

Why Are Women-Owned Firms Smaller Than Men-Owned Ones?

MAY 17, 2010

Wall Street Journal

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BY THE NUMBERS

Where Women-Owned Businesses Stand

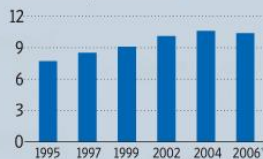
A Head Count

The total number of women-owned businesses (50% or more women-owned) doubled between 1992 and 2006, growing from

5.4 to **10.4**
million million

Source: Center for Women's Business Research

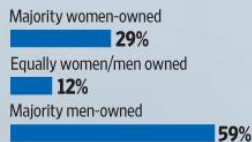
Number of women-owned businesses, in millions



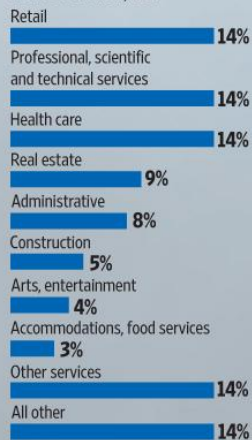
* Drop is due to change in methodology
Source: Center for Women's Business Research

Their Share of the Pie

In 2008, there were a total of 24.9 million privately held businesses. Here's how ownership breaks down:



Here's a look at what women-owned businesses (50% or more women-owned) do:



Source: Center for Women's Business Research

The Million-Dollar Club

3% of women-owned businesses have revenue of \$1 million or more

COMPARED WITH

6% of men-owned businesses

Source: U.S. Census of Women-Owned Businesses, 2002 (latest data available)

20% of all businesses over \$1 million are women-owned enterprises

Source: Center for Women's Business Research

Starting Off Behind

Women start their businesses with less capital than men

62% of women-owned firms started with less than \$25,000

COMPARED WITH

56% of men-owned businesses

Source: Kauffman Foundation

Recent Growth Trends

Growth rates between 2002 and 2008 were very similar for firms owned by women and those owned by men

Majority women-owned firms grew by

11% COMPARED WITH **12%**
for majority men-owned firms

Revenue of majority women-owned firms grew by

12% COMPARED WITH **14%**
for majority men-owned businesses

Employment by majority women-owned firms grew by

2% COMPARED WITH **-1%**
for majority men-owned firms

Source: Center for Women's Business Research

The phenomenal growth of women-owned businesses has made headlines for three decades—**women consistently have been launching new enterprises at twice the rate of men, and their growth rates of employment and revenue have outpaced the economy.**

So, it is dismaying to see that, despite all this progress, on average, women-owned business are still small compared with businesses owned by men. And while the gap has narrowed, as of 2008—the latest year for which numbers are available—the average revenues of majority women-owned businesses were still only 27% of the average of majority men-owned businesses.

There are those who will say that these numbers substantiate what they always knew: Women just don't have what it takes to start and run a substantial, growing business. But I don't buy that: More than a quarter of a million women in the U.S. own and lead businesses with annual revenue topping \$1 million—and many of these businesses are multimillion-dollar enterprises. Clearly, many women have the vision, capacity and perseverance to build thriving companies.

So what's holding back so many women business owners?

I have spent decades conducting research, studying the data and interacting with all the players involved—entrepreneurs, researchers, educators, bankers and others. And I am convinced that the problem is twofold. First, you have women's own self-limiting views of themselves, their businesses and the opportunities available to them. But equally problematic are the stereotypes, perceptions and expectations of business and government leaders.

Understand: I'm not arguing that all



entrepreneurs, all bankers, all policy makers are guilty of such limited thinking. But I've talked to enough of them, and studied enough of the research, to know that these problems are pervasive, and they are having a big impact—on both individual entrepreneurs and in turn on the health of the overall economy.

In that spirit, here's a closer look at how I believe these factors are preventing so many women entrepreneurs from fulfilling their potential—and what can be done to prepare them to accelerate business growth.

Where the Problems Are

IT STARTS WITH THE GOALS: The value of setting high goals for growth is not just a motivational myth. Research shows 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.

But research also shows that the differences between women and men entrepreneurs begin with their own reasons for starting a business. Men tend to start businesses to be the "boss," and their aim is for their businesses to grow as big as possible. Women start businesses to be personally challenged and to integrate work and family, and they want to stay at a size where they personally can oversee all aspects of the business.

That mind-set is only reinforced by the training many women entrepreneurs get—at women's business centers, for instance, or seminars for aspiring women business owners, or at adult-education courses at community colleges. This training targeted directly at women too often tends to ignore planning for future growth, focusing instead on business start-up planning, marketing advice and personal-budget planning to ensure the new entrepreneur has enough cash to carry her until the business gets going.

Once a woman starts a business, that lack of focus on growth planning can make a huge difference. She may not establish the necessary tools for tracking and analyzing financial information and business operations or invest in the technology that would facilitate future growth. So, if after a few years, the woman wants to expand the business and needs capital to do so, she is unlikely to have the financial records and projections that a bank requires. In the end, she either delays growth or, more commonly, lowers her goals.

ACCESS TO CAPITAL: Women often come to entrepreneurship with fewer resources available to them than men. The result is that they are more likely to go into industries such as retail or personal services where the cost of entry is low—but so is the growth potential.

Why the lack of resources? Again, women must accept part of the responsibility. Research shows that women tend to view debt as a "bad thing" to be avoided. For expansion capital, most turn to business earnings, which usually limits growth potential. Research supports the idea that one of women's strengths is relationship building, yet women seldom focus on building relationships with bankers. **Lack of relationships with bankers and limited knowledge about financial products and services explain to a great degree why more women don't seek more sophisticated forms of financial products and services.**

Research from focus groups and seminars shows that many women business owners, especially those of color, believe they would not get credit even if they applied. So they don't even bother to try. And when they do apply for credit, they are often cautious, asking for as little as possible. This only feeds the perception that they are not serious about growth.

Having said that, it's also true that women business owners' perception that they are not welcome at banks is not without cause. Despite highly publicized bank initiatives at the headquarters level to attract women business owners, my experience is that many bankers in local communities still operate with the perception that women-owned businesses do not have the capacity to grow and are not good credit risks.


ACCESS TO MARKETS: The greatest potential for growth is in the business-to-business and business-to-government sectors. However, in the lucrative corporate-purchasing programs, many women business owners believe there is an unspoken perception that women-owned businesses do not have the capacity to perform, and that holds back their ability to win those contracts. Data confirm that women-owned businesses do not win a representative share.

What's more, as corporate purchasing has moved to relying on "bundling"—consolidating purchasing through a limited number of large suppliers—women-owned companies are increasingly left out, according to women business-owner associations that focus on corporate and government contracting.

That's because these large prime contractors, which are usually men-owned, include women-owned businesses as subcontractors in their bids in response to corporate requirements to have women- and minority-owned businesses on their team. But after winning, women consistently report, the prime contractor never gives them any of the work.

The same thing also happens in government contracting. For more than 15 years, federal agencies have been required by legislation to set a goal of awarding 5% of all procurement dollars to women-owned businesses. However, that goal has never been achieved on a government-wide basis. Similar to the private sector, government contracting has moved to bundling for efficiency, which can close the doors to smaller women-owned businesses.

ACCESS TO NETWORKS: Networks are a vital source of business and industry knowledge, leads on contracts, and access to decision makers in finance, purchasing and the community. Based on focus groups and seminars and my own personal experience, we find that most women don't have the connections for credible introductions into industry associations, chambers of commerce, venture-capital groups and other key networks. When women venture into diverse networks, they too often are not taken seriously and frequently are shut out of conversations and deals.



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What Needs to Be Done

While certainly progress has been made in addressing these issues, there is a long way to go. Specifically:

CHANGE THE MIND-SET: The most successful women business owners "think big" from the start. Training and coaching for women entrepreneurs must stress the importance of laying the foundation for business growth from day one, regardless of the business owner's current plans for growth.

Training for women business owners has focused primarily on start-ups. The next frontier is offering training in managing and accelerating growth for established women-owned businesses with revenue over \$1 million.

Training must include more about business finance, including how, when and why to use credit. The most successful women business owners take the initiative to learn about business finance—and give priority to building relationships with bankers—before the need for capital is critical.

Women also must discard their perception that they won't get capital anyway, so there's no point to even trying. Research documents that more than half of women business owners who ask for credit get it. It takes persistence and a willingness to try multiple avenues, including changing financial institutions.

WOMEN LEARN FROM WOMEN: Research shows that in general, women approach business leadership with a different perspective than men do, and as a result they relate more easily to the experiences of other women business owners. We need to convert the experiences of women who have achieved high business growth into practical learning programs that are available to every woman aspiring to lead flourishing enterprises. This body of knowledge must move beyond motivational commentary to focus on the nitty-gritty specifics of best practices and mistakes to avoid.

In other words, learning to expand a business isn't only about being inspired, but also about learning the all-important how-to's. It's about teaching women what works and what doesn't work.

BANKS MEAN BUSINESS: Bankers need to understand that serving women business owners must be more than marketing and publicity. They need to expand continuing outreach to women business owners at the community level, providing coaching and mentoring for business growth.

NETWORK, NETWORK, NETWORK: Women business owners must expand their networking beyond community and women's entrepreneurship networks. The most successful women business owners join multiple, diverse networks to learn from their industry contacts, meet customers and develop connections to expertise. Having a critical mass of women in these networks helps women gain credibility, so women should reach out to other women and bring them into the networks.

THE MORE WOMEN WHO LEAD, THE MORE WOMEN WHO LEAD: Corporations, financial institutions and government must reflect the market, with women at all leadership levels. Women business owners are more likely to receive credit, equity and contracts when there are women in decision-making roles. Public policy is more likely to reflect the needs of women business owners when senior staff and elected officials are women.

ADVISORY COUNCILS: Corporations, banks and government should establish women-business-owner advisory councils and include women business owners, as well as the leaders of women's entrepreneurship advocacy groups. Senior executives must chair the councils and be actively involved. These councils serve as a platform for information exchange, demonstrate to the host organization the capabilities of women-owned businesses, provide insights on how to develop productive relationships, and can be a venue for capacity development.

MEASURE IT: In business, if you cannot measure it, it is not real!

Women business owners need to develop the metrics that document their capabilities. The women who have been most successful in the corporate and government markets have adopted recognized, standardized quality-measurement processes. These are available for both product and service businesses.

In addition, third-party certification as a woman-owned business has become increasingly critical to winning corporate and government business.

Corporations and government must track and report their spending with women-owned businesses at both the contractor and subcontractor levels—and establish rewards and penalties for meeting goals. **Too often, as noted before, spending that is supposed to go to women-owned businesses never makes it.** It's important that we have the data to hold contractors responsible.

THINK EVEN BIGGER: Although the size gap is narrowing between men- and women-owned businesses, at the current pace it will take many decades for that gap to close. To speed things up, I believe we need to do more than simply help women plan for business as usual. **We need to dramatically transform women's concepts of the future of their business enterprises**—to move them into a place where they have the vision and the confidence to catapult their businesses to a whole new level.

To do this, we have to show women how to embrace change; to be trend-setters rather than simply react; to innovate beyond expectations; to develop global integration; and to practice social responsibility. We need to help them identify ways to make their enterprises scalable and to build teams of talented people for where the enterprise should be in five years, not just today.

Only by doing these things can we prepare women to jump-start their businesses onto a fast-growth trajectory. This is the next threshold for women-owned businesses—it is what will ensure that women achieve their full potential as business owners and that our economy fully benefits from these enterprising women leaders.

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