



SMALL BUSINESS

Financing Profiles

SME Financing Data Initiative

November 2004

Women Entrepreneurs

Christine Carrington, Industry Canada

Women entrepreneurs have been the topic of many research studies throughout the last decade. These studies have predominantly focused on women entrepreneurs' access to capital, often suggesting that women lack experience and networks, that women have poor credit ratings, or that Canada's financial institutions have rigid lending policies or even inherent gender biases.

Using the most comprehensive database on small business financing available through the SME Financing Data Initiative, this article examines the unique characteristics of women entrepreneurs and investigates whether these qualities influence the financing of women-owned businesses.

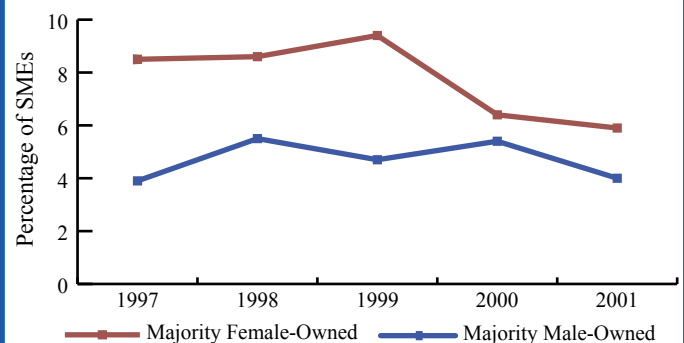
STRENGTH IN NUMBERS

Women are taking on the risks and rewards of entrepreneurship in ever-increasing numbers. Over the past two decades, Canada witnessed an increase in women's entrepreneurship of over 200 percent.¹ Since 1997, on average, women entered the small and medium-sized enterprise (SME) marketplace at twice the rate per year as men. Figure 1 shows the percentage of businesses operating in 2002 by the year of their establishment (for example, 8.5 percent of majority female-owned businesses operating in 2002 were established in 1997).

Women entrepreneurs outpaced men in new business start-ups, although this rate has converged since 2000. This means that women are operating newer businesses, with 39 percent of majority women-owned small or medium-sized enterprises having entered the market within the past five years.

By 2001, nearly half of all SMEs in Canada had at least one female owner (see Figure 2).² Women held majority ownership (51 to 100 percent equity in the firm) in 18 percent of SMEs, up from a 15-percent share the previous year. It is these women entrepreneurs in a majority ownership position that this article will focus on in order that comparisons can be made with majority male-owned businesses.

Figure 1
Percentage of SMEs Operating in 2002 by Year of Establishment



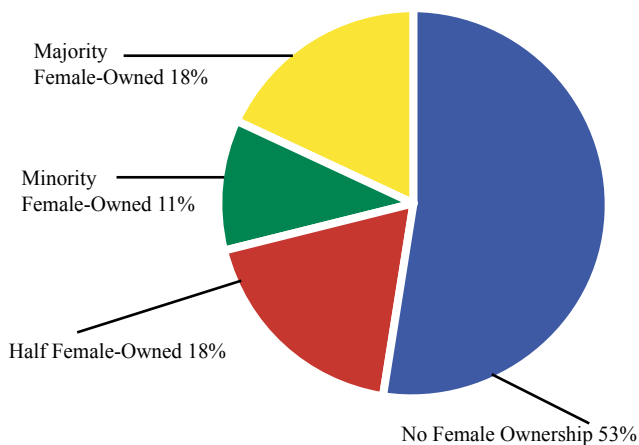
* Applicable to firms still in operation in 2002 and excluding firms that began operations but exited the market prior to 2002.

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2001.

¹ Statistics Canada 2001 Census. Between 1981 and 2001, the number of women entrepreneurs grew by 208 percent compared with a 38-percent increase for men.

² Based on the definition of an SME used in Statistics Canada's Survey on Financing of Small and Medium Enterprises, which includes businesses with fewer than 500 employees and less than \$50 million in annual revenues and excludes non-profit and government organizations, schools, hospitals, subsidiaries, co-operatives, and financing and leasing companies, there were more than 715 500 SMEs in Canada with at least one female owner in 2001.

Figure 2
Gender Distribution of SME Ownership (2001)



Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2001.

ECONOMIC IMPACT

Women's presence within the business landscape has had a noticeable impact on the Canadian economy. Almost 570 000 people were employed by majority women-owned businesses in 2001, and an additional 404 000 people were hired on contract.³ Majority women-owned SMEs brought in combined annual revenues of \$72 billion in 2000, representing approximately 8 percent of all revenues from Canada's SMEs.

The effect of this contribution has been felt across Canada, especially in Quebec, where majority women-owned SMEs accounted for 21 percent of the province's SMEs in 2001. The proportion drops to a 9-percent low in Manitoba and Saskatchewan. Throughout the Prairies, however, women's relative absence in majority ownership of firms is more than offset by the relatively higher proportion of male/female partnerships within the agricultural sector. In remaining regions of the country, women's majority ownership of firms hovers around 18 percent on average.

³ Statistics Canada's *Survey on Financing of Small and Medium Enterprises* defines contract workers as those who are paid on a contractual basis rather than as a paid employee.

⁴ Sales figures average results for all SMEs. As such, the substantial sales discrepancy between women and men is likely the result of the tendency of women-owned businesses to be smaller, newer and more concentrated in low profit margin service industries than those owned by men. However, the extent to which these factors contribute to the sales gap has not yet been fully tested.

PROFILE

Composite of Women Entrepreneurs in 2001

- 32% are under the age of 40 (compared with 21% of men)
- 62% speak English, 25% speak French and 13% speak a non-official language
- 1% are Aboriginal
- 8% are members of a visible minority
- 3% have a disability
- 54% have a graduate or post-graduate education (compared with 47% of men)
- 70% have more than 10 years of management experience in their business' industry (compared with 86% of men)
- 56% operate their business out of their home (same as men)
- 18% operate their business out of rural areas (compared with 27% of men)
- 7% exported their products or services outside of Canada (compared with 13% of men)

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2001.

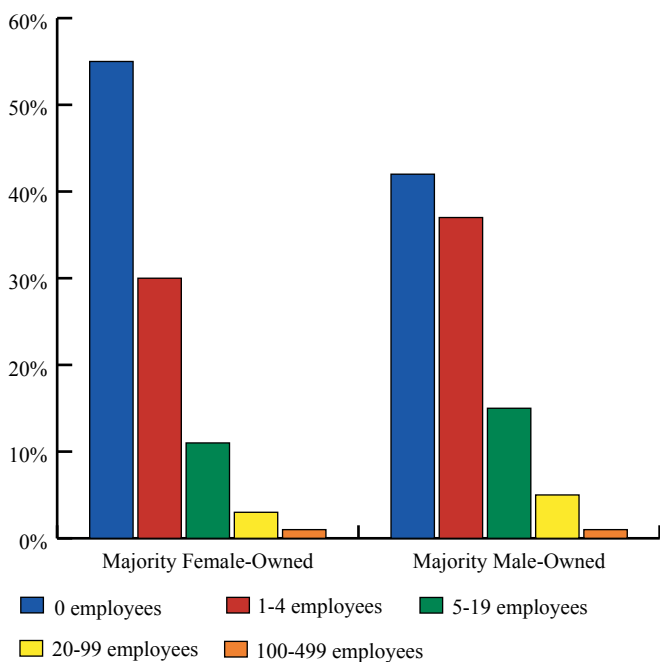
SMALLER SCALE OF OPERATIONS

Research has shown that size of business is one of the strongest indicators of the level of sophistication of a firm's financial and ownership structures (Baldwin, Gellatly and Gaudreault, 2002). Business size can be measured in various ways, but is most often evaluated in terms of employment size, sales or revenues, and organizational structure. In all three measures, women entrepreneurs are found to operate their businesses on a smaller scale than those owned by men:

- 85 percent of women-owned firms are micro-businesses, employing fewer than five employees (compared with only 79 percent for men) (see Figure 3);

- women averaged \$318 000 in sales in 2000 (compared with \$680 000 for men)⁴; and
- nearly half of women-owned businesses are sole proprietorships (compared with 39 percent for men).

Figure 3
Distribution of Firms by Business Size in 2001



Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2001.

A substantial number of women are also found operating the smallest, albeit most numerous, of Canada's businesses — the self-employed. Of the 2.3 million Canadians identified by Statistics Canada's *Labour Force Survey* as self-employed, more than 780 000 are women.⁵

Although in absolute numbers there are fewer self-employed women, women have experienced faster growth in this category than men throughout the past

decade. From 1991 to 2001, self-employment among women expanded by 43 percent, more than double the 21-percent growth in self-employment among men.

