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INTRODUCTION

What's the "Scoop" on Women Entrepreneurs?

In recent years interest in the role of women's entrepreneurship in providing opportunities for women, economic growth, and jobs in the United States has been expanding. In *A Rising Tide: Financing Strategies for Women-Owned Firms*, we trace the increase in women's entrepreneurship and explore the financial issues and strategies that are pertinent for entrepreneurial success. We also explore the ways in which the motivations of women entrepreneurs are intertwined with the financial strategies and sources they use. Our findings suggest that women entrepreneurs have complex and distinct motivations and that growth and profits are not always the top priority. Not surprisingly, women entrepreneurs' varied motivations give rise to different types of financial strategies.

In *A Rising Tide* we build upon the findings of prior research and draw conclusions from data provided by the Kauffman Firm Survey, a longitudinal survey of over 4,000 new firms in the United States. The KFS provides detailed information on both firm and owner characteristics, as well as financing sources and amounts. We also share the experiences and insights of women entrepreneurs in a broad range of industries to illustrate the connections among motivation, the resource endowments of the entrepreneurs, and financial strategies. We take a "life cycle" approach to examining the issues and challenges that the different types of women-owned firms face by starting with nascent and home-based firms and working our way up to growth-oriented and technology-based enterprises. Finally, in each chapter we

provide insights into what our findings mean for you as an entrepreneur or an aspiring entrepreneur, as well as recommendations for public policy. It is our hope that our findings will engage and inspire you as they have us.

What Do We Know About Women Entrepreneurs?

Women entrepreneurs have been growing in both number and economic importance in recent years. Table 1.1 provides data from the 2007 Survey of Business Owners conducted by the U.S. Census Bureau. It reveals that in 2007 there were 7.8 million women-owned firms in the United States, generating $1.2 trillion in revenues. This number represented an increase of 20 percent from 2002 to 2007 compared to an increase of 18 percent for all firms, indicating that the number of women-owned firms grew faster than the number of firms overall for that time period. During the same time frame, the growth rate in revenues for women-owned firms grew by 27 percent compared to a growth rate of 33 percent for all firms. Thus, although the number of

TABLE 1.1 A profile of U.S. firms by gender

	Firms (#)	*Receipts ($ millions)*
WOMEN-OWNED FIRMS		
2007	7,793,425	1,192,781
2002	6,489,259	940,775
1997	5,417,034	818,669
% change		
2002–2007	20.1	26.8
1997–2002	19.8	14.9
1997–2007	43.9	45.7
ALL U.S. FIRMS		
2007	27,110,362	30,181,461
2002	22,974,685	22,627,167
1997	20,821,934	18,553,243
% change		
2002–2007	18.0	33.4
1997–2002	10.3	22.0
1997–2007	30.2	67.7
WOMEN AS A % OF THE TOTAL		
2007	28.7	4.0
2002	28.2	4.2
1997	26.5	4.4

Sources: U.S. Census Bureau. *2007* and *2002 Survey of Business Owners* and *1997 Survey of Women-Owned Business Enterprises.*

women-owned firms grew more rapidly, their growth rate in revenues lagged those of firms overall for the five-year period. This same pattern held true for the ten-year period spanning 1997 to 2007. During those years, the number of women-owned firms increased by 44 percent compared to an increase of 30 percent for firms overall. Although women-owned firms also increased their revenues by 46 percent during this period, firms overall saw an increase of 68 percent, suggesting that the firms launched by women tended to be smaller than those started by men.

As shown in Figures 1.1 and 1.2, women are vastly underrepresented in business ownership and business receipts in the United States. Figure 1.1 shows that women represent less than one-third of all firms in each of the

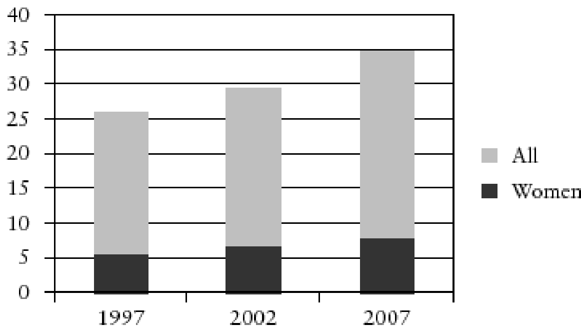

FIGURE 1.1 Number of firms in the United States (in millions)

