

11. Urban home-based businesses: how distinct are the businesses and their owners?

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11.1 INTRODUCTION

Micro businesses, sole traders and the self-employed form the backbone of all economies. The numerical significance of micro businesses and increasing levels of self-employment in many countries, particularly since the great financial crisis of 2007/08, have been recognised in recent policy statements and publications (Hatfield 2015). What is less appreciated is how many of these micro businesses operate in, or from, their owner's home. 'Acacia Avenue' and its neighbouring streets are just as significant a location for business activity as an industrial estate – but they are typically invisible to the passer-by, or even the neighbour. The divide between home and work that was established in the factory era has well and truly broken down.

Home-based businesses (HBBs) comprise the self-employed and owner managers who work at or from home and do not have business premises outside their home. They may use their home as the base for their business while working mainly or partly outside their home, for example in the case of personal service businesses or consultants. As many of these businesses are unregistered, they are usually not captured in survey data or administrative data. Available figures are therefore estimates that have to be interpreted with caution. For example, Enterprise Nation (2014), a UK home-based business network, estimates that over half of all UK small businesses operate from home. This proportion is slightly lower at 47 per cent of all UK small and medium-sized enterprises in the UK Survey of Small- and Medium-sized Enterprises' Finances 2004 (Mason and Reuschke 2015). In the 2013 UK Labour Force Survey, 57 per cent of the self-employed in the UK worked from home (Mason and Reuschke 2015).

Existing academic research on home-based businesses in Global North economies has provided insights into the complex motivations for running a business from home, aspects of work–life balance and lived experiences (Myriel and Daly 2009; Newbery and Bosworth 2010; Tietze and Musson 2010; Vorley and Rodgers 2014). However, little attention has been paid to the geography of home-based businesses and how potential differences in characteristics and business operations are manifested across space. Mason et al. (2011) found that home-based businesses in the UK have a distinct geography, with the highest proportions in rural areas. Accordingly, academic interest in home-based businesses has often been linked with issues of rural economies (Newbery and Bosworth 2010).

Most economic activity is concentrated in urban areas, start-up rates are high in cities (Bosma and Sternberg 2014), and the creative industries and thus a sector that is highly project-based and dependent on a flexible force of self-employed workers are also urban in nature. One can therefore assume that home-based businesses are crucial not only for rural economies but also for urban economies. This chapter seeks to shed light on the characteristics of urban home-based businesses and their owners. It has three aims: first, to identify peculiarities of home-based businesses in urban areas; second, to test whether there exist ‘typical’ urban HBB entrepreneurs; and, third, to make recommendations as to how cities and national government can support home-based businesses.

The chapter proceeds with a discussion of the previous literature (section 11.2). Since the existing literature has hardly paid attention to potential urban–rural differences in home-based businesses, only some hypothetical assumptions about home-based businesses and urban areas are drawn. The empirical analysis draws on a quantitative study of members of the Federation of Small Businesses (FSB) in Scotland. Data and measurements are described in section 11.3 and the findings presented in section 11.4. Section 11.5 discusses the findings and draws conclusions for policy and future research.

11.2 PREVIOUS LITERATURE AND HYPOTHESES

Significant economic and social changes are driving the growth of home-based businesses in Global North countries. The first theme in the literature is the decrease in the significance of firm size and economies of scale owing to the availability of cheap, fast and ubiquitous information

and communication technology (ICT) and the flexibilisation of production. Powerful personal computers, open-source software and internet-based business tools (for example, Google Apps for Work, PayPal) have provided micro businesses with the power, scope and access formerly possessed only by large firms. These tools provide plenty of opportunities to outsource various parts of the production process (see Chapter 4 in this volume). This has encouraged small-scale manufacturing and specialised business services. The internet and electronic trading platforms in particular, along with secure money transfer mechanisms, have enabled micro businesses to serve geographically dispersed markets cost-efficiently (Daniel et al. 2014). Online office services and specialised business services such as telephone services allow frequent contact with clients without having commercial business premises or without clients noticing that they are not served from a ‘traditional’ office.

Second are changes in the organisation of work and labour markets. Large organisations are increasingly restructuring work around projects (Grabher 2002). This is resulting in a reduction in the numbers of permanent jobs and an increase in the use of self-employed workers, independent contractors and sub-contractors. ICT has enabled the self-employed and micro business owners to cooperate on projects with self-employed workers and firms at a distance. On the other hand, project-based work has reinforced geographic proximity. This is particularly true in the creative industries where – despite ICT – face-to-face contact has remained crucial, allowing for the exchange of tacit knowledge and generating new ideas, which is why the sector is highly concentrated in cities and within cities (Pratt 2008; Evans 2009).

Third, the literature suggests that home-based businesses have been boosted as a form of economic activity by those who have seen it as providing a flexible form of work (for example, the number of hours worked, the configuration of hours worked, the time periods worked, and the location of work) and an enhanced quality of life, which people are increasingly willing to trade off against financial return (Loscocco and Smith-Hunter 2004; Walker et al. 2008). This places home-based businesses within the wider social and demographic trends of changing gender relations and population ageing (Kautonen 2008; Lewis and Walker 2011).

This focus in the literature on ‘new’ trends in economic activity and work should deflect attention from the fact that home-based businesses have a long tradition in some sectors and occupations such as farming, market sellers and craft occupations (Felstead et al. 2005). It appears that these ‘old’ and still existing types of home-based businesses are more associated with rural and (small) town economies. ‘New’ home-based

business types in the creative industries and advanced business services can be expected to show preferences for urban areas, as the sector benefits from externalities provided by cities (hypothesis 1).

Mason et al. (2011) found that the proportion of home-based businesses is higher in rural areas than in urban areas. However, on closer inspection it is residential areas in suburbs that had the highest proportion of home-based businesses. The proportion of businesses run from the owners' home was lowest in inner city areas, which is not surprising, since 'residential' uses are generally low in these areas. Suburbs in urban or metropolitan areas therefore seem to be most relevant as HBB locations.

Home-based businesses have been studied for a variety of reasons. The main themes in the literature relate to understanding the drivers of economic variety in the internet age (van Gelderen and Sayers 2008), online businesses (Phillips 2002), reconciliation of family and work (Myriel and Daly 2009), changes in rural economies (Newbery and Bosworth 2010) and industrial or occupational changes (Sanchez Sol-dressen et al. 1998). Study samples therefore vary greatly, and the characteristics of the businesses and the owners and their motivations for running the business from home differ. This variety in research designs notwithstanding, motivations for the home as business location or base are complex, reflecting the different drivers of HBBs generally discussed in the literature. Thus, for example, Mason et al. (2011, p. 630) present a list of 12 reasons for starting a business from home for a large sample of 5675 UK HBBs, while Vorley and Rodgers (2014) distinguish between 15 incidents initiating the formation of a home-based business and eight reasons for the home as premises in their sample of 21 home-based entrepreneurs in the creative industries in the Sheffield city region. Crucially, motivations and triggers relate both to the business and its nature and to the personal and work-life circumstances of the owner. It is likely that these broad sets of factors leading to starting and running a business from home will be influenced by geography.

Cost minimisation is an often documented motivation for home-based businesses (Mason et al. 2011; Daniel et al. 2014; Vorley and Rodgers 2014). Using the home as business premises is cost-effective and reduces financial risks, particularly at the start-up stage. Costs for commercial premises are higher in urban areas than rural areas, so that cost minimisation is likely to be a significant factor in home-based business start-ups in cities (hypothesis 2).

Convenience is another reason for starting and running a business from a home location that features in the existing literature. In the case of the creative industry study in an urban setting by Vorley and Rodgers (2014)

convenience was used in the context of commuting. The home was either near to existing clients or centrally located for travel to clients. Avoiding an urban working environment and congestion was also described as part of the ‘convenient nature’ of a home location in the rural study by Newbery and Bosworth (2010, p. 186). Convenience may therefore be relevant in both urban and rural settings of home-based businesses, although there seems to be a common thread of optimising or avoiding urban commuting attached to it (hypothesis 3).

There has been a great interest in home-based businesses from a gender perspective (Walker et al. 2008). A new literature on ‘mumpreneurship’ has emerged that defines ‘mumpreneurs’ as those who develop business ideas and set up a business around family responsibilities (see Chapter 6 in this volume). This literature is not confined to home-based businesses but also covers self-employed mothers who operate their business from home in order to maximise their flexibility, who have been discovered as an important field of research (Duberley and Carrigan 2012). Child care responsibility and the reconciliation of family life and worklife are the primary motivations of these women for setting up their own businesses from home. Existing studies have not paid attention to potential urban–rural differences in women home-based businesses, perhaps because ‘mumpreneurs’ are relevant in both area types (hypothesis 4). The literature comes to very different conclusions with respect to the ‘success’ and growth ambitions of women HBB entrepreneurs. Some conclude that these businesses operate at the margins and struggle to survive (Thompson et al. 2009), while others found that home-based women owners were highly educated and made large sales (Loscocco and Smith-Hunter 2004).

Home-based businesses are often regarded as ‘lifestyle’ businesses through which the owner translates a ‘hobby’ into a business idea (Newbery and Bosworth 2010). This view is often connected with rural businesses, particularly hospitality businesses, and urban–rural migration (Reuschke 2015). It can therefore be expected that these ‘hobby’ or ‘lifestyle’ businesses with generally low growth aspirations are more rural than urban in nature (hypothesis 5).

11.3 DATA AND MEASUREMENTS

This study draws on data from a survey of the 12 000 members of the Federation of Small Businesses in Scotland with email addresses in November 2014. Business owners were invited via email to take part in

the online survey. The total response was 1128 businesses (both home-based and non-home-based), which corresponds to a response rate of 9 per cent. Of these responses 999 were usable.

This was the first FSB survey that was designed as a home-based business study. The FSB 2005/06 biennial survey of its members across the UK covered a variety of topics and captured the type of business premises, including the home. The paper by Mason et al. (2011) draws on this survey. However, only three specific questions for home-based businesses were included in this survey. The FSB in Scotland sought to better understand the home-based business sector and thus commissioned a specific home-based business study of its members.

Of the usable responses, 391 (or 39 per cent) could be identified as home-based businesses. These were defined using the question ‘What type of premises do you operate from?’ and the response item ‘home or external premises linked to home’. The remaining response items were: ‘mobile (e.g. van)’, ‘retail premises’, ‘factory/workshop or business unit’ and ‘office’. In addition, an open text category was provided, and those who wrote that they use their home as a base but work mostly at their clients’ premises were coded as home-based businesses.

The study design has the great advantage of comparative analysis, as the sample contains home-based businesses and non-home-based businesses. The sample is also large enough to compare urban HBBs with rural HBBs. However, there are also limitations.

