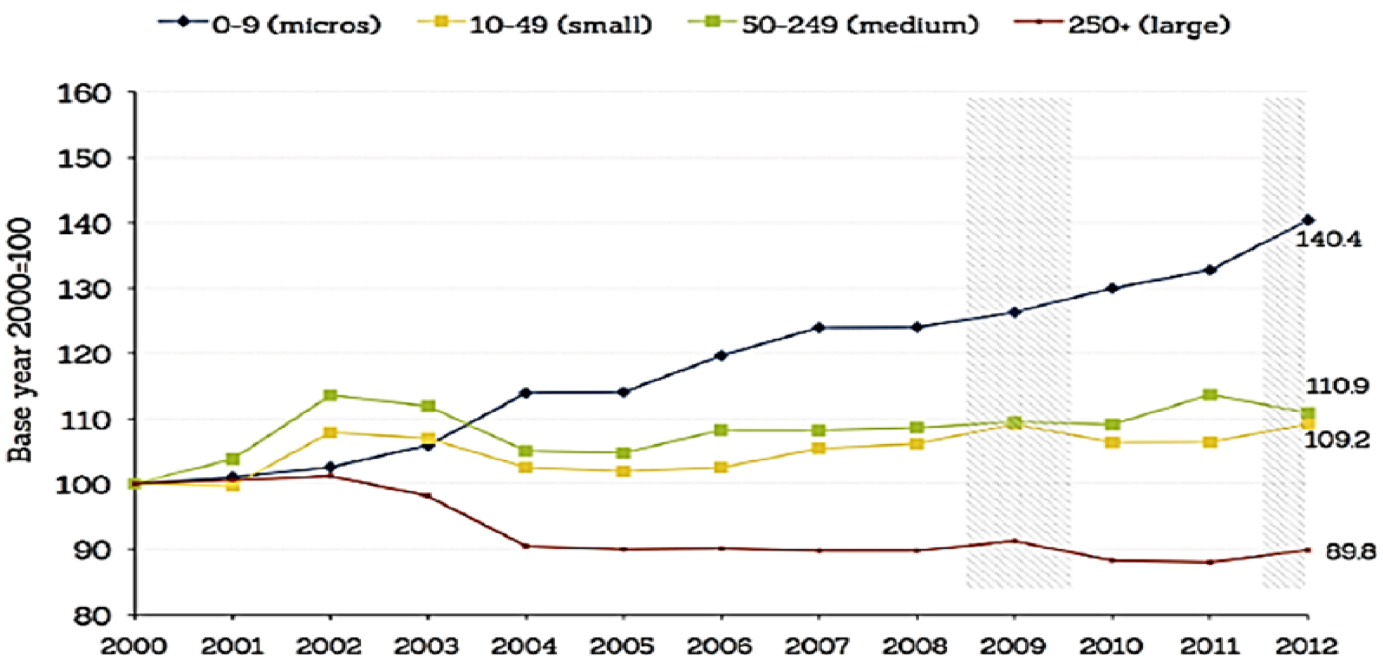
- Longer term trends & impact of GFC: growth in
  - micro enterprises
  - self-employment
  - home working
  - home base business

Growth of micro enterprises

- Definition 1-9 employees
  - 2003 1.2m private sector micro businesses (1-9 employees) (total UK businesses 1.4m) (ONS BSD)
  - 2013 1.4m micro businesses (total UK businesses 1.6m)
  - growth in number of employees (3.3m in 2013; 3.0m 2003)
  - micros that survive and grow; key generators of new jobs (Hart & Bonner, 2014)

- Definition of 0-9 employees
  - 95.5% of all UK enterprises (4.6m);32% of private sector employment; 20% private sector turnover (Lord Young Report)
  - half a million new businesses since recession
  - mainly self-employment