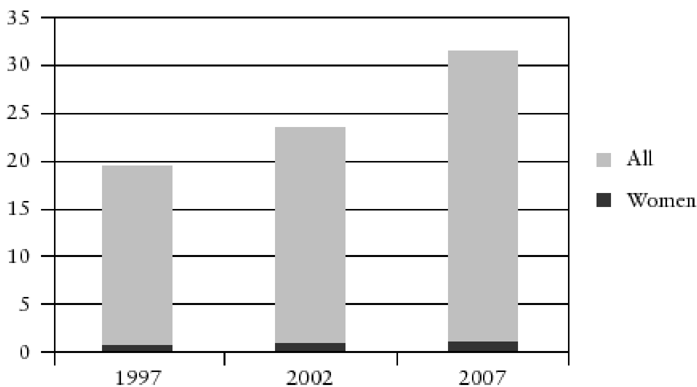

FIGURE 1.2 Business receipts in the United States (in millions of dollars)

survey years, and Figure 1.2 shows that women-owned firms represent only a tiny percentage of total receipts.

Firm Size and Numbers

Despite gains by women-owned firms in both number and revenues, their representation continues to be smaller than might be expected given the percentage of women in the population. Although the percentage of women-owned firms increased from 26.5 to 29 percent from 1997 to 2007, women-owned firms still constitute less than 30 percent of all firms, suggesting both challenges and opportunities for aspiring women entrepreneurs. Table 1.1 also reveals that women-owned firms generated only 4 percent of total firm receipts in 2007, a decline from 1997.* This finding reveals that the majority of women-owned firms are very small. Table 1.2 sheds additional light on this issue.

TABLE 1.2 Firms with paid employees only

	Firms (#)	*Receipts ($ millions)*	*Employees (#)*	*Annual payroll ($ millions)*
WOMEN-OWNED FIRMS				
2007	911,285	1,010,470	7,587,020	218,136
2002	916,768	804,097	7,146,229	173,709
1997	846,780	717,764	7,076,081	149,116
% change				
2002–2007	−0.6	25.7	6.2	25.6
1997–2002	8.3	12.0	1.0	16.5
1997–2007	7.6	40.8	7.2	46.3
ALL U.S. FIRMS				
2007	5,752,975	29,208,766	118,668,699	4,886,977
2002	5,524,813	21,859,758	110,786,416	3,813,488
1997	5,295,151	17,907,940	103,359,815	2,936,493
% change				
2002–2007	4.1	33.6	7.1	28.1
1997–2002	4.3	22.1	7.2	29.9
1997–2007	8.6	63.1	14.8	66.4
WOMEN AS A % OF THE TOTAL				
2007	15.8	3.5	6.4	4.5
2002	16.6	3.7	6.5	4.6
1997	16.0	4.0	6.8	5.1

Sources: U.S. Census Bureau. *2007 and 2002 Survey of Business Owners and 1997 Survey of Women-Owned Business Enterprises.*

* Women-owned firms are defined as sole proprietorships, partnerships, and corporations that are at least 51 percent owned by women. These data do not include firms that are jointly owned (50/50) by women and men.

Table 1.2 presents data on only firms that included paid employees in 1997, 2002, and 2007. A comparison of Tables 1.1 and 1.2 reveals that the vast majority of women-owned firms (88 percent in 2007) were sole proprietorships with no paid employees. Further, the number of women-owned firms with paid employees actually declined relative to all firms during the 2002–2007 period. Table 1.2 also shows that the growth rates for women-owned firms in terms of revenues, employment, and payroll lagged behind those of firms overall for both the five-year period of 2002–2007 and the ten-year period of 1997–2007. Table 1.2 provides evidence of the relatively small size of women-owned firms that had employees. In 2007 they accounted for only 3.5 percent of total sales, 6.4 percent of total employment, and 4.5 percent of annual payroll.

Figure 1.3 provides clear evidence of the relatively small size of women-owned firms that had paid employees. In 2007 they accounted for only 16 percent of firms, 3.5 percent of total sales, 6.4 percent of total employment, and 4.5 percent of annual payroll.

Clearly, although women-owned firms have begun to make an impact in terms of numbers, they are still in the early stages of making an economic impact on a larger scale. This is not to suggest, however, that the sole proprietorships or small firms owned by women do not have a significant economic impact on both individual households and local communities. A study conducted by George Haynes (2010) at Montana State University on behalf of the

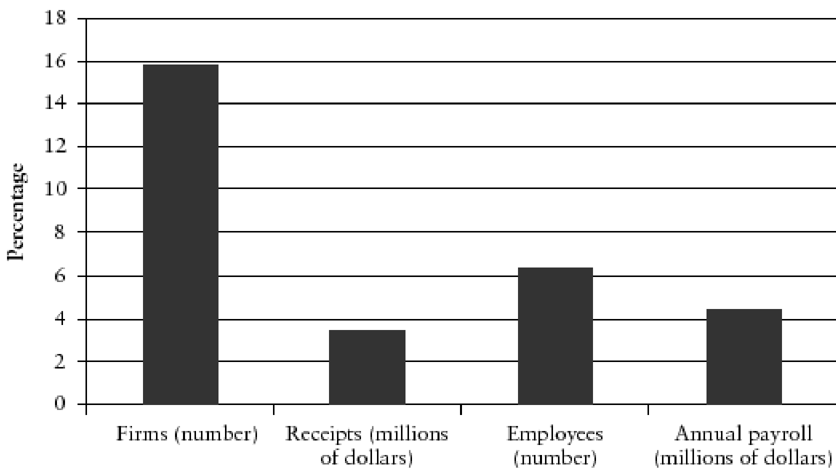

FIGURE 1.3 Percentage contributed by women-owned employer firms in 2007

U.S. Small Business Administration found that households that owned small businesses had a significantly higher probability of attaining high income and financial security (upper 50 percent) than households overall. Thus, it is very likely that many women who own businesses improve their own economic standing as well as that of their families.

Small size, however, does have implications for raising capital. Typically, owners of very small and home-based businesses rely primarily on personal savings, often supplemented by funding from family and friends, personal loans, and credit cards. They are less likely to use bank loans for their business, and they are too small to attract the interest or attention of external equity investors such as angel investors or venture capitalists. Bootstrapping (minimizing expenses) and microfinance (very small loans) also play an important role for the smallest of women-owned firms and are discussed in later chapters.

Industry Sector

Another factor that greatly impacts the financing strategies of women-owned firms is industry sector. Prior research shows that women are more likely to start firms in the retail and service industries (Coleman, 2002a; Robb and Wolken, 2002), and this is supported by data from the U.S. Census Bureau. Table 1.3 shows that women-owned firms were much more heavily represented in retail trade, health care and social assistance, and "other" services than were men-owned firms. Conversely, women played a lesser role in the construction, manufacturing, wholesale trade, and manufacturing industries. These distinctions are important because they have implications for the firm's ability to raise capital. The sectors with higher female representation—retail and service—tend to be populated by relatively small firms with few assets that could be used as collateral for loans. Similarly, many of these firms do not have growth aspirations or prospects, so they are not candidates for external equity. Manufacturing, construction, and transportation firms where men are more heavily represented, however, tend to be larger and more growth-oriented, and they typically have assets such as vehicles, equipment, and buildings that can be used as collateral for loans.

Why do women choose the industries they do? Many theories regarding the pattern of "industry segregation" shown in Table 1.3 and Figure 1.4 have been offered. One is that women have not had the opportunities to accumulate either the human capital (education and experience) or the financial capital

TABLE 1.3 Statistics for U.S. firms by gender and industry sector

Sector	*Women-owned (#)*	*Women-owned (%)*	*Men-owned (#)*	*Men-owned (%)*
Forestry, hunting, fishing, agriculture	52,115	0.71	172,790	1.30
Mining	28,615	0.39	79,636	0.60
Utilities	3,237	0.04	10,668	0.08
Construction	393,392	5.39	1,985,720	14.93
Manufacturing	179,006	2.45	453,154	3.41
Wholesale trade	186,395	2.55	501,650	3.77
Retail trade	1,133,362	15.54	1,361,735	10.24
Transportation	170,556	2.34	575,165	4.33
Information	91,457	1.25	181,131	1.36
Finance, insurance	216,346	2.97	601,462	4.52
Real estate	735,657	10.08	1,484,913	11.17
Professional, science, technical	1,043,259	14.30	2,051,541	15.43
Management	5,141	0.07	20,939	0.16
Administration and support, plus waste management and remediation	525,575	7.20	725,682	5.46
Education	185,994	2.55	160,530	1.21
Health care and social assistance	831,246	11.39	756,237	5.69
Arts, entertainment, recreation	311,480	4.27	527,546	3.97
Accommodation and food service	227,657	3.12	395,506	2.97
Other services	972,006	13.32	1,246,063	9.37
Not classified	2,960	0.04	5,590	0.04
Total	**7,295,456**	**100**	**13,297,658**	**100**

Source: U.S. Census Bureau. Characteristics of Business Owners: 2002.