The FSB is the largest UK lobby group for small businesses. It is a direct membership organisation with a bias towards ‘bigger’ small businesses. According to its latest membership survey 2013/14, 70 per cent of all Scottish FSB members are registered for value added tax (VAT) (Federation of Small Businesses 2014, p. 46), while the Office for National Statistics reports that only 43 per cent of UK private sector businesses are VAT or PAYE¹ registered (BIS 2014, p. 8). While 47 per cent of FSB members in Scotland are limited companies, only 29 per cent of UK private sector businesses were companies. Hence, micro businesses and sole proprietors are underrepresented in the FSB, even though the FSB markets itself as the ‘voice’ for the self-employed and owners of small businesses.² This would not be a problem for this study if there is no correlation between urban or rural area and FSB membership of home-based businesses. Enterprise Nation, which is a UK small business network that operates online and has mostly home-based businesses as its members, reported in its member-based *Home Business Report* that the two industries dominating the sector are creative industries and business services (Enterprise Nation 2014). These sectors are very likely to be overrepresented in online networks such as Enterprise

Nation and underrepresented in membership organisations that operate in a more 'traditional' way such as the FSB, and there may be a geographical bias attached to the type of business membership.

Compared to all UK members, the Scottish branch of the FSB has a higher proportion of members in the sectors 'hotel, catering, leisure' and 'retail', while the proportion of businesses in 'business services' is lower (Federation of Small Businesses 2014, p. 47). This is partly a reflection of the Scottish economy and its strong tourism sector. However, it may also be that tourism-related businesses are more likely to be members of the FSB. This should be not a problem for this study, though, as long as the industry bias is equally spread across home-based businesses and non-home-based business members in urban and rural areas.

Business owners were asked in which local authority or council area their business is located. A list of the 32 official local authority and council areas was used. The Scottish Government's six-fold urban/rural classification was then used to distinguish between urban and rural businesses (Scottish Government 2014). Local authorities were classified as 'urban' if the population lives mainly (over 50 per cent) in 'large urban' or 'other urban' areas. Local authorities that fall into the other four categories (accessible small towns, remote small towns, accessible rural areas, remote rural areas) were classified in this analysis as rural. In addition, participants were asked to assess in which type of area their business is located using eight items: city centre, inner city area around the city area, older city suburb, newer city suburb in outer part of the city, large town, small town, village and rural/remote.

In the study sample, 162 HBBs are located in urban areas and 226 are located in rural areas.³ The comparison group of businesses that are not home-based include 276 rural businesses and 330 urban businesses. General questions on the business and the owner were posed to both types of business so that differences between home-based businesses and businesses with commercial premises or mobile businesses could be investigated. In addition, home-based business owners were asked specific questions, including why they are based in the home and what advantages and disadvantages they see in running the business from home.

11.4 DISTINCTNESS OF URBAN HOME-BASED BUSINESSES IN SCOTLAND

Distinct characteristics of urban home-based businesses were identified through, first, comparing urban home-based businesses with urban

businesses that are not home-based and, second, comparing urban home-based businesses with rural home-based businesses. Characteristics that are compared in the following subsections relate to characteristics of the business, characteristics of the owner, the home of the owner and the use of non-home workspaces, the motivations for running the business from home and the perceived advantages and disadvantages of the home as a business location. These will now be presented in turn.

11.4.1 Characteristics of the Business

A first peculiarity of the urban home-based business sector lies in its industry composition (Table 11.1). There is a high concentration amongst urban home-based businesses in business services and creative services compared to urban businesses that are not home-based. In total, the largest proportion of urban home-based businesses falls into the business service sector. This percentage share is almost three times higher than for urban non-home-based businesses. The proportion of businesses in creative services is also twice as high for urban businesses that are home-based compared to those that operate from commercial premises or are mobile businesses. Given the significance of business and creative services, home-based businesses in urban economies serve predominantly other businesses if the tourism and entertainment sector is excluded.

However, in the home-based business sector creative services are not concentrated in urban areas if only businesses run by women are concerned. Creative services are the second most significant sector of women HBBs in rural Scotland, and they score third amongst urban women HBBs. This is somewhat surprising as it was expected from the literature that creative services concentrate in cities, as externalities derived from agglomeration effects are said to be high in this sector.

There is also a significant difference in the industry composition of home-based businesses by gender in relation to the tourism, hotel and entertainment sector. Just over one-fifth of urban HBBs run by women fall into this sector. So for women HBBs, this sector is the most significant industry in both urban and rural areas. For men HBBs in urban areas business services are quantitatively more significant, followed by the tourism etc. sector and creative services, which have equal shares.

Home-based businesses both in urban and rural areas are underrepresented in retailing and manufacturing. In urban areas in particular is the difference in retailing between the non-home-based and the home-based economy striking.

Table 11.1 Industry composition of businesses by home location, urban/rural classification and gender

Industry	Home-based businesses						Urban non-home-based businesses					
	Urban			Rural			Urban			Rural		
	All %	Men %	Women %	All %	Men %	Women %	All %	Men %	Women %	All %	Men %	Women %
Business services	17.3	17.5	16.1	8.0	7.7	7.2	6.7	6.0	8.3	6.7	6.0	8.3
Creative services	11.1	11.3	11.3	6.6	4.5	11.6	4.9	5.0	4.6	4.9	5.0	4.6
Hotel, catering, leisure, tourism, entertainment	14.8	11.3	21.0	30.5	23.7	46.4	9.4	9.6	9.2	9.4	9.6	9.2
Retail	4.9	*	*	4.0	3.2	*	22.5	22.5	22.0	22.5	22.5	22.0
Manufacturing	3.7	*	*	4.4	5.1	*	10.9	11.0	11.0	10.9	11.0	11.0
Construction	6.8	10.3	*	7.1	8.3	*	7.6	9.2	4.6	7.6	9.2	4.6
N	162	97	62	226	156	69	329	218	109	329	218	109

Notes:

Only the most relevant industries are displayed. The percentage share therefore does not add up to 100%.
 * Fewer than five cases and therefore not displayed.

