Factors Affecting Performance of Women Entrepreneurs

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ABSTRACT

Entrepreneurship is the assumption of risk and responsibility in designing and implementing a business strategy or starting a business. It is common in all societies and is usually embarked upon by choice or as a last resort in economic hardship. Entrepreneurship is usually part of the informal sector in both developed and developing countries and the success rate of gender in this arm of business is dependent on a variety of factors. There are similarities in gender performance between different economies but also stark differences in their cultural and socio-economic environment.

Introduction

Background to Entrepreneurship and the Informal Sector

The informal sector (IS) is the portion of a country that lies outside of any formal regulatory environment and activities are rarely reflected in official statistics on economic activity. IS covers a wide range of labour market activities that combine two groups of different nature.[1] On one hand, the informal sector is formed by the coping behaviour of individuals and families in economic environments where earning opportunities are scarce. On the other hand, the informal sector is a product of rational behaviour of entrepreneurs that desire to escape state regulations (The World Bank Group 2007). The majority of informal economy workers are women thus policies and developments affecting the informal economy have a gendered effect.

Poverty traps women in multiple layers of discrimination and hinders their ability to claim their rights. Not only do women bear a disproportionate burden of the world's poverty, but in some cases, globalization has widened the gap, with women losing more than their share of jobs, benefits and labour rights.[2] For countries to successfully achieve the MDGs by 2015, they must tackle MDG #3, because gender equality and women empowerment in society is essential in addressing environmental, economic and societal problems and the exclusion of gender in policy creation can seriously damage the efficacy of the MDG implementation.

Gender Entrepreneurship in Developed and Developing Countries

The IS plays an important and controversial role by reducing unemployment and underemployment but in many cases jobs are low-paid and job security is poor. Size of the IS varies from 4-6% in developed countries to >50% in developing countries. IS size and role in the economy increases during economic downturn and periods of economic adjustment and transition (World Bank Group 2007).

The ILO international symposium on the informal sector in 1999 proposed that the informal sector workforce can be categorised into three broad groups namely:

- owner-employers of micro-enterprises, which employ a few paid workers;

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[1] Ibeh, E.M. (2007) Difference between informal sector in developing, developed and economies in transition. In Mirjana Radovic (Ed.) *Gender and Informal Economy: Case of Africa, developing, developed and transition countries* (p 62).

[2] UNIFEM/Gender issues/Women, Poverty & Economics

- own- account workers, who work alone or with the help of unpaid workers and,
- Dependent workers, paid or unpaid (The World Bank Group 2007).

On an international scale, women-owned firms comprise 25-33% of businesses in the formal economy and according to the U.S. Census Bureau of 2001, women are starting businesses at unprecedented rates and the majority are married with children[3].

Women are active in micro and small-scale enterprises (MSEs) but they face particular problems and challenges in developing their businesses. In addition to those problems faced by all small-scale entrepreneurs, it is commonly asserted that women frequently face gender bias in the socio-economic environment in which they operate. They face additional or at least different social, cultural, educational and technological challenges than men when it comes to establishing and developing their enterprises, and accessing economic resources (Mayoux, 2001). Furthermore, it is recognized that women in most societies carry the added burden of family and domestic responsibilities, and this has a limiting impact upon their ability to generate income outside of the home.

These problems are usually endemic in developing economies which often lack gender-sensitive policies and possess highly gendered sectors, dominated solely by males. On the contrary, this does not seem to be the case in developed economies. There are five theoretical perspectives explaining gender entrepreneurial performance and these are:

- Motivations and goals
- Social learning (entrepreneurial socialisation)
- Network affiliation (contacts and membership in organisations)
- Human capital (educational level, business skills).
- Environmental influences (location, sectoral participation and socio-political variables). (Source: Lerner and Hisrich (1997))

Another perspective exists as a contributing factor to gender entrepreneurship where it is prevalent in the developed world. This factor is ethnicity, and how it affects gender entrepreneurship in Black America. Ethnicity can be defined as an affiliation resulting from racial or cultural

[3] In Journal of Small Business Management, Vol. 41

ties.[4] America is a nation richly diverse in ethnicities and it can boast of possessing every major nationality and tongue.

