

## Factors Affecting Small Scale Home-Based Business Performance: A Literature Review

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### Abstract

Business performance is paramount for businesses to grow, develop, expand and diversify. Lots of business fails at early stage due to so many factors. The study paper identify factors influencing home- based business performance using secondary source and came up with factors like owner's gender, sources of finance, information and communication technology, age of business, managerial know- how, customer, and innovation plays a significant role in the performance of small business in which home based is one. The paper recommends that home- based business have great potential of becoming large businesses if properly managed and will contribute towards economic development. Also the paper will contribute to the field of entrepreneurship as related to the growth and development of home-based businesses. The paper suggests that future studies should apply empirical analysis to further verify the study variables relationships.

**Keywords:** Home-Based Business, Business Performance, Innovation, Entrepreneurship.

### 1. Introduction

Business performance highly depends on how the business or its owner organises resources and manage it effectively to achieve business goals and objectives. Implementing and adopting the right strategies can make the business grow and prosper. Therefore, creating a new business and managing is accompanied by lot of challenges (Peppard, & Ward 2016).Entrepreneurs are being faced with various challenges with regards to the formation of business and sustainability, which tend to hinder their performance to achieve profitability. Most start-ups today find it difficult to adopt and develop way strategies that will lead to high performance (Tefula, 2016).

The paper intends to examine factors affecting small business with regards to home based business is important and a key factor in performance or not. Much research has been conducted to determine the key factors that can lead to performance of micro businesses. Al- Rome & Ibrahim, (2004), opined that home based business performance can be determined by owner's gender, sources of funds to finance the business at start-up, usage of information and communication technology, business expenses, number of weekly hours an owner works, outsourcing or sub-contracting, age of business, and number of the family members assisting the owner in running the business.

Further, Chittithaworn, Islam, Keawchana, & Yusuf (2010), identify eight factors that influence the SMEs

business success. These factors are: SMEs characteristic, management and know-how, products and services, Customer and Market, the way of doing business and cooperation, resources and finance, Strategy, and external environment. Also Kalleberg & Leicht, (2014), identify gender as the major determinant of entrepreneurial performance. Entrepreneurial competencies, competitive scope and organisational capabilities are also seen as major determinants of small business performance.

In line with these, however, innovation and other factors like owners finder, sources of finance, information and communication technology, age of business, managerial know-how and customer as asserted by (Al-Rome & Ibrahim, (2004), Chittithaworn et-al (2010) & Kalleberg & Leicht, (2014)) will be studied in order to examine their relationship to business performance in small businesses from the perspective small home based business.

### 2. Literature Review

In the literature review, the dependent variable which is a home based business performance will be reviewed and discussed in relation to the independent variable in order to determine their relationships. The IVs includes: owner's gender, sources of finance, information and communication technology, age of business, managerial know-how, customer as asserted by (Al-Rome & Ibrahim, (2004), Chittithaworn et-al (2010) & Kalleberg & Leicht, (2014).

#### 2.1 Business Performance

Organisational survivals are fundamental aspects of performance and a basic condition for sustained business success (Kalleberg & Heilch, 1991). Performance is paramount for sustenance, growth and profitability of business, be it small or large, are believed to be the major criterion for determining the level of business. Performance according to Hornby (2000) is viewed as an achievement or action that is in relation to how successful and determined it is. Performances are variously analysed and the perspective are connected and consistently from the organization perspective (Jamil and Mohamed 2012). Base on the definition of Hornby (2000) definition, it can be rationally believed that performance and success are synonymous to each other. The determinant of performance sometimes vary from organisation to another. Finance is seen as the major yardstick for performance measurement such as: sales per worker and level of productivity, revenue and profit, return on investment.

However, recent studies have identified various means of measuring performance apart from finance. Chittithaworn, Islam, Keawchana, & Yusuf (2010), identify eight factors that influence the SMEs business success. These factors are: SMEs characteristic, management and know-how, products and services, Customer and Market, the way of doing business and cooperation, resources and finance, Strategy, and external environment. Performance of Small Enterprises was viewed as their ability to aid in creating wealth to job creation through Enterprises start-up, survival and growth (Komppula, 2004). The study focused on determining whether innovation can be important to small business or not, in respect to small scale manufacturing business.

#### 2.2 Home Based Business

A home business (or "home-based business" or "HBB") is a small business that operates from the business owner's home office (Kapasi & Galloway 2016). In addition to location, home businesses are usually defined by having a very small number of employees, usually all immediate family of the business owner, in which case it is also a family business. Home businesses generally lack shop frontage, customer parking and street advertising signs Helmrich, (2014). From the above definition, it clearly shows that a home base business has many qualities of small a business and mode of operation. The use of the home as a business pace can provide a considerable advantage in establishing a business. For instance, it can reduce initial capital requirement, but arguably forming a home based business rely heavily upon clients accepting the home as

the space in which business will take place, and more broadly, accepting home based business as serious business entities Evangelista & Savona, (2003) Home-based businesses is much what the name describes. The business location is what makes them special. The entrepreneur or owner manager works from the home, garage, workshop, or barn. Home-based businesses can, within certain limitations, be any business, either product or service, production and/or sales (Muske & Woods, 1998).

According to Clark & Douglas, (2014), In spite of being 'microscopic' in size, HBB were operating with sales across the full spectrum of geographic regions from local, to regional, national and international. Hence, rather than needing to achieve scale in domestic markets first, some HBB were able to generate international sales – akin to the 'born global' firms. These results contribute to the case for HBB operating as legitimate businesses rather than being perceived as a hobby or craft activities. Indeed, the owner-managers' aspirations for growth of HBB were extremely high and their ambitious marketing strategies to achieve sales growth aligned with this personal commitment.

This therefore signifies that home base business and determined and despite their size, such business is able to perform successfully and even operate on an international scale. Also home based business performance should therefore be a critical area that researchers need to develop defined strategies that need to make such business prosper.

### **2.3 Factors Influencing Home- Based Business Performance**

Such factors include: owner's gender, sources of finance, information and communication technology, age of business, managerial know- how, customer, and innovation.

#### **2.3.1 Owner's Gender**

Gender plays a very significant role in determining the performance level of business. Various research has been conducted on gender and business performance. In the study of Qureshi & Lahore, (2012) in their study of factors affecting small-business performance in Punjab-Pakistan: a gender based analysis come up the conclusion that female business ownership percentage has been increased and it is still increasing from the previous few years. Based on the facts, critical to business success, which might create differences in the performance of small scale businesses on the gender bias.

Similarly, in the work of Kelleberg & Heilch, (1991) to examine the determinants of success and survival among small business headed by men and women finds out that women were no more likely to fail in business and were just as successful as men, suggesting that the process underlining small business is similar irrespective of the gender. This therefore implies that the procedures involve in operating a small business is almost the same and can manage effectively by both genders depending on their enthusiasm to move the business forward.

Fairlie & Robb, (2009), while measuring the contribution of gender differences in firm and owner characteristics to differences in business outcomes between female- and male-owned businesses suggest that female-owned businesses are less successful than male-owned businesses because they use less start-up capital, have less prior work experience in a similar business, and less prior work experience in a family business.

Similarly, women business owners may think about, define and approach firm performance in ways distinct from their male counterparts. For the women business owners, performance might be indicated, for example, by personal development and a sense of independence rather than numbers of employees and turnover while men may perceive performance from different perspectives (Marlow, Lam & Cater, 2009).

Women are more likely to sacrifice time in their social lives and themselves for as well as their businesses, whereas men are more likely to sacrifice time with their spouse and time with their children. Women are also more likely to hire their children, while 27 percent of men said that it would be better if their children did not

work for their business Helmrich, (2014).

Base on the literatures, it is therefore observed that both genders can perform well in business depending on their perception about what performance, it further shows that women number in small business is at increase having a good performance level as compared to men.

### 2.3.2 Sources of Financing

Financing start-up business is one of the most fundamental issues of enterprise research, financial capital is one of the vital resources needed for the formation of business enterprise and subsequently operate (Neubauer & Lank 2016). Financing decisions and the use of equity and debt of start-up have been proven to have significant implications for business operation, the risk of failure, firm performance, and the potential of the business enterprise to expand (Cassar, 2004).

Various funding options has described by researchers and how such funding impact on the performance of the business. Assibey, (2012), sought to find out the nature of finance on micro, small enterprises in Ghana, like a loan, grant, or self-raised finance mattered for their productivity edge and growth, suggest that where the nature of enterprise's start-up capital was loaned or debt finance, compared to grant finance, the enterprise is associated with a higher productivity edge. In other words, debt finance was found to be positively associated with the productivity edge of the enterprise, while financing from donation or charity did not.

Similarly, Jarvis & Schizas, (2013) while identifying Financing practices and preferences for micro and small firms in the United Kingdom, outline the major sources of funding business that is equity financing, debt financing and grant financing and further suggest that regarding equity financing, firms depend heavily on their own funds and would not raise new equity from sources outside; thus, there is a reluctance to use new outside equity (venture capital, business angels, etc.). Regarding debt financing, firms agree that they can use more debt, specifically long-term debt, than they presently do. Thus, there are limitations in accessing long-term debt financing. Regarding grant financing, micro and small firms should be better informed and encouraged more to participate in state grants and co-financed programs; thus, there is lack of enlightenment in regards to grant financing.

Åstebro & Bernhardt, (2003), opine that a bank loan is likely to improve the survival chances of a new small business for many reasons. Start-up company survival based on owner human capital, loan sources, and wealth as well as industry and company characteristics showed indeed that having a bank loan is, *ceteris paribus*, a significant positive predictor of the survival of start-up companies. Therefore the source of funding business is a major determinant of business performance. As earlier stated small business that depend on bank loan tend to have high performance that those with grant from government agencies and other donor agencies. It also shows that some prefer internal finance than external financing.

### 2.3.3 Information Communication Technology (ICT)

Information and communication technologies are major factors of growth and employment (Zabasta, 2010). Information and communication technologies (ICT) have made possible new business models and even new business structures. There are many opportunities for developing business through new processes, models and methods and, of course, with new ICT solutions (Gudănescu & Nicolau, 2010). In the study of Moriones, Billo'n & Lera-López, (2011), assert that ICT has a significant impact on the improvement of external and internal communication in an organisation thereby enhancing organisation performance. Similarly, ICT provides positive effect on commercial activity by improvement in customer services, by increasing the efficiency of internal processes and by employing the opportunities for outsourcing specific business processes (Zabasta, 2010).

Wanyoike, Mukulu,&Waititu, (2012), in a study the determinants of E-commerce adoption by formal small enterprises in Urban Kenya concludes that small formal enterprises are influenced to adopt e-commerce by being able to observe visible results emanating from its use such as simplification of work routines, efficient coordination among various value chain partners and improved customer services that leads to customer satisfaction. This implies small enterprises that are not using e-commerce are likely to adopt in the near future as more positive results from those that have adopted becomes available. Further small enterprises perceived that use of e-commerce leads to increased productivity.

The combination of being based in the home and operating an online business offers a unique opportunity for low affordable loss. Such businesses also offered an opportunity for a contingent, or evolutionary approach to business development and, most of all, enabled experimentation through learning-by-doing and also copying from other online businesses (Daniel, Dormenico & Sharma, 2014).

Further, in a study conducted by Wynarczyk & Graham (2014) on the impact of connectivity technology on home-based business venturing: the case of women in the North East of England conclude that, women-owned home based businesses, shows that connectivity technology has, indeed, reframed home economics for women, through enabling HBB to be established as more than a 'part-time' or 'lifestyle' business. Connectivity technology has enabled operating a business from the home setting to become practically possible, economically viable and commercially acceptable, adding value to communities from local to global and demonstrating innovation and intents to become sustainable through diversification.

### 2.3.4 Managerial Skill

Managerial skills and abilities are important determinants of business performance. According to Helfat & Martin, (2014), firms whose managers have superior dynamic managerial capabilities can adapt and change more successfully than firms whose managers have less effective or no dynamic managerial capabilities. Also in the study of Levenson, Ven dar Stede & Cohen, (2006) on measuring the relationship between managerial competencies and performance, suggests that managerial competencies are positively related to firm performance. Tonidandel & Fleenor, (2012) in a study aimed to examine the relative significance of four managerial skill dimensions (technical skill, administrative skill, human skill, and citizenship behaviour) for predicting managerial effectiveness, conclude that all four of the managerial skill dimensions were significantly important for managerial effectiveness. Human skills were significantly more important than technical skill and citizenship behaviour, while administrative skills were most important overall.

Managerial skills and know-how is equally important to small business enterprise as stated by Dauda, Akinlabi, & Akinbade, (2010) that strategic management has an effect on the market share of small business enterprise. Also, implementation of strategic management has a positive relationship with organizational performance and profitability.

Further, in the study of Lema & Durendes, (2006) on managerial behaviour of small and medium-sized family businesses, assert that owners of family firms use some management tools such as management accounting systems and cash budgets for the decision making process and also give less importance to strategic planning and personnel training programmes as a competitiveness factor.

### 2.3.5 Customer

The role of customer service in a business is essential for its growth and survival. The success of a business is dependent on the way the business treats and interacts with your customers (Capista, 2014). Companies that are successful in customer relations are able to render the global competition, sustainable through approaches that are based on the human factor (Gurel, 2014). Similarly, Gounaris, (2005), suggest that the level of trust and

relationship between the service provider and the customer is highly influenced by the quality of the service and by the bonding strategy and techniques of the provider: Rendering superior service quality and effectively bonding with the customer results the former to trust the service provider, which in turn results to affective commitment to the provider. Building this type of commitment tends to be particularly essential only for ensuring the maintenance of the relationship, but also for further enhancing it, because it leads to an intention to further invest and strengthen the relationship with the provider.

It implies that maintaining and gaining more customer require quality delivery that can bring about customer loyalty their by enhancing business performance through strong customer base and profitability. Moreover, Luo, Griffith, Liu, & Shi, further assert that customer relationships have a stronger influence on strategic and financial performance than do business-partner or governing-agency social capital.

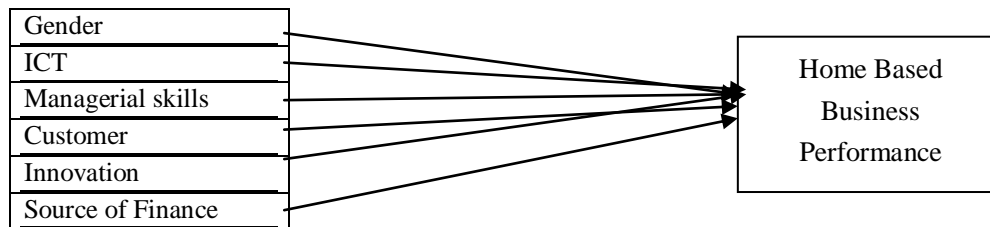
### 2.3.6 Innovation

The ability to innovate at the firm, regional and national level dictates the wealth generation capacity of an economy. Innovation enhances business performance because the product of innovation increases firm competitiveness and the process of innovation transforms a firm's internal capability, making it more adaptable to change (Neely & Hee, 1998). In addition Evangelista & Savona, (2003) also suggest that innovation is an important dimension of firm's behaviours and also firm's economic performance stressing that innovating firms out-perform non-innovating firms in terms of both productivity levels and economic growth. However, Ceznic and Sunje (2012) opined that innovation and creativity are highly important ingredient for successful entrepreneurs. Innovation entails motivation and ability of individual and organisation alike to spot opportunities and exploit them as well as creating value in different ways.

Further, a high degree of innovation is considered to make the economy more competitive, innovation will not only support the development of a new product or increase productivity or capital, but also brings more economic growth, employment, improved labour conditions and independence from the perspective of the owner manager (Onciou, 2012). In the work of Silva, Amboni, Ortigara and Costa (2014) aimed at identifying the factors related to the genesis and operation of these small businesses that can help make them more competitive and innovative, suggest that factors like innovativeness related to the operation of the micro small business can also increase their competitiveness and longevity. Onciou, (2012) further explain that starting a new business venture, the entrepreneur must have conceived an idea, the business model that would be in line with the entrepreneur's goals, activities and products or services of the new business venture. It must be based on the identification of new opportunity, which exploitation should produces, products or services that can satisfy the talent or manifest the need in the markets.

Innovation therefore, have a significant impact on the performance of business, as well as shaping the way forward for it. What gave birth to every business is an idea which is converted into an opportunity that result in the formation of the business. Pretorius, Millard & Kruger (2006) opine that owner manager saw themselves as creative and innovative in their ventures. This however shows how innovation can in one result to growth and sustenance of business.

## 2.4 Research Framework



**Source:** (Al- roomi & Ibrahim, (2004), Chittithaworn et-al (2010) & Kollberg & Leicht, (2014)).

## 3. Discussion and Conclusion

The study is aimed at determining success factor for small business with regard to home based business. In finding in the study, however, suggest that owner's gender, sources of finance, information and communication technology, age of business, managerial know- how, customer, and innovation plays a significant role in the performance of small business in which home based is one, which is in conformity with the study of Ceznic and Sunje (2012). The study also suggests that owner's gender, sources of finance, information and communication technology, age of business, managerial know- how, customer, and innovation. Also play a significant role towards economic growth and development as well as provide direction for business growth, which is in line with the study of Neely & Hee, (1998) and Evangelista & Savona, (2003). Further, the study suggests that innovation in home based business brings about the success and longevity of business as well as given the business the boost to operate internationally, which supported by the study of Evangelista & Savona, (2003). Therefore, owner's gender, sources of finance, information and communication technology, age of business, managerial know- how, customer, and innovation are very essential to home- based businesses and it also serves as a channel or a process through which every business develop and grow to become a large scale business. Also home based businesses should embrace the act of being innovative in their business in order to achieve their potential and also contribute to the economic development of their countries.

The study will also pave way for further understanding home-based business and its impact on entrepreneurship development. Also, future studies are recommended to apply scientific and empirical approach to further verify the variables and their relationships.

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