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# Women's Business Ownership: Recent Research and Policy Developments

Research

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We champion UK business at home and abroad. We invest heavily in world-class science and technology. We protect the rights of working people and consumers. And we stand up for fair and open markets in the UK, Europe and the world.

## Foreword

I am very pleased to be able to introduce this assessment of recent research on women's business ownership in the UK. Its publication is a timely reminder of the vital importance of encouraging the wealth-creating potential amongst women for our future economic prosperity.

The report builds on a previous review undertaken in 2001, which helped considerably in building our knowledge and understanding of women's enterprise. This contributed towards the introduction of a coordinated and collaborative strategic policy structure.

The 'Strategic Framework for Women's Enterprise', published in May 2003, set out the vision, objectives and aims for creating an environment and culture that encourages more women to start and grow businesses, and where every woman with the desire to start or grow a business has access to appropriate help and support.

In implementing the actions set out in the Strategic Framework, the Government has been working with providers of business support to ensure that women can access the women-friendly advice and help they need. Our key partners in this area the Regional Development Agencies are fully committed to incorporating women-friendly business support into mainstream provision.

As a result we are seeing progress. Just over a million women are now self-employed and this number has increased by around 10% over the last four years. However we know that women's enterprise in the UK is much lower than in some other countries, such as the US. Developing women's enterprise, encouraging that wealth-creating potential, is important for our economy. At the moment, women-owned businesses contribute about £60 billion to the UK economy about 25% of the UK total, mainly from the growing service sector.

This is why I welcome this research and the contribution it will make to increasing our understanding of the complexities involved in developing women's enterprise. These findings will assist policy-makers and delivery partners in the continuing debate around the steps required for accelerating the rate of progress in boosting women's enterprise. This will ensure that we exploit the potential for the development of women entrepreneurs for the benefit of our future prosperity.

**Margaret Hodge**

**Minister of State for Industry and the Regions**

## Introduction

- This report aims to provide a current assessment of recent research investigating women's business ownership. The report builds on a previous review undertaken by the authors on behalf of the Small Business Service (Carter, Anderson and Shaw, 2001). The report also explores in broad terms the role and contribution of recent policy developments in changing the landscape of women's enterprise in the UK.

## Key Themes in Women's Enterprise Research

- Over the past five years, the women's enterprise literature has developed as a result of enhanced methodological sophistication, a focus on increasingly specialised issues and greater engagement with the established disciplines. The focus of research has shifted from early studies that questioned if gender made a difference, to the current focus on how gender processes impact on the experience of business ownership.
- This report provides an overview of the recent academic research literature and is structured around the six main themes of the current women's enterprise research literature:
  - Defining and measuring women's enterprise
  - The socio-economic context of women's enterprise
  - The social construction of women's enterprise
  - Non-financial entrepreneurial capital
  - Gender, entrepreneurship and finance
  - Business sustainability and performance

## Defining and Measuring Women's Enterprise

- Women's enterprise is the broad term used to describe female self-employment and business ownership. A woman-owned business is one that is wholly or majority female-owned and managed. Because of differences in operating definitions and datasets, some caution must be exercised in drawing international comparisons in female business ownership rates, particularly between the UK and US. Self-employment and TEA<sup>1</sup> data are the most robust measures of women's enterprise activity at an international scale.

<sup>1</sup> Total Early Stage Entrepreneurial Activity rates derived from the Global Entrepreneurship Monitor (GEM) research programme.

## Women's Enterprise in the UK

- There are approximately 1,013,000 self-employed women (7.6% of women in employment) and 2,706,000 self-employed men (17.4% of men in employment) in the UK. Self-employment rates (the percentage of people 'in employment' who are self-employed) vary at the regional level and these variations are explored in section 3.1.1. Most self-employment (76.6%) is undertaken on a full-time basis. Women comprise 17.5% of full-time self-employment and 59.1% of part-time self-employment.
- Different levels of male and female self-employment are largely attributable to gendered divisions within the labour market. Traditional occupational choices have steered men into skilled trades, while women are over-represented in administrative and public service occupations where conversion into self-employment is less obvious. The bulk of male self-employment is within the skilled trades (39.4%), managers and senior officials (16.3%), associate professional and technical (13.5%) and professional occupations (13.1%). In contrast, most female self-employment falls within four occupational categories: managers and senior officials (22.1%), associate professional and technical (19.6%), personal services (18.1%) and professional occupations (11.8%).
- Survey evidence indicates that businesses that are wholly or majority female-owned account for between 12.3% - 16.5% of the UK business stock. A large proportion of female entrepreneurial activity takes place in businesses that are co-owned equally by men and women. If the definition of women's enterprise included co-owned businesses (an approach often used by US researchers), it is estimated that between 34.1% - 41.2% of the UK small business stock is either owned or co-owned by women.
- Total Early Stage Entrepreneurial Activity (TEA) rates for women in the UK are 3.9% of the total working age female population. This compares with 6.2% of the total (male and female) population. The female entrepreneurial activity rate is only half that of male entrepreneurial activity.
- Growing educational attainment by women coupled with long-term and consistent increases in female entry into managerial and professional employment sectors, in particular the professions (law, accountancy, medicine, veterinary science) where there has been a tradition of private practice, offer important opportunities for the development of women's enterprise.

- There is some evidence to suggest that women-owned businesses may experience a higher rate of exit than male-owned businesses. While churn reflects a dynamic business population, it is unclear whether the faster rate of female exit is solely the result of competitive pressure forcing out less sustainable enterprises or whether other factors have a disproportionate influence on female exits.

## Women's Enterprise in International Contexts

- The USA has long been regarded as a leader in the issue of women's enterprise. The remarkable increase in women's enterprise in the USA contrasts with the relatively low and slow growth experienced in Western Europe. Higher rates of women's enterprise in the USA are largely attributable to historical, cultural and economic factors: high long-term levels of new migrants; affirmative action policies used in the 1970s and 1980s; a popular discourse of pioneering enterprise; and smaller social security systems. The establishment of the Small Business Administration's Office for Women's Business Ownership in 1979, coupled with long-term and consistent investment in research and advocacy, has led to the development of an effective political lobby around women's enterprise in the US.
- Caution must be exercised in US – UK comparisons. The estimated 10.6 million 'women-owned firms' in the US (48% of all US enterprises) includes male and female co-owned enterprises. Female majority-owned enterprises account for 6.5 million firms, 28% of the total US business stock.
- Overall, levels of business ownership in the US are higher than in the UK and there is a greater representation of women as business owners. This greater representation of women is also apparent in the self-employed population, although self-employed women are a lower proportion of the working population than in the UK.
- Self-employment in the US totals 8,490,000 (6.4% of total employment); male self-employment accounts for 5,124,000 (7.3% of total male employment) and female self-employment accounts for 3,366,000 (5.4% of total female employment). The female share of self-employment has increased modestly but consistently over the past thirty years, from 26.8% in 1976 to the current level of 39.6%. This contrasts with the UK where the female share of self-employment has been more or less static, at around 26% - 27% for the past twenty years. Despite this, female self-employment as a proportion of total female employment (i.e. the rate of self-employment) is higher in the UK (7.8%) than in the USA (6.1%). Female rates of self-employment in the UK have been consistently higher than those in the US for over 15 years.

- The proportion of self-employed women in the UK is broadly comparable with other Northern European countries. UK rates of female self-employment are closest to those seen in Ireland, France and Germany. The UK's closest comparators in Western Europe with regard to female TEA rates are Germany, France and Ireland.
- Between 1990 and 2003, rates of female self-employment grew in only five OECD countries. Small increases occurred in Canada and Portugal and larger increases occurred in the Czech Republic, Mexico and the Slovak Republic. Rates of male self-employment rose in ten OECD countries, in small amounts in Belgium, Canada, Italy, Mexico, Portugal, Sweden and Switzerland and significantly in Czech Republic, Slovak Republic and Germany. Rates of female self-employment are higher than the equivalent male rate in only three OECD countries: Turkey, Japan and Mexico.

## International Comparators of Women's Enterprise

- While the US has been the traditional comparator nation against which UK women's enterprise is benchmarked, the US context is highly distinctive. A range of historical, cultural and economic factors have created a unique pattern, high female shares of self-employment co-existing with low rates of self-employment, that is specific to the US.
- A more useful international benchmark can be gained through a group of five nations (USA, Canada, France, Germany, and Ireland) using self-employment and TEA rates as the measure of relative change. Ireland, France and Germany offer closer comparisons with regard to historical, economic and cultural factors, while Canada provides a model of successful development of women's enterprise in North America without the unique factors that distinguish the US.
- In comparison with these five nations, the UK female self-employment rate (7.8%) lies just above the average (7.6%); above the USA, France and Ireland, but below Germany and Canada. The female TEA rate in the UK (3.9%) is lower than the average (5.3%); above Germany and France, but below the USA, Canada and Ireland.

## The Socio-economic Context of Women's Enterprise

- There is a growing recognition that the extent and nature of women's enterprise is inextricably linked to the labour market and society at large. Women's roles as business owners reflect their wider positions in society and in the economy; to a large extent these factors influence the number of women entering self-employment, their sector preferences and the resource base that they use. Three main socio-economic issues influence women's abilities and prospects as business owners: the gender pay-gap, occupational segregation and unequal employment opportunities and work-life balance issues.
- The continuing pay gap between male and female workers restricts the financial resources available for the creation and growth of women-owned business. Women working in a full-time capacity earn 17% less than men. Over a lifetime, men earn nearly £250,000 or 37% more than equivalently skilled women without children. One consequence of earning less in employment is that women have less financial capital with which to initiate business ownership. There is unequivocal evidence that under-capitalisation at start-up restricts future business growth and development.
- Female employment continues to be concentrated in a narrow range of lower-paying occupations, often in a part-time capacity. Horizontal segregation has the dual effect of identifying certain occupations as being 'women's jobs' and placing less value on these jobs. Vertical segregation concerns the barriers women face in entering senior management and higher paid occupations. Women's experiences of employment provide them with fewer financial resources with which to initiate business ventures and lower levels of human and social capital necessary to establish and sustain a successful business.
- Self-employment and business ownership are often identified as attractive career options for women because of the perceived flexibility offered in combining family and work responsibilities. However, recent research has found that pregnancy, maternity, childcare and caring responsibilities present particular challenges for women business owners.
- Self-employed women do not benefit to the same extent as employed women from legal rights and social benefits associated with pregnancy, maternity leave and return to work. Women-owned businesses are generally small-scale, and their owners can ill afford the loss of time and income associated with statutory maternity rights. As a consequence, pregnancy and maternity pose substantially greater financial risks for women business owners than for women employees. While the research evidence on the impact of

childcare on business ownership is equivocal, there is some evidence to suggest that the perceived risks of business ownership are heightened by parenthood and that the presence of dependent children reduces the likelihood of entrepreneurship.

- More women than men use the home as a business base. Some researchers have argued that stakeholders, for example, customers and creditors, may question the legitimacy of women-owned home-based businesses. The growing numbers of (both male- and female-owned) home-based enterprises may reduce such negative perceptions in the medium term.

## The Social Construction of Women's Enterprise

- Recent research stresses that gender should not be seen as a characteristic of individuals, but as a process integral to understanding female experiences of business ownership. As a consequence, the debate has shifted from early studies that questioned whether gender mattered within the enterprise context, to the current focus on how gender processes impact on the experience of business ownership.

## Non-financial Entrepreneurial Capital

- The entrepreneurial process is affected by the human, social, physical, organisational and technological capital possessed by business owners and available to them via their personal backgrounds and experiences, contacts, relationships and networks. Women business owners may be disadvantaged in their access to various entrepreneurial capitals, given their personal backgrounds and employment experiences and the socio-economic and cultural context in which their businesses operate.
- While social and human capitals are relevant concepts which assist our understanding of the complex relationship between business ownership and gender, studies are at an early stage and emerging research has generated mixed results regarding the impact of these capitals on business ownership.
- The trend towards female attainment in education and entry into the liberal professions suggests an alternative experience of women's enterprise. Research demonstrates that self-employed women in professional sectors, such as accountancy, enjoy certain advantages relating to their education, class position and occupation, but their role as entrepreneurs is still affected by gender.

- Women do not constitute a homogenous group and their experience of gender-related constraints varies markedly. Many women have proved able to challenge barriers and lobby for change. Women should not be perceived as 'victims' in a rigid system with little or no control over their lives.

## Gender, Entrepreneurship and Finance

- There is unequivocal evidence that women-owned businesses start with lower levels of overall capitalisation, lower ratios of debt finance, and are much less likely to use private equity or venture capital. The level of start-up capitalisation used by women-owned businesses is, on average, only one third of that used by male-owned businesses. Recent evidence from the UK Survey of SME Finances reported that women were charged more than men on term loans (2.9% vs. 1.9%). No other study has found such a large difference in loan terms, and this result needs further research and explanation. Most research concludes that women are just as likely to seek finance and to be equally successful in external finance applications as are men.
- Gender differences in finance usage have been associated with three main factors: structural dissimilarities between male and female owned businesses; supply-side discrimination; and demand-side risk aversion. Structural dissimilarities (business size, age and sector) explain the obvious, large-scale gender differences, but do not account for all of the gender differences in financing patterns.
- There is little evidence of systematic gender discrimination by banks, indeed there is a growing recognition that women entrepreneurs constitute an important new market for banks, and it is clearly not within the banks' interest to deliberately, much less systematically, exclude this growing market. There is growing evidence that many women chose to start their business with reduced financial debt; demand-side debt aversion is seen in women's reluctance both to assume the burden of business debt and to engage in fast-paced business growth. While debt aversion is often conceptualised as a quasi-psychological characteristic, it is likely to be rooted in socio-economic factors: women's comparatively lower earnings in employment are reproduced among the self-employed.
- Gender differences in finance patterns may be best explained by female labour market experiences influencing the sector preferences of women that, in turn, promote a tendency for smaller enterprises, more easily managed from home and exploiting temporal flexibility. These in turn require generally lower levels of funding more easily gained from personal and informal sources.

