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**Home Based Businesses in Australia: A
Review of the Literature**

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HOME BASED BUSINESSES IN AUSTRALIA: A REVIEW OF THE LITERATURE

Introduction

In Australia, small-to-medium sized businesses (SMEs) make a significant contribution to the health and success of the national economy and represent 96% of all firms. These businesses can be divided into three very distinct groups based on the number of employees. Medium enterprises usually have between 20-200 employees; small businesses have 5-19 staff; and micro-businesses are those employing less than five staff, including self-employed individuals (Australian Bureau of Statistics (ABS) 2000).

Of the one million plus SMEs that were operating in Australia in June 2001, an estimated 778 400, or 67%, were identified as home-based businesses (HBBs) (ABS 2001). Based on these figures, the HBB sector represents more than half of all businesses in Australia. It is a significant sector within the Australian business community, yet suffers from a low profile and is generally poorly understood. While there are significant gaps in the current level of knowledge about HBBs, there is growing evidence highlighting their importance to Australia's overall economic performance. Recent studies show that micro-enterprises provide the greatest source of future immediate job creation (ABS 1997; Department of Employment Workplace Relations & Small Business (DEWRSB) 1998), and that the majority of new firms start as home-based businesses (Peacock 2000).

HBBs are a growing phenomenon in Australia, with several Australian studies indicating that they are both viable long term businesses, and more than the marginal financial enterprises they were thought to be a decade ago (Stanger 2001; Peacock 2000). Ongoing changes in employment practices combined with broad social changes are likely to lead to a continuing growth in the size of this sector. Dawson & Turner's (1989) oft-quoted study of the causes leading to the growth of home-based work identifies factors such as new technologies, economic conditions and lifestyle choices as being key factors in the rise of the phenomenon of home-based work. Although their study includes home-based employees and early telecommuters, it provides an early indication of the development and growth of the HBB sector.

Definitions

Numerous problems associated with defining small businesses have been encountered for many years (Meredith 1993). Official definitions have changed from qualitative (*Small Business in Australia* 1990) to quantitative (ABS 2000), highlighting different core aspects of SMEs. Given that definitional issues have historically impacted on research into SMEs, it is hardly surprising that such ambiguity also affects definitions of HBBs in Australia (Conroy 1999). Conroy (1999) reports that similar ambiguities exist elsewhere, as studies in the US demonstrate. The ABS' first attempt at measuring the scale of home-based workers in 1989 applied a definition that determined numbers of home-based employees, as distinct from measuring the number of HBBs in existence, or the number of HBB operators. They maintained this definition for subsequent surveys in 1992 and 1995. Ironically, their definition excluded people who operated a business from a home base but conducted most of their work away from home (eg tradesmen) (Peacock 1999).

In 1997, the ABS introduced a new definition of home-based workers into its survey instruments. They classified a HBB as either one "where most of the work of the business was carried out *at* the home(s) of the operator(s) (these businesses are referred to as 'businesses operated *at* home')"; or as a business that "has no other premises owned or rented other than the home(s) of the operator(s) (these businesses are referred to as 'businesses operated *from* home')" (ABS 1997 p83). This represents a significant improvement on the previous definition used by the Bureau, and is the one they continue to use (ABS 2001).

Stanger (2000b) argues in favour of a definition that includes the following clause: "Where the business is operated from the home of one of the owners even though very little work might be conducted at home eg trades people such as plumbers, carpenters, electricians etc" (Stanger 2000b p2). Peacock (2000) accepts a similar definition, arguing that it subsumes businesses that operate 'at home'. They contend that the distinction made by the ABS is unnecessary. Despite these variations, there seems to be an emerging consensus that the 1997 ABS definition quoted in the previous paragraph is gaining broader acceptance.