This surge in self-employment could be attributed to several factors (Brown et al., 2002); two in particular are:

- the opportunity for women to better balance family obligations and working life; and
- the emerging “enterprising culture” in Canada, sparking women's interest in starting their own business.

Some have suggested that women have been forced into self-employment due to a lack of viable work alternatives. However, recent research has found that unemployment has not played a role in the growth rate of self-employed women.⁶

CONCENTRATED IN SERVICE SECTORS

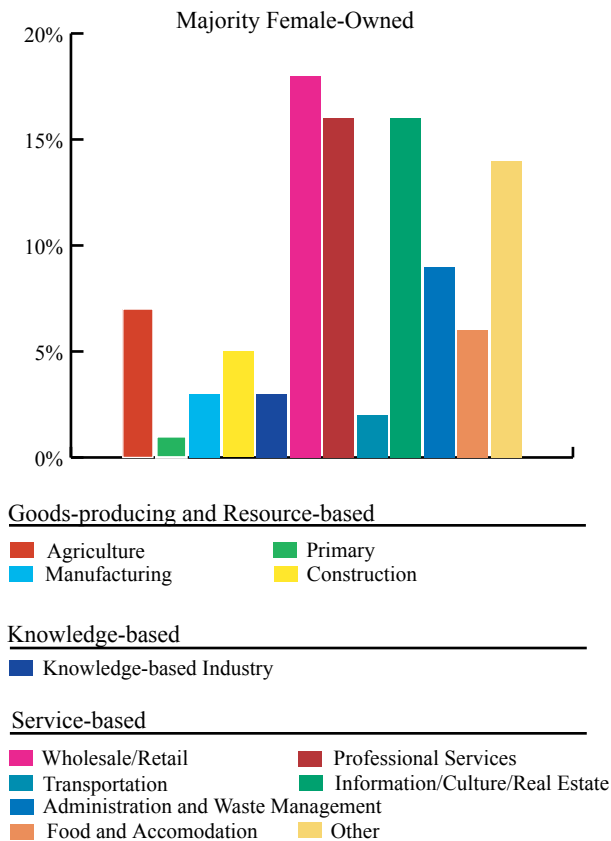
Women entrepreneurs are found in every sector of the Canadian economy, but are largely concentrated in service industries. In 2001, four in five majority women-owned SMEs were found in service-based industries, compared with only 59 percent of SMEs owned by men. Figure 4 indicates that the most common service sectors for women entrepreneurs were wholesale/retail, professional services and information/culture/real estate, accounting for 18 percent, 16 percent and 16 percent respectively.

Knowledge-based industries (KBI) and manufacturing were two sectors that did not appear to attract as many women entrepreneurs. These two sectors, which are key sectors driving Canada's growth and innovation, attracted only 6 percent of all women entrepreneurs in 2001.

⁵ The *Labour Force Survey* is a survey of Canadian households, with the exclusion of people living in the Northwest Territories and Nunavut or residents of reservations, hospitals, penitentiaries and long-term facilities. This means the target population is much larger than that of the *Survey on Financing of Small and Medium Enterprises*, which only surveys enterprises listed in Statistics Canada's *Business Register*. (Statistics Canada, *Labour Force Survey*, 2001.)

⁶ There is no evidence to suggest that unemployment has an impact on the growth rate of self-employed women at the national level, but not necessarily at the regional level. Brown, Doyle, Lewis, Mallette, Purcell and Young. 2002. “Women Entrepreneurs in Canada in the '90s.” Prepared by Mount Saint Vincent University for the Business Development Bank of Canada.

Figure 4
Distribution of Firms by Industry Sector in 2001*



Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2001.
 * Excluding Arts and Entertainment due to poor data quality.

FINANCIAL PERFORMANCE

Majority women-owned SMEs generally exhibit solid financial performance, but on a smaller scale than SMEs owned by men. Table 1 presents key financial statement figures for an average women-owned business in 2000, compared with an average business owned by a man. In 2000, a woman entrepreneur's average net profit before taxes was approximately \$34 000 per business, compared with \$65 000 for the average male-owned SME. The extent to which this gender-based income gap remains after sector, size and age of business are taken into account has not yet been determined. However, it is likely that women's more modest profits are consistent with the profile of newer, smaller firms in service industries.