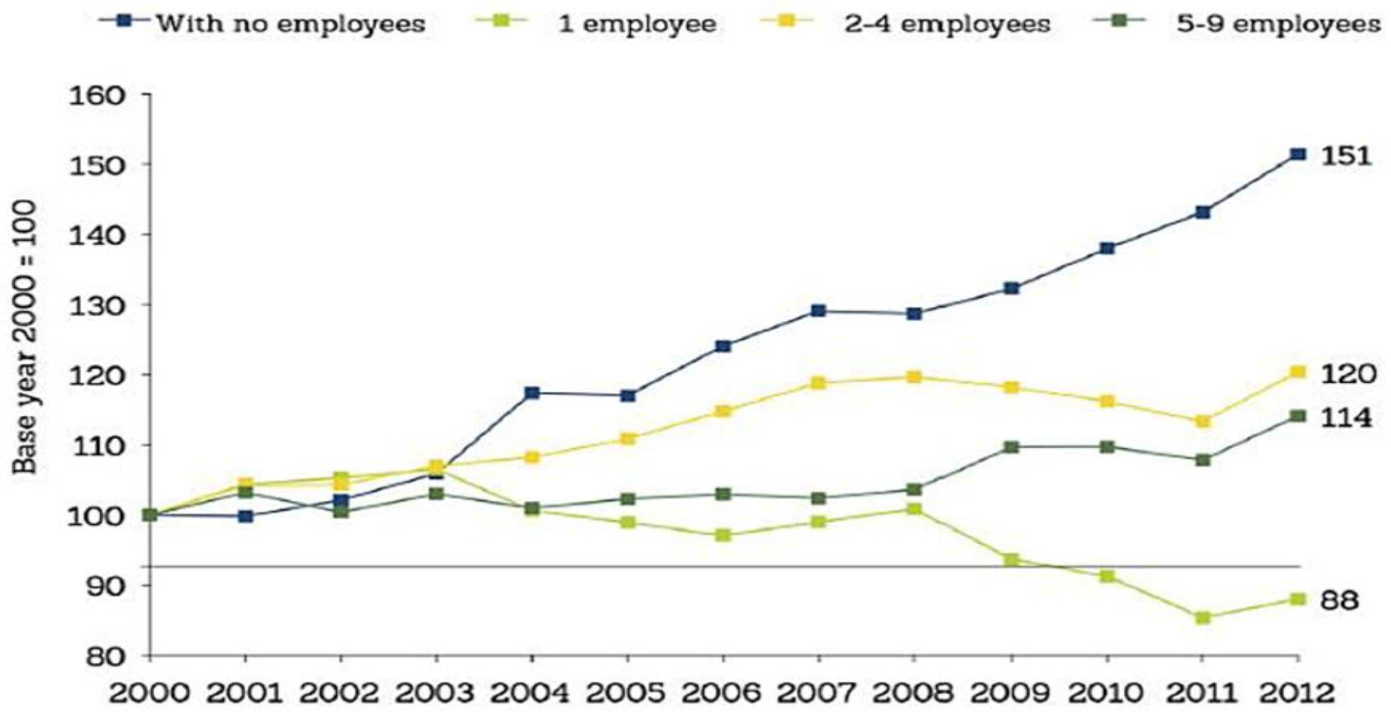
Private sector business change (UK) by size band 2000-2012 (indexed)



* In 2003 Primary Care Trusts and National Health Service Trusts were reclassified from the private sector to the central government sector.

* There was a discontinuity between the estimates in 2011 and 2012, when an improvement to the business register was implemented to capture some businesses that were previously excluded. See the Statistical Release for more detail.
Source: BIS Business Population Estimates for the UK and Regions 2012

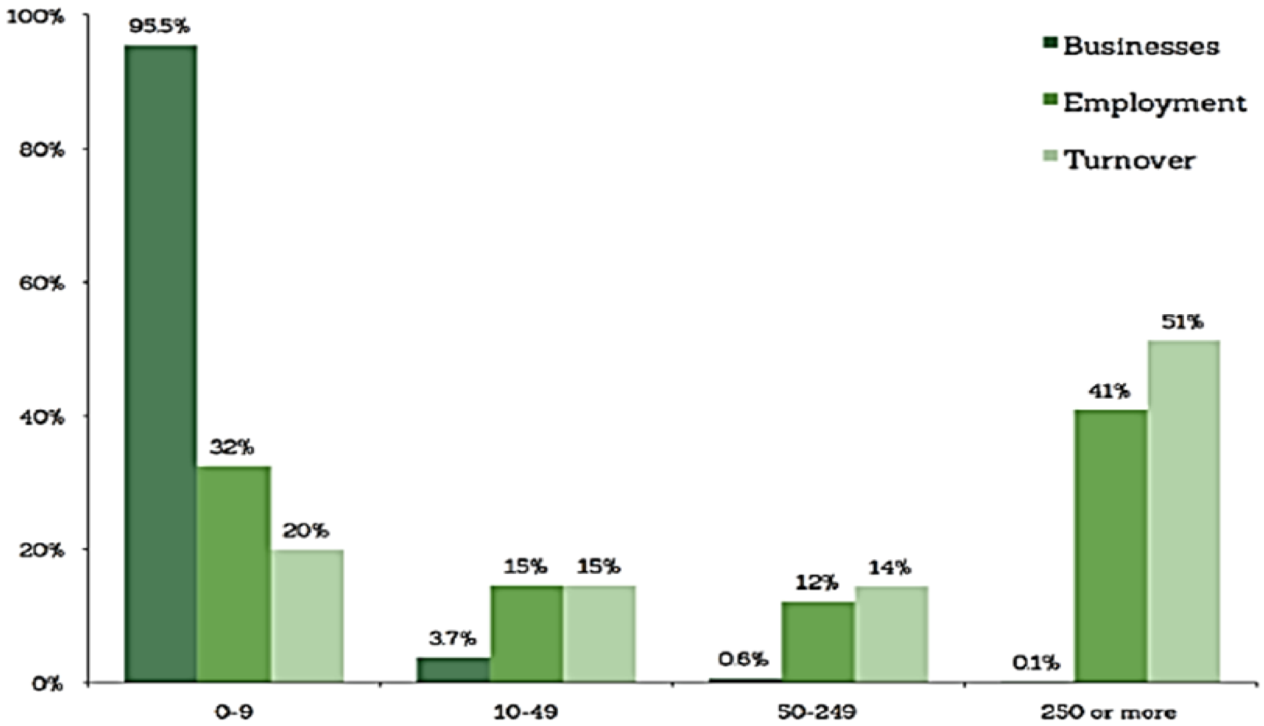
Private sector micro-businesses change (UK) by size band, 2000-2012 (indexed)



* There was a discontinuity between the estimates in 2011 and 2012, when an improvement to the business register was implemented to capture some businesses that were previously excluded. See the Statistical Release for more detail.

Source: BIS Business Population Estimates for the UK and Regions 2012

Share of private sector businesses, employment and turnover by size band, 2012



Source: BIS Population Estimates for the UK and Regions 2012

Growth in self-employment, home working…..and HBBs

- Large growth in self-employment since financial crisis
  - 2008 - 3.9m 2014 - 4.5m (ONS)

- Long term growth in home working
  - 1998 - 2.09m 2014 – 4.2m (ONS)

- and HBB growth: but difficulties of measurement
  - definition, data, benchmark
  - UK 66% businesses operate from home (GEM; 2009)
  - Small Business Survey: 51% 2007 – 59% 2012
  - at least half of all SMEs in UK, US & Australia are home-based (Mason et al., 2011)

Home Based Business

"*Conceptually a home-based business can be defined as any business entity engaged in selling products or services into the market operated by a self-employed person, with or without employees, that uses residential property as a base from which the operation is run*." (Mason et al, 2011)

- *but* debates around relationship with home-working and self-employment
- exclude: agency workers/free agents; farm based businesses; 'commercial homes' (e.g. bed and breakfast)
- informal/unregistered activity

HBB activity

- Diverse in nature and characteristics
  - specialist high skill service provision in dynamic sectors
  - survival oriented/social solidarity activities in low-income groups

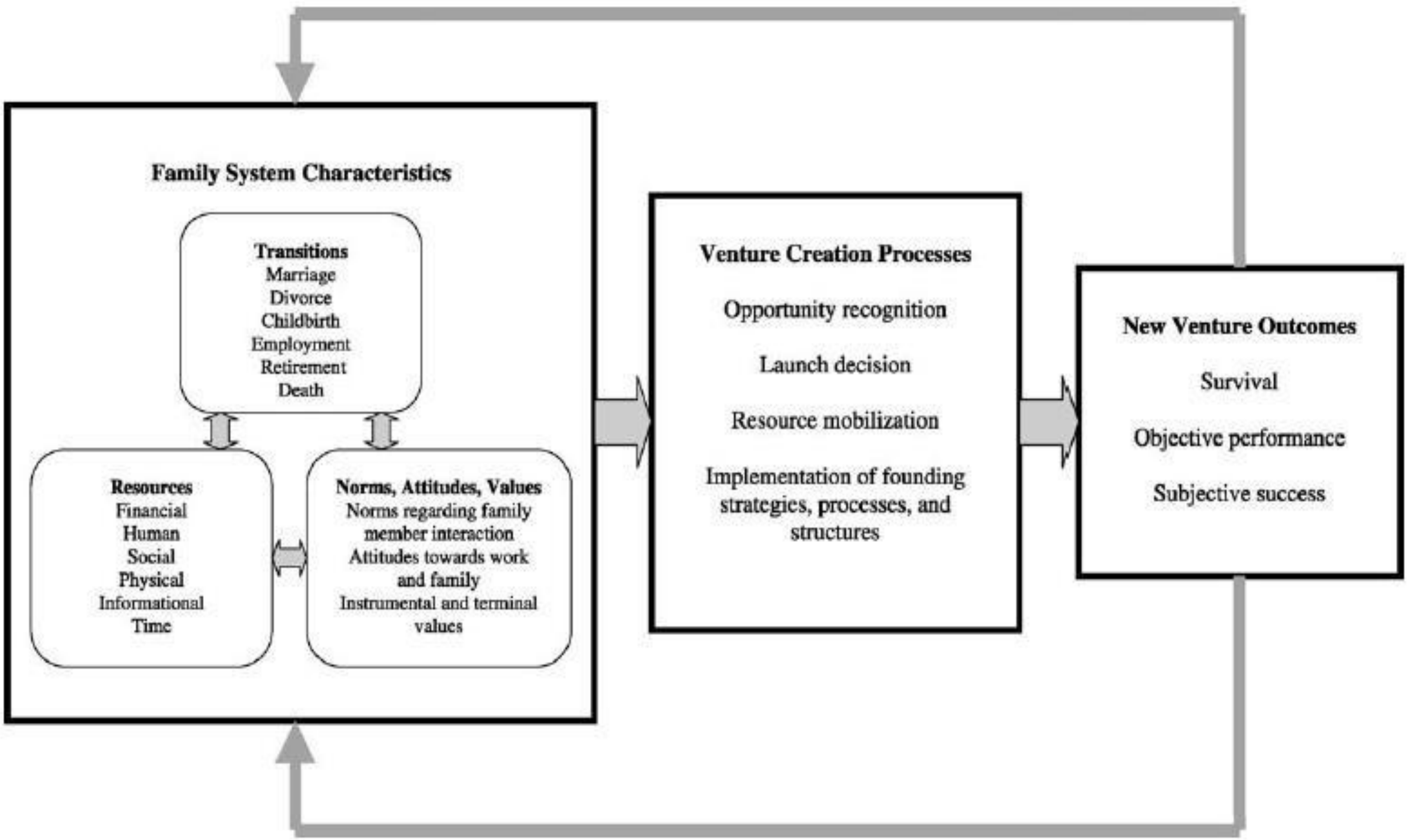
- Common elements
  - relation to domestic, household and family spheres
  - formal and informal modes of operation
  - many have important neighbourhood/local dimension

- Differences in types/styles reflect
  - entrepreneur/household characteristics
  - housing conditions
  - embeddedness in economic contexts (neigbourhood to global)

Conceptualisation of HBB

- Family embeddedness perspective (Aldrich & Cliff, 2003): family systems: resources, transitions, norms/attitudes/values
- Household dynamics (e.g. gender roles) and transitions in family/lifecycle influence business start up & life cycle (Alsos et al, 2014)
- Need to explore relation between household and entrepreneur
- Role of household capital, composition and routines (Carter and Mwaura, 2015) –but lack spatial component

Family systems and venture creation: Aldrich & Cliff (2003) Carter & Mwaura (2014)



Reregulation of domestic and household sphere

- Key characteristic of recent UK economic and labour market change; recasting & reregulation of home/domestic sphere
- Return to pre-industrial/early industrial non-separation of home/work (e.g. Holliss)
- Common in developing/emerging economies

Impacts on domestic/household sphere

- New work/enterprise patterns
  - precariousness, stress, anxiety
  - autonomy, satisfaction, work/life balance
  - differences between HBB and home work?

- Gender/household relations
  - e.g. women; children

- Shift from formal workplace regulation to informal regulation of domestic sphere
  - e.g. employment conditions; informal activities

Spatiality of home based business

- Initial rural focus – extend to full range of spatial settings;
  - inner city/city fringe – creative industries/freelancers;
  - suburban – financial services
- Digital technologies key driver
  - fixed, tethered or free (Daniel et al)
  - local dimension to digital working (Green)
- Within the home (e.g. reorganisation of domestic space; bedroom offices; shedworking etc)
- Within neighbourhoods (e.g. live/work units; workhubs; ‘coffice’)
  - spillovers into local economy
  - reinvention of high streets/town centres

Geography of UK Home Based Businesses

Regionally: above national average in SE, SW and Scotland – least significant in NI, NE, Y&H, NW

Correspondence between regions with low rates of new firm formation & low proportions of HBBs

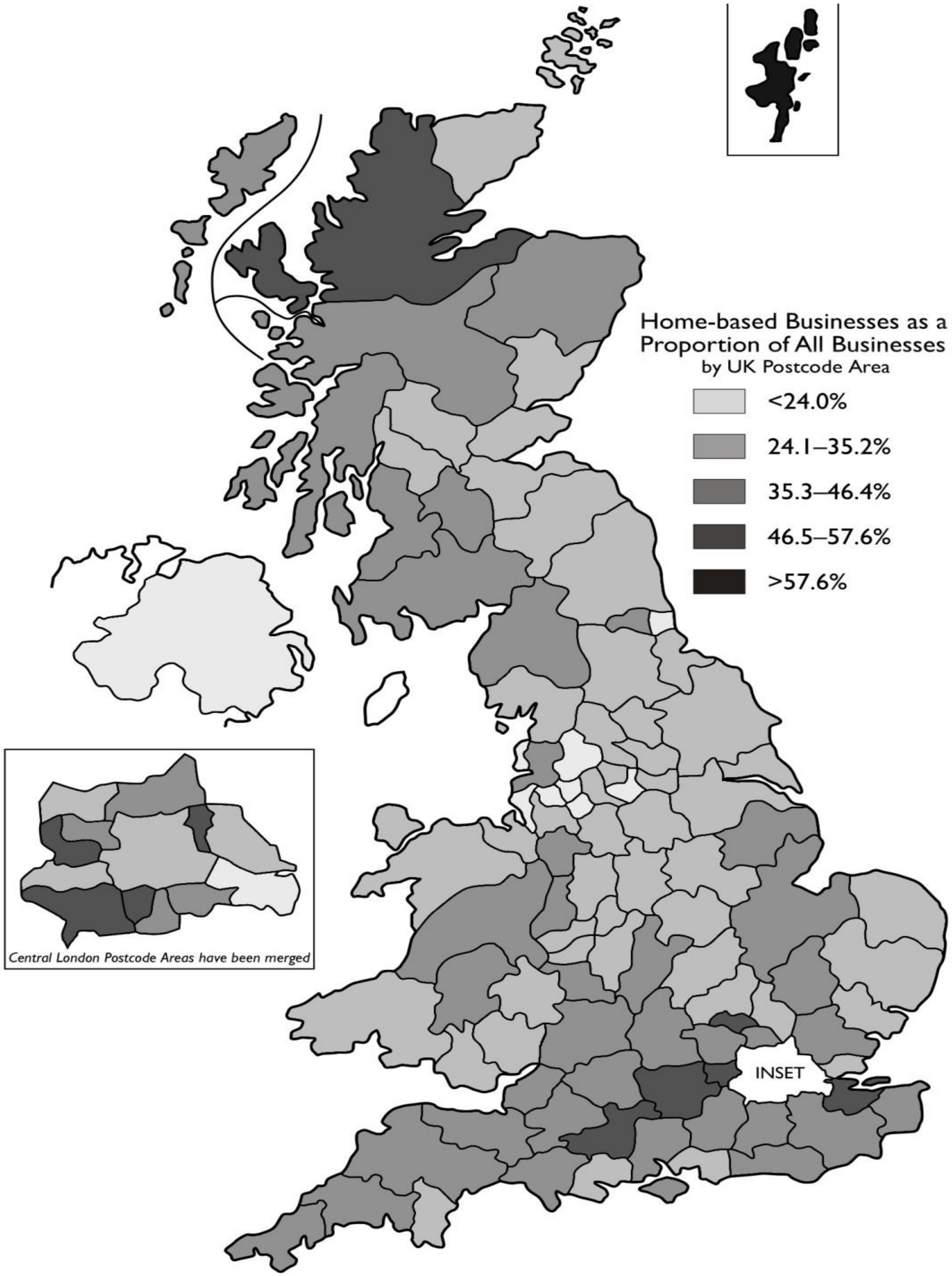
Higher proportion of firms operating from home in rural areas

