

Understanding Women Entrepreneurs in South Africa

The emergence of a growing community of women entrepreneurs has been described by Professor Brush, Chair of Entrepreneurship at Babson College, as one of the most significant economic and social developments in the world. This is no exaggeration. Women are stepping up to own and run businesses in numbers that would have been hard to imagine a mere few decades ago. The ILO estimates that women entrepreneurs now account for a quarter to a third of all businesses in the formal economy worldwide. This is not merely redefining women's economic roles; it is reshaping the modern global economy.

In an increasingly interconnected world, national economies face stiff competition for markets, resources and skills. Consumers, in turn, are more demanding of originality and innovation. The importance of tapping all potential talent in all possible spheres is self-evident.

Much of the available data on women entrepreneurs comes from studies in developed economies. In the developing world - and in South Africa specifically - research in this area has tended to focus on the informal sector. Investigations of the motivations and aspirations of South Africa's formal sector women entrepreneurs have been relatively limited.

South African economic policy places a high value on entrepreneurship. Government looks to entrepreneurship as a critical driver of growth and job creation. But if efforts to encourage and support entrepreneurship are to succeed, we need to move beyond a focus on informal sector survivalist enterprises, and understand more about what drives success in the formal sector. It is these entrepreneurs whose efforts are likely to have the greatest all-round impact, in terms of wealth-creation, economic growth and innovation. Properly harnessed, their contribution could be truly transformatory.

The SME Growth Index was conceived to study the dynamics of the country's under-examined formal small and medium enterprise sector over a period of time. The most comprehensive such study of its kind to be undertaken in South Africa, it involves a survey of a randomly-selected panel of 500 firms, employing between 10 and 50 people in the manufacturing, business services and tourism sectors. This Alert draws on the SME Growth Index's extensive database to present a picture of women entrepreneurs in South Africa's SMEs. It shows some of the key dynamics driving this sub-sector, and examines whether and in what ways women entrepreneurs are indeed different from their male counterparts.

Where are women entrepreneurs active?

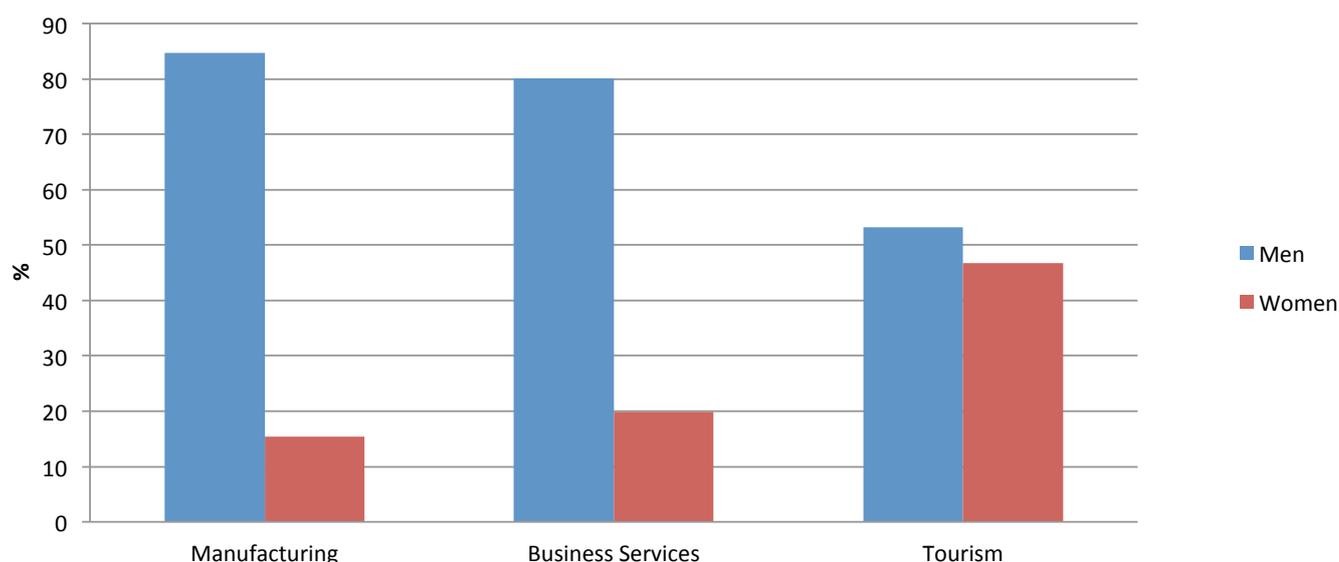
Global studies show that while the numbers of women entrepreneurs have risen rapidly in recent years, their businesses tend to be concentrated in specific sectors – typically those with lower entrance requirements such

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as retail and services. This pattern is however beginning to change, particularly in more developed economies, where women are a growing presence in traditionally male dominated sectors, such as construction.

The SME Growth Index examines three sectors with growth and value-adding potential: manufacturing, business services and tourism. Some 21% of our panellists are women. This is broadly comparable with national averages - the Stats SA's latest Quarterly Labour Force Survey estimates that women comprise 23% of South Africa's total employers.