Sources: FSB Scotland survey (2014); authors' compilation.

Home-based businesses are in general smaller than non-home-based businesses. Both in urban areas and rural areas the home-based business sector employs fewer staff and reports less turnover than other businesses. The majority of HBBs report a turnover of less than £100 000 for the most recent financial year (73 per cent in both urban and rural areas). Home-based businesses in urban areas are significantly smaller than their counterparts in rural areas in terms of staff. Two in five urban HBBs (41 per cent) do not employ any staff, compared to 31 per cent for rural HBBs. A further distinctiveness of home-based businesses in urban areas relates to their legal status. Almost half of all urban home-based businesses (48 per cent) are run by sole proprietors, whereas non-HBBs are mostly companies (64 per cent). In rural economies, home-based businesses do not differ from other businesses in this respect. Here a considerable proportion are run in partnership, that is, as family businesses, regardless of whether they are home-based or not.

Urban home-based businesses are more embedded in their local and regional environment than non-home-based businesses in terms of the location of the majority of their suppliers. One-quarter of urban HBBs report that the majority of their suppliers are based locally, and another 37 per cent have the majority of their suppliers in the region or within Scotland (13 per cent and 31 per cent respectively for non-home-based businesses in urban areas). However, this is also true for rural home-based businesses. Thus home-based businesses in general appear particularly beneficial for local and regional economies through the supplier networks.

No difference exists between home-based and non-home-based businesses in urban areas with respect to the location of most of the sales if only businesses outside the tourism and entertainment sector are considered. In both cases businesses sell mostly locally (29 per cent versus 32 per cent) and regionally or within Scotland (41 per cent versus 38 per cent). Businesses in the tourism and entertainment sector more often derive most of their sales UK-wide. The same is true for home-based businesses in rural areas, which have a stronger basis in the tourism sector (Table 11.1) and therefore more often sell UK-wide than urban home-based businesses.

11.4.2 Characteristics of the Owner

The owners of home-based businesses in urban areas also exhibit distinct characteristics. In Table 11.2, the findings are displayed from logistic regression analysis, where the dependent variable indicates whether the business is home-based (value=1) or not home-based (value=0). Two separate models for urban areas and rural areas are displayed. Independent

variables used in these models are age and gender of the owner, whether the owner has a disability, and whether dependent children (younger than 18 years old) live in the owner's household. In addition, an interaction term between gender and dependent children in the households is included which measures whether home-based business owners are more likely to be women with dependent children than men with no dependent children. Each result is displayed as an odds ratio, which is the number by which one would multiply the odds of group 1 of the outcome variable (i.e. home-based businesses) for each one-unit increase while holding all other variables constant. Thus an odds ratio of 1 means that there is no difference between home-based businesses owners and non-home-based business owners, while a value greater (smaller) than 1 indicates that the characteristic applies more often (less often) to home-based business owners than non-home-based business owners, holding all other effects constant.

Table 11.2 Socio-demographic characteristics of home-based business owners versus non-home-based business owners by urban–rural area

Independent variables	Urban areas		Rural areas	
	OR	SE	OR	SE
<i>Age of owner (omitted: 16–40):</i>				
41–55	0.930	(0.302)	1.445	(0.556)
56–64	1.372	(0.484)	1.939*	(0.790)
65+	0.908	(0.378)	1.602	(0.709)
Gender (woman)	1.053	(0.260)	0.864	(0.205)
Disability (no)	0.579**	(0.164)	1.427	(0.387)
Dependent child in household (yes)	0.600	(0.195)	0.877	(0.232)
Interaction term: woman with dependent child	2.170*	(1.010)	1.224	(0.534)
N	481		497	
Log likelihood	–295.486		–338.320	
LR Chi ² (7)	13.69**		6.24	

Notes:

OR: odds ratio; SE: standard error; LR: likelihood-ratio.

Significance level: ** 5%; * 10%.

Sources: FSB Scotland survey (2014); authors' compilation.

This multivariate analysis shows that – controlled for age effects – owners of home-based businesses in urban areas are almost twice as likely as business owners with a non-home-based business to have a disability or long-term health condition. In the sample, 18 per cent of home-based business owners in urban areas have a disability or long-term health condition compared to 11 per cent of other business owners. There is no correlation between the type of business owner and a disability or long-term health condition – controlled for age effects – in rural areas.

A second distinct socio-demographic characteristic of home-based business owners in urban areas relates to gender and household composition. There are no gender differences between home-based and non-home-based business owners both in urban and in rural areas. In both types of businesses women are underrepresented. However, in urban areas, women with dependent children are twice as likely to run a business from home as from commercial premises. In rural areas, in contrast, home-based businesses are no more likely to be run by women with dependent children in the household than men without children. This relates to the fact that in rural areas home-based business owners are more often between 56 and 64 years old than other business owners. There are no significant age differences between home-based and non-home-based business owners in urban areas.

