Women Entrepreneurs Mean Business

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Karen Leone de Nie: *Welcome to the Federal Reserve's* Economic Development *podcast series. I'm Karen Leone de Nie with the Atlanta Fed's community and economic development group.*

In recent years there has been increased interest in women's entrepreneurship to foster economic growth and jobs, and to create new opportunities for women. Dr. Susan Coleman, of the University of Hartford, and Dr. Alicia Robb, from the Ewing Marion Kauffman Foundation, tackled the subject of women's entrepreneurship and financing in their recent book, A Rising Tide: Financial Strategies for Women-Owned Firms. *This book ties together the research findings on financing women-owned firms with real-world stories of women entrepreneurs to not only offer lessons to entrepreneurs, but also to propose policy solutions to encourage more women to embark on starting their own businesses.*

Today we are speaking with one of the book's authors, Dr. Alicia Robb. She is a senior researcher fellow at the Kauffman Foundation and a visiting scholar at the Atlanta Fed. Alicia also serves as the principal investigator of the Kauffman Firm Survey. Welcome, Alicia.

Alicia Robb: Thanks for having me.

Leone de Nie: *To begin, can you describe the current landscape for women's entrepreneurship? There are statistics that suggest that women-owned firms are making considerable progress. In fact, one noted that the number of women-owned firms is growing faster than the number of firms overall. Does it really tell the whole story?*

Robb: It really doesn't. The number of women-owned firms is, in fact, growing faster than the number of male-owned firms, but that really just reflects the base being so much lower. Women only own about 8 million businesses, and so it's a lot easier to grow that number when the base is lower.

Women own about 29 percent of businesses in the United States and when you think about women being half of the population, you can see that we are really underrepresented in business ownership and entrepreneurship. But the story actually is even worse when you look at factors such as business revenues or business payroll or employment. Women-owned firms generate less than 5 percent of business revenues, they generate less than 5 percent of payroll, and they employ only about 6 percent of the employees in this country.

If you look at firms with employees (that is, firms that employ people other than themselves), you get a very different story. For firms with employees, women only own about 15 percent of those businesses, whereas they owned about 29 percent of businesses overall.

And when you look at this over time we haven't made the kind of progress that some of the statistics out there would lead you to believe. Women have owned a pretty constant share of businesses over the last decade that range from 26 percent to 29 percent. And if you look at the growth rates of revenues or employment or payroll over these times, we're actually growing more slowly than businesses owned by men.

If you look at businesses that have more than a million dollars in revenue, less than 2 percent of women-owned firms reach that revenue threshold, and that is the same exact percentage as a decade ago. So I want to be optimistic here, but in business ownership we really haven't made the progress that you'd think that we would, given the gains that we have made in labor force participation, in education, and so forth. We still have a long way to go, but that is an opportunity for us.

Leone de Nie: *Prior research by you and other scholars suggests that women entrepreneurs start up with less capital than their male counterparts, but the entrepreneurs that you interviewed for the book proposed that many women are just more "capital efficient." What does this mean, and does it play a role in the ultimate success of the firms?*

Robb: So women start their businesses and continue to finance their businesses over time with a lot lower levels of financial capital than do men. However, some of that is due to women being in industries that are less capital intensive, but that's not the whole story. If you look across industries, on average, women are using less financing. Also, the composition of that financing is very different. Women, for example, are much more likely to use a greater share of owner equity than are men. The actual share of formal debt financing from bank loans, etc. is quite similar. However, the share of formal equity financing through venture capitalists and "angels" is much lower than those for men. So we see both levels of financing being lower and women relying much less on formal equity financing from angels and venture capitalists.

When you talk about capital efficiency, women tend to "bootstrap" more, and by bootstrap I mean trying to minimize the amount of capital needed through various measures like, for example, starting a business in their home so that they don't have to pay rent in an office building, not paying themselves initially so that they don't have to pay that salary.

So, yes, women tend to bootstrap more and are efficient with the capital that they bring in, but it can be detrimental. You have to have adequate capital levels to maintain cash flow for liquidity issues to invest in things that you need to grow your business, and if you're bootstrapping too much, then you're not going to have the capital that you need to adequately address the current business operations and future growth opportunities.

