

# Women Entrepreneurs and Financial Capital

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BETTER  
UNDERSTANDING



SME  
FINANCING

SME FINANCING  
DATA INITIATIVE

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# Background & Policy Context...



- Debate on women's entrepreneurship focused on:
  - Access to capital
  - Discriminatory lending practices
  - Women's financial inexperience or credit history
- *“The need for up-to-date substantive research is essential in order for the federal government to move forward to put in place effective policies and programs that reflect the realities of today's labour market and work place, while acknowledging and addressing the unique challenges faced by women entrepreneurs in Canada.” (PM Task Force on Women Entrepreneurs, 2003)*
- 2004 Economic Forum on Women Entrepreneurs

# SME Financing Data Initiative...



- 1999 mandate of SME Financing Data Initiative to develop a comprehensive data base on SMEs and their financing activity, including for specific demographic groups such as women entrepreneurs
- Survey on Financing of Small and Medium Enterprises collects data on:
  - Women Self-Employment
  - Male/Female Partnerships
  - Majority Women-Owned SMEs
  - Wholly Women-Owned SMEs

# Canada's Women Entrepreneurs...



- Research undertaken by the SME-FDI show that women are increasingly entering business ownership, yet women-owned firms are on average smaller, less profitable and less likely to grow.
  - In Canada, 47 percent of all small and medium enterprises (SMEs) in 2001 had at least one female owner. Furthermore, women comprised 34 percent of self-employed individuals in Canada, a proportion that has been rising over the last two decades (Industry Canada, 2005).

# Study context...



- Women business owners do not obtain venture capital as frequently as firms owned by men (Economic Forum on Women Entrepreneurs, 2004).
- While women are often found on start-up teams, they are “noticeably absent from the leadership positions in venture-funded start-ups.” Brush et al. (2001:1)

# Study context...



- Most cross-gender studies do not control for systemic differences in the attributes of firms (i.e. would similar male-owned and women-owned firms be equally likely to get financing?).
- None of the previous studies that have focussed on the link between gender and external equity capital have taken account of the relative frequencies with which men and women have applied for venture financing.

# Study context...



- Most existing studies of gender issues in SME financing have examined debt capital while a few recent studies have considered equity financing.

# Key questions...



- Are there significant differences across gender of ownership in access to all or any categories of capital, after controlling for size and industry sector; and if so...
- Do these differences reflect owners' strategic choices (defined in terms of rates of application) or financiers' responses (defined in terms of turndown rates).

# Research compares...



- ... across gender of firm ownership, and after allowing for other salient factors:
  - *rates of application* for various forms of external capital (loans, supplier financing, leasing, equity);
  - *turndown rates of applications* (external equity such as venture capital, angel capital) and,
  - *reasons that owners gave for not seeking external financing.*

# Theoretical rationale for potential gender differences

- Role investment theory
- Theory of occupation crowding
- Socialization theory, and
- Discrimination theory

# Role investment theory



- Premised on family decision-making, such that spousal partners employ trade-offs about their respective roles within the family, where:
  - women invest in roles within the household while men invest their time in the paid workforce.
  - implies gender differences in the investment of commercial activities and hence managerial experience, social networks (hence, business relationships, time allocations to firm development).
  - The concepts of “masculine” and “feminine” roles appear to be manifested through different levels of *risk tolerance* across genders.

# Therefore...



- **Hypothesis 1a:** *Women and men bring different human capital (education, years of management experience) to the firm.*
- **Hypothesis 1b:** *Women and men bring different social capital (length of banking relationship, whether or not the business banker is the personal banker) to the firm.*
- **Hypothesis 1c:** *Women business owners are less likely than male business owners to pursue growth of their firms.*

# Occupational crowding



- Bergman's (1986) theory of as follows:
- *"...discriminated groups crowd into certain occupations and become cross-identified with those occupations [and this] ... results in excess supply relative to demand ... which keeps their wages depressed relative to occupations that are not so designated.*

# Therefore...



- **Hypothesis 2a:** *Women-owned firms are relatively more likely than men-owned firms to operate in the services and retail sectors.*
- **Hypothesis 2b:** *Women-owned firms are relatively smaller than firms owned by men.*

# Socialization Theory



- Gender differences in management styles (Buttner 2001, Brenner and Tomkiewicz, 1989; Eagly and Johnson, 1990; and others. For
- Women managers are typified as more emotional, sensitive, compassionate, and more likely to be collegial (Orser, 2000).
- The implication of this result is further reason to believe that women may be less likely than men to seek business growth and also less likely to seek external capital.