(wealth) that would allow them to establish larger and more growth-oriented firms (Becker-Blease and Sohl, 2007; Marlow and Patton, 2005). Thus, they tend to gravitate toward the service and retail sectors, which do not require highly specialized skills or large amounts of capital to start.

Another theory is that women have different goals for their firms than men do, and they do not see size and growth as measures of success (Cliff, 1998; Morris et al., 2006). Alternatively, women consider their businesses an extension of their personal lives, and they manage their firms in a way that will allow them to fulfill multiple goals and objectives. These could include accumulating wealth, but they could also include "doing something I love," "being my own boss," or balancing the competing demands of home and child rearing (Boden, 1999).

In a very thought-provoking article, Helene Ahl (2006) contends that for too long women-owned businesses have been measured with the same yardstick as for men-owned businesses, so we expect to see the same size, growth

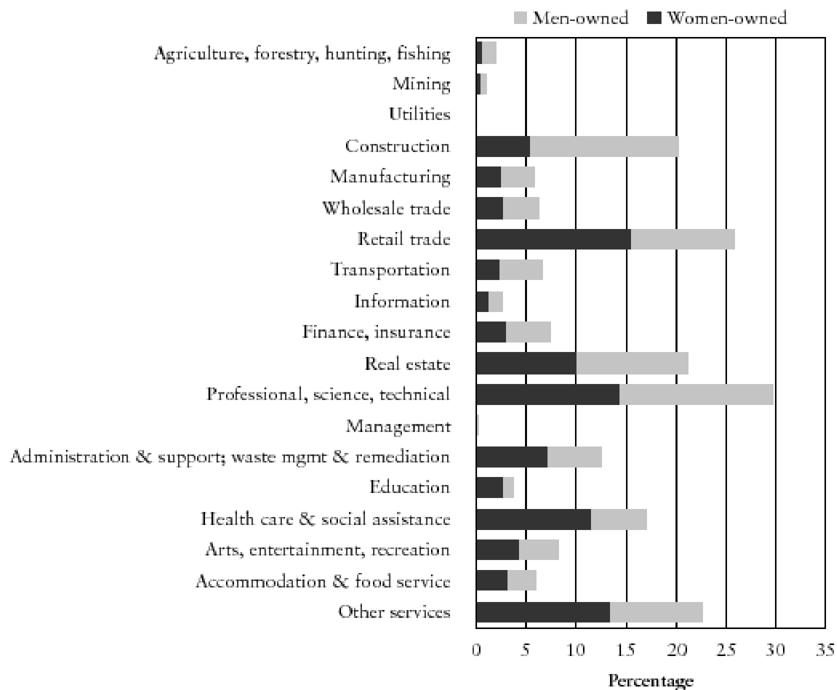

FIGURE 1.4 Industry distribution of women- and men-owned firms in 2002

rates, and standards of performance. Ahl points out in a very compelling way, however, that if women have different motivations and goals for their firms, their outcomes and measures for success will also differ. In other words, we need to use a different yardstick! Robb and Watson (2012) make some progress in this regard by measuring outcomes that are adjusted for both size and risk.

Theoretical Foundations for *A Rising Tide*

This book is based on three major theories pertaining to entrepreneurial firms. The first, Resource-Based Theory, contends that the role of the entrepreneur is to secure and transform needed resources, including financial resources, to create a competitive advantage. The second theory, which we refer to as Motivational Theory, asserts that individuals take the actions they

believe will lead to desired outcomes. Thus, from the standpoint of entrepreneurial finance, entrepreneurs tend to select financial strategies in accordance with their motivations and goals. Finally, the Life Cycle Theory states that firms go through different stages as they develop and grow. This theory also contends that different financial strategies are appropriate at different stages of the life cycle. We now explore each of these theories more fully within the context of the central theme of this book: financing strategies for women-owned firms.

