Female entrepreneur underperformance: A puzzle for the information age

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ABSTRACT

Women entrepreneurs are a significant and fast-growing force in small business, yet many studies have concluded that their businesses underperform men's in terms of sales and size. As both women entrepreneurs and e-commerce become increasingly important parts of the Information Age economy, it is essential to determine if there are differences in success between women- and men-owned businesses, and how those differences, if any, relate to e-commerce. This paper examines the apparent underperformance of women-owned businesses and proposes a number of hypotheses for future research.

INTRODUCTION

Women entrepreneurs, broadly defined as all women who have started and maintain their own businesses, have become an important force in small business in the United States. According to the National Foundation for Women Business Owners (NFWBO), 9.1 million women-owned businesses employed 27.5 million people and accounted for $3.6 trillion in sales (1999, para 2). Women business owners are embracing the internet and information technology as evidenced by the fact that a greater share of women than men business owners have established home pages for their businesses (NFWBO, 1997, para. 3).

In contrast, many studies have concluded that women-owned businesses do not perform as well as others in certain ways (Du Rietz & Henrekson, 2000). It has been suggested that this apparent underperformance might be the result of systematic differences between male and female owned businesses (Ann, Chandler, Jansen, & Mero, 1999). For example, women entrepreneurs tend to predominate retail and service sectors, have less time available because of family commitments, may be more risk-averse, and may have different motives for starting their businesses and therefore have different goals.
As e-commerce becomes an increasingly important part of the Information Age economy, it is essential to determine if there are differences in success between women- and men-owned businesses. This paper first examines the differences between men and women small business owners’ use of information technology. It then reviews possible reasons for the apparent underperformance of female-owned small businesses, and presents data from depth-interviews with women business owners from a rural county in Pennsylvania. A number of hypotheses for future research are then proposed.

**WOMEN SMALL BUSINESS OWNERS’ USE OF INFORMATION TECHNOLOGY**

Women small business owners are embracing information technology and its use in their business. A 1997 study by the NFWBO (para. 3) found that 23% of women-owned businesses, compared to only 16% of men-owned businesses, had home pages. This represented three times as many as the previous year. At that time, 47% of women business owners subscribed to online services in comparison to 41% of men business owners (para. 4). This study also revealed that women business owners were more likely than their male counterparts to communicate via e-mail (51% of women and 40% of men business owners) and review business opportunities or make contract bids (9% of the women and 3% of men business owners). Although more recent data were not found, it can be assumed that many more businesses are now online.

Data from 1991 and 1992 showed that 92% of women owned businesses with 50 or fewer employees used computers compared to only 56% of all companies that size (NFWBO, 1994b, para. 4). Just a few years later, three-fourths of women-business owners surveyed stated that "technology is 'very essential' to the functioning of their business" (NFWBO, 1995, para. 4). In addition, "Nearly all of the women business owners surveyed viewed the 'Information Superhighway' as a potential asset to their businesses and expect to use it in the future for business transactions, bidding on business and accessing information" (para. 15). Despite the importance of this topic, few researchers have investigated the role women entrepreneurs play in the internet economy.

**SUGGESTED SYSTEMATIC DIFFERENCES BETWEEN MALE AND FEMALE OWNED BUSINESSES**

The literature on business performance suggests there may be some systematic differences between male and female owned businesses. These differences may be the reason why female owned businesses appear to underperform male owned businesses, particularly on traditional economic measures of performance. These potential systematic differences are discussed below.

**Industry Differences**

Anna et al. (1999, p. 279) suggested that one explanation for the systematic differences in the performance of male and female owned businesses might be that "female business ownership
is concentrated primarily in the retail and service industries where businesses are relatively smaller in terms of employment and revenue as opposed to high technology, construction, and manufacturing." Similarly, Rosa, Carter and Hamilton (1996) argued that at least some of the gender difference in business performance might be related to sectorial differences, because women tend to start-up businesses in sectors that have low returns. If there are significant differences in sectorial performances, and if female owned businesses are over represented in industries with low returns, then industry should be included as a control variable in any study comparing the performance of male and female owned businesses. It should likewise be noted that retail and services industries are likely to be conducive to e-commerce making these areas ripe for women entrepreneurs who wish to do business online.