- Research that has focused on the consequences of gender-based differences in business financing has established unequivocal links between the initial under-capitalisation of female-owned enterprises and subsequent business performance.

## Business Sustainability and Performance

- Research comparing male and female business owners has consistently found women to be younger and operating newer businesses and their businesses to be smaller in terms of annual turnover and employment size.
- Given the same starting resources in the form of financial and non-financial capital, women-owned businesses perform equally well as male-owned businesses. While female-controlled businesses have significantly lower income and profits than male-controlled businesses, they also use significantly fewer resources. Relating business outputs to business inputs, and controlling for industry, age of business and the number of days operated, no performance differences between male- and female-controlled businesses have been found.
- While there has been little recent research that has directly considered the performance and sustainability of female-owned firms, that which has been undertaken provides unequivocal evidence that female owned enterprises do not lack the competence to run successful enterprises, they simply lack the initial resources.

## Key Developments in Understanding Women's Enterprise

- Over the past five years, there have been a number of developments in our knowledge and understanding of women's enterprise.
- There is an increased understanding that the overall trends in women's enterprise in the UK are remarkably similar to other international contexts. The effort to increase women's enterprise is one that is being addressed by economic development agencies around the world.
- While US leadership on this issue is widely accepted, it has become clear that the position of women's enterprise in the US is complex; a high female share of self-employment co-exists with relatively low self-employment rates. Women-owned businesses in the US also display similar trends regarding their relatively smaller size and restricted performance as those in other countries. Women's businesses appear to take longer at the gestation stage; tend to be

started by individuals rather than teams; remain smaller; do not demonstrate the same performance levels of businesses owned by men or co-owned by men and women; and probably exit at a faster rate.

- There is a more sophisticated understanding of the complexities involved in developing women's enterprise. The view that the entrepreneurial potential of women was constrained by specific external obstacles, such as childcare and finance, a feature of the pre-2001 research effort, is now recognised as being overly simplistic.
- While childcare may remain an issue for some women both at the pre-start and post-start stages, it is difficult to argue with certainty that this is a widely experienced constraint on business start-up. A more intractable issue, yet to be addressed, is the extent to which the presence of dependent children constrains parents from entrepreneurial action, because of the perceived risks associated with business ownership.
- Similarly, until relatively recently, access to finance was conceptualised as a barrier to business start-up, specifically as a consequence of supply-side factors. More recent research has recognised the importance of the female market to banks, and has started to apply more sophisticated analysis to the gender, entrepreneurship and finance debate. The distinctive funding profile of women now appears to be the consequence of the interaction between demand-side and supply-side factors which ultimately lead to restricted starting capitalisation.
- While many initiatives designed to reduce external barriers have been successful and have brought a wider appreciation of the specific challenges facing women entering business, it remains the case that the number of women entrepreneurs has not shown dramatic growth over the long term. Indeed, it appears that expectations of dramatic growth in numbers as a consequence of the erosion of these barriers may have been overstated.
- It has also become clearer that there are a finite number of women with an ambition to start in business at any particular time. The flow of new female entrants into entrepreneurship is determined by a variety of factors including macro-economic conditions, competing labour market opportunities, the presence of skill sets that are easily convertible into self-employment, demographic factors, and policies that provide maximum support and encouragement while minimising external constraints.
- In the policy sphere, there has been increased recognition of the economic and social importance of women's enterprise and a sustained level of interest in developing policies and frameworks to

support its development. While there had been some interest prior to 2001, this was marked by insufficient coordination and a lack of sustained effort. The development of the SBS Strategic Framework for Women's Enterprise and the establishment of Prowess are two key developments that have signalled a continuing commitment to women's enterprise and enabled the issue to remain on the economic agenda at national, regional and local levels.

- The growth in women's enterprise in the USA has been aided by Federal recognition of its importance and a sustained commitment to its development over a thirty year period. Although there have been remarkable policy developments in the UK over the past five years, it will take sustained commitment to ensure an equivalent level of development in women's enterprise within the UK.





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