The Components of Entrepreneurial Success: Resource-Based Theory

Edith Penrose—an entrepreneur in the field of economics if there ever was one—was among the first economic theorists to address the links among resources, profitable growth, and competitive advantage. Penrose (1959) asserted that the entrepreneur's effective management of firm resources allows her to take advantage of productive opportunities in the marketplace to achieve profitable growth. Further, Penrose noted that the entrepreneur must continually maintain and develop the firm's resources if she is to retain a competitive advantage. In the case of small and entrepreneurial firms, Penrose observed that opportunities often emerge in segments of the market that larger, well-established firms tend to ignore or abandon. Finally, Penrose theorized that achieving profitable growth requires an optimal growth rate. In other words, growth for growth's sake alone is not necessarily the entrepreneur's objective. (This theme will come up repeatedly as we discuss the stories of successful women entrepreneurs throughout this book.) Penrose's early work is important not only in and of itself but also because she established the foundation for a Resource-Based Theory of the firm that links the fields of economics, entrepreneurship, and strategic management (Kor and Mahoney, 2000; Rugman and Verbeke, 2002).

According to the Resource-Based Theory of entrepreneurship, a firm is a collection of resources (Bergmann Lichtenstein and Brush, 2001; Brush et al., 2001; Hanlon and Saunders, 2007). The entrepreneur's tasks are to assemble, develop, and transform needed resources to generate unique capabilities that will give her a competitive advantage (Amit and Schoemaker, 1993; Wernerfelt, 1984). Resource-Based Theory also states that those firms that muster

and apply their resources most effectively will also be the ones that enjoy superior performance (Brush et al., 2001; Sirmon and Hitt, 2003). The "resources" involved fall into the major categories of financial capital (debt and equity), human capital (education and experience), and social capital (networks and contacts). Following, the role and importance of each is examined, as well as some of the unique resource characteristics of women-owned firms.

Show Me the Money! The Role of Financial Capital

Since this book is about the financing strategies of women-owned firms, much of the focus is on the types and amounts of capital women entrepreneurs raise. Financial capital is one of the key inputs that make it possible for the entrepreneur to launch, develop, and grow her firm. As just mentioned, motivations and goals have an impact on the types of firms women start and the types and amounts of capital they use to finance them.

Women-owned firms and men-owned firms have several important distinctions when it comes to financial capital. First, women typically start their businesses with smaller amounts of personal financial capital. Women tend to cluster at the lower end of the compensation "food chain," and they are less likely to reach the levels of senior management. Thus, their levels of compensation and their accumulated wealth are both lower than men's. This is important because women entrepreneurs typically launch their businesses using their own money before trying to raise capital from outsiders. If women start their firms with smaller amounts of personal capital, that has implications for their ability to survive, develop new products and services, hire employees, and grow. Women are also more likely to experience career interruptions while they bear and raise children. These interruptions may slow down their ability to advance their careers and realize gains in compensation.

The good news is that women have made dramatic gains in both education and employment. Today, more women attend college than do men, and an increasing number of women are going into growth-oriented fields such as health care, bioscience, engineering, and computer science.

Women are also experiencing gains in the workplace. During the recent financial crisis, the unemployment rate for women was actually lower than the unemployment rate for men for the first time in our country's history. Further, women are advancing into positions of responsibility and power that will provide them with opportunities for higher levels of compensation and accumulated wealth. Despite these facts, however, a recent study found

that executive women are more likely to leave S&P 1500 firms for both voluntary and involuntary reasons than men are (Becker-Blease et al., 2010). This suggests the existence of a potential pool of highly skilled women with executive experience who have the human, social, and financial resources to launch their own firms.

Some prior research suggests that women are more risk averse than men. "Risk aversion" means that individuals are unwilling to take bigger risks unless they can also anticipate bigger rewards for doing so. Consistent with this theory, some contend that women start smaller and more manageable businesses because they tend to be less risky (Cliff, 1998; Orser and Hogarth-Scott, 2002). Smaller firms minimize the need to raise financial capital in the form of debt or equity from external sources. External debt is borrowed money, and it increases the riskiness of the firm because it has to be paid back. Debt can also increase the risk of financial distress or bankruptcy. External equity involves sharing ownership with outsiders. From the entrepreneur's perspective, sharing ownership may increase the riskiness of the firm because the entrepreneur no longer has sole decision-making power. Thus, to summarize, the theory of risk aversion suggests that women will start firms in industries that are familiar to them (service and retail), and these firms will remain small, manageable, and largely financed with internal rather than external sources of financial capital.