# Therefore...



- **Hypothesis 3a**

*After controlling for firm level differences (size, sector, growth orientation) and individual differences (human and social capital) women business owners are less likely to apply for all forms of external capital than men.*

# Discrimination theory



- Discrimination may reflect gender stereotypes and *role encapsulation for women* (Ely, 1995).
- In the context of business ownership, entrepreneurship and feminist scholars have historically argued that women have faced language, social and cultural barriers and resistance to their participation in the economy (Goffee and Scase, 1982; Lavoie, 1984, Campbell, 1988; Hisrich and Brush, 1985; Orser et al., 1999).

# Therefore...



- This logic provides two alternative explanations of the findings that women receive a disproportionate share of capital
  - The first is that women are victims of discrimination.
  - The second suggests that women are less likely to seek external capital fearing turndown.
- ***Hypothesis 3b***

*The primary reason of women for not seeking external capital is a fear that they will be turned down.*

# A finding of discrimination may be sustained if and only if...



- ...after controlling for other potential determinants of access to capital and systemic firm- and personal-level differences – women owners are *turned down* with a higher relative frequency than men.
- **Hypothesis 3c**  
*After controlling for firm level differences (size, sector, growth orientation) and individual differences (human and social capital) women business owners are less likely to obtain all forms of external capital than men,.*

# Research methodology



- SME-FDI Survey on Financing of SMEs, 2001
- Stratified sample of SMEs that reported business activity during 2001 and which represents private sector commercial businesses with less than \$50 million in annual sales and fewer than 500 employees.
- The survey was representative of the more than 1.2 million Canadian SMEs that have these attributes and was accurate to 0.008 (0.8%) 19 times out of 20.
- Because it was collected by Statistics Canada, it boasts a 66 percent response rate and sample data comprise a total of 3,842 cases.

# Definitions of women-owned firms

- Firms were defined as “women-owned” if more than 50 percent of the ownership team was female; likewise firms were defined as primarily male-owned if more than 50 percent of the ownership team was male.
- Businesses that were 50-50 shared ownership were excluded from this analysis as were firms in the agriculture sector
- A final sample of 2,844 businesses, of which 2,357 were men-owned and 487 firms were owned by women.

# Profile of respondents



Compared to male counterparts...

- ...women bring less human capital (education, years of management experience) and social capital (length of banking relationship, whether or not the business banker is the personal banker) to the firm.
- ...women and men owners were equally likely to be university-educated but women were significantly more likely to hold a degree from a vocational or community college.
- ...women were more likely to conduct personal banking with their financial institution but this may reflect that their firms were significantly smaller and more likely to be home-based.

# Profile of respondents



- ...women-owned firms, on average, were less likely than firms owned by men to have exhibited rapid sales growth (where “rapid sales growth” is defined as more than 30 percent per year for the most recent three-year period).
- ...women owners were significantly more likely than men to be concentrated in the wholesale, retail and services sectors.
- These observations provide preliminary empirical support for the rationale of occupational crowding in which women business owners are found in sectors that are of less value to venture capital organizations.

# After controlling for size and sector:



- ...women owners were no less likely to seek debt, lease, or supplier financing than were male owners.
- ... women owners were significantly less likely than men to seek equity financing.
  - women owners were still 58 percent less likely to seek external equity financing than men, a result that was statistically significant at a p-value of 0.026.
- *Thus, hypothesis 3a is rejected for all forms of financing, except external equity.*

# After controlling for size and sector:



- To pursue the case of equity financing further, variables included: growth record, the length of the owners' relationship with their financial institution and the number of years of industry experience of the owner.
- ... even after allowing for these additional variables, women business owners remain significantly less likely to seek equity financing than men.
- *For applications for equity financing, hypothesis 3a (that women are less likely to apply) is supported.*

## Hypothesis 3b: frequencies of turndowns, once they apply...



- The number of women owners who sought external equity capital was too small to feasibly examine gender-disaggregated rates of turn downs for equity financing.
- Consequently, only debt, lease, and supplier financing are investigated.