Highest proportions:

(1) affluent towns/cities & hinterlands

(2) Remoter rural areas

Source: Mason et al (2011)



HBB and Economic Growth

- HBBs as lifestyle/hobby firms or generators of growth?
  - traditionally largely ignored in research and policy
  - technological change enables HBBs to act as source of innovation, productivity and employment growth
  - key incubator unit /low cost location
  - opportunities for women, minority groups

- Providers of wider societal benefits?
  - work/life balance
  - quality of life
  - social/environmental sustainability
    - strengthen local communities/neighbourhood economies

HBB and Economic Growth (2)

- ‘opportunity’ versus ‘necessity’ entrepreneurship
- negative/constrained impacts
  - generate low levels of income
  - generate limited employment
  - not growth oriented/’lifestyle’ businesses
  - lack formal regulation of working conditions
  - enterprise/household tensions
  - poor quality of life – unable to escape work; isolation
  - worsen position of women

- increasing rhetoric but limited empirical study

Entrepreneurial growth motivations, ambitions & goals

- motivations/ambitions key dimension
  - business less likely to grow if entrepreneurs do not intend/pursue growth
  - *but* entrepreneurial 'ambition' does not equate with growth
  - for economic growth, quality of entrepreneurship more important than quantity – skills and resources critically important
  - for other styles of growth, 'other' motivations (social; quality of life) are significant

Method

- insights into motivations & growth orientation – two stage quantitative & qualitative research
- combine UK SME omnibus survey with OU quarterly small business SME survey panel
- sample of 643 UK SMEs – 18% (114) defined themselves as HBBs
- enables comparison of HBBs and non HBBs
- limitations;
  - cross-sectional/one point in time
  - skewed towards longer established businesses – under report latest trends
  - modest sample size

HBB Characteristics

- 2014 survey
  - 18% of businesses identified themselves as HBBs
  - sectoral: business services (36%); construction (16%); retail & wholesale (14%)
  - high proportional presence of HBBs in rural areas
  - significantly lower proportion seeking to grow
  - trading age: high proportion of older HBBs

HBB Motivations

- Why base business at home?
  - cost efficiency (63%); flexibility of working/hours (14%); IT (13%); business suited to home (11%)
- Main *advantages* of owning/managing a small business? - differences HBB v other SMEs
  - being ones own boss: 68% (47%); more flexible working hours 47% (38%);able to work from home 44% (9%)
- Main *disadvantages* of owning/managing a small business?
  - isolation and loneliness: 22% (9%); poor pay/remuneration: 25% (17%)
  - issues common to all SMEs: longer working hours (42%); increased work related stress (38%); potential failure/loss of personal assets (34%)

Measures of entrepreneurial success

- Significant differences HBB v other SMEs
  - personal satisfaction 71% (48%)
  - work life-balance 48% (34%)
  - less concerned with growth 12% (31%)
  - *but* common ‘measure’ of profitability 46%