Table 1
Financial Statement Figures for Majority Female-Owned and Majority Male-Owned SMEs (average \$), 2000

| | | Majority Female-Owned SMEs | Majority Male-Owned SMEs |
|-------------------------------------|-----------------------|----------------------------|--------------------------|
| | | (average \$) | |
| Revenues | Sales | 318 000 | 680 000 |
| | Total Revenue | 335 000 | 706 000 |
| Expenses | | 301 000 | 641 000 |
| Net Profit (loss) Before Tax | | 34 000 | 65 000 |
| Assets | Current Assets | 117 000 | 250 000 |
| | Fixed Assets | 152 000 | 337 000 |
| | Total Assets | 269 000 | 587 000 |
| Liabilities | | 152 000 | 351 000 |
| Equity | Owners' Equity | 58 000 | 142 000 |
| | Total Equity | 117 000 | 236 000 |

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000.

PERCEIVED OBSTACLES TO GROWTH

Women entrepreneurs are clearly not homogenous. Women own businesses of all sizes, in all sectors and in all stages of development. As illustrated, however, the profile of a typical female-owned business does contrast with the average characteristics of a male-owned firm. These differences have an effect on the financial performance of women-owned firms. However, profiles alone do not tell the complete picture unless one assumes that both women and men exhibit the same expectations for their business and perceive similar obstacles to reaching those goals.

Perceived Obstacles to Business Growth and Development

Ranking for Female Entrepreneurs

| | | |
|---|--------------------------|-----|
| 1 | Finding Qualified Labour | 45% |
| 2 | Levels of Taxation | 40% |
| 3 | Instability of Demand | 33% |
| 4 | Low Profitability | 23% |
| 5 | Insufficient Financing | 22% |
| 6 | Government Regulations | 21% |
| 7 | Equipment Depreciation | 13% |
| 8 | Managerial Skills | 7% |

Ranking for Male Entrepreneurs

| | | |
|---|--------------------------|-----|
| 1 | Finding Qualified Labour | 39% |
| 2 | Levels of Taxation | 38% |
| 3 | Instability of Demand | 32% |
| 4 | Low Profitability | 32% |
| 5 | Government Regulations | 28% |
| 6 | Insufficient Financing | 27% |
| 7 | Equipment Depreciation | 18% |
| 8 | Managerial Skills | 10% |

Source: Research Institute for SMEs, Université du Québec à Trois-Rivières, 2002. "Financing SMEs: Satisfaction, Access, Knowledge and Needs, 2001." Commissioned by Industry Canada.

Research suggests this is not the case. In an examination of business owners' perceptions of success, it has been found that "women business owners accord higher value to maintaining customer and personal relationships, spiritual well-being and work-life balance" (Orser and Riding, 2004).

This finding does not appear to impact the growth expectations of women entrepreneurs for their businesses. Nearly half of women entrepreneurs anticipated more than 50 percent sales growth in their firm over the 2001–2002 period, compared with only 40 percent of men. These more ambitious growth intentions are likely correlated with the fact that women entrepreneurs generally own newer businesses, rather than any significant attitudinal difference between men and women.

To achieve their business growth objectives, both women and men face similar roadblocks. Finding qualified labour, taxation levels and instability of consumer demand were the top three obstacles identified by both men and women entrepreneurs. Although financing did not rank near the top of the list of concerns of business owners, it was still a problem identified by 22 percent of women entrepreneurs and 27 percent of men entrepreneurs.

FINANCING ACTIVITY

Financing is a challenge facing any entrepreneur. Without sufficient levels of capital, new firms are unlikely to establish themselves in the marketplace or reach their full growth potential. Past research suggested that there has been differential treatment of women entrepreneurs by financial providers, either in respect of access to financing or terms and conditions thereof.⁷ The following section examines the financing activity of women- versus men-owned SMEs, concluding that characteristics such as business size, sector and age are likely stronger determinants of access to financing than gender.

⁷ Prime Minister's Task Force on Women Entrepreneurs. 2003. "Report and Recommendations." Submission to Task Force by Louise St. Cyr et al. on their review of academic studies on women entrepreneurs and their difficulty in accessing financing.

LESS DEMAND FOR FINANCING

Table 2 indicates that women business owners were less likely to make a request for debt than men. Women's lower request rates were not a matter of access so much as need. Of those women entrepreneurs who did not apply for financing in 2000, 86 percent said it was because external financing was not needed. Only 7 percent of women business owners avoided approaching financial institutions because they thought their application would be rejected. Chartered banks received the majority of requests for debt (68 percent of women's requests in 2000), similar to male business owners.