Characteristics of HBBs

The ABS now includes a survey and analysis of the characteristics of HBBs in its publication, *Characteristics of Small Business* (ABS 1997, 1999, 2001). These publications contribute to a better understanding of how HBBs are changing over time and differ between states. While there are apparent differences in some characteristics between different Australian states, these appear to be insignificant. The ABS (2001 p82) states that "Home based small business operators were distributed across States and Territories in similar proportion to small business operators overall, with both reflecting the general population distribution." Such a conclusion gives some assurance that comparing data gathered in different state-based research projects provides valid comparisons. However, there are clearly some significant changes in this sector over time, making comparisons of studies across time more problematic.

In addition to ABS data, several other studies over the last decade have investigated a range of characteristics of HBBs. Collectively, these studies are enabling researchers to piece together a profile of businesses in this sector, though there is by no means uniform agreement on some of these characteristics. Stanger & Woo (1999 p241) observe that HBBs cover a diverse range of industries and "differ considerably in terms of their activities, needs, geography and performance." According to a study by Business Skills Victoria (BSV) (1996), approximately 53% of HBB operators are 'white-collar' and 37% 'blue-collar'. The remaining 10% did not answer the specific question addressing this issue. Peacock (1999) also highlights the diverse nature of the sector, drawing on ABS figures to show that a higher proportion of HBBs are in services-based industries than SMEs generally, while a lower proportion of HBBs are involved in the manufacturing sector than is the case for SMEs overall.

Reasons for Starting a Business From Home

Both overseas and Australian researchers note that lifestyle decisions and family reasons rate highly among the main reasons given for starting a business from home (Good and Levy 1992; Peacock 1994b; Houghton and CREEDA 1999). Kraut (1988), Roffey et al.(1996) and Houghton and CREEDA (1999) report that women with resident children cited 'childcare/family needs' as a reason for starting their business at home more frequently than men did. However, recent Australian studies suggest that many HBB operators start their businesses from home primarily for financial reasons. Houghton & CREEDA (1999), Peacock (1994b) and Hitech Marketing Services (1998) all report that well in excess of 50% of respondents in their studies reported 'a desire to minimise costs' as the main reason for their decision to start a business from home.

Demographic Factors

In its most recent report, the ABS (2001) states that 70% of all HBB operators are male. This represents an increase over the 1997 ABS survey, which showed that 67% of all HBB operators were male, a figure consistent with the ratio reported for all small business. Consistent with this figure, Hitech Marketing Services (1998) found that two thirds of HBBs in their study were operated by men, whilst Houghton and CREEDA (1999) found that 56% of HBB operators were male. Opposing these findings, both Roffey et al. (1996), and the Small Business Development Corporation of Western Australia (SBDC) (2000) report that in excess

of 60% of all HBB operators are female. Neither of these publications cite any evidence to support their claims, and this author was unable to locate any evidence in support of this statistic in the literature. Intriguingly, the SBDC has targeted their marketing of support services for HBBs directly at a female demographic based on this reported figure (SBDC 2000).

Both Peacock (2000) and the ABS (2001) report that the age profile of HBB operators is very similar to the age distribution for SMEs generally: “12% aged less than 30; 58% aged between 30 and 50; and 30% more than 50 years old” (ABS 2001 p81). These percentages are virtually identical to those reported by the ABS in 1999, though the proportion of HBB operators aged more than 50 years old was only 25.6% in 1997 (ABS 1999). In an earlier study, Peacock (1994a) found only 6% of respondents were aged 50 or more, while 34% were younger than 30 years old at the time of the study. Peacock (1994a p28) speculates that the thirties is the most favourable age for starting a small business “because such owners have had time to acquire skills, experience, contacts and some business acumen.” Further research of this characteristic could yield useful insights into why HBB operators start their businesses when they do. To date, there seems to be little research into this matter.

Longevity and Size of HBBs

A number of studies have shown that typical HBBs are neither short-term enterprises nor marginal enterprises (Stanger 2000b). Hitech Marketing Services (1998 piii) reports that:

- “Of the home-based businesses sampled, approximately 50% had been in operation for five years or more;
- The longer the home-based businesses had been established, the more interested they were in staying at home; and
- The longer the life of a home-based business, the higher the turnover generated.”

