

**REVISIONING THE HOME-BASED BUSINESS:  
AN EXPLORATORY MODEL OF HOME-BASED LOCATION CHOICE**

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## **ACADEMIC ABSTRACT**

Home as a business location has been an overlooked variable in small business research. The absence is striking considering that over half of small firms are home-based and contribute an estimated \$500 billion or more to the economy. This paper presents an exploratory model of owner and business characteristics that influence location choice. The model offers a new dimension to entrepreneurship theory—home-based or non-home-based location—which is a measurable, observable variable potentially useful in differentiating lifestyle from growth-oriented firms. Use of the model is illustrated with new data from the Survey of Business Owners.

## **EXECUTIVE SUMMARY**

Home-based businesses are the missing majority in entrepreneurial research. Fully 52 percent of the sole proprietorships, partnerships and S corporations in the U.S. are operated in or from the owner's home rather than from a separate place of business. However, home as a location is nearly absent from the literature. The reason seems to be that there is no theoretical basis for home-based location choice.

This paper applies the entrepreneurship framework proposed by Lee and Venkataraman (2006) to develop a theoretical model of home-based (HBB) versus non-home-based (non-HBB) choice. The theory underlying the proposed HBB/non-HBB choice model incorporates the concept that a distillation of personal factors leads to priority goals that the individual uses together with his perception of prevailing market opportunities to assess the benefits of operating as a HBB or non-HBB. The interaction of personal and business factors prevailing at a given point in time underlies the location decision. A strength of the model is that it is dynamic; it takes into account change in physical location as the business expands or shrinks over time. The model allows for recognition of changing personal and business priorities during lifetimes of the owner and/or the business that may trump inherent personal characteristics such as propensity to risk, or business goals such as the desire to build a Fortune 100 enterprise.

Application of the model is illustrated with data from the 2002 Survey of Business Owners (U.S. Census, 2006). The implications for theory and practice are that personal and business factors enter into entrepreneurship at all stages of business life. The model contributes to theory most importantly by giving an observable, measurable indicator of a defining owner choice. It can be implemented to examine variables underlying the decision to act, in the context of the entrepreneur's business and personal life circumstances.

## INTRODUCTION

Why do more than half of small business owners choose the home as their business location? Traditionally, home-based businesses have been dismissed as “mom and pop” enterprises that offered negligible contributions to the economy. The intent of this paper is to update that perception in light of important technology, social and economic trends.

The missing majority in entrepreneurial and small business research is the home-based business. Fully 52 percent of the sole proprietorships, partnerships and S corporations in the U.S. are operated in or from the owner’s home rather than from a separate place of business. Of the 23.4 million total U.S. businesses, 18.3 million are sole proprietorships of which 9.5 million are operated from the home (Pratt, 2006).

Empirical studies on large samples of small businesses have shown differences between those that are home-based compared with those that are operated elsewhere (Pratt, 1999, Pratt, 2006). Importantly, home-based firms are substantial business that contribute an estimated \$500 billion or more annually to the U.S. economy. However, these findings have not been incorporated into entrepreneurship theory. The primary explanation seems to be that there is no theoretical basis for HBB choice. Yet without a theory of home-based (HBB) or non-home-based business (non-HBB) choice, the impact of location in research on entrepreneurship has been almost totally overlooked in the academic literature. The topic is rarely cited in bibliographies of journals related to small business economics or entrepreneurship. Considering that more than half of small businesses are home-based, this is a serious omission.

In this paper I apply the entrepreneurship framework proposed by Lee and Venkataraman (2006) to develop a theoretical model of home-based (HBB) versus non-home-based (non-HBB) choice. Although scarcely mentioned in the entrepreneurial literature, the choice of two alternatives, to operate a business from home or from a non-home-based location, is a defining step in achieving business growth or personal goals. The proposed choice model provides a valuable tool for understanding microbusiness and for singling out so-called lifestyle business owners from those whose business goal is growth. It can be useful to examine the home-based business in the context of prior theories of entrepreneurship. In addition, the framework will be important to researchers examining the impact of “home work culture” on the lives of individuals and their household members and to entrepreneurs contemplating operation of a home-based versus a non-home-based business.