The most common intended purpose of debt financing sought by women entrepreneurs was working capital, similar to men entrepreneurs. New lines of credit, term loans and mortgages were the most sought-after forms of debt for women business owners. No statistically significant difference was found between women and men in their leasing and equity financing activities.

Table 2
Financing Request and Approval Rates for Majority Female-Owned and Majority Male-Owned SMEs, 2000–2001

| Type of Financing | | Majority Female-Owned SMEs | | Majority Male-Owned SMEs | |
|-------------------|----------|----------------------------|-------|--------------------------|-------|
| | | 2000 | 2001* | 2000 | 2001* |
| Debt | Request | 17% | 15% | 23% | 18% |
| | Approval | 82% | 75% | 80% | 81% |
| Lease | Request | 7% | 6% | 9% | 8% |
| | Approval | 99% | 100% | 97% | 93% |
| Equity | Request | 2% | 1% | 2% | 1% |
| | Approval | 87% | n/a | 70% | 83% |

* 2001 data is less statistically reliable due to smaller survey sampling.

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000 and 2001.

Credit Conditions for Women Entrepreneurs in 2000

- Lines of credit (34%), term loans (25%) and mortgages (13%) were the most sought-after forms of debt for women.
- Women, on average, requested term loans of \$181 000 and were authorized \$194 000 (compared with \$137 000 requested by men and \$144 000 authorized for men).
- For mortgages, women requested \$194 000 and were authorized \$196 000 (compared with \$572 000 requested by men and \$645 000 authorized for men).
- 38% of women requesting financing were required to pledge personal assets as security (same as men).
- 35% of women were required to pledge business assets (compared with 40% of men).
- Business financial statements, formal applications and personal financial statements were most commonly requested by the credit supplier. Nearly a quarter of women report not having to provide any documentation (compared with 16% for men).

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000.

BUT SIMILAR APPROVAL RATES

Women business owners are just as likely as men to have their financing applications approved. In 2000, 82 percent of women entrepreneurs were approved for debt compared with 80 percent of men. In 2001, there was a noticeable drop in women's approval rates; however, it is not certain whether this decline is a factor of smaller survey sampling in 2001 or a change in the lending behaviour of financial institutions.

CAPITAL STRUCTURE

Financing sought from financial institutions is only one source of capital for women business owners. Examining the capital, debt and ownership structures of their businesses provides a more complete picture.

Figures 5 and 6 list the top ten sources of financing used by women entrepreneurs at the time they started their business and in 2000 respectively. Similar to men, women entrepreneurs rely on internal financing sources to get their business up and running. A women business owner’s personal savings and credit instruments are the most used sources of financing at this stage. Loans from family and friends, known as “love money,” are also more prevalent for women during start-up. Given the high exit rate of newer firms, this places a substantial amount of personal financial risk on women wishing to start a company.

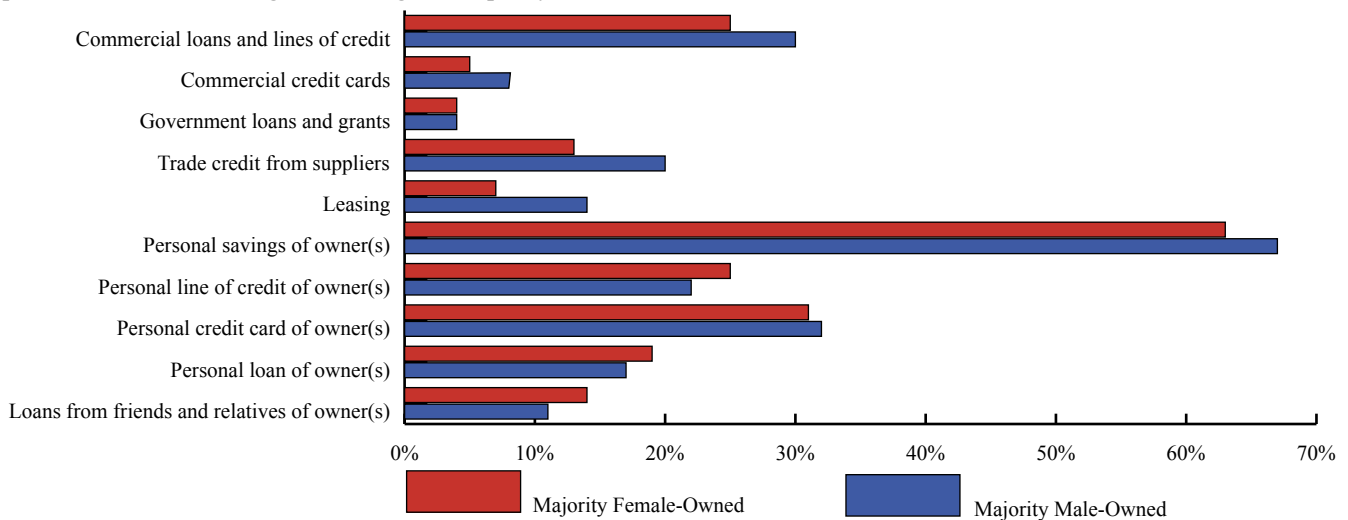
As businesses mature, owners turn toward external sources of financing in the form of commercial loans, lines of credit and credit cards. Unlike men, however,