Peacock (1994a) reports that only 10% of the HBBs sampled in his 1994 study were less than a year old, while 57% had been in business for five years or more. These figures are in broad agreement with ABS (1999) figures and two earlier studies by Peacock in 1987 and 1990-1992 (Peacock 1994a). While many start out as ‘moonlighting’ or part-time operations, most HBBs involved in earlier studies report growth of their business (Hitech Marketing Services 1998; Peacock 1994a). The majority of HBB operators derive most of their income from their business (Hitech Marketing Services 1998; Houghton & CREEDA 1999).

Most HBBs tend to be microbusinesses with many of them employing only the business owner and possibly a spouse (Peacock 1994a). There is evidence that suggests that this continues to be the case in the present. The ABS (2001) reports that 69% of all HBBs are non-employing businesses, with a further 28% employing between 1 and 4 employees. One national study of microbusinesses suggests that they “act as the seedbed for entrepreneurial talent. In recent years, they have made the major contribution to employment growth. They are becoming the main source of employment for women, young Australians and employees affected by downsizing” (*Under The Microscope* 1998, px). While the rapid growth in the HBB sector seems to support this statement, there is a need for further research to confirm and clarify some of these trends. Such research is hampered by a lack of suitable databases of HBBs, a problem addressed later in this review.

Peacock (1994a) discovered that 42% of HBBs started out as part-time operations with a view of making the business fulltime. The most recent ABS data indicate that 66% of HBB operators work 35+ hours per week (ABS 2001). Similarly, Houghton & CREEDA (1999) report that 63% of HBB operators are working over 35 hours per week on their business, with 39% of all respondents working more than 50 hours per week. While this is lower than the percentage of fulltime operators found in the small business sector as a whole, it possibly reflects some of the different motivational factors that drive many HBB operators.

Financing of HBBs

A recurring observation in the literature is the low levels of financing associated with HBBs. 59% of respondents in Peacock's (1994b) study used less than \$5000 to start their HBB, while only 13% required more than \$20 000. Stanger (2000b) cites several Australian and overseas studies that describe this phenomenon, suggesting that the low level of setup and overhead costs almost certainly contribute to the low levels of finance required. Related to this is the observation that HBBs have lower gearing ratios because they predominantly use past savings to finance acquisition of assets and to meet startup costs (Peacock 1994b). Peacock (1994b) reports that 60% of respondents used only accumulated savings to finance their HBB, while 40% used some form of debt-financing, usually an overdraft facility or credit card. Again, this finding is consistently repeated in other studies both in Australia and overseas (see Stanger 2000b; Houghton & CREEDA 1999).

Size and Significance of the HBB Sector

Accurately determining the size of the HBB sector is somewhat problematic. The SME sector in Australia has always represented a large proportion of the total business market. Sheehan et al. (1977) noted that in 1969, 95% of all businesses were SMEs. This figure has not changed substantially in the last thirty years (ABS 2000). The ABS (2001) estimates that there are more than 1.1 million small private firms in Australia, accounting for 96% of all private sector businesses and employing more than half of the private sector business workforce (Morris & Brennan 2000; Schaper & Volery 2001). As a proportion of all private businesses, this ratio is comparable with other developed nations in the Asia-Pacific region (Schaper & Volery 2001).

According to the ABS, in November 1999 62% of all small businesses (those with less than 20 employees) were HBBs (ABS 2001). This amounted to some 615 500 small businesses across Australia, and represented an average annual increase of 4% per annum on the number of HBBs identified in February 1997 (ABS 1999). Houghton & CREEDA (1999) used these 1999 ABS figures to calculate that approximately 12% of Australian households host a HBB. This correlates closely with statistics from both Canada and the US where HBBs operate in 10% and 12% of households respectively (Peacock 1999). BSV (1996) also estimated that 12% of households operate a HBB based on two random telephone surveys of Victorian households in 1995. With the latest ABS figures reporting an average annual increase of 15% in the number of HBBs in operation (ABS 2001), it seems likely that the proportion of homes hosting a HBB is also increasing. Future studies are likely to provide further evidence that will clarify this issue.