**Differences in Risk-Taking Propensity**

Anna et al. (1999) also found that women in traditional industries (primarily retail and service) had a greater desire for security compared with women in non-traditional industries. Given that women appear to be over-represented in traditional industries suggests that, on average, women may be more risk averse than their male counterparts. If this is true, it may help to explain why female owned businesses appear to underperform male owned businesses; particularly when performance is assessed purely in financial terms without any allowance for risk.

Such a difference between genders would also be consistent with a findings (Cooper et al., 1994; Kalleberg & Leicht, 1991) that female owned businesses, although smaller, are no more likely to fail than male owned businesses. In other words, female entrepreneurs, on average, may be less likely to embark on risky projects and, therefore, more likely to have lower sales and profits, but not necessarily higher failure rates. In fact, because they are more risk averse, the failure rate for female owned businesses could be lower than that for male owned businesses. As we have been unable to uncover any empirical studies that have examined this area in any detail, we suggest that this is an area that future research could usefully explore.

**Differences in Hours Worked**

Time usage of women entrepreneurs was investigated in a study that found women with families had more problems allocating time between family and business (Longstreth, Stafford & Mauldin, 1987). Birley (1989, p. 37) noted that:

> Until very recently, the major role of women was seen in most Western economies by both men and women to be that of wife and mother. Indeed, even should they take employment, this was almost always in addition to their role as homemaker.

A study conducted by Loscocco and Leicht (1993, p. 881) revealed that although women and men has similar commitments to business, men devoted an average of 9.12 hours per week to domestic work while women only contributed 16.5 hours, leaving them with fewer hours to devote to business. Fasci and Valdez (1998) found that hours dedicated to the business on a weekly basis, a measure of input to the business, contributed significantly to the earnings ratio.
For mothers, self-employment or entrepreneurship affords a greater opportunity for the flexibility necessary to combine domestic and employment responsibilities (Birley, 1989; NFWBO, 1998). This view was supported by the findings of Buttner and Moore (1997) who reported that one of the most important entrepreneurial motives for women was the desire to balance family and work responsibilities. In the NFEBO (para. 6) study of women who left employers to become entrepreneurs, 51% listed the desire for more flexibility as their primary motive for becoming a small business owner.

If women, on average, have less time available for their businesses, it is reasonable to expect that this will impact on the relative performance of female owned businesses and should, therefore, be controlled for in any study comparing financially-based business performance by gender.

**Differences in Motives**

It has been reported that many of the stated reasons for entering a small business are non-financial in nature (Stanworth & Curren, 1976; Goeffe & Scase, 1985; Wilkens, 1987). Cooper (1993, p. 241) noted that:

... many entrepreneurs pursue personal goals, some of which are noneconomic in nature. Thus, decisions about whether to found ventures, about how vigorously to grow them, or about whether or not to close down marginal businesses are all influenced by the personal values of entrepreneurs.

Buttner and Moore (1997) studied the reasons 129 women executives and professionals left large organizations to become entrepreneurs and how they measured success. They found that the entrepreneurs in their study measured success in terms of 'self-fulfillment and goal achievement. Profits and business growth, while important, were less substantial measures of their success.' (Buttner & Moore, 1997, p. 34). Similarly, a study by the NFWBO (1994a, p. 10) found that men defined success and achievement in terms of concrete goals, whereas women defined success as "having control over their own destiny, building ongoing relationships with clients, and doing something worthwhile from which they can derive fulfillment."

Fasci and Valdez (1998) found that accounting practices that had been established to attain flexibility (presumably to balance family and professional responsibilities) had significantly lower profit ratios. However, businesses with goals more focused on achieving challenge and income had significantly greater profitability ratios. Further, these researchers found that 95% of businesses that were established to attain flexibility were owned by women. They noted that their findings were consistent with the literature on women owned businesses, which indicated that many women with childcare responsibilities established businesses that offered flexibility in work-time and work-place.