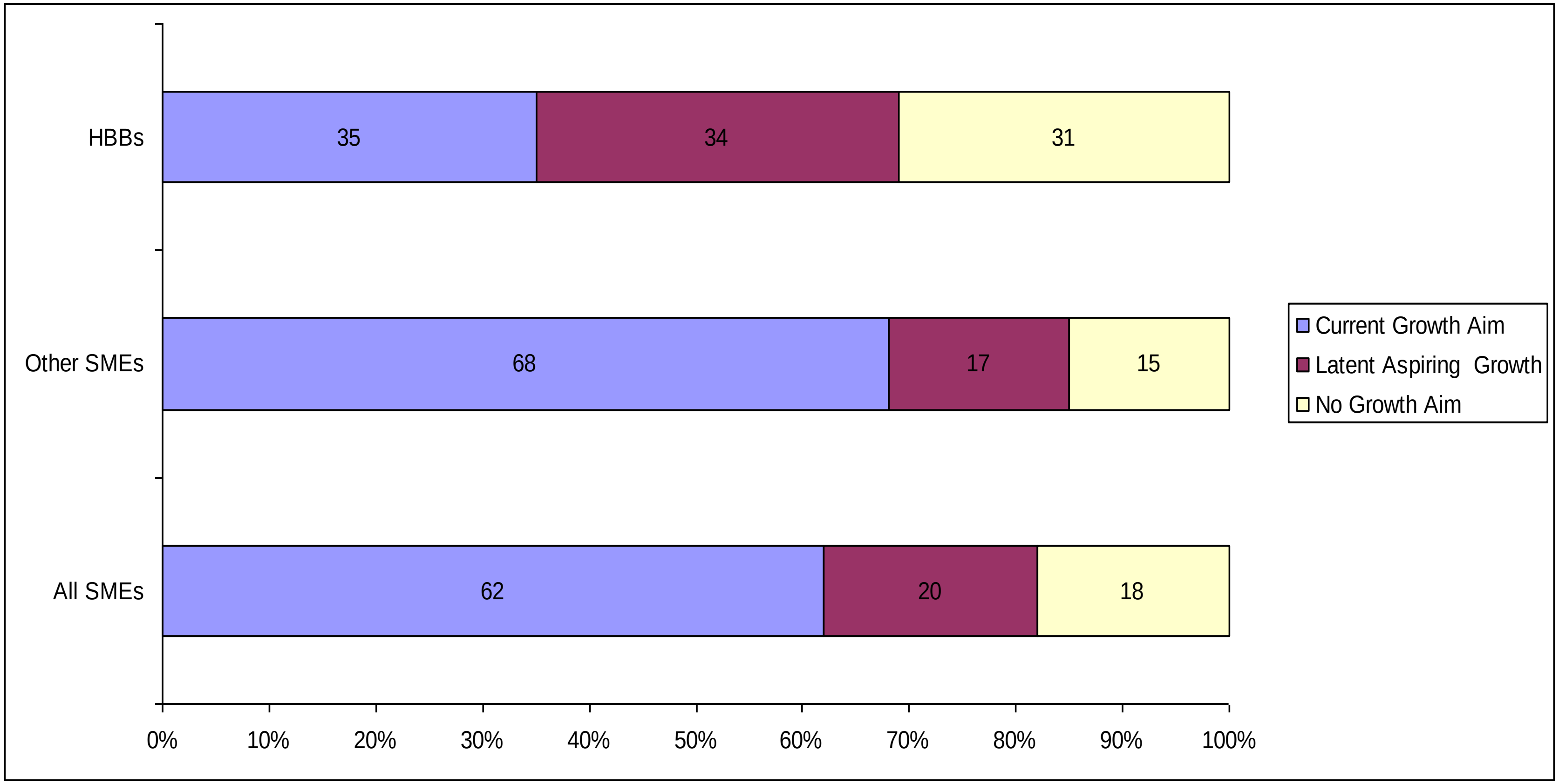
- Future business objectives (next 3years)
  - stay the same size 52% (24%)
  - seek expansion 34% (68%)

HBB Growth Typology

- Based on current and future growth aims
  - current growth aim 35% (68%)
  - latent /aspiring growth 34% (17%)
  - no growth aim 31% (18%)