## Hypothesis 3b: frequencies of turndowns, once they apply...



- Turndown rates do not differ to a statistically significant extent between men and women, according to a standard t-test of sample proportions.
- *Accordingly, hypothesis 3b is partially rejected. Women owners were not more likely to be turned down for loan, lease and supplier financing.*

# ***“Why did the business not attempt to obtain new financing in 2001?”***



	<b>Primarily Male Ownership (N=2,357)</b>	<b>Primarily Female Ownership (N=487)</b>	<b>p-values</b>
Financing not needed	85.23%	83.79%	0.491
Thought the request would be turned down	2.35%	3.85%	0.168
Applying for financing is too difficult	3.53%	3.30%	0.828
Applying for financing is too time consuming	1.96%	2.75%	0.349
Cost of debt financing is too high	1.90%	1.92%	0.972
Don't like to be in debt	4.44%	5.77%	0.321
Other	10.92%	11.54%	0.733

# Summary Findings



Hypothesis	Theoretical Basis	Empirical Finding
Hypothesis 1a: Women and men bring different human capital (education, years of management experience) to the firm	Role investment theory	Supported: male and female business owners differ as to education, years of management experience.
Hypothesis 1b: Women and men bring different social capital (length of banking relationship, whether or not the business banker is the personal banker) to the firm	Role investment theory	Supported: statistically significant findings that women and men differ as to length of banking relationship, whether or not the business banker is the personal banker.
Hypothesis 1c: Women business owners are less likely than male business owners to pursue growth of their firms. Accordingly, women owned firms are less likely to need risk capital.	Role investment theory Occupational crowding Socialization theory	Partially supported: women-owned firms were less likely than firms owned by men to have exhibited rapid sales growth. Women-owned firms are less likely to apply for all forms of financing. The reasons business owners cite for not seeking external capital do not differ across gender.
Hypothesis 2a: Women-owned firms are relatively more likely than men-owned firms to operate in the services and retail sectors.	Occupational crowding	Supported: size and sector are not independent of gender of ownership. Women-owned firms are smaller than those owned by men and more likely to be concentrated in services and retail.

# Summary Findings



Hypothesis	Theoretical Basis	Empirical Finding
Hypothesis 2b: Women-owned firms are relatively smaller than firms owned by men.	Occupational crowding	Supported: size and sector are not independent of gender of ownership. Women-owned firms are smaller than those owned by men and more likely to be concentrated in services and retail.
Hypothesis 3a After controlling for firm level differences (size, sector, growth orientation) and individual differences (human and social capital) women business owners are less likely to apply for all forms of external capital than men.	Socialization theory	Partially supported (with the exceptions of equity capital): After controlling for size and sector, women owners were no less likely to seek debt, lease, or supplier financing than were male owners; however, after controlling for size and sector, women owners were significantly less likely than men to seek equity financing.
Hypothesis 3b: The primary reason for not seeking external capital is a fear that they will be turned down.	Discouraged borrowers	Not supported. Reasons cited for not seeking financing do not vary across gender of owners to a statistically significant extent.
Hypothesis 3b: The primary reason for not seeking external capital is a fear that they will be turned down.	Discrimination	Not supported. After controlling for systemic differences between male- and female-owned firms, no statistically significant differences in the rates of turndown were observed for applications for commercial loans, leases, or supplier financing.

# Implications



- Continue to dispel myths about women business owners including lending practices.
- Reinforce the business case about WBO: integrated messaging into broader audience presentations
  - (e.g., economic contributions of WBO, value of growth, organizational commitment to support the growth of women-owned firms).
- Research as a catalyst to change: collective projects that examine gender differences.

# Implications



- Trainer front-end managers about gender differences and the growth debate.
- Profiling, communicating and celebrating WBOs and their growth achievements.

(Orser & RBC/Global Banking Alliance,2005)



# Additional Tables

# Hypothesis 3b: frequencies of turndowns, once they apply...



	Loan Applicants		Lease Applicants		Applicants for Supplier Financing	
	Men	Women	Men	Women	Men	Women
Turndown rates	18.1%	22.4%	2.8%	0.0%	12.2%	14.4%
N	542	85	285	39	663	104
t-values	-0.94		2.86		-0.63	
p-values	0.348		0.004		0.528	

# Rates of application



	<b>Male Majority Ownership (N=2,357)</b>	<b>Female majority Ownership (N=487)</b>	<b>p-value of difference (t-test)</b>
Applied for a loan	23.63%	18.07%	0.005**
Applied for a lease	12.56%	8.21%	0.002**
Applied for supplier financing	28.13%	21.36%	0.001**
Applied for equity capital	3.99%	1.23%	0.000***