women entrepreneurs continue to rely on their savings and personal credit beyond their start-up stage of development. This is consistent with the financing of relatively newer and smaller businesses.

There is a particular disparity between men and women in their use of commercial loans and lines of credit, and trade credit from suppliers. In 2000, 50 percent of SMEs owned by men held a commercial loan or line of credit, compared with only 42 percent of SMEs owned by women. Women similarly lagged behind men in trade credit usage (30 percent compared with 41 percent).

In both cases, the variation is likely a result of sector influences. The agricultural sector is the leading user of commercial credit (72 percent usage) and manufacturing leads in the usage of trade credit from suppliers (58 percent usage). Women are not as prominent in these sectors as men entrepreneurs (see Figure 4).

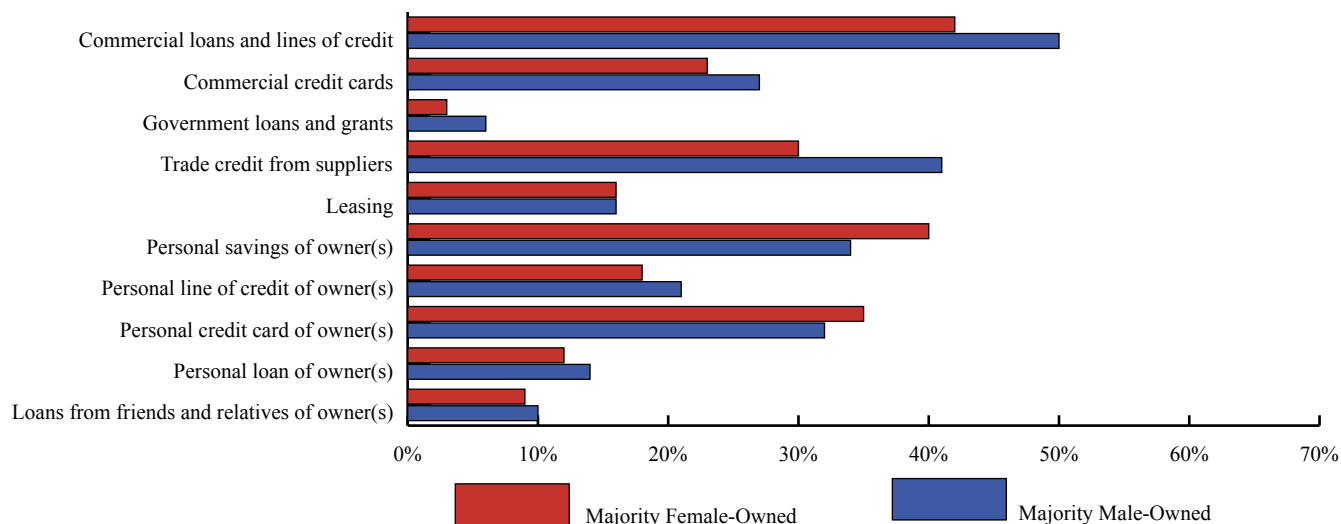
Figure 5
Top Ten Sources of Financing used during Start-up,* by Gender



* Reported by SMEs operating in 2000, in relation to their financing experiences in starting up their business, at any time between 1996 and 2000.

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000.