Out of these, African-Americans constitute a large part of the society due to their long and well documented fight for equality from the slave trade to the Civil Rights era. As of July 1, 2007, African-Americans make up 40.7million (13.5%)[5] of a total US population of 303,824,640[6] and yet their conditions, although vastly improved over the centuries, have remained relatively similar to pre-Civil Rights era in terms of urban poverty and unemployment. They own 5% of American companies but receive <0.5% of the revenue and face fewer opportunities and more challenges than other American ethnicities.[7] This is because not many companies embrace supplier diversity and make it a point to purchase from African-American entrepreneurs. Also there is an unspoken 'perception of incompetence'[8] bias that works against Black businesses as they are incorrectly assumed to possess lower professional standards. Until this perception changes, Black businesses will continue to face a bleak future in the business world.

In the United States, black-owned businesses are 20% more likely to fail within their first four years than white-owned businesses are. Black-owned businesses also tend to start with less capital, and are four times more likely to be denied credit than white-owned firms. In addition, African-Americans are less likely to benefit from the multigenerational family and social ties that so often lead to business partnerships among white-owned firms in this country.[9]

In these times of recession, socially marginalised groups of society are feeling the crunch, none more than the African-American society. In the best of times, many African American communities are forced to tolerate levels of unemployment unseen in other ethnic communities and in 2007, their unemployment rate was 8.3% and it is expected to rise as the recession continues. Gender entrepreneurial response to joblessness is usually swift as the women long ago found a way to combat long-term

[4] The freedictionary.com
[5] Infoplease: African Americans by the numbers: From the US Census Bureau.
[6] CIA Factbook
[7] Charity Guide: African-American Entrepreneurs
[8] Ibid
[9] Ibid

unemployment by engaging themselves in the personal services sector of the informal economy, such as running beauty salons.

In addition, Black women are starting businesses at a faster rate in America which is surprisingly in contrast with their ethnicity as a historical limiting factor. There are 917,000 female-owned firms in America and 95,000 are Black-owned compared to 200,000 Hispanic-owned and 319,000 Asian-owned.[10]

Businesses owned by women are the fastest-growing sector of new ventures. Nearly half of all privately held firms in 2004 were at least 50% owned by women, according to the National Foundation for Women Business Owners. Between 1997 and 2004, the number of businesses owned by women grew by almost 20%, compared with only a 9% increase overall. But even in these favourable climes, studies have shown that women receive less funding than men from investors-but that is because they ask for it less, the majority preferring to borrow from friends and family[11].

In the UK, The Prince's Trust, a charity organisation set up by the Prince of Wales, is dedicated to helping young people between ages 14-30 by giving them practical and financial support through business programmes, development awards and community cash awards at very low interest rates (The Prince's Trust). Although not gender-specific, many of the benefiting individuals are young single women with small children and they have set up lucrative business enterprises countrywide. The Trust has gone a long way in addressing unemployment and social exclusion of poor and non-formally trained individuals, especially female.

In Israel, research carried out by Lerner and Hisrich on the effects of these perspectives on gender showed that network affiliation, motivation, human capital, and environmental factors affected different aspects of performance, whereas social learning had no significant effect on performance outcomes. Network affiliation was significantly related to profitability, and the use of outside advisors also was related to revenue. In contrast, participation in multiple networks was negatively related to revenue, income, and size of the business.

Although Israeli women are highly educated (51% possess degrees), analyses of human capital variables showed mixed results. Consistent with

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[10] US Census Bureau 2009 Statistical Abstract
[11] Journal of Business Venturing, Vol.22, Issue 4

prior research findings, previous experience in the industry had a direct and significant effect on performance whereas previous salaried employment and involvement in the creation of a business were significantly correlated with sales and number of employees. The age of the women's children was significantly related to profitability as majority of female Israeli entrepreneurs are married and became entrepreneurs after their children were grown.