Rosa et al. (1994) noted the views of previous authors suggesting that many women did not enter business for financial gain but rather to pursue intrinsic goals (e.g., independence, flexibility to combine family and work commitments). For this reason, it is reasonable to assume that
many female business owners will measure their success in relation to their achievements in attaining these intrinsic goals, rather than in more traditional economic or financial measures.

Brush (1992, p. 22) argued that the

... assessment of business performance for women owned businesses should include not only financial measures, but should incorporate other measures such as employee satisfaction, social contribution, goal achievement, and effectiveness.

The available evidence suggests that differing motivations are likely to significantly impact business performance if performance is measured purely in terms of financial returns without reference to owner goals. It is therefore reasonable to suggest that any assessment of the comparative performance of male and female owned business should attempt to control for motivational differences and/or measure performance along other than purely financial dimensions. In light of these findings, an heuristic model, Performance-Goal Congruence, has been developed.

THE PERFORMANCE-GOAL CONGRUENCE MODEL

The Performance-Goal Congruence model holds that an entrepreneur is likely to measure his or her success in terms of how well the business meets his or her personal goals. These goals are assumed to be congruent with the business owner's motives for starting and maintaining the business. Therefore, entrepreneurs who desire great financial success for their businesses will work toward that end and measure their businesses' success in terms of sales, profits, and size. On the contrary, those who started their businesses to provide greater flexibility and work independence will measure their success in terms of how well the business provides them with the desired work situation. Considering the differences in goals, one company may perform as well as another even though it may "underperform" in terms of sales, profits, or size. Likewise, another company with significant sales or many employees may "underperform" if it does not meet the work situation goals set by the entrepreneur.

Cooper et al. (1994), in a study of 1,053 new ventures, found that after controlling for industry, female owned businesses still underperformed in terms of business growth but were no more likely to fail. Similarly, Kalleberg and Leicht (1991) found that male and female owned businesses were equally likely to discontinue, after controlling for a number of factors such as industry and age. It is possible that even though the women's businesses saw less growth than men's, the businesses did not fail because they were achieving the women's goals. In other words, if growth was not a goal, the women's goals for the businesses could still have been met so the women continued working in their business.

The Performance-Goal Congruence model therefore leads to the hypothesis--

**H1:** Entrepreneurs will measure the success of their business according to the degree to which the business meets the entrepreneur's self-determined goals.
INSIGHTS GAINED FROM INTERVIEWS WITH RURAL WOMEN

In-depth interviews with five female entrepreneurs examined the reasons some rural women started their own businesses. During the course of the interviews, it was also discovered that the women desired to keep their businesses small rather than grow them as much as possible. Another finding was that all of the women viewed their rural location as a positive factor that influenced and encouraged their decisions to start businesses. The desire to operate a business in a rural area may become even more important in cyber-space where physical location is of marginal, if any, importance.

Some researchers (Tigges & Green, 1994) have contended that women in rural areas are at a disadvantage in terms of work opportunities and start businesses because of fewer chances for corporate employment. The women in this study, however, did not start their businesses because of a lack of opportunity to work elsewhere. Four of the five women in this study worked for an employer in the same field before becoming entrepreneurs, and the fifth worked on the family farm. These women yearned to make the most of their talents and gain greater control and independence. In regard to financial improvement, only two of the women started their businesses in order to make more money, and even these two women intended to keep their businesses small rather than grow them into large companies.

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Entrepreneurial Motives and Attitudes Toward Growth

Interviews with these rural women entrepreneurs revealed that the women started their businesses for personal reasons resulting from their individual situations. Two of the women believed they could gain greater financial rewards from their own businesses than in their previous jobs but also desired independence. The desire to be independent and have control over work was common to most of the women.

