Does Small Business Ownership Offer Opportunities for Women in Rural Areas?

by

Leann M. Tigges and Gary P. Green

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DOES SMALL BUSINESS OWNERSHIP OFFER OPPORTUNITIES FOR WOMEN IN RURAL AREAS?

Leann M. Tigges
and
Gary P. Green*

Women-owned businesses in the United States have grown more than six-fold in number and have increased their gross receipts 50-fold over the past two decades, making them the fastest growing segment of the small business population. Approximately 30 percent of all firms are owned by women. While women business owners tend to be concentrated in the retail sector, the largest relative gains in recent years have been in industries in which women’s entrepreneurship has been relatively low, such as in manufacturing, construction, and wholesale trade.

Given the rapid growth of entrepreneurship among women in recent years, it is important to understand the social and economic factors influencing the success of women-owned small businesses. Like women’s wages from labor force participation compared with men’s, the sales and income of women-owned firms are significantly lower than those of men-owned firms. Annualized median earnings of women sole proprietors are about 30 percent of their male counterparts. Women primarily own firms in a limited number of industries (retail and services), just as women in the labor force are concentrated in a relatively small number of occupations. For women residing in rural areas, however, the difficulty in finding good jobs, or of commuting to metropolitan areas to hold them, may make the generally lower rewards of entrepreneurship more palatable.

Running a small business may also provide more challenging and stimulating work to these women. Despite these psychological advantages for women, entrepreneurship does not close the gender gap in returns to economic activity.

The primary strategy of social science research on women’s disadvantage in small business success, like that on earnings and underemployment, has been to see whether gender differences in personal traits (human capital) can account for the gender differences in success. Business success traditionally is measured in terms of gross sales and organizational survival; personal success of the owners is measured by income. Much of this research has hypothesized that women are disadvantaged relative to men because they lack managerial experience and access to key resources, and because they are not well integrated into business networks. We examine the extent to which men- and women-owned firms differ in firm characteristics, business networks, and access to credit with data from a sample of approximately 1700 small businesses in rural Georgia.

The women-owned businesses’ in our study had average gross sales of $323,463 in 1989. This was just 19 percent of men-owned firms’ average $1,720,998. Women-owned firms have an average of five workers and men-owned firms average about 11 workers. Businesses owned by women also are significantly younger than firms owned by men and are less likely to be incorporated. Women-owned businesses are much more

*Leann M. Tigges, Department of Rural Sociology, University of Wisconsin-Madison and Gary P. Green, Department of Rural Sociology, University of Wisconsin-Madison/Extension.
likely than men-owned businesses to provide personal services (23% versus 4%). Gender differences also are found in the use of formal and informal sources of business assistance. Men are more likely than women to use lawyers and CPAs for assistance, and women tend more to use informal sources of business assistance, such as family or friends. Women do not report having more difficulty than men in obtaining credit, but we don’t know whether women are discouraged more often from applying for loans to start businesses. The concentration of women owners in business activities that are in keeping with women’s traditional roles in society, for example, owning florist shops, restaurants, and beauty shops, may be partially the result of start-up capital being more available to those with more “credible” business goals.

We next considered whether these differences in firm characteristics and formal and informal sources of assistance explain differences in firms’ gross sales. Firm characteristics explain most of the differences in gross sales, particularly the industrial sector, firm size, legal ownership status and years of operation. Women-owned businesses’ lower sales are largely a function of their smaller size, non-corporate legal status, personal service sectoral location, and age of the operation.

Although business ownership among women has increased dramatically over the past two decades, there is evidence that women have improved their economic status more in the labor force than in self-employment. Women entrepreneurs continue to lag behind men in gross sales. The difference in business success is so marked that most women would be better off financially in management positions on payrolls than in self-employment. Further, women’s economic returns from self-employment actually declined between 1970 and 1980. The size of the gender gap in sales in this study and the significant effect of gender on sales even after relevant organizational characteristics are controlled suggest that entrepreneurship may not present as financially attractive an alternative to the labor market for rural women as it has for some ethnic groups who have used small business ownership to climb into the middle class and higher.

The small business option may be increasingly pursued by women for noneconomic reasons, such as flexibility or accessibility, and these reasons may be especially pertinent in rural areas where day-care and employment options are more limited. Indeed, an argument could be made against using male standards of “success” to assess women’s businesses because women may value personal fulfillment or social goals more than the income their businesses might bring.

This argument comes dangerously close to the “pin money” justification for women’s lower wages and the “flexibility” justification for their involuntary part-time work. These views neglect the economic realities and motives for women’s work. Research on women’s goals in business ownership shows that financial outcomes are not of lesser importance to women.

In conclusion, the finding of persistent gender effects in small business sales parallels the findings from studies of rural women’s disadvantages in employment adequacy and earnings. Small business ownership is another area where rural women face formidable barriers to economic success and security.

Self-employment and entrepreneurship may be desirable options to these women in light of the opportunities available in rural labor markets, however these options too take on a gendered structure that maintains women’s economic disadvantage vis-a-vis men. Programs are needed to assist women as small business owners in order to ensure that women get an opportunity to develop and apply their skills, and women need help in breaking into the more profitable business activities now dominated by men. Examples of programs that communities might develop to assist women in small business include organizations that create ties between established businesses and new business owners so that women can more easily develop the personal ties that ultimately provide customers. Women business owners need to be better connected to the professionals who provide financial and legal services; interested communities might facilitate these connections through business incubators. Finally, it appears that women’s disadvantage in small business ownership is partially due to the industrial sector in which their businesses are located. Through workshops and other programs, communities might help women gain knowledge about business ventures that are traditionally dominated by men and better evaluate their chances for success in these generally less competitive areas. But real progress in closing the gender gap may depend on developing programs that help reduce the “double burden” of family and market work. Communities need to provide safe, reliable, and affordable alternatives in child care and to increase the opportunities for women to make a living wage.

Ron Shaffer
Community Development Economist