In developing countries, women's limited networks reinforce their isolation as entrepreneurs and reduce their scope and opportunities for building personal and business know-how and accessing other physical and financial assets. In Nigeria for example, micro-finance and community banks are present to aid small and medium-scale enterprises (SMEs) and MSEs but these entities charge such exorbitant interest rates and demand expensive collateral that many prefer to borrow from family than risk repossession in the event of any potential repayment default.

Most middle-class women in developing sub-Saharan African countries engage in 'suitcase trade' whereby they travel to America, Europe and Asia to purchase clothes, fabrics and household items for sale back in their respective countries. This trade is either done wholly or is used to supplement unreliable income from the formal sector and capital raised is usually from personal savings or family contributions[12] and repayments are not always instantaneous because of the culture of buying on credit and owing for those purchases.

Socio-cultural issues play a part in limiting gender entrepreneurship amongst these middle-class women because although most are educated to high-school or University levels, they are usually regarded with suspicion if they engage in entrepreneurship without the presence of their spouses and very many are offered no credit, when they do ask for it, initially and are asked to return with their spouses for approval.

Bangladesh is one of the world's poorest nations and gender entrepreneurship there is no easy task as women possess little education and scant business skills. Nevertheless, many social and operational constraints continue to restrict women from starting and running economic enterprises. Gender based problems are severe for women entrepreneurs

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[12] Ibeh, E.M. (2007) Difference between informal sector in developing, developed and economies in transition. In Mirjana Radovic (Ed.) *Gender and Informal Economy: Case of Africa, developing, developed and transition countries* (p 62).

where social customs and norms influence their choice of trades, mobility, support and costs of operations[13].

The gender-based constraints faced by women relate to legal, social, financial, market, infrastructure, information and management capacity. Banks and other financial institutions generally prefer large enterprise clients because of the lower transaction costs and greater availability of collateral. SMEs also fall outside the reach of both microfinance and institutional schemes, and are thus compelled to depend more on informal sources of funds at much higher interest rates. Since women entrepreneurs mainly concentrate on SMEs, they are relatively more adversely affected[14].

The bureaucratic impediments disproportionately affect women-run businesses. Some trades owned by women are to operate within specific times as clients are also women. Inadequate infrastructure has an additional impact on women entrepreneurs as their mobility and operations are dependent on specific time due to security, family and/or religious considerations. Women entrepreneurs are likely to suffer more than other businesses from the poor quality of energy supply, as they lack resources to make independent provision for alternative energy supplies and due to security considerations women have to incur higher costs for transportation for procurement and marketing[15].

Bangladesh is also home to the Nobel Prize-winning Grameen Bank. Founded in 1976 by Professor Mohammed Yunus, it was initially launched as an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor in the village of Jobra. Today it is present in 83,566 villages. Grameen Bank is owned by the rural poor whom it serves and borrowers of the Bank own 90% of its shares, while the remaining 10% is owned by the government[16].

Grameen Bank methodology is the reverse of conventional banking because it is collateral-free, and where conventional banking is owned by the rich, generally men, Grameen Bank is owned by poor women. Microcredit loans are focused on the poorest of the poor with loan conditionality particularly suited to them which include very small loans given without any collateral, loans repayable in weekly installments spread

[13] Asian Development Bank
[14] Ibid
[15] Ibid
[16] Grameen Bank

over a year and eligibility for a subsequent loan depends upon repayment of first loan, amongst others.

As the general credit programme gathers momentum and the borrowers become familiar with credit discipline, other loan programmes are introduced to meet growing socio-economic development needs of the clientele. Besides housing, such programmes include:

1. Credit for building sanitary latrines.
2. Credit for installation of tube-wells that supply drinking water and irrigation for kitchen gardens.
3. Credit for seasonal cultivation to buy agricultural inputs.
4. Loan for leasing equipment / machinery, for example, cell phones.
5. Finance projects undertaken by the entire family of a seasoned borrower. (Source: Grameen Bank)

The total number of borrowers is 7.67 million and 97% of them are women[17].

Grameen Bank has helped in lifting women out of the clutches of extreme poverty into self-sustainability and these women have become equal breadwinners in their families, either supplementing their spouse's income or in most cases, earning more than their spouses. In turn, it becomes a cause and effect situation because these uneducated mothers pay for their daughters' education (as very few poor families educate the girl-child) as they refuse to let them live the same lives as they have.