Figure 6
Top Ten Sources of Financing in 2000,* by Gender



* Includes any source used, regardless of whether it was authorized or obtained in a previous year.
 Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises, 2000*.

DEBT STRUCTURE

Women entrepreneurs owed almost \$33 billion in debt in 2000. Table 3 shows the distribution of debt owed by women and men entrepreneurs by source in 2000. With the exception of trade credit from suppliers and individual loans, there are few gender differences in debt structures.

Table 3
Debt by Source, 2000

| Type of Supplier | Majority Female-Owned SMEs | Majority Male-Owned SMEs |
|---|----------------------------|--------------------------|
| Chartered Banks | 31% | 30% |
| Credit Unions/ Caisse populaires | 6% | 5% |
| Credit Cards | 1% | 1% |
| Government Programs | 4% | 4% |
| Leases | 2% | 1% |
| Individual Loans | 20% | 17% |
| Trade Credit | 15% | 21% |
| Other | 21% | 21% |
| Total Debt | 100% | 100% |

Source: Statistics Canada, *Survey on Financing of Small and Medium Enterprises 2000*.

OWNERSHIP STRUCTURE

Risk capital and early-stage equity financing typically form part of the financing strategy used by newer, high-growth potential firms. Women entrepreneurs appear less likely to adopt this strategy. Eighty-one percent of majority women-owned SMEs say they are not willing to share ownership equity to raise capital for firm growth, whereas only 66 percent of men entrepreneurs are unwilling to share more equity (Research Institute for SMEs, 2002).

Women-owned SMEs combined held \$12.5 billion in total owner's equity in 2000, 94 percent of which was retained by the business owner, compared with 78 percent for men entrepreneurs. Ownership held by venture capital funds, angels, or friends and relatives is so small a portion of women's ownership structure that reliable data are not available for women-owned SMEs.

SUMMARY & DISCUSSION

Academic studies in both Canada and the United States have tested the impact of gender on access to financing and terms of credit (Riding and Swift, 1990; Fabowle et al., 1995; Coleman, 2000). With the exception of one study conducted by the Canadian Federation of Independent Business, which found higher financing refusal rates for women-owned businesses (Marleau 1995), no significant differences

were found between women-owned businesses and men-owned businesses of similar size, sector and age in respect of access to financing.

The financing activity of women and men entrepreneurs in 2000 and 2001 supports these conclusions. Although women entrepreneurs were found to be less likely to approach financial institutions for financing during this period, it was most often due to the fact that they judged that external financing was not needed. Of those women entrepreneurs that did apply for financing, they were just as likely as men to be approved. Terms and conditions attached to the financing received were also similar for both women and men entrepreneurs.

At the same time, there are clear differences observed in the profile of women- and men-owned SMEs. Women-owned firms are smaller, newer, more concentrated in services industries and, on average, less profitable than SMEs owned by men. Although not impacting on access to financing, these differences do appear to influence the capital and ownership structures of SMEs owned by women. Women entrepreneurs use personal savings and personal credit more than men, even beyond the initial start-up of their business. Understanding the causes and ramifications of these differences on the growth and development of women-owned businesses is an area for further research.

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SME Financing Data Initiative

Small Business Financing Profiles is an ongoing series of articles on specific segments of the marketplace and a component of Industry Canada's reporting efforts on SME financing. Other profile articles have examined Canada's visible minority entrepreneurs and young entrepreneurs.

Consistent with recommendations in 1999 from the Task Force on the Future of the Canadian Financial Services Sector, the SME Financing Data Initiative is a comprehensive data collection program on SME financing in Canada. In partnership with Statistics Canada and Finance Canada, Industry Canada reports on the supply of, and demand for, small and medium-sized business financing to provide a complete picture of SME financing.

As part of the initiative, Statistics Canada administers a series of national surveys on small and medium-sized enterprises (*Survey on Financing of Small and Medium Enterprises*) and financial providers (*Survey of Suppliers of Business Financing*). Industry Canada supplements these surveys with additional research into niche areas of SME financing.

For further information on the SME Financing Data Initiative and access to statistical findings and reports, visit www.sme-fdi.gc.ca. For information regarding the methodology of the *Survey on Financing of Small and Medium Enterprises*, visit Statistics Canada's website at www.statcan.ca.

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Cat. No. Iu188-4/2-2006E-PDF
ISBN 0-662-42727-0
54336E

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