For example, a hair stylist thought that she would probably make more money as an entrepreneur, but she also knew from her business experience that there would be many expenses. The desire for greater financial reward, however, was not as important as control over her business and her hours. She came to the conclusion that there "was something else that was in me that I wanted to do" and decided that "it was time to go out on my own, and because of the knowledge I had on running a business, I thought it was wasted if I didn't have my own."
She believed that as the owner of the business she would be able to control the culture, remarking that "when you own your own business, you can set that atmosphere." The culture she desired was one of friendliness and positive relationships in which people would always feel welcome. Despite the increased financial gain she could be foregoing, she refused to enact incentive programs that might promote competition between stylists, fearing they would harm the culture in which teamwork and positive relationships were predominant.

Similarly, the real estate agent stated that she started her agency to reap greater financial rewards for her knowledge and experience, gain greater flexibility and control over work and to be her "own boss." She stated, "There's just kind of a limit to what you can do working in another office for somebody else." Nonetheless, she intended to stay small to preserve good relationships:

I didn't want to get too big. Because once you get too big, there's only so much business out there and people are going to be fighting over the business that's coming in and I didn't want to get into a situation like that.

She further continued that she liked the small size of her business because it enabled her to keep relationships in the office on a friendly level.

The more people you have working for you, the more diverse personalities you have and the more problems that can arise. So, I think keeping my office the size that it is has in a way offered me the opportunity to keep relationships pretty smooth between people.

Relationships with people was highly important as evidenced by her feeling that being able to choose the people with whom she worked was one of the biggest advantages of owning a business.

The owner of a retail Christina book store started her business because she, too, felt the need for "more." She reported, "I just wanted to do something. I didn't know what. I didn't have any idea, but I want to do something." She then realized her desire to provide a ministry to the people of her community by selling uplifting reading material. Financial rewards were not supremely important to her, as evidenced by the fact that even though her business was a financial success, she estimated that she would be economically better off if she returned to the farm with her husband. She felt it was her mission to be a good influence on the community and help people. "It's more than just a bookstore. It's really a ministry of help."

The desire for more than money was also explained by an attorney who stated that she could earn considerably more working for a law form in an urban area. It was, however, more important that she had the quality of life she desired. This included controlling her own business. She remarked,

I'm a perfectionist and that's a problem . . . I'm not a team player. I like to own my own business and be in control . . . I am organized. I want to keep it that way. The only way to do this was to have my own practice.
Independence was also very important to an insurance agent. She wanted her own business so she could be more independent and use her knowledge and experience to earn more money than she would working for another agency. She stated,

I'm an independent person. Like to do things my way... I had ideas I wanted to try and couldn't do it. But I knew in my own business if I wanted to try something I could go ahead and do it and not just worry about what the other person wanted.

The insurance agent, who had only one employee and wanted to eventually add one or two more, was the only woman interviewed who wanted to increase the number of people working for her.

None of the women had plans to grow their businesses into large companies. They were concerned that as more employees were added, it would become increasingly difficult to avoid personal conflict in the workplace. Therefore, they desired to maintain good relationships between a few employees, even at the expense of greater financial returns. It is clear from analysis of these interviews that these rural women entrepreneurs were not concerned with simply growing their businesses and earning as much money as possible. Independence, control over their work, and good relationships among employees were all very important factors to them. Considering this, measures of success that look exclusively at size or sales cannot fully express level of success achieved by these women and their businesses. These women had, however, achieved success on their own terms, consistent with their personal goals for their businesses.

**Risk and the Rural Area**

Although two of the women sought greater financial rewards for their efforts, they did not feel hindered by the rural location. On the contrary, they and the other women viewed living in a rural area as an advantage and thought it had helped prompt them to become business owners. They believed that rent and other start-up costs were lower in their area, making it easier for them to become established and decreasing their chances of failure.

The hair stylist believed that her rural location contributed to her ability and willingness to start her own business.

If I lived in a more populated area it wouldn't have been as easy to do it maybe. I think it would have been a little bit harder with the competition that's out there and the expense that's involved in purchasing or leasing buildings in a more populated area. I might not have done it as quickly.

This was echoed by the attorney, who stated, "It was really inexpensive, and I think that's part of being in a rural community. You don't have to spend a lot of money to start." She went on to explain how she and her mother renovated a building in exchange for 6 months of free rent followed by a very inexpensive lease.

