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Headline: Home-based entrepreneurship boosts business creation, especially for HDB owners: study

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A HOME-BASED entrepreneurship scheme by the Singapore government has effectively promoted business creation activities among businesses permitted to operate in residential properties, a National University of Singapore Business School study has found.

The Home Office Scheme, introduced in late 2001, allows applicants to run a small business from their private homes or Housing Development Board (HDB) flats.

Compared to businesses that cannot be run from home, the creation of new businesses under the scheme rose by 23 per cent. The effect was most pronounced among entrepreneurs living in HDB flats. The study said that the scheme reduced entry cost, which was a barrier to new business creation, and promoted entrepreneurship at home.

The findings showed that firms created under the scheme had higher productivity, lower risk and a higher survival rate. Firms that were created after the scheme was introduced had a lower exit rate of 29 per cent relative to other firms created before the scheme.

According to the study, the scheme also affected the quality of newly created businesses under it. These new businesses were larger and had longer survival rates. Furthermore, new entrants were more likely to become "serial entrepreneurs" who would start second and subsequent businesses.

The top five most popular Home Office Scheme businesses are in computer programming, office administration, financial service and insurance auxiliary activities, financial service activities, and wholesale trade.

The study was co-authored by Sumit Agarwal, Low Tuck Kwong distinguished professor in finance; and Sing Tien Foo, dean's chair and director of Institute of Real Estate and Urban Studies (IRES); together with Song Chang Cheng, assistant professor from Singapore Management University; and Zhang Jian, assistant professor from the Hong Kong Baptist University.

Using housing type as a proxy for entrepreneurs facing financial constraint, the study found that businesses in the treatment group attracted more entrepreneurs living in HDB flats. This indicated that reducing entry cost to start a business was important to encourage firm creation.

Prof Agarwal said: "A key barrier to starting a business is cost, such as space rental and purchase of office equipment. Lowering such fixed costs not only encourages those with limited resources to enter the market, it also enables businesses to operate in a leaner way and survive longer."

He added: "With lowered barriers, individuals can put concepts into practice with much lower risk than if they had to set up an actual office unit. A discreet home business emboldens entrepreneurs to dare to fail without obvious social consequences."

Said Assoc Prof Sing: "It is very encouraging that these firms are not only of good quality, but also display signs of sustainability."

He added that the scheme "provides an effective mechanism to help lower entry barriers and increase workplace flexibility if we want to entice an untapped workforce, opening up possibilities for those who would not have entered the market otherwise, to spur entrepreneurial activities and attract more entry into self-employment".