Despite the apparent size of this sector, it remains difficult to characterise and identify HBBs (Houghton & CREEDA 1999). Peacock (1994b p70) notes that there "is no national or state government or private sector database of [HBBs]". This lack of a centralised database has contributed to the sector remaining unrecognised for a long time. Alongside this, Peacock (2000) reports that commentators in the early 1990s were dismissive of the size and importance of the sector, describing HBBs as "marginal" and "of little consequence" to regional, state and national economic welfare (Peacock 2000 p3). Such a view was clearly out of step with the awareness of the sector that was developing in other countries (Good & Levy 1992), and among a select group of Australian researchers (Peacock 1992).

More recently, however, there has been an accumulation of evidence pointing to the importance of HBBs to Australia's overall economic performance, and to the economic performance of identifiable geographic regions. A study of HBBs in the SE Region of Melbourne reports that almost 50% have been in existence for five years or more, and that 40% of these businesses have an annual turnover in excess of \$100 000 (Hitech Marketing Services 1998). In separate studies, Stanger (2000b) concludes that based on the magnitude of sales generated by HBBs, they cannot be considered to be a marginal economic activity. He reports both a positive relationship between age of the business and sales (Stanger 2000a), and a strongly positive relationship between sales and HBB profitability (Stanger 2000b). Profitability, in turn, is strongly related to HBB size.

Other recent studies show that micro-enterprises provide the greatest source of immediate future job creation (ABS 1997; DEWRSB 1998). Houghton and CREEDA (1999) report that 20% of respondents intend to create additional, paid employment in the next year, a finding that is consistent with other studies of microbusinesses, where typically 18-25% of such small businesses are looking to employ additional staff in the near future (Baines & Wheelock 1998). While most HBBs report either a history of growth (Peacock 1994b) or growth aspirations (Houghton & CREEDA 1999), not all intend to grow by increasing employment or moving away from the home base.

Problems in Researching HBBs

Researchers in the HBB sector have until recently typically encountered at least two recurring issues. The first of these, definitional problems, seems to be approaching some sort of resolution with an emerging consensus around the functional definition now being used by the ABS. This was discussed in a previous section of this paper.

The second problem seems likely to defy resolution for some years to come. Under existing arrangements in Australia, it is very difficult to quantify the HBB population. Peacock (1994b) comments on the lack of comprehensive databases at all levels of government and in the private sector. Clearly, the lack of such comprehensive databases affects both research into the sector, and the information available to governments on which they can base policies and interventions that might have an influence on HBBs. With only limited information about HBBs available, most researchers are left with little choice but to estimate the size of the population, with most estimates putting the size of the population at around 10-12% of all households (Houghton & CREEDA 1999; Hitech Marketing Services 1998; Peacock 2000; Conroy 1999). Conroy (1999) highlights inconsistencies in data collection methods, definitions used and the type of data collected to suggest that most surveys are likely to under-estimate the size of this population. However, without more comprehensive measures, researchers are thrown back onto ABS statistics as the basis for their estimations of the size of the population under study (for example, see Houghton & CREEDA 1999).

Sampling the HBB population is a related difficulty. Houghton & CREEDA (1999 p5) state that "home-based businesses . . . are one of the hardest parts of the small business sector to reach." For the purposes of research, sampling this population in a way that enables extrapolation to the whole population (or even a larger portion of it) becomes exceedingly difficult. Houghton and CREEDA distributed 20 000 survey questionnaires and received a response rate of only 4%. Yet this still represents the largest single sample of HBB respondents in Australia to date. A consequence of all this can be seen in Stanger's (2001) review of Australian literature on the use of training and assistance services, in which he notes that all nine Australian studies reviewed adopt convenience sampling. Researchers have little option but to use some sort of convenience sample with this population.

Conclusion

HBBs will continue to comprise a growing sector within the Australian economy for the foreseeable future. Researchers should persist with trying to locate HBBs and conduct research that will enhance our knowledge of the issues, dilemmas, and opportunities that are specific to this sector. In particular, qualitative studies have the capacity to enhance the richness of the information available.

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