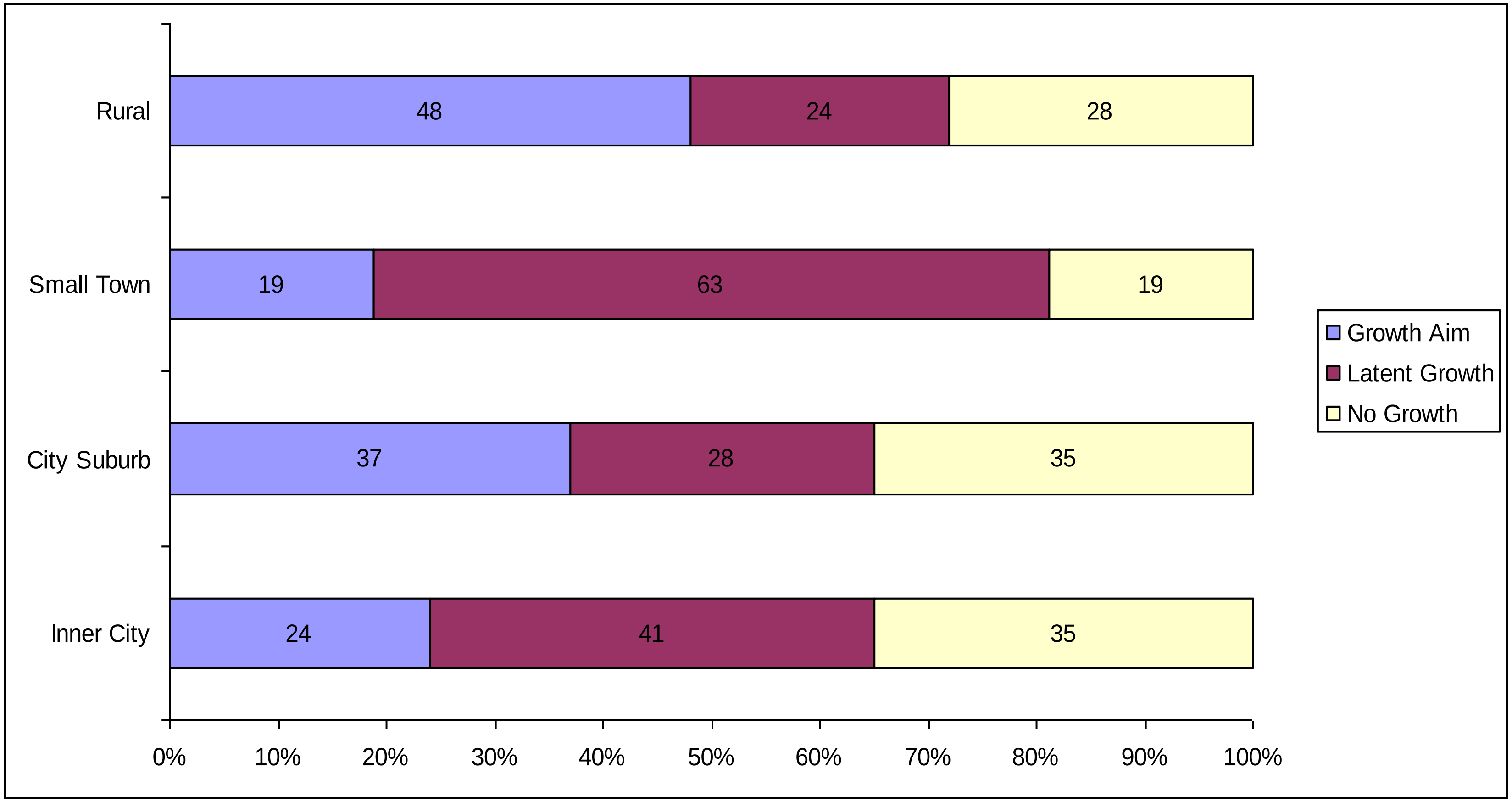
- HBBs exhibit more emphasis on lifestyle factors
  - work-life balance; flexible working; being own boss – particularly important in latent growth types (75% say being own boss important)
  - growth positively correlated with younger HBBs

Growth orientation comparing HBBs with other SMEs



Source: 2014 HBB Survey (n=643)

Growth orientation of HBBs by geographical context



Source: 2014 HBB Survey (n=114)

HBB Growth Typology (2)

- Current growth aim HBBs exhibit similarly strong dynamic growth aims to their SME counterparts
  - increasing profitability; employment; sales turnover; markets; personal wealth
  - highest growth aim in rural areas (48%) urban fringe (37%); ‘latent’ important in small towns (63%) and inner cities (41%)

- HBBs with current growth aims face additional barriers
  - loneliness & isolation
  - finding/developing customer relationships
  - these also barriers for latent and no growth HBBs
  - *but* less concerns over employing staff

Conclusions

- HBBs under researched but important and growing element of local economic change with policy significance
- initial stage of research project
  - findings of significant differences between (1) HBBs; and (2) HBBs and SMEs – in terms of growth orientations and problems faced
  - still to explore key spatial/contextual elements at level of home/household and locality/neighbourhood
- policy implications:
  - significant element of 'growth oriented' HBBs – which seem likely to grow;
  - important 'latent' group - where different styles of growth could be significant

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Characteristics of HBBs by sector 2014 survey contextualised with the SBS 2012

	HBB 2014	SBS 2012		
	HBB Survey	HBBs	Other SMEs	All UK SMEs
Sector	Col%	Col%	Col%	Col%
Primary	3	5	1	4
Construction	16	25**	10	19
Manufacturing	9	3	8	5
Transport & Communication	8	14	8	12
Retail & Wholesale	14	3	22	11
Business Services	36	18	16	17
Hotels & Restaurants	2	3	5	4
Health, Education, Leisure, Other	13	29	30	29

Sources: Department for Business Innovation and Skills (BIS) Small Business Survey 2012 and Open University HBB Survey 2014
Note: Significance **<.01 level; ***<.001 level between HBBs and other SMEs in SBS survey

Characteristics of HBBs 2014 survey contextualised with the SBS 2012

	HBB 2014	SBS 2012		
	HBB Survey	HBBs	Other SMEs	All UK SMEs
Urban-Rural				
Urban	63	64***	74	68
Small Town	14	23	19	21
Rural	23	12	7	10
Trading Age				
Up to 5 years	7	16	21	21
6 to 10 years	6	22	19	21
11 years and over	87	62	60	61
Employment Size				
Zero	47	87***	55	74
1-9 employees	41	12	35	21
10-249 employees	12	1	10	4
Sales Turnover				
Under £100k	61	68	42	57
£100k to £999k	28	17	36	25
£1m+	11	15	22	18
Gender				
Women led	36	38	39	38
Growth Aim				
Aiming to grow in the next 3 years	34	52***	66	67
N=	114	3386	2337	5723