11.4.3 Home, Location of the Business and Non-home Workspaces

There are no significant differences in the characteristics of the home in terms of housing tenure and house type between owners of home-based businesses and non-home-based businesses in urban areas. The largest proportion of home-based business owners live in a detached house (48 per cent versus 45 per cent), 33 per cent live in semi-detached or terraced houses (versus 33 per cent) and 15 per cent live in flats (versus 19 per cent). The vast majority are homeowners: 40 per cent own their home outright (versus 33 per cent) and 50 per cent are owners with a mortgage (versus 57 per cent). Only 8 per cent are private renters (versus 8 per cent amongst non-HBB owners). In Scotland as a whole in 2014, 62 per cent of the housing stock was owner-occupied and 15 per cent was privately rented (Beckett 2014). Private renting in Scotland is higher in rural areas than in urban areas. However, there is a clear indication that HBB entrepreneurs in urban areas are overrepresented in the owner-occupied housing stock.

Table 11.3 compares the area types of where the business is located in total and separately for male and female business owners. The business location is the same as the residential location for home-based business

owners and is therefore more similar to residential patterns than the location of the business of other small business owners. The location of home-based businesses and non-home-based businesses is significantly different for businesses run by men but does not differ significantly for women businesses. The proportion of women HBBs is particularly high in older city suburbs.

Table 11.3 Type of area in which urban businesses are located by type of business and gender

Type of area	Total – men and women businesses		Men businesses		Women businesses	
	HBB	Non-HBB	HBB	Non-HBB	HBB	Non-HBB
	%	%	%	%	%	%
City centre	5.0	14.6	3.1	15.1	8.2	13.8
Inner city area around the city area	10.6	16.7	10.3	14.7	11.5	21.1
Older city suburb	16.8	11.9	14.4	11.0	21.3	11.9
Newer city suburb in outer part of city	5.0	3.0	7.2	3.7	1.6	1.8
Outside city	62.7	53.8	64.9	55.5	57.4	51.4
N	161	329	97	218	61	109
p-value	0.000		0.000		0.185	

Note: HBB: home-based business; non-HBB: business in commercial premises or mobile business.

Sources: FSB Scotland survey (2014); authors' compilation.

Home-based business owners were asked whether they use informal spaces (for example, cafés or hotel lobbies) or formal workspaces (such as work hubs or business centres) for their businesses. Fewer than half of home-based business owners make use of informal non-home workspaces, and there is no significant difference in the use of these spaces between urban and rural businesses. The use of formal non-home spaces is even lower, with just 11 per cent in urban areas and 9 per cent in rural areas. In rural areas there was little interest in using such space even it was available close by. Here the majority would not use such space if it was available (59 per cent). There is greater interest or demand for

formal workspace in urban areas. Here the vast majority (90 per cent) would possibly or very likely use such space if it was available close by.

11.4.4 Motivations, Advantages and Disadvantages

Motivations for running the business from home were measured using 19 items drawn from the literature plus an open category. Respondents were then asked about the major advantages (10 items plus open category) and major disadvantages (11 items plus open category) of running their businesses from home. Respondents could tick as many items as applied. In total, over 1400 reasons for running the business from home were given, an average of over 3.6 reasons per respondent (urban and rural home-based businesses together), confirming that the decision to operate the business from home is based on several considerations.

Motivations for running the business from home are displayed in Table 11.4 by urban–rural location, gender and whether dependent children live in the owner’s household. The most frequently reported reasons for running the business from home in both locations are ‘to reduce costs’, ‘convenience’ and the ‘nature of the business’. However, the ranking is strikingly different for women with dependent children in urban areas. Child care scores second highest amongst them, after the nature of the business and before convenience and reducing costs. This corresponds with an increased relevance of work–life balance. Half of the women with dependent children in rural areas also report that child care is a reason for running the business from home, but the nature of the business, convenience and reducing costs are more frequently mentioned.

For women HBBs, reducing costs is of significantly greater importance in urban areas than rural areas, while the greatest relevance of cost savings is reported by men with dependent children in urban areas (Table 11.5). It was expected that cost savings would be more relevant for running a business from home. However, it appears that this is not because of the higher costs of commercial premises but may instead be a result of higher living costs (including child care costs) in urban areas.

Women in urban areas also run businesses from home more often than their counterparts in rural areas because it is convenient. This correlates highly with the motivation to reduce costs and thus to how the business is operated. Flexible working hours also play a significant role, as these are of greater value for women in urban areas than their counterparts in rural areas (Table 11.5). ‘Convenience’ for women in rural areas is correlated with ‘avoiding commuting’ as strongly as with ‘reducing costs’ and also to a lesser extent with ‘work–life balance’ and ‘low-risk start’. In rural areas ‘convenience’ is therefore for women more a mix of personal and

Table 11.4 Most important reasons for running the business from home by urban–rural location, gender and child in household

Motivation	Urban area				Rural area			
	Men		Women		Men		Women	
	All	With child	All	With child	All	With child	All	With child
	%	%	%	%	%	%	%	%
Reduce costs	63.9	94.4	57.4	55.6	58.4	61.4	39.7	55.6
Convenience	63.9	77.8	60.7	61.1	63.6	65.9	48.5	55.6
Nature of the business	61.9	61.1	70.5	72.2	67.5	65.9	57.4	66.7
Work–life balance	36.1	27.8	31.1	44.4	29.2	31.8	25.0	33.3
High costs of commercial premises	35.1	44.4	32.8	33.3	29.9	29.5	25.0	38.9
Avoid commute	23.7	*	24.6	*	31.2	34.1	23.5	38.9
Low-risk start	16.5	*	11.5	-	10.4	*	22.1	27.8
Accommodate family needs	10.3	*	16.4	27.8	12.3	25.0	11.8	33.3
Child care	5.2	*	23.0	66.7	7.8	20.5	14.7	50.0
Started as hobby	6.2	*	6.6	*	9.1	*	16.2	*
Business included living premises	6.2	*	11.5	*	11.7	*	26.5	*
N	97	18	61	18	154	44	68	18

Notes:

Does not add up to 100 per cent, as categories with few counts are not displayed. Percentage share refers to number of respondents.