Sector by gender of firm owner



At around one in five firms on the panel, women-owned firms are a minority; and are heavily concentrated in the tourism sector. While there are some women among our manufacturers and business services firms, their numbers are small. This is consistent with international trends - these sectors have higher entry requirements, both in respect of the need for greater investment capital, or the need for specialised professional or technical skills.

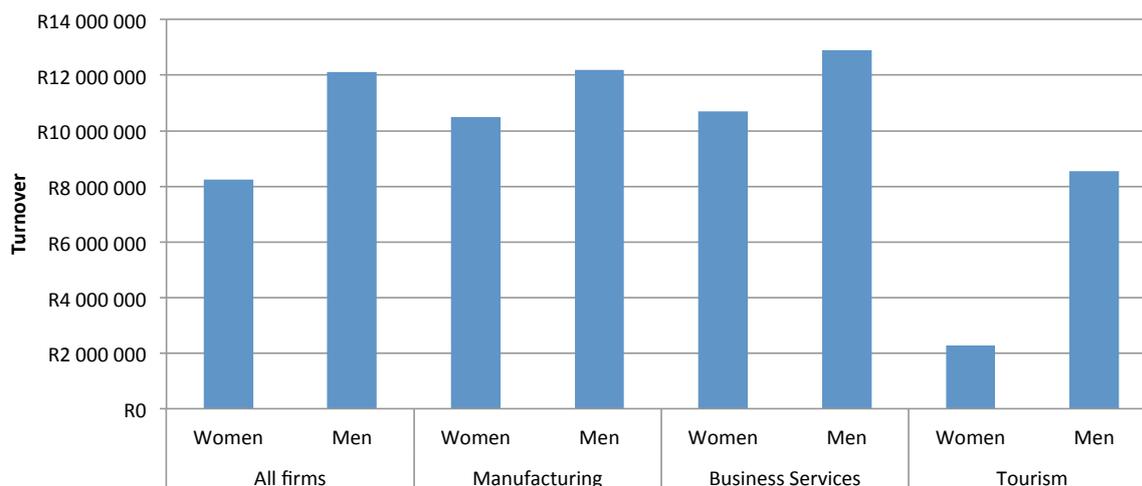
Manufacturing in particular has long been a male-dominated sector. The small but significant presence of women panellists in this sector is encouraging. These women-owned manufacturing firms cover a wide variety of activities, including plastics moulding and metalworking, and could provide useful role models for women looking to establish themselves in traditionally male-dominated fields.

What do women-owned firms look like?

The multi-country GEM survey has conclusively shown that firms owned by women tend to be smaller than those owned by men, both in terms of turnover and number of employees. The findings from the SME Growth Index are consistent with this global pattern. Among our panellists, women-owned firms generally have a lower turnover, and fewer employees, than those owned by men.

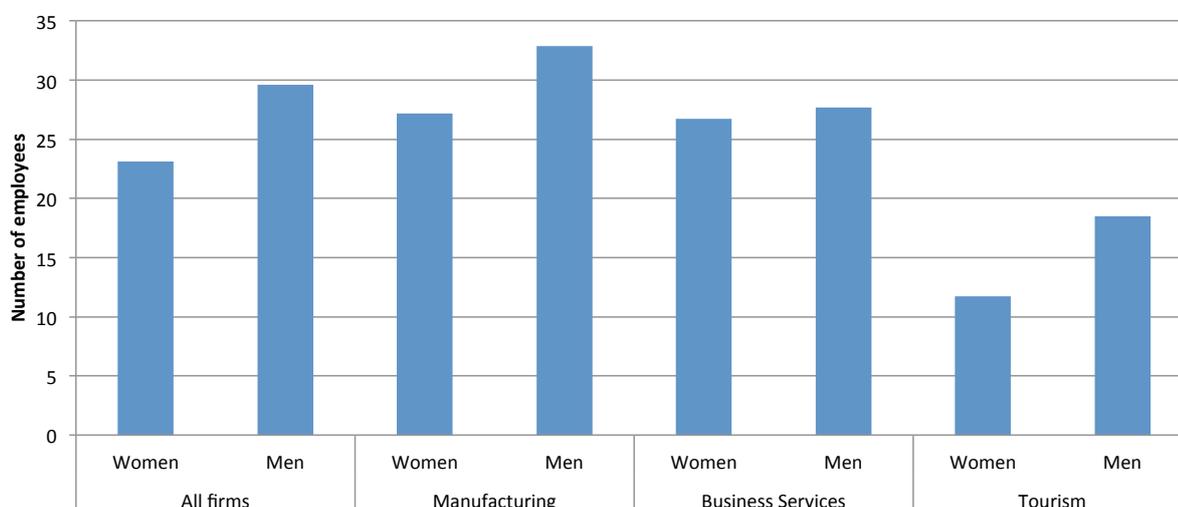
The average turnover of a women-owned firm on our panel is R8.2m, considerably lower than the R12.1m average turnover among firms owned by men. Significant differences are evident at sector level. Firms owned by men produce substantially larger turnovers in the business services and tourism sectors. The gap between the average turnover of firms owned by men and women in manufacturing is, by contrