

Why are women-owned businesses overall smaller than men-owned businesses?

Type of Business

The most common reason cited for women-owned businesses being smaller (less sales/receipts, and fewer employees) than men's is the type of businesses that women entrepreneurs tend to choose. Women-owned businesses are concentrated in industry sectors characterized by firms that are smaller in size and in sales/receipts. Women are more likely to own businesses in the services sector, such as in health care, education, and personal or retail services. Women-owned businesses dominate the subsectors of apparel manufacturing, health and personal care stores, miscellaneous store retailers, internet retailers that require little capital for start-up and operation, and specialized design services. Men are more likely to own businesses in manufacturing or construction.ⁱ

Why do women entrepreneurs gravitate to these lower-performing types of businesses? One reason is that an entrepreneur's choice of business is usually closely linked to her or his education and professional experience. Women tend to choose post-secondary courses of study in academic fields like education, sociology, languages, and social work. A woman's professional experience is often a function of occupational segregation: Women tend to choose careers in female-dominated, lower-paying occupations. It follows that they are more comfortable starting businesses in these industry subsectors.

Choice of business may also be influenced by less start-up capital, and the need for flexibility and limitation in hours, necessitated by women's family caregiving responsibilities.

Access to Capital

Women entrepreneurs are more likely to self-finance and less likely to have outside investors—both for start-up and for growth. A report in 2010 by the U.S. Department of Commerce found that, on average, women-owned businesses had only 64 percent of the start-up capital of men-owned businesses and were less likely to tap outside financing over the business' lifetime, including loans, angel investments, and venture capital.ⁱⁱ Less start-up and growth capital means slower growth and fewer employees.

Further, firms with higher levels of start-up capital are less likely to close and more likely to have higher profits and sales and to hire employees.ⁱⁱⁱ

Goals (underlying reasons for owning a business)

Some research has found that the only statistically significant predictor of business growth is not the industry, size of business or length of time in business; it is the entrepreneur's goal for growth.^{iv} There is evidence that women entrepreneurs seem to have different performance expectations than men for their businesses, expecting lower sales and employment. This, however, may be a question of cause and effect: the lower expectations of women business

owners might be a function of the types of businesses that women start—businesses that are not likely to grow rapidly or greatly nor to employ many workers.

For mothers and women caring for elderly loved ones, self-employment or entrepreneurship may offer a greater opportunity for the flexibility necessary to balance family and work responsibilities.^{v,vi} A 1997 study^{vii} found this work/life balance to be one of the most important entrepreneurial motives for women. This study examined the reasons 129 women executives and professionals left large organizations to become entrepreneurs and how they measured success. The researchers found that the women entrepreneurs measured success in terms of “self-fulfillment and goal achievement. Profits and business growth, while important, were less substantial measures of their success.”

Similarly, a 1994 study by the National Foundation of Women Business Owners^{viii} found that men defined success and achievement in terms of concrete goals, whereas women defined success as "having control over their own destiny, building ongoing relationships with clients, and doing something worthwhile from which they can derive fulfillment."

These two studies are twenty years old, but women still typically bear the lion’s share of family caregiving responsibilities,^{ix} whether it be caring for young children or for aging parents or spouses. Thus, there remains a strong motivation on the part of women to have the flexibility in work hours and schedule that allows them to shoulder their dual roles of family breadwinner and caregiver.

Other Reasons Women-Owned Businesses are Smaller than Men’s

- Women’s family caregiving responsibilities may allow less time than men for the duties of business ownership, influencing women’s choice of business and their expectations of business performance. About half of self-employed women work part-time (less than 30 hours per week) and approximately a third base their businesses within the home.^x
- Women business owners are less likely to have prior work experience in a business whose goods and services are similar to those provided by the owner’s business—an important determinant of business outcomes.^{xi,xii}
- Research by the U.S. Department of Commerce found that women tend to be more risk-averse than men, especially in terms of financial risk.^{xiii} Such financial risk aversion could influence the type of business chosen, the amount and type of start-up and growth capital, and the desire to expand.
- Because there are disproportionately fewer women-owned businesses, women entrepreneurs have smaller peer networks, and fewer mentors and role models.
- Lack of relationships with bankers and limited knowledge about financial products and services may explain to a large degree why women entrepreneurs are less likely to seek more sophisticated forms of financial products and services.^{xiv}
- Contracts with other businesses or with government offer great potential for business growth. However, both corporate and government sectors increasingly “bundle” (consolidate purchasing through a limited number of large suppliers), making it difficult for women-owned companies, which are usually smaller, to compete for contracts. Large prime contractors, which are usually men-owned, may include women-owned businesses as

subcontractors in their bids in order to meet requirements to have women- and minority-owned businesses; however, the Wall Street Journal maintains that women consistently report that the prime contractor never gives them any of the work once the contract has been awarded.^{xv}

- Young and small businesses were disproportionately negatively impacted during the Great Recession.^{xvi,xvii} The fact that the number of women-owned businesses is increasing at a far greater rate than that of men-owned businesses means that there are proportionately more “young” women-owned businesses. Women-owned businesses also are on average smaller than men-owned businesses.
- Women and minorities tend to have fewer assets (e.g., savings, homeownership) than White males. They therefore are limited in their ability to self-finance or provide collateral for business loans.

Businesses Owned by Women of Color

Women entrepreneurs from communities of color face the dual challenges of their gender and their race/ethnicity.