Sources: Department for Business Innovation and Skills (BIS) Small Business Survey 2012 and Open University HBB Survey 2014
Note: Significance **<.01 level; ***<.001 level between HBBs and other SMEs in SBS survey

Reasons for Establishing HBBs

Reasons provided	No	Col%
cost efficiency	35	63
flexibility of working and hours	8	14
IT / communications technology	7	13
business suited to home base	6	11
down sizing of business	4	7
family	3	5
suitable home premises for business	2	4
lifestyle	1	2
security	1	2
redundancy	1	2
no commuting	1	2
Total valid responses	56	100

Source: 2014 HBB OU Panel Survey
Note: Respondents could give multiple responses

Advantages of Owning/Managing a Smaller Business, comparing HBBs and other SMEs

Advantages	Other SMEs Col%	HBBs Col%	All SMEs Col%
Opportunity for greater personal wealth/earnings	30	28	30
More creative/innovative	30	31	30
Greater variety of work	27	11***	24
More flexible working hours	38	47*	40
Able to work from home	9	44****	15
Opportunity to follow personal interest/vocation	24	27	24
Increased social status	8	2**	7
Avoids working for a larger organisation	36	24**	33
Can be your own boss	47	68****	50
It is a necessity for type of work undertaken	9	9	9
None	9	1**	8

Note: Source 2014 HBB Survey - multiple responses could be provided
* significant at (below) <.1 level; ** significant <.05 level, *** significant <.01 level, **** significant <.001 level

Disadvantages of Owning/Managing a Smaller Business, comparing HBBs and other SMEs

Disadvantages	Other SMEs Col%	HBBs Col%	All SMEs Col%
Potential for failure/loss of personal assets	33	37	34
Longer working hours	42	43	42
Increased work related stress	39	34	38
Isolation/loneliness	9	22****	12
Poor pay and remuneration	17	25**	19
Feeling trapped/unable to develop	9	10	9
Poor fit with family life	17	14	17
Difficulties in employing staff	32	16****	29
Problems in getting and retaining customers	18	25	19
Problems in dealing with difficult suppliers	12	8	11
No disadvantages mentioned	17	9	15
Total N=	529	114	643

Note: Source 2014 HBB Survey - multiple responses could be provided
* significant at (below) <.1 level; ** significant <.05 level, *** significant <.01 level, **** significant <.001 level

Measurements of Entrepreneurial Success comparing HBBs and other SMEs

Measurements of Success	Others Col%	HBBs Col%	All Col%
Profitability (high yields, good profit margins)	46	47	46
Growth (e.g. employment, sales, market share)	31	12****	28
Innovation (new products, services, methods)	15	11	15
Survival/continuity (succession/trade sale)	32	33	32
Contributing back to society	14	7**	13
Personal satisfaction (e.g. autonomy)	48	71****	52
Satisfied stakeholders (staff, trade, investors)	20	19	20
Work-Life balance	34	48***	37
Public recognition (reputation, awards)	13	10	12
Utility (e.g. providing useful services)	12	13	12
None of the above	7	4	6
Total n=	529	114	643

Note: Source 2014 HBB survey - multiple responses could be provided;
*** significant <.01 level, **** significant <.001 level

Future business objectives comparing HBBs and other SMEs

Future Business Objectives	Others Col%	HBBs Col%	All Col%
Stay at the same size	24	52****	29
Reduce size	2	7	3
Expand moderately	53	30****	49
Expand significantly	15	4	13
Sell the business	6	3	6
Close the business	1	4	1
Total N=	528	112	640

Note: Source 2014 survey; **** significant <.001 level

Motivational factors and barriers influencing the growth aims of HBBs and other SMEs

	HBBs			Other SMEs		
Growth Aims by Lifestyle, Growth and Barriers	Current Growth Aim	Latent Aspiring Growth	No Growth Aim	Current Growth Aim	Latent Aspiring Growth	No Growth Aim
Lifestyle factors	Col%	Col%	Col%	Col%	Col%	Col%
Work-life balance	46	53	43	35	31	35
Flexible hours	41	50	46	37	39	43
Own boss	64	74	69	45	53	48
Work from home	44	42	49	9	10	6
Dynamic growth						
> Personal wealth	31	40	14	32	33	19*
>Creativity/Innovation	21*	11	0	17	18	7*
➢ Profits	51	58	26*	49	53	27*
Grow empl, sales or markets	31*	13	3	35	33	15*
Barriers						
Loneliness and isolation	23	21	23	10	10	5
Employing staff	15	13	20	35*	28	26
Customers	28	18	29	18	20	18
N=	39	38	35	356	91	81

Note: Source OU & BDRC Omnibus survey * significant <.05 level,