THE VENUS VS. MARS APPROACH TO ENTREPRENEURIAL SUCCESS IN CANADA

Highlights

• Entrepreneurship is a catalyst for economic growth and competitiveness, and Canada enjoys an above-average rate of entrepreneurship overall. However, Canadian women are underrepresented among the self-employed and business owners, with little improvement over the past decade.

• Among women who do branch out on their own, their businesses are smaller on average and have slower growth relative to their male counterparts in recent years. This likely reflects a combination of several factors including industry choice, and differing motivations and risk tolerance versus men.

• However, prospects are looking brighter for women entrepreneurs. The most recent Canadian data show that the proportion of women-owned businesses that intend to expand their businesses is higher than men, and has increased. Although women may remain underrepresented among entrepreneurs for quite some time, we likely haven’t seen the peak in their desire to become an entrepreneur.

Entrepreneurship is a catalyst for economic growth and national competitiveness. Countries that tend to thrive have high rates of new start-up ventures. In fact, research out of the U.S. shows that virtually all net new jobs are created by companies in their first five years of existence1. Overall, Canada enjoys a high rate of entrepreneurship relative to its peers2. However, when entrepreneurial activity is broken down by gender, Canadian women have an average international representation rate. Thus, Canadian men were the drivers of the above-average rates of entrepreneurship, translating into a larger gender “entrepreneurship gap” in Canada.

With women making up nearly half the workforce and more than half of postsecondary students, this “entrepreneurship gap” is striking. Moreover, women’s underrepresentation relative to men among the self employed has seen little improvement over the past decade. For those women that do branch out on their own, their businesses tend to be smaller and exhibit slower growth, at least in terms of revenues, than their male counterparts. What might account for this difference? As is the case with women’s career choices in general, women entrepreneurs tend to cluster in slower-growing service industries more so than men. Women entrepreneurs also have a different set of motivations compared to men in their choice to start a business, which has implications for their size and growth. Occupational choices made early in their careers, greater risk aversion and a stronger emphasis on work-life balance all likely contribute to constrain revenue growth of women-owned firms.
Women-Owned SMEs Smaller, But Keen to Grow

According to Industry Canada’s Survey on Financing of Small and Medium Sized Enterprises (SME) survey data, average revenues for majority male-owned businesses were twice as high as majority female-owned ones, and this disparity has grown over time. While a similar percentage of male and female-owned businesses (41% versus 39% respectively) indicated they intended to expand their businesses in the 2004 survey, male-owned revenues grew by 6.7% while female-owned revenues grew 3.9% over the following four years. There are various compositional differences that may account for this, including the age and industry of the business, as well as the experience and growth intentions of the owner.

For starters, women-owned businesses are younger on average and their owners have fewer years of management or ownership experience relative to male-owned firms. Women are also far more likely than men to run businesses in the slower-growing and more labour-intensive services industry. By extension, men are more likely to run businesses in the more cyclical goods sector, which would have stronger growth during good times, but contract more during recessions. For example, the number one industry for self-employed women in Canada is health care and social assistance; for men it’s construction. Clustering of women entrepreneurs in services industries also helps explain why among growth-oriented firms, those led by women grew their staff by 7.6% in the subsequent four years compared to 1.4% for men.

Aside from industry choice, it appears that at least part of the gender disparity in revenues is by design. Although studies show that women are equally likely to seek and attain financing relative to men, there is some evidence suggesting that they may not be seeking enough financing to grow their businesses. An American study showed that women entrepreneurs raised less start-up capital for their ventures, and this carried through to raising less incremental financing in subsequent years. The end result being that women had less financial capital invested in their businesses than men, on average, after controlling for variables such as age, ethnicity, and education. This financing gap versus men has implications for growth, since the amount of financing raised can affect a firm’s ability to expand and increase revenue growth. The American results seem to fit with the outcomes observed on the Canadian front. The median debt-to-equity ratio for Canadian male-owned firms was higher in both 2004 and 2007, suggesting that male-owned firms were more aggressive in financing firm growth through debt.

The question that naturally comes to mind is why would women intentionally seek less financing? This is where motivations for starting a business comes into play.

Canadian research into the motivations of male and female entrepreneurs categorized them into three groups:

- classic: motivated by pull factors, such as independence, desire to be one’s own boss, earn more money, challenge or creativity (71% of men, 53% of women)
- forced: enters entrepreneurship due to a lack of other alternatives (22% both men and women)
- work-family: entrepreneurship fulfills a desire towards greater work-life balance (25% of women, 7% of men)

The one quarter of women entrepreneurs who opted to
run their own business out of a desire for greater balance between work and family are likely to pursue less aggressive growth strategies. There is evidence that this is indeed the case.

While male and female entrepreneurs were equally likely to desire business growth, there are important differences in how they wish to do so. Female entrepreneurs seem to set a maximum threshold size for their businesses, beyond which they are not interested in growing, and these thresholds are lower than their male counterparts. Female entrepreneurs also tend to be more concerned about the risks associated with fast-paced growth, deliberately choosing to expand in a controlled and manageable manner. This implies that even many “classically” motivated women entrepreneurs pursue growth less aggressively than their male counterparts.