Often risk aversion is presented as if it were a negative quality—as if women who start smaller firms are less "gutsy" than those who start larger, growth-oriented firms. Women-owned firms, however, need to be evaluated within the context of the motivations and goals of the entrepreneur. For example, a single mother who starts a home-based business to support her family while also being able to be in the home and attend to their needs is still an entrepreneur. Similarly, a 50-year-old woman who opts out of the corporate battlefield to start her own high-tech consulting firm is not engaging in a "lesser" form of entrepreneurship. Both women are creating economic value for their families and for the larger economy. Further, by starting their own firms, both may be pursuing personal goals that are even more important to them than the more obvious economic ones.

Another distinction between women- and men-owned firms that has implications for their ability to raise financial capital is that women are less likely to be a part of professional or social networks that could provide them access to sources of capital. The authors' research reveals that women-owned firms

are significantly more likely to be sole proprietorships than are men-owned firms (Coleman and Robb, 2009). This can be a problem because it means a woman sole owner has fewer financial resources to draw upon than if she had partners or other equity investors who could also provide capital. Since women are also less likely to have had prior experience at the senior management level, they are also less likely to have friends and former associates who are capable of investing substantial amounts in their firms. Finally, women are less likely to be a part of formal networks that could provide financial capital. This is particularly true of financial capital in the form of external equity. Prior research has noted that angel investor and venture capital networks are male-dominated with few women in decision-making roles (Brush et al., 2002). Their lack of access to these important financial networks often means that women entrepreneurs do not even get on the radar screen of major equity investors. This is a structural challenge that will be discussed at length in subsequent chapters.

9 to 5 in Perspective: The Role of Human Capital

"Human capital" refers to the education and experience that individuals accumulate, and it is an essential ingredient for entrepreneurial success. Typically, before you start a business, you want to find out as much as possible about what it will involve. If you want to start a graphic design firm, for example, you would probably take some courses or get a degree in art. If you would like to open a restaurant, you might try to get a job at a restaurant and see what is involved in operating one. These types of human capital prepare you for the process of entrepreneurship. They allow you to learn from the successes (and failures) of others, so when you finally launch your own business, you will be better prepared.

Women entrepreneurs often have different types of human capital than men (Boden and Nucci, 2000; Fairlie and Robb, 2009). Although more women than men attend college (*National Center for Education Statistics Fast Facts*, 2009), women are less likely to major in business, engineering, or computer science, which are all fertile ground for aspiring entrepreneurs (Bobbitt-Zeher, 2007; Zafar, 2009). They are more likely to major in education, nursing, and the health professions, which are also fields with an abundance of entrepreneurial opportunities.

It is important to keep the doors of opportunity open for girls and young women who will be the entrepreneurs of tomorrow by encouraging them to

explore and excel in a broad range of fields. Many elementary and secondary schools, as well as colleges and universities, are doing this by developing programs to attract and engage female students in the fields of science and engineering. The National Science Foundation's ADVANCE Program (http://www.nsf.gov), launched in 2001, was designed for this purpose. ADVANCE grants are intended to help colleges and universities increase the number of women faculty in the STEM fields (science, technology, engineering, and math), remove obstacles and barriers to their career advancement, and prepare them for positions of leadership. These women faculty, in turn, will serve as the teachers, role models, and mentors for generations of young women to come.

Prior studies also show that previous employment as well as managerial and entrepreneurial experience are just as important, if not more important, than education in predicting the success of new ventures (Boden and Nucci, 2000; Carter et al., 1997). It is much easier to start your own business in a particular field if you have already worked for or managed that type of business. By acquiring experience of this type, you gain an understanding of the factors that contribute to success, and you also learn about the pitfalls and "warts" of a particular business. Most important, you may learn that you actually don't want to start a business in that field after all, because it's not what you thought it would be. Those lessons learned are an important part of your entrepreneurial tool kit!

Previous entrepreneurial experience as an employee, a manager, or an entrepreneur may be especially valuable. If you have worked for an entrepreneurial venture, or if you have started one in the past, you have already experienced the "thrill of victory and the agony of defeat." You know the ups and downs that come with launching a new firm, and you have a better idea of what to expect. It's a little bit like riding a roller coaster. If you have never done it, you don't know what to expect and you may be terrified. If you have done it at least once, you may still be terrified, but at least you have a better idea of what lies ahead. From a financial perspective, investors are particularly fond of successful "serial entrepreneurs"—those individuals who have already launched and managed at least one other business. They believe that one of the best predictors of success in the future is success in the past. That's why it is often easier for serial entrepreneurs to raise capital than fledgling entrepreneurs. Investors are betting on the individual entrepreneur and her track record as well as on the new business.