Leone de Nie: *So why are the levels of financing so different between women and men? Are the levels so different simply because they don't need it?*

Robb: I don't think so. We see a similar pattern across all industries. Even with high-tech, high-growth firms, we see women using lower levels of financial capital and being less reliant on equity capital. In terms of debt financing, we see similar reliance on bank financing when compared with men, but the levels are still much, much lower. In various surveys women have said that they've not applied for credit when they needed it because they feared they'd be turned down. When you actually look at the data and loan turndowns by banks, there are no gender differences. This gets at the confidence or lack of confidence issue that characterizes women more so than men, and certainly we see that on the equity side as well. Women are not going to the table and asking for the financing that men are, and when they do go and ask, they're asking for lower levels of financing.

Leone de Nie: *So Alicia, you mentioned external equity. Continuing on that line of thought, what is the current engagement of women in the private equity arena on the whole? Not just accessing equity, but what roles are they playing there now?*

Robb: So we have a huge gender gap in both external equity on the funding side and the funder side. Women receive much less of the external equity financing in the United States in terms of angel financing and venture capital financing. So they receive a much lower share of the dollars and the deals.

But we also see that same gender gap on the funder side. There are very few women that are angel investors and venture capitalists. On the venture capital side, we see 6 to 7 percent of the venture capital partners are women. On the angel investor side, only about 12 percent of angel investors are women.

Leone de Nie: *The number of women minority-owned firms is growing rapidly. Still, in your book you talk about the heightened challenges these firms face, especially in financing. Can you talk about the different financing strategies women minority firms use, especially recognizing the diversity in the types of firms and industries that they represent?*

Robb: My first book was actually on race and entrepreneurial success, and while some of the challenges and barriers, especially around financial capital, are similar for women and for men, there are some differences. If you look at wealth levels by race and gender, we see that African-Americans and Hispanics have much lower wealth levels than whites. In addition, women have lower wealth levels than men.

So when you think about wealth and the ability to bring financial capital to the table, we see that minority women have a lot less financial capital. This affects the ability to raise financial capital as well. So having lower wealth levels means that you cannot leverage debt financing to the same degree as someone with a much higher level of wealth. But also, it restricts your ability to invest your own money into a business. So given that, we do see minority women starting with much lower levels of financial capital than nonminority women, just as we see minority-owned businesses, at least with respect to African-Americans and Hispanics, starting with much lower levels of financing than white businesses.

They also tend to rely more on owner equity and friends and family, rather than formal financing channels. But again, when you go back to the wealth levels, you have lower wealth yourself, and your network, which is usually at a similar socioeconomic level, also has lower wealth levels and so you are tapping into a smaller pool of funds.

Leone de Nie: *So in closing, can you touch on a few key policy priorities that might foster more women entrepreneurship by improving access to financial capital and, continuing in that vein, what your crystal ball suggests we should expect in the future?*

Robb: Given the underrepresentation of women in entrepreneurship, especially high-growth entrepreneurship, I think we need to take a step back and think about what kinds of policies are going to encourage and equip the next generation of women entrepreneurs to enter into industries that have opportunities for high growth and wealth accumulation. I think it starts early in education—encouraging more women to study in nontraditional fields such as math and science and engineering. I think focusing on financial literacy, not just for entrepreneurship but for consumer finances.

As more and more women achieve financial success and professional success through being an entrepreneur, being a CEO, being on the board of directors of a Fortune 500 firm, we are getting to a critical mass of highly visible and successful women. As we have more visibility of high-profile women like these, younger women and girls are going to see the opportunities in a much broader set than we ever did. Getting more women on the funding side is very much dependent on this. We need women to be venture capitalists and angel investors, and we're only going to get those women to be angel investors and venture capitalists if they succeed in business, they succeed in entrepreneurship, and then they have the wealth and the human capital to become successful as an investor.

Leone de Nie: *Alicia, thank you for joining us today.*

Robb: Thank you for the opportunity.

Leone de Nie: *This concludes our podcast. We've been speaking with Dr. Alicia Robb of the Kauffman Foundation. For more podcasts on this topic and others, please visit the Atlanta Fed's website at www.frbatlanta.org. If you have comments or questions, please e-mail podcast@frbatlanta.org. Thanks for listening.*

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