Not surprisingly the different gender motivations matter for income, with classic entrepreneurs having much higher income levels. And, women who have become entrepreneurs for reasons of work-family balance may be less likely to pursue aggressive growth strategies that would require significant investments of time into the business. One example of a growth-limiting strategy by women entrepreneurs is a lower propensity to pursue exporting. Male-owned businesses have a significantly greater tendency to export, even after controlling for sector, firm and owner attributes. Exporting enables businesses to access a much larger market for their products or services, enhancing the revenue growth potential, an opportunity that women entrepreneurs have so far been less likely to take advantage of.

Motivations also influence decision to become an entrepreneur

While motivations help explain business performance among the genders, it also offers some insight as to why fewer women are drawn to entrepreneurship in the first place. The “classic” motivation is less represented among women because paid employment often offers a better value proposition. The price of greater independence and income potential in self employment is greater risk, which is manifested through greater variability of earnings relative to waged employment. Study after study shows that men are more responsive to the expected (and potential) earnings differentials between wage and self employment than females, whereas women are more risk averse. That greater risk aversion influences women’s choices early on in their careers. A Canadian study which surveyed enrollment in undergraduate entrepreneurship courses (in various disciplines) found that female enrollment is far lower than male.

Not only is the “classic” entrepreneurship pull less strong for women, but paid employment has been quite attractive for women in recent years. Wages for women aged 25-54 have increased 13% in real terms from 2001-2011, compared to only 5% for men, thus narrowing the gender hourly wage gap among paid-employment. This may be one among many reasons why self-employed women relative to men have made little progress in the last 10 years (see Chart 1), whereas in paid employment women increased their representation by 8 percentage points relative to men. 

Paid employment has also likely become more attractive for women through increased availability of flexible working arrangements like telecommuting and flex-time, which help balance work and family commitments.

The “classic” entrepreneurial motivation also encompasses some unique challenges for women, especially for those who want to start families or have young children. Entrepreneurship typically entails putting in long hours to ensure the success of your business, with 40% of the self employed putting in more than 50 hours per week in 2010, compared to only 5% of paid employees. These typically longer hours make entrepreneurship less feasible for many women, particularly those with young children. Self-employment can also mean forgoing or paying more for many benefits that come with being an employee, like pensions and health benefits, and, until recently, access to employer-paid and maternity leave benefits were restricted under EI. Of note, a study of 168 self-employed women across Canada in a variety of occupations revealed that most women had difficulty taking time off from their business for maternity/parental, sickness or family care due to difficulty in finding...
a replacement, reduced earnings or loss of client and visibility\textsuperscript{12}. The most recent report conducted by Statistics Canada (2004) showed that 1-in-3 self-employed women returned to work within two months of having a child, compared to 5\% of paid workers\textsuperscript{13}.

**Brighter Prospects Ahead**

Since the decision to start a business is often rooted in different motivations for men and women, it’s not altogether surprising that different outcomes are generated in attracting entrepreneurs and driving revenues. In regards to the latter, there are interesting findings that women’s lower risk-taking behaviour does not impact profitability. Average net profit before tax of female-owned businesses was 89\% of male-owned businesses in 2007, a difference that is not statistically significant, and is an improvement from being only 52\% of male profits in 2000. Thus, women-owned SMEs have effectively closed the profit gap with men (see Chart 2). So, even though both genders have approached entrepreneurship under different agendas (classic vs work-family) women entrepreneurs are no less savvy in managing their businesses.

Some factors surrounding women’s decisions that drive the gender entrepreneurship gap are not likely to change to any great degree in the near future. These include a greater degree of risk aversion and disproportionate family responsibilities. However, in terms of educational attainment, future women entrepreneurs are already very different from their mothers. When today’s business owners were just starting out in 1990, only 43\% of young women (25-34) had a post-secondary degree or diploma, slightly less than men. Today that number is 71\% and ten percentage points higher than men. Research shows that entrepreneurs who are motivated by “classic” reasons are more likely to have a university degree than “work-family” entrepreneurs\textsuperscript{14}. While increased educational attainment isn’t likely to be the cause of “classic” entrepreneurship it does deepen the talent pool available to start tomorrow’s business ventures.

Even in the near term, the prospects for women entrepreneurs are looking brighter. In the most recent SME survey, the percentage of female-owned businesses intending to expand increased over the previous period and was higher than the percentage of male-owned businesses (44\% versus 38\%). Women-owned businesses have also increased their willingness to seek financing and improved their attainment rates, which bodes well for future growth. Although women may remain underrepresented among entrepreneurs for quite some time, we likely haven’t seen the peak in their desire to become an entrepreneur.
Endnotes


2. Among a group of 21 high-income, low-growth countries which include: Australia, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, UK, US, Switzerland, Austria.


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