Women are the vanguard of entrepreneurial activity in the developing world and they engage mostly in enterprises like petty trading, fruits and vegetable vending, mobile canteens and mobile phone recharge cards vending. In the case of Nigeria, indigenous and multinational telecoms companies present in the country aid gender entrepreneurship by providing the equipment and accessories, at affordable rates, necessary for business start-up.

In the developed world, gender entrepreneurship can be split into ethnicity, as many ethnic nationalities run businesses focusing on the vending of certain items or services to members of their own ethnic community. This may be out of choice but is usually done to combat a

[17] Ibid

period of unemployment, thus turning out to become a permanent source of income.

Performance Factors Affecting Gender in Africa

The global economic meltdown has been making headline news for months now and while a lot has been heard about financial troubles in large auto companies and multi-national corporations, gender impacts of this crisis has been scarce reported in the media. In both developing and developed countries, many women have taken the role of primary breadwinner as the men have become redundant as a result of the crisis.

This is the case in Africa, where the aforementioned theoretical perspectives also affect gender but in varying ways to their counterparts in developed countries and these are:

1. *Women are poor, have few if any of their own assets, and have limited means of accessing such resources from others.* Women entrepreneurs usually start enterprises with minimal assets – be they social, human, financial, physical or natural.
2. *Women have low levels of formal education at best, but are more likely to have had no formal education, to be illiterate and in general have limited human assets.* Generally women's levels of education are lower than men's and the few girls who are educated are steered towards subjects preparing them for reproductive and domestic life rather than entrepreneurship.
3. *Women have limited or no experience of formal employment and business.* Previous studies have shown women in enterprise as having limited business and managerial experience prior to start-up. This is derived from the fact that they are concentrated in lower paid, lower status employment (both formal and informal) that does not support and enable them to build skills through experience.
4. *Women have limited business-related networks.* This factor is closely associated with their lack of formal employment and business experience, together with constraints placed on their mobility and ability to interact with other business people (mostly men) arising from culture/religion and motherhood responsibilities.

5. *Women are not positively motivated towards business ownership.* The reason for this negative attitude is that women have generally embarked into business by default. They have started enterprises when no other options were available to them in order to alleviate their poverty, rather than purposely pursing business ownership by choice. (Source: Mayoux 2001)

In addition, women's enterprises are frequently in sectors or of a scale that are not counted, or deemed worthy of tracking by researchers. Hence women tend to be shown as under-represented as owners in the MSE sector (Zewde 2002).

This is the picture of women entrepreneurs that currently exists for Africa and it is skewed because most government industry data collection programmes rarely categorise their data according to sex thus stereotyping African gender entrepreneurs as poor and illiterate. Most African countries with high levels of University trained individuals (both men and women) are largely liberal when it comes to women-run businesses but credit facilities are not. Even still, most women are financed by their wealthy spouses in business start-up. For example, the major successfully women-run and owned businesses in Nigeria are restaurant franchises which are spread countrywide, beauty salons, clothing stores and supermarkets and they have high profit turnovers as their main clientele are women with high disposable income.

Conclusion

It is interesting to note that the African Development Bank at its Annual Meeting in Addis Ababa, Ethiopia in June 2003, held its first workshop on African Women Entrepreneurs (AWE), and placed the emphasis clearly on growth-oriented women entrepreneurs, thus helping to shake off the less entrepreneurial images[18]. However, the above negative profiles tend to be the dominant stereotypes of African female entrepreneurs that emerge from research, based largely on information from independent studies and other African demographic studies profiling gender entrepreneurship.

In conclusion, the difference between gender performance in both developing and developed countries is the presence of network affiliation

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[18] Series on Women's Entrepreneurship Development and Gender Equality - WEDGE

and the possession of human capital. Entrepreneurship is "necessity-driven" in developing economies but "opportunity-driven" in developed economies where there are soft loans and credit facilities for business start-up; but the fact still remains that women in all economies remain somewhat marginalised in embarking into business.

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