The insurance agent also remarked that she was encouraged by lower costs and a perception of lower risk of failure.

I don't know that I would have been as brave in a larger city... to open my own
office. Probably I would have stayed put with somebody else in a larger area. . . . I thought the risk was lower and the cost of getting going would be lower in an area like this.

If rural residents believed there is a lower risk of business failure in rural areas, there may be increased rates of business starts, leading to the hypothesis:

**H2**: The rate of business starts will be greater in rural areas than in non-rural areas.

In determining whether there is a lower risk of business failure in rural areas, it is necessary to determine which measure will be used. The definition of the term failure is as unclear as the definition of success. If a small business owner terminates the business, it is likely to be counted among business failure statistics. However, this business may have been a financial success, but performance was no longer in congruence with non-financial goals. Bankruptcy statistics only provide data on those businesses that were no longer financially viable, and the owner may have been forced by creditors to declare bankruptcy. A great number of internet companies survive on venture capital without making a profit, but have yet to declare bankruptcy. Business termination rates include all businesses that are no longer in existence for any reason. This is not an ideal measure, but it may suffice for the hypothesis

**H3**: The rate of business terminations will be lower in rural areas than in non-rural areas.

There is very little, if any, research on e-commerce participation rates among women in rural and non-rural areas. However, considering that over half of women small business owners already depend on the internet for communication (NFWBO, 1997), women entrepreneurs will increasingly embrace e-commerce. Women entrepreneurs in rural areas with small populations may find it especially conducive to their businesses to expand their marketing efforts to the internet. It is therefore ventured that because participation in e-commerce is not limited by location, rural women will be at least as likely to engage in internet-based business as will women in non-rural areas.

**H4**: Rural women entrepreneurs will participate in e-commerce in rates equal to or greater than women entrepreneurs in non-rural areas.

**CONCLUSIONS**

We content that inappropriate or incomplete measures of small business performance may be the reason why past empirical studies have failed to demonstrate a theoretically sound relationship between owner characteristics such as gender and organizational performance (Herron 7 Robinson, 1993).
As noted by Murphy, Traler and Hill (1996) one approach to measuring effectiveness is to relate performance to organizational goals. To this end, we suggest the Performance-Goal Congruence Model. It would appear that this approach might be particularly appropriate for small businesses in which the goals of the organization and of the owner are generally the same, being primarily based on the entrepreneur’s motives for starting and maintaining a business. Further, we would argue that adopting a goals-based approach to assessing performance may help to explain why businesses run by women perform relatively poorly on quantitative financial measures, even after controlling for confounding variables such as industry, age of business and experience of the owner. Additional research may reveal that these businesses are indeed successful in terms defined by the owner.

The implication of the above is that before we can assess business performance we must first have an understanding of the major objectives of the owner(s) of the business. We must also recognize that each entrepreneur may have a unique set of goals related to his or her individual situation (Goffe & Scase, 1985; Naffziger, Hornsby, & Kuratko, 1994; Wilkins, 1987). Having identified an owner’s objectives, business performance can then be assessed in relation to those specific goals.

It is also imperative that where economic measures such as earnings are used to assess business performance, they should be related to the input of the owner(s) and should control for other systematic differences between the businesses being assessed. As noted by Murphy, Traler & Hill (1996, p. 22), “failure to address the critical control variables will likely lead to results that are difficult to interpret. Conflicting and confusing results are likely to abound.”

It is not clear from the interviews whether these rural women entrepreneurs have lower propensity for taking risks, but analysis of these data indicate that the women perceived their rural settings as helping, rather than hindering, their entrepreneurial ventures. Because they believed there was less risk of failure, they were less hesitant to start businesses. Additional research needs to be conducted to determine if there are higher rates of business starts and lower rates of business terminations among rural businesses compared to non-rural ones.

We are now more than half a century into the Information Age. Use of the internet for communication and business is becoming increasingly common and welcomed by small business owners. However, there are few, if any, current studies tracking participation in e-commerce, particularly in different geographical areas. Further research needs to be conducted to determine the rates of participation in e-commerce by rural and non-rural women.

REFERENCES