Research identifies three core causes for lower growth and success rates among African-American and Latino owned businesses: (1) less capital for start-up and expansion—due to fewer assets (e.g. savings, homeownership) for self-financing or business loan collateral, and to limited access to external sources of capital; (2) lower levels of relevant owner business knowledge—in terms of education levels and experience in family-owned businesses; and (3) more limited market access—including the tendency to focus on co-ethnic rather than broader markets.^{xviii}

Minority owned businesses were particularly hard hit during the Great Recession if owners depended on home equity as a means to provide capital to their businesses. Home mortgage foreclosures fell disproportionately on urban minority neighborhoods.^{xix,xx,xxi}

The Myth of Women-Owned Businesses Underperforming

We do not blame the gender *wage* gap on women being sub-standard workers. We look instead at the causes of the gender wage gap: choice of occupation, fewer hours worked during a woman’s lifetime because of her family caregiving responsibilities, societal undervaluation of “women’s work,” discrimination.

It is also incorrect to say that *women-owned businesses* “underperform.” The accurate characterization is to say that women-owned businesses show “constrained performance.”^{xxii} The constraints include the type of business chosen, access to capital, limitations on time to devote to a business due to family caregiving responsibilities, fewer assets to invest. These constraints do not equate to women entrepreneurs being less competent than their male peers.

In fact, research suggests that, “while female-owned firms differ from male-owned firms in terms of many control variables, (such as industry, owners’ previous experience and hours worked) they are no less successful.”^{xxiii}

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- ⁱ U.S. Dept. of Commerce, *Women-Owned Businesses in the 21st Century*, (2010), accessed at https://www.dol.gov/wb/media/Women-Owned_Businesses_in_the_21st_Century.pdf
- ⁱⁱ Ibid.
- ⁱⁱⁱ Fairlie, Robert W. and Alicia M. Robb, *Race and Entrepreneurial Success*, (2008), The MIT Press, accessed at https://mitpress.mit.edu/sites/default/files/titles/content/9780262514941_sch_0001.pdf
- ^{iv} Harady, Sharon G., “Why are Women-Owned Firms Smaller than Men-Owned Ones,” *The Wall Street Journal* (2010), accessed at <http://www.wsj.com/articles/SB10001424052748704688604575125543191609632>
- ^v Birley, Sue, “Female Entrepreneurs: Are They Really Different?” *Journal of Small Business Management*, Vol. 27, No. 1 (1989): 32-37.
- ^{vi} National Foundation for Women Business Owners, *Entrepreneurial ideals motivate women to start businesses*, (1998)
- ^{vii} Moore, Dorothy P. and Buttner, E. Holly, *Women Entrepreneurs: Moving Beyond the Glass Ceiling*, (1997).
- ^{viii} American Express Small Business Services and the National Foundation for Women Business Owners, *Styles of Success: The Thinking and Management Styles of Women and Men Business Owners*, (1994).
- ^{ix} Pew Research Center, *Raising Kids and Running a Household: How Working Parents Share the Load*, (2015), accessed at <http://www.pewsocialtrends.org/2015/11/04/raising-kids-and-running-a-household-how-working-parents-share-the-load/>
- ^x Marlow, Susan and McAdam, Maura, “Gender and Entrepreneurship: Advancing debate and challenging myths; exploring the mystery of the under-performing female entrepreneur,” *International Journal of Entrepreneurial Behaviour and Research*. Vol. 19, No. 1 (2013): 114-124.
- ^{xi} Fairlie and Robb, *Race and Entrepreneurial Success*.
- ^{xii} Fairlie, Robert W. and Robb, Alicia M., *Gender Differences in Business Performance: Evidence for the Characteristics of Business Owners Survey*, (2009) accessed at <http://economics.ucsc.edu/research/downloads/gender-paper-sbe-fairlie-robb-final-submission.pdf>
- ^{xiii} U.S. Dept. of Commerce, *Women-Owned Businesses in the 21st Century*.
- ^{xiv} Harady, “Why are Women-Owned Firms Smaller”
- ^{xv} Ibid.
- ^{xvi} Fort et al, *How Firms Respond to Business Cycles: The Role of Firm Age and Firm Size*, accessed at <http://www.nber.org/papers/w19134.pdf> .
- ^{xvii} Adelino et al, *Firm Age, Investment Opportunities, and Job Creation*, (2014), Fuqua School of Business, Duke University, (2013), accessed at <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.687.2107&rep=rep1&type=pdf>
- ^{xviii} Fairlie, Robert W. and Alicia M. Robb, *The Causes of Racial Disparities in Business Performance*. National Poverty Center Policy Brief #12, October 2008. p. 1. *And others*.
- ^{xix} Jarmin, Ron, Krizan, C.J. and Luque, Adela, *Owner Characteristics and Firm Performance During the Great Recession*, Center for Economic Studies, U.S. Census Bureau, (2014), accessed at <https://www2.census.gov/ces/wp/2014/CES-WP-14-36.pdf>
- ^{xx} Rugh, Jacob S. and Massey, Douglas S., “Racial Segregation and the American Foreclosure Crisis,” *American Sociological Review*, Vol. 9, No. 3, (2010), accessed at <http://www.asanet.org/sites/default/files/savvy/images/journals/docs/pdf/asr/Oct10ASRFeature.pdf>
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