* Fewer than five cases and therefore not displayed.

Sources: FSB Scotland survey (2014); authors' compilation.

business-related issues. Particularly with a child, women in rural areas see no commuting as a major advantage of running a business from home (Table 11.5). A 'low-risk start' also applies to a noticeable proportion of women in rural areas but is of little relevance for women in urban areas (Table 11.4).

Table 11.5 Most relevant major advantages of running the business from home by urban–rural location, gender and child in household

Motivation	Urban area				Rural area			
	Men		Women		Men		Women	
	All	With child	All	With child	All	With child	All	With child
	%	%	%	%	%	%	%	%
Flexible working hours	70.8	94.1	80.3	88.9	69.7	68.2	68.2	77.8
No costs for premises	67.7	94.1	68.9	61.1	61.2	59.1	54.5	66.7
Low costs	63.5	76.5	62.3	72.2	60.5	59.1	37.9	50.0
No commute	60.4	64.7	62.3	44.4	54.6	68.2	62.1	55.6
Suitable workspace	49.0	41.2	49.2	33.3	53.9	56.8	47.0	33.3
Suitable immediate environment	44.8	41.2	50.8	33.3	44.7	50.0	54.4	50.0
Close to family or partner	34.4	58.8	57.4	88.9	48.7	68.2	48.5	72.2
Easier	36.5	41.2	34.4	27.8	43.4	50.0	34.8	27.8
N	96	17	61	18	152	44	68	18

Notes:

Does not add up to 100 per cent, as categories with few counts are not displayed. Percentage share refers to number of respondents.

* Fewer than five cases and therefore not displayed.

Sources: FSB Scotland survey (2014); authors' compilation.

The nature of the business was most often reported as a reason for running the business from home by business owners in business services, creative services, real estate and health and social work, that is, industries that are concentrated in urban areas (see Table 11.1). However, this also applies to farm businesses, which is why there is no clear urban–rural pattern with respect to the nature of the business as a reason for running the business from home (Table 11.4).

‘Hobby’ home-based businesses are virtually absent in urban areas. There is only a noticeable proportion of women in rural areas for whom this business label may apply. However, more relevant in rural areas is the fact that the business is often part of the living premises (e.g. bed and breakfast).

There are also differences in the perception of disadvantages between urban and rural home-based businesses (Table 11.6). In urban areas, women more often report the lack of meeting space as a problem, while the image of the immediate environment is a problem particularly seen by women home-based businesses in rural areas. Both men and women are more likely to see the blurring of boundaries between the business and the home as a problem when they live in rural areas. Reasons are likely to relate to the use of space in the house and running the business in partnership.

Table 11.6 Most relevant major disadvantages of running the business from home by urban–rural location, gender and child in household

Motivation	Urban area				Rural area			
	Men		Women		Men		Women	
	All	With child	All	With child	All	With child	All	With child
	%	%	%	%	%	%	%	%
Limited or no dedicated working space	21.9	52.9	27.9	33.3	21.1	22.7	21.2	*
Difficulty in employing staff	11.5	*	18.0	*	11.8	13.6	16.7	*
No meeting space	16.7	*	24.6	33.3	17.1	25.0	13.6	*
Difficulties with inviting customers	18.8	29.4	16.4	*	20.4	18.2	24.2	33.3
Image of immediate environment	6.3	*	*	*	5.3	*	16.7	*
Isolation	19.8	*	24.6	*	19.1	22.7	24.2	*
Long working hours	37.5	47.1	41.0	44.4	44.1	43.2	43.9	38.9
Interruption through family	21.9	47.1	41.0	55.6	32.9	45.5	31.8	50.0
No boundaries between family and work	38.5	35.3	50.8	55.6	52.0	50.0	63.6	66.7
N	96	17	61	18	152	44	66	18

Notes:

Does not add up to 100 per cent, as advantages with few counts are not displayed. Percentage share refers to number of respondents.

* Fewer than five cases and therefore not displayed.

Sources: FSB Scotland survey (2014); authors' compilation.

In order to disentangle the complexity of motivations that drive home-based businesses and to test further whether home-based businesses in urban areas are driven by distinctive motivations, the patterns of reasons for running a business from home were identified in the large set of single reasons (19 items; see Table 11.4 and Appendix 11.1) using principal component analysis. This method is based on the correlation matrix of all items used to measure motivations for running the business from home. The factors or components were rotated using the varimax rotation method with Kaiser normalisation. These factors were then used in a hierarchical cluster analysis to identify groups with similar motivational patterns based on their factor values (factor loadings) (Appendix 11.2). This clustering method is most appropriate for small samples, in this case 387 observations. As linkage method the Ward method was applied, which is based on the total sum of squares within clusters and is most appropriate for deriving equally sized clusters. As similarity/dissimilarity measure, the squared Euclidean distance was used, which is typically recommended for the Ward method (Tagg 2011). Significant group characteristics including whether these groups predominantly live in urban or rural areas were then identified by comparing them with other home-based businesses using descriptive and multivariate statistics.

Seven factors or dimensions can be identified in the 19 motivation items for running the business from home. These can be summarised as motivations related to commuting, the business nature and costs aspects, temporary use/no alternative, family issues, residential choice, own disability or care, and low risk/hobby choice (see Appendix 11.1). Based on these motivational factors or dimensions, three groups of home-based business entrepreneurs with distinct motivations and characteristics can be identified (see Appendix 11.2). These are empirically relevant even though their numbers in the study sample are low and for the largest proportion of home-based business entrepreneurs no patterns in their motivation for running the business from home are apparent.

The first distinct group of business owners run the business from home mainly for family-related reasons. These businesses are significantly more often run by women, 41- to 55-year-olds and people with dependent children. This group therefore fits well with the ‘mumpreneur’ business type used in the existing literature (see Chapter 6 in this volume). However, there is no correlation between this family type and an urban–rural geography. Women (with and without dependent children) of this business type are distributed fairly equally across urban and rural areas. It is striking that a higher proportion of these businesses than home-based businesses on average had increased their turnover in the previous two years, which contradicts the view that ‘mumpreneur’

businesses are of marginal relevance in terms of turnover and value added (Thompson et al. 2009).

The second distinct group of business owners run the business from home because of their own illness or disability or care of an elderly or disabled person. After controlling for age, this type of home-based business owner is more likely to be located in urban areas than rural Scotland, which confirms the earlier finding that urban HBB owners are more likely to have a disability or long-term health condition. These businesses are 'smaller' than the average home-based business in terms of turnover and staff, the local embeddedness in terms of location of suppliers and geography of sales is low, the business is almost always set up in the existing home and run as a sole proprietorship or limited company (none in partnership), and it is often run part time. This disability or care type makes virtually no use of external workspaces even though they are more likely to report lack of meeting space and isolation as disadvantages.

The third distinct group of business owners run the business from home on a temporary basis owing to lack of alternative business premises. They are more often than other home-based businesses located in rural areas. The businesses as well as the business owners are significantly younger than other home-based businesses and their owners respectively. Businesses in this group are most likely to move out of the home in the near future, and (nearby) cities may be able to attract these businesses.

11.5 DISCUSSION AND CONCLUSIONS

The empirical findings drawn from a survey of the members of the Federation of Small Businesses in Scotland clearly show that urban home-based businesses possess distinct characteristics and motivations. In summary, urban home-based businesses are concentrated in business services and creative services, as could be expected from the literature on agglomeration effects and the creative industries (hypothesis 1). However, women home-based businesses in urban areas often operate in the tourism, hotel and entertainment sector, while in rural areas women home-based businesses also often provide creative services. This cannot be explained by the existing economic literature. Special characteristics of the Scottish economy may be in place here (significance of the tourism sector, remoteness, in-migration for business start-up reasons).

In urban economies home-based businesses differ substantially from businesses that are not home-based in that these are predominantly sole

traders. This indicator of 'being small' notwithstanding, a significant proportion of home-based businesses derive their sales regionally and nationally, and urban economies benefit from the local supplier network of home-based businesses.

Home-based business owners in urban areas are more likely to have a disability or a long-term health condition and are more likely to be women with dependent children. Running the business because of one's own disability or health condition or care of other persons is most highly associated with an 'urban' home-based business type. This is a new finding that has not featured in the existing literature, presumably because studies have focused more on family and gender issues. Moreover, this group of entrepreneurs may be more difficult to reach with qualitative (snowball) approaches.

'Mumpreneurs' whose primary business motivation is balancing child care and work are not more likely to live in urban areas than rural areas, which confirms hypothesis 4. Mothers run a home-based business in urban areas more because of convenience and cost considerations and not primarily because of the children. Women HBBs show a higher concentration in older city suburbs, which is a significant finding that could not be investigated further in this study. Previous gender research in economic geography and sociology has drawn attention to the effects of suburban living on female employment (Hanson and Pratt 1995; Frank 2003). Future research that investigates women home-based businesses in relation to suburban locations may shed more light on the complex interrelationships between the residential and employment choices of women.

Cost saving aspects and convenience are of primary importance for running a business from home in both locations – urban and rural. Even though these aspects do not constitute a unique 'urban type' of home-based business (hypotheses 2 and 3), cost savings are found to be of particular importance for home-based businesses in urban areas run by women and men with children. However, motivations behind cost minimisation are little associated with reducing financial risks as put forward in the existing literature (Daniel et al. 2014) and seem to be more a function of high living costs in urban areas. Commuting is clearly an issue for home-based business entrepreneurs in this study in both urban and rural areas. Findings support the hypothesis that convenience and avoiding a commute are related in rural areas (hypothesis 3).

Hobby or lifestyle businesses hardly exist in this study sample, but the few that do are more rural than urban, confirming hypothesis 5. Hobby businesses may be less likely to be a member of the Federation of Small

Businesses, so this study cannot draw general conclusions about the (ir-)relevance of hobby-driven home-based businesses.

All in all, home-based businesses are diverse, with distinct sub-groups having distinct needs. For policymakers it is therefore important not to adopt a 'one size fits all' approach. One way in which cities and national governments can take home-based businesses seriously, as well as enhancing their understanding of such businesses, is to improve the quality and quantity of data on the sector. Moreover, each city or local authority could produce a guide to running a business from home that details the local and national rules and regulations that apply to home-based businesses, practical advice from existing home-based business owners, and information on sources of advice and networking. A good example is the *Home-based Business Guide* produced by the City of Ottawa, Canada.⁴

Cities have business environments that are favourable for home-based businesses, notably their business support infrastructure including fast broadband. This potential is valuable for attracting not only large employers but also micro businesses from rural areas. Some perceived disadvantages of running the business from home relate to networking (isolation) and the lack of meeting space and can thus be tackled by cities or local authorities. Fostering networking of home-based businesses can rely only to a certain extent on formal workspaces such as work hubs and business centres. The actual take-up of these spaces is surprisingly low in this study sample, but there is a latent interest or demand for these spaces in cities. The recent investment of cities in Scotland in co-working spaces therefore seems appropriate for supporting home-based businesses (Reuschke and Maclellan 2014). However, particularly business owners who are limited in their spatial mobility cannot be reached by this infrastructure. Here online communities and an internet-based support infrastructure are more promising tools of local economic development. There may also be a mismatch between where co-working spaces are located and where home-based business owners live, which could explain why women in urban areas often report that the lack of meeting spaces is a problem for their business. Research is needed on whether there is higher demand for formal workspaces in suburban locations than inner urban areas.

The low proportion of home-based businesses that operate (in both urban and rural areas) from rented accommodation is striking. This may reflect socio-economic differences in entrepreneurial activity. However, it might also suggest that, for a significant proportion of the population, access to enterprise through home-based business may be prevented on account of housing tenure. This issue needs further investigation to

explore whether the rental agreements of both private and social landlords prevent businesses being operated from their properties. It is strongly recommended that standard tenancy agreements for both private and social housing are revised to allow home-based businesses.

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NOTES

1. Businesses with employees have to register with PAYE (pay-as-you-earn).
2. See <http://www.fsb.org.uk/about>.
3. A classification into urban and rural location was not possible for three HBBs.
4. A download is available from this website: <http://ottawa.ca/en/business/tools-and-resource-services/publications/ottawa-home-based-business-guide>.

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APPENDIX 11.1 FACTORS OR DIMENSIONS DRIVING HOME-BASED BUSINESSES

	Identified factors						
	1	2	3	4	5	6	7
Reduce carbon footprint	.692	-.007	.032	.077	-.116	-.025	-.016
Work-life balance	.674	-.001	-.059	.237	.216	-.026	.024
Avoid commute	.552	.221	.085	.162	.349	.112	-.081
Convenience	.493	.473	.014	-.006	.192	.119	.110
Reduce costs	.469	.553	.132	-.102	.007	.081	.143
Better infrastructure	.352	.148	-.253	-.033	-.465	-.160	-.089
High cost of commercial premises	.339	.391	.490	.021	-.086	.078	.073
Low risk start	.315	.085	.291	-.013	-.211	-.076	.578
Accommodate family needs	.178	.016	-.039	.752	.018	.187	.109
Flexible in choice where to live	.149	.095	-.060	.013	.668	-.005	-.056
Childcare	.097	.083	.042	.816	-.011	-.097	-.015
My illness/disability	.057	-.137	-.116	-.057	.040	.744	.232
Work at home in previous job	.056	.037	-.086	-.025	.561	-.128	.009
Temporary measure	.024	-.020	.668	.021	-.127	-.116	.103
Nature of business	.003	.712	-.301	.112	-.051	-.104	-.025
Business included living premises	-.003	.761	-.147	-.065	-.122	.010	-.053
Care of elderly/disabled family members	-.019	.145	.043	.150	-.174	.693	-.254
Lack of alternative commercial premises	-.05	-.027	.716	-.019	.067	.021	-.111
Started as hobby and grew	-.135	.085	-.108	.101	.075	.058	.804

Notes: Extraction method: principal component analysis; rotation method: varimax with Kaiser normalization; n = 387 businesses.

Source: Mason and Reuschke (2015, p. 52).

APPENDIX 11.2 CLASSIFICATION OF HOME-BASED
BUSINESSES ACCORDING TO MOTIVATIONAL
FACTORS, FACTOR LOADINGS

Clusters	Identified factors	Mean	Std. Deviation
1	Commute – Factor 1	0.113	1.101
	Business nature/costs – Factor 2	0.262	0.615
	Temporary – Factor 3	-0.140	0.617
	Family – Factor 4	1.460	1.277
	Residence – Factor 5	0.128	0.753
	Disability/care – Factor 6	-0.227	0.535
	Hobby/low risk – Factor 7	0.851	1.465
	n	70	
2	Commute – Factor 1	-0.027	1.145
	Business nature/costs – Factor 2	0.162	1.196
	Temporary – Factor 3	-0.071	0.899
	Family – Factor 4	0.151	1.184
	Residence – Factor 5	-0.248	0.813
	Disability/care – Factor 6	3.178	1.089
	Hobby/low risk – Factor 7	-0.247	1.523
	n	28	
3	Commute – Factor 1	-0.127	0.977
	Business nature/costs – Factor 2	-0.140	0.748
	Temporary – Factor 3	2.850	0.966
	Family – Factor 4	-0.261	0.569
	Residence – Factor 5	-0.068	0.807
	Disability/care – Factor 6	-0.287	0.441
	Hobby/low risk – Factor 7	0.165	1.208
	n	29	
4	Commute – Factor 1	-0.013	0.960
	Business nature/costs – Factor 2	-0.072	1.073
	Temporary – Factor 3	-0.272	0.463
	Family – Factor 4	-0.380	0.379
	Residence – Factor 5	0.000	1.090
	Disability/care – Factor 6	-0.249	0.304
	Hobby/low risk – Factor 7	-0.221	0.514
	n	260	

Notes: Hierarchical cluster analysis, cluster method: Ward, n = 387 businesses.

Source: Mason and Reuschke (2015, p. 53).