The paper first reviews the meager literature on home-based business, and then describes the model of home-based business choice. The next section uses SBO data to illustrate application of the model. The paper concludes with discussion of the findings, “So what,” and implications for further research.

## REVIEW OF LITERATURE

### Self-employment trends

The traditional view of home-based self-employment has been that the low overhead cost allows operation of mom and pop business ventures without relying on outside sources of capital. The enterprises have been dismissed as inconsequential, which may explain why, to our knowledge, there has been no comprehensive theory developed of the home-based business choice. However, recent trends suggest that home-based self-employment may rise due to technology, demographic, and life stage/lifestyle factors.

First, operating a business from home has become easier and cheaper with the evolution of information technologies and ubiquitous use of email replacing hand-typed correspondence (NFIB, 2003). Phillips (2002) pointed out the ways that use of the Internet has stimulated the growth of home-based firms. The proportion of total sales made online is greatest for firms with fewer than 10 employees – those likely to be HBBs. Thus, it is not surprising that use of the Internet to work at home increased from 44.6 percent in 2001 to 67.4 percent in 2004 (CPS, 2001, 2004).

Second, the demographics of entrepreneurs are also changing. According to Current Population Surveys, between 2001 and 2004, the percent of total employed who usually worked at home as part of their primary job stayed about the same, at 15 percent. During the same period the self-employed segment increased from 30.2 to 33.7 percent. The total number was 14.4 million incorporated and unincorporated self-employed workers of whom 7.6 million, or 52.8 percent, work at home on their primary job (CPS, 2001, 2004).

Gender is a third factor with more women going into business. Between 1985 and 2000, female-owned sole proprietorships grew much faster than male-owned businesses in number of businesses, gross receipts, and net income (Lowrey, 2005). Women, who have young children or for other reasons opt to work fewer total hours than men, gain the flexibility to do so with a home-based firm (Pratt, 1999). In regional studies of small samples of 76 to 94 women-owned, HBBs, Loscocco and Smith-Hunter (2004) and Walker and Webster (2004) found multiple motivations and priorities for choosing a HBB such as to “be own boss” and to balance work and family by working fewer hours as well as business reasons such as low overhead and technology allowing business to be operated from home.

Fourth, the traditional entrepreneur wants to grow his or her business in terms of size and revenue. However, a noticeable trend is changing lifestyles of citizens from “live to work” to “work to live.” Karoly (2004b, p. 35) finds that there is a “bipolar distribution of workers reporting both low and high hours, “ which supports the observation that men and women choose self-employment to enjoy a lifestyle they prefer. One lifestyle factor is the choice to stay small. Micro-business owners are reluctant to move from producing, which they like, to administration of their business, which many dislike (Baker, 2005). These self-employed are motivated not simply to earn money (Rowe et al 1999) but they “derive nonpecuniary benefits from self-employment, such as the opportunity to ‘be your own boss’” (Karoly, 2004b; Fairlie, 2005, p. 45; Walker & Brown, 2004). If lifestyle priorities outweigh monetary rewards, then the question needs to be raised: “What is the measure of business success?”

## **Entrepreneurship Literature**

Emerging technologies, demographic and life stage/lifestyle trends encourage the founding of HBBs, but surprisingly, the fact that over half of small businesses are home-based, that is, they are operated in or from a home, has received little attention in academic research on entrepreneurship. Few articles even mention HBBs while the relation between ICT and work at home by employees, that is, telecommuting or teleworking, has been examined in detail (cf. Daniels, Lamond, & Standen, 2001; Cascio, 2000; Hesse & Grantham, 1991; Khaifa & Davidson, 2000; Shin, Liu, & Kunihiro, 2000; and Van de Wielen, Taillieu, Poolman, & Van Zuilichem, 1993). Business owners' characteristics are viewed through the lens of psychological attributes (Lumpkin & Erdogan, 2004; Verheul, Uhlander, & Thurik, 2005; Simon, Houghton, & Aquino, 2000); or social psychological context (Krueger & Brazeal, 1994) including risk tolerance, demographics, labor economics such as bridge employment, career choices, and so on. But whatever the chosen viewpoint, business location is rarely examined in itself nor is it even mentioned within theoretical discussions of new technologies and telecommunications. Among the few exceptions is Phillips (2002), as noted above.

Further, neither Dyer (2003), who decries family as the missing variable in organizational research, nor Greenhaus and Powell (2006), who propose a work-family model of enrichment, mention HBB self-employment. In their literature summary, Karoly and Zissimopoulos (2004a, p.1, 8) only parenthetically recognize home-based businesses: the self-employed account for "up to three-quarters of those who work at home for pay (in home-based businesses)." At the least, one would expect business location in or out of the home to be a factor in investigations of life and career issues, motivation and measures of business success but it is not (DeMartino & Barbato, 2003; Kisfalvi, 2002; Grundy & Welsch, 2001; Kent, Sexton & Similor, 1993; and Amit & Zott, 2000).

In sum, home-based or non-home-based business location is nearly totally missing as a variable in the plentiful literature on entrepreneurship theory. I help address this omission by developing a model of HBB versus non-HBB choice based on an established prospect theory of entrepreneurship.

### **DEVELOPMENT OF MODEL OF HOME-BASED VERSUS NON-HOME-BASED BUSINESS CHOICE**

Heretofore there has been no model of the choice to operate a business in or from a home rather than elsewhere. Theories of entrepreneurship have been proposed but none include choice of home location as a variable. This is in spite of the fact that choice of location is an indicator of, for example, intent to grow the business or to operate with few or no employees. Of the research reviewed, Lee and Venkataraman's (2006) framework is promising for including HBB and non-HBB dimensions. In their approach to modeling entrepreneurship, Lee and Venkataraman develop a theoretical framework that separates individual attributes from business opportunities. They build on prospect theory in which individuals make choices based on personal rather than absolute reference points. Their approach allows the reference point to change in response to life stage circumstances and lifestyle preferences.

The Lee and Venkataraman framework (2006) uses two intersecting vectors: An “aspiration vector” (AV) combines economic, social and psychological benefits desired by an individual. The AV is influenced by an individual’s abilities, values and traits, past achievements, and environment, that is, his human, intellectual, and social capital. The AV vector interacts with the “market offering vector” (MOV). The MOV incorporates current market opportunities by combining the economic, social, and psychological factors pertaining at a given point in time. By describing an interaction of perceived opportunities with market offerings, the framework is well suited for developing into a model that allows the impact of home location to be understood, as illustrated in the following hypothetical case:

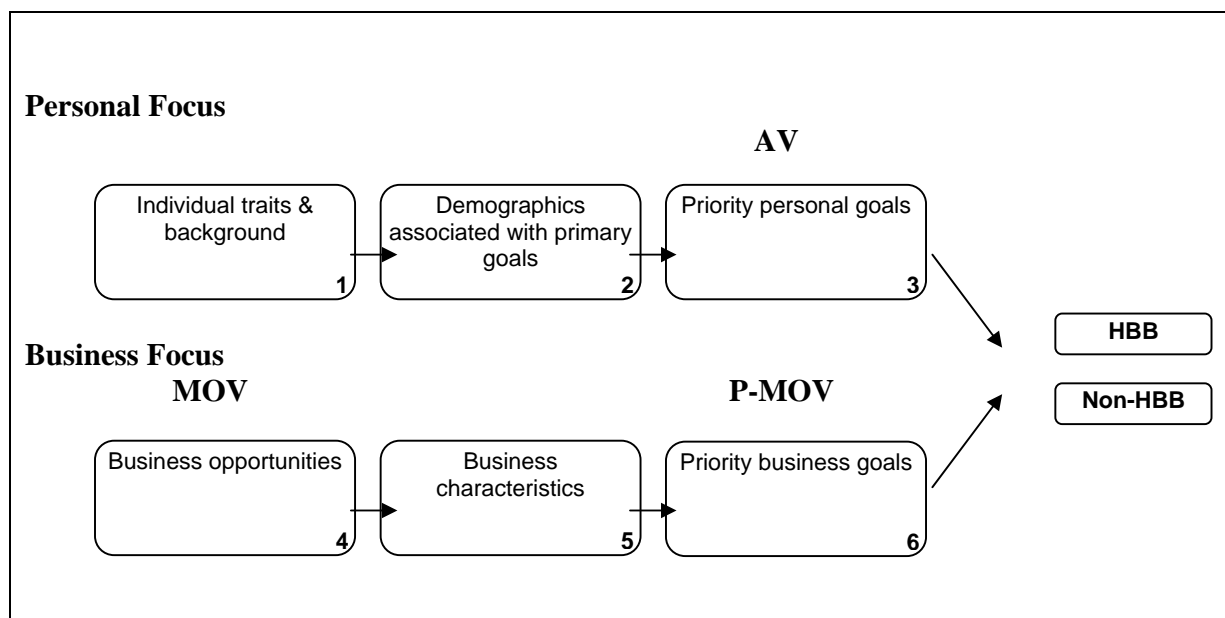
Consider the research question “Under what conditions is the pursuit of entrepreneurial opportunity most likely?” or more specifically, “Under what conditions would a mother with children choose a HBB?” The AV vector combines the priority benefits, in this case 1) to be at home with young children and 2) to earn a secondary income. The intersecting MOV vector suggests looking at the potential of the various HBB opportunities. For one mother, a day care business might fit well with supervising one’s own children but at the cost of a low net income, \$9 thousand, on average (Pratt, 2006). For her that may suffice as secondary income. Another mother having a professional education such as a law degree, might consider opening a law office at home, with the expectation of \$31 thousand annual income (Pratt, 2006), but only if the market conditions at the time and place gave her assurance that she could garner clients. If she were a single mother relying on her primary income, she might opt for employment rather than deal with the risk of self-employment.

The proposed model of home-based versus non-home-based business choice builds on the Lee and Venkataraman (2006) two-pronged approach. Empirical studies have shown that person-centric businesses are apt to be home-based (Pratt, 1999, 2006). However, because businesses are operated by people, both personal and business factors interact in the decision to locate in the home or elsewhere or to relocate from or to the home to achieve desired personal and business goals as circumstances change. The model proposes that both personal traits, experiences, demographics, and current circumstances lead to the individual’s prioritizing of personal goals. Concurrently, a set of business market opportunities, business characteristics that obtain at a given point in time, lead to his prioritizing of business goals. Resolution of (possibly conflicting) personal and business goals results in an observable and thus measurable choice of home-based or alternate location in which to operate the business. That location will change as the business expands or shrinks over time. Thus, as shown in Figure 1, the model highlights the owner (upper boxes) and the business (lower boxes) as having two intersecting streams of priorities that lead to the location decision: HBB or non-HBB.

The choice model can be used to separately identify affective from financial rationales for business creation and operation. Importantly, building from the Lee and Venkataraman (2006) model provides a dynamic flexible framework for incorporating a wide variety of variables including work at home as a business operator (HBB). For example, it includes the ability to introduce variables found in the literature to be associated with entrepreneurship such as personality (risk aversion; role models) and male and female gender splits between HBBs and

non-HBBs. As a dynamic model, it provides a way to incorporate into entrepreneurship theory, choices made at various life stages of the owner or stages of the business life. The model allows identification of factors that lead to choice of a home-based or non-home-based business.

**FIGURE 1**  
**Choice Model: Home-based versus Non-Home-based Business**



**Model Description**

As in the Lee and Ventakatan (2006) model, the “aspiration vector” (AV) combines economic, social, and psychological benefits desired by an individual. The AV vector interacts with the “perceived market offering vector” (P-MOV). P-MOV incorporates current market opportunities for the business by combining the economic, social, and psychological factors pertaining at a given point in time. Following Lee and Venkataraman, both AV and P-MOV vary across time and space, meaning that the choice of home-based location at one stage of the owner’s or the business life may change to a non-home-based location if business growth is the owner’s goal under a different set of circumstances,

**Upper Row: The Business Owner**

**Box 1 Individual traits and background**

Many theories of entrepreneurship are based on owners’ traits or experiences that predispose them to self-employment (See for example, Lumpkin & Erdogan, 2004; Verheul, Uhlaner, & Thurik, 2005; Simon, Houghton, & Aquino, 2000; and Krueger & Brazeal, 1994). Such variables are included in Box 1 as individual traits and background. They would include, for example, personality preferences, propensity to risk, history of entrepreneurship in family, prior work experience, prior self-employment, and other traits and/or experience.

### **Box 2 Demographics associated with priority goals**

Lifestyle and personal goals are associated with gender, age, marital status, presence of young children, and occupation. Examples of individuals with priority goals would be “retirees” who choose self-employment to balance work with travel, single mothers needing to earn income while caring for young children, or a couple wanting to maximize income by growing a business (Karoly & Zissopoulos 2004b; and Singh & DeNoble, 2003.)

### **Box 3 AV Priority personal goals**

The sum of individual traits and background experience and current age and circumstance leads to the AV or priority aspirations rising from the combined desired economic, social and psychological benefits. The priority personal aspiration or preference might be to devote more or less time to the business with the goal of growth or no growth or growth at a fast or moderate pace.

### **Lower Row: The Business**

#### **Box 4 MOV Business opportunities**

Primary business goals begin from the MOV or business opportunities that consist of the combined economic, social, and psychological dimensions currently available from the labor market. It would include an analysis of the current market for a particular product or service under consideration.

#### **Box 5 Business characteristics**

Business characteristics may be expressed as a business “idea” or written as a detailed business plan. This box contains specific factors that might affect location choice such as age of business, demand for inventory storage, and number of employees.

#### **Box 6 P-MOV Priority business goals**

Priority goals might be to start a business, expand the business in product or service offerings and/or number of employees, or to shrink the business. In contrast to MOV, the P-MOV goals are based on the owner’s perception of current business opportunities (Lee and Venkataraman, 2006).

### **Home-based business**

A home-based business is defined as “a business that is conducted in or out of the home with no other headquarters location” (Pratt, 1999, p. ES-i).

### **Non-home-based business**

A non-home-based business is defined as a business “located outside the home” (Pratt, 1999, p. 6).

The theory of home-based or non-home-based choice is based on empirical findings from large federal datasets (Pratt, 1993, 1997, 1999, 2006). As an example, new data from the most recent survey of business owners is used to illustrate how the model can be applied.

### **Illustration of Model implementation with Survey of Business Owners (SBO) Data**

The 16.7 million firms that responded to the Survey of Business Owners – Characteristics of Businesses: 2002 (CBO) account for 72.6 percent of the nation’s 23 million nonfarm firms (U.S. Census, 2006). Custom tabulations prepared for the U.S. Small Business Administration, obtained from Census, provide comparisons of home-based employer and non-employer firms with ALL employer and non-employer firms. Because the survey includes characteristics of both the owner and of the business, the data are useful for showing applicability of the model. However, the survey does not address individual traits. Table 1 data items consist of demographic characteristics, and further, indicate personal goals and priorities. (Note that in this large database nearly all of the comparisons between columns are significant within the 90 percent confidence level reported by the U. S. Bureau of Labor Statistics. The exceptions are footnoted. Particularly interesting findings are bold-faced.)

**TABLE 1**  
**Owner Characteristics of Employer and Non-Employer, ALL and Home-based Businesses**

	<b>ALL Employer</b>	<b>HBB Employer</b>	<b>ALL Non- employer</b>	<b>HBB Non- employer</b>
Number of firms	4,091,882	903,992	12,595,657	7,346,302
<b>Owner Characteristics</b>		22% of ALL employer firms		58% of ALL non- employer firms
<b>Age</b>	Percent	Percent	Percent	Percent
Under 25	0.5	0.8	2.8	2.5
25 to 34	7.5	9.9	13.1	13.7
35 to 44	24.7	27.2	23.6	24.5
45 to 54	32.4	31.4	27.1	27.2
55 to 64	21.8	20.0	19.4	19.0
65 or over	10.2	8.6	11.1	11.0
<b>Education</b>				
Less than high school	3.8	5.2	6.9	6.4
High school or GED	20.5	24.6	21.4	21.8
High school but no bachelor's	28.2	33.5	31.9	33.0
Bachelor's degree	24.7	23.0	22.0	22.7
Advanced or professional degree	<b>20.5</b>	12.6	16.2	15.3
<b>Income: primary</b>	69.5	69.5 <sup>1</sup>	43.9	41.2
<b>Sole Proprietorships Only</b>				
<b>Income goal (SP)</b>				
Supplemental income	5.4	<b>8.7</b>	29.0	<b>34.1</b>
Hobby that generates income	0.7	1.1 <sup>1</sup>	9.2	11.4
<b>Time spent on business (SP)</b>				
Less than 12 months/year	6.9	<b>12.2</b>	16.9	<b>18.4</b>
Less than 40 hours/week	15.9	<b>21.4</b>	42.9	<b>48.5</b>
Operated occasionally	0.6	<b>1.4</b>	10.7	<b>13.3</b>
Seasonal business	3.9	<b>7.3</b>	5.9	<b>6.7</b>

<sup>1</sup> Difference *not* significant at 90 percent confidence level

## **Personal Focus – Owner Characteristics**

### **Box 1: Individual traits and background**

Individual traits were not collected by CBO survey.

### **Box 2: Demographics associated with priority goals**

Age: Participation rates are significant but not large for the four business categories by owner age. For non-Employer firms, age is not really a determining factor. However, for employer firms, HBB ownership decreases by age with younger owners more likely to be HBB Employer firms and older owners less likely than ALL owners to be HBBs. Education: ALL employer firms are more likely to be operated by owners who have advanced or professional degrees.

### **Box 3: 3 AV Priority personal goals**

Income Goal: Nearly 70 percent of employer businesses—home-based and ALL—are operated as the source of primary income compared with fewer than half of non-employer firms. Of firms operated as sole proprietorships, more home-based than non-home-based firms have the goal of obtaining supplementary income or are hobbies that generate income.

Business/Personal Time Priority: The most striking difference between home-based and ALL non-employer firms is that the owners spend less time on the business, work fewer months per year or operate the business occasionally. The differences are less marked for employer firms.

### **Business Focus: Business characteristics**

Five business characteristics are shown in Table 2: age of business, legal organization, sales receipts and start-up capital.

### **Box 5: Business plan**

Business age: Younger firms, 1 year or less, are more apt to be HBBs. As they age, more firms shift to a non-home-based location although 29.2 percent of employer HBBs are 13 years or older compared with 35.7 percent of ALL firms. However, there is no significant difference for non-employer firms.

Business legal organization: Overwhelmingly, HBB non-employer firms are sole proprietorships (90.6 percent) while 66.3 percent of ALL employer firms are corporations. The majority of HBB employer firms also are incorporated (62.9 percent).

**TABLE 2**  
**Business Characteristics**

<b>Business Characteristics of Firms</b>	<b>ALL Employer</b>	<b>HBB Employer</b>	<b>ALL Non-employer</b>	<b>HBB Non-employer</b>
	Percent	Percent	Percent	Percent
<b>Business Age</b>				
1 year or less	9.3	<b>10.9</b>	19.8	20.9
4-12 years	29.1	<b>33.2</b>	24.6	26.0
13 or more years	<b>35.7</b>	29.2	<b>20.8<sup>1</sup></b>	<b>20.6<sup>1</sup></b>
<b>Business Organization</b>				
Sole Proprietor	20.3	<b>26.3</b>	87.2	<b>90.6</b>
Partnership	8.0	5.0	6.4	4.1
Corporation	<b>66.3</b>	62.9	6.4	5.3
<b>Sales Receipts</b>				
Less than \$10,000	1.8	3.8	<b>42.9</b>	<b>47.1</b>
\$10,000 to \$49,999	8.6	17.5	<b>36.2<sup>1</sup></b>	<b>36.0<sup>1</sup></b>
\$50,000 to \$99,999	10.9	19.8	10.5	9.4
\$100,000 to \$249,000	23.2	<b>30.5</b>	7.2	5.7
\$250,000 to \$999,999	<b>33.2</b>	23.7	3.0	1.7
\$1,000,000 up	22.3	5.3	<b>0.1<sup>1</sup></b>	<b>0.1<sup>1</sup></b>
<b>Start-up Capital</b>				
Business bank loan	<b>22.2</b>	12.1	7.9	5.7
Personal credit card	9.2	12.0	8.6	10.1
Personal/family savings	<b>64.2</b>	<b>72.5</b>	<b>51.5</b>	<b>56.6</b>
Other personal/family assets	13.1	12.5	7.7 <sup>1</sup>	7.8 <sup>1</sup>
None needed	<b>11.8</b>	<b>13.7</b>	<b>32.9</b>	<b>32.4</b>
<b>Expansion Financing</b>				
Business bank loan	20.0	14.8	5.7	4.5
Personal/business credit card	12.6	16.3	11.0	12.4
Personal/family savings	24.2	28.8	25.9	29.0
None needed	<b>51.2</b>	<b>52.4</b>	<b>60.9</b>	<b>60.0</b>
<b>Type of Workers</b>				
Independent contractors, consultants	34.1	40.7	18.7 <sup>1</sup>	18.4 <sup>1</sup>
Full-, part-time employees	<b>82.5</b>	<b>68.7</b>	<b>6.5</b>	<b>3.3</b>
Temporary staffing	7.3	3.2	1.3	0.9
<b>Number of Employees</b>				
1 – 4	47.3	<b>62.7</b>		
5 – 9	17.4	8.7		
10 – 19	10.8	2.9		
20 - 99	9.3	1.0		
100 up	2.1	---		
<b>Home-based</b>	22.1	100	58.3	
<b>Non-home-based</b>	74.8		37.3	

<sup>1</sup> Difference *not* significant at 90 percent confidence level

Sales receipts: Non-employer firms make less than \$10,000 whether they are home-based (47.1 percent or ALL (42.9 percent.) There is no significant difference between HBBs and ALL businesses at sales levels of \$10,000 to \$49,999. Higher receipts are associated with having employees. More than 30 percent of employer HBBs earn in the \$100,000 to \$249,000 range compared with 33.2 percent of ALL firms earning in the \$250,000 to \$999,000 range.

Start-up capital: Strikingly, the majority of all four categories of businesses use personal or family savings as their start-up capital. Nearly one-third of non-employer firms and 11.8 to 13.7 percent of employer firms report that no capital was needed.

### **Box 6: Priority business goals**

Types and numbers of workers: As expected of companies operating in a residence, the majority of HBBs has fewer full time employees (68.7 percent) than ALL firms (82.5 percent) and in number they range from 1-4 compared with larger numbers of employees for ALL firms. Interestingly, there is no significant difference between HBBs and ALL firms in the percentage that retain independent contractors or consultants.

### **Home-based or non-home-based business**

Twenty-two percent of ALL employer and 58.3 percent of ALL non-employer firms are operated in or from a home. Conversely, seventy-five percent of ALL employer firms and 37.3 percent of non-employer firms are non-HBBs.

## **DISCUSSION**

The model encourages expanding analysis beyond boundaries of a single explanation or theory confined to a few characteristics by presenting intersecting chains of personal and business factors that culminate in an observable, measurable action. The action is expressed as a clear two-choice measure: to operate in or from home or to rent or buy a business location. It allows looking both from a micro perspective for insights that influence entrepreneurship and from a macro perspective focus on external factors such as the economic and market opportunities, and societal and technological environment in which the entrepreneur lives and operates a business.

Although the SBO illustration of the model omits factors that would be put into Box 1, risk-taking propensity, a common attribute among definitions of entrepreneurship, is placed onto the model under individual traits with the expectation that risk aversion would bias the location towards a HBB since that would be less risky choice than committing operating funds to leasing outside business space. Similarly, other traits mentioned in the literature would fit in Box 1. With no agreed-upon definition of entrepreneur (See, for example, Ma & Tan, 2006; Ireland, Reutzell, & Webb, 2005; and Kamineni, 2002), the model gives full range for research concerned with defining an entrepreneur within the larger context of personal and business priorities at a particular time in the life of the owner and of the business. Any of those variables can be held constant while focusing on identifying distinguishing traits such as ambition, locus of control, and risk taking listed in box 1.

The illustration of the model using CBO data has identified specific factors that should be included in multivariate studies, for example, using cluster or regression analyses. Empirical findings have shown that the goal of primary or supplemental income and time spent on the business are personal variables that distinguish HBBs from non-HBBs (Pratt, 1999). Business variables include becoming an employer business versus operating alone, which overrides other business variables. However, as shown in Table 2, other distinguishing factors are the form of business organization, level of receipts, use of personal or family savings as capital and the fact that so many firms do not need capital for start-up or expansion. Among other variables associated with home-based business operation but not illustrated here are gender, race and ethnicity, marital status and presence of young children (CPS, 2001, 2004).

### **SO WHAT?**

Home-based businesses are the missing majority of small firms. An "elephant in the room" they have been nearly totally overlooked in entrepreneurship research. This paper applies the Lee and Venkataraman (2006) explanatory framework for response to entrepreneurial opportunities, which is based on prospect theory, to develop a theoretical model of home-based versus non-home-based (non-HBB) choice. The theory underlying the proposed HBB/non-HBB choice model incorporates the concept that a distillation of personal factors leads to priority goals that the individual uses together with his perception of prevailing market opportunities to assess the benefits of operating as a HBB or non-HBB. A strength of the model is that it is dynamic; it takes into account change in physical location as the business expands or shrinks over time. The model allows for recognition of changing personal and business priorities during lifetimes of the owner and/or the business that may trump inherent personal characteristics such as propensity to risk, or business goals such as desiring to build a Fortune 100 enterprise.

The paper will bring to the USASBE academic forum of scholars and practitioners, a new vision of the neglected HBB entrepreneurship. Discussion of the model and its potential applications at the conference will help bring the topic into mainstream scholarly attention.

### **CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH**

Why is home-based business of interest? With more than half of sole proprietorships, partnerships and sub-chapter S firms being operated in or from a home, HBBs are a critical variable for entrepreneurship research. Yet there is no theory of home-based choice. This paper has addressed that gap by proposing a model to explain choice of home or alternate business location. It brings into one model the array of individual and business characteristics that affect business goals and performance. The focus on home-based versus non-home-based location introduces a clear indicator of intention. A choice is made, for example, by nascent entrepreneurs going through the growing stages of their businesses (HBB), by owners realigning their personal/business lifestyle balance (HBB or non-HBB), or by those either expanding the business with additional personnel for greater income (non-HBB) or reducing its size in preparation for a phased retirement (HBB).

The choice model offers a theory of home-based business with a measurable marker of business formation. The illustration of implementation of the model using CBO data needs to be extended on the logical premise that it is not individual factors, but clusters of personal and business factors that lead to home-based or non-home-based choice. Thus, one approach would be to conduct factor analyses of variables identified singly as being associated with HBB choice. Federal survey series, available for research, include work-at-home by the self-employed in large data bases of 50,000 to 150,000 respondents. See, for example, the Current Population Surveys, Survey of Income and Program Participation, American Housing Survey, American Time Use Survey, Survey of Business Owners, National Longitudinal Surveys, and the American Community Survey (Pratt, 1997). Location is also asked in the Panel Study of Entrepreneurial Dynamics survey instrument (University of Michigan, 2001).

The incidence of home location found in the data indicates its relative importance as a possible explanatory variable. Thus, in most small business research the variable should be included because the majority of businesses are home-based. From the viewpoint of labor economics, theory can address the point at which a HBB expands by hiring employees, contract labor or teleworkers and consider what factors influence the business to remain a HBB versus becoming a non-HBB by moving to leased quarters. Within the context of psychological or sociological frameworks, new research examining the outcomes of wanting to “have it all,” that is, to be simultaneously a successful entrepreneur and a good parent as well as the lifelong consequences of personal goals and careers would usefully expand existing theory. It is also critical to understand whether a HBB heightens or decreases work/family conflict. Implementation of findings using the choice model also will help differentiate HBB from non-HBB firms so that policy can be developed appropriate to various business types.

In conclusion, home-based businesses are important but they are not being studied. The choice model is an innovative approach that can be used to enhance our knowledge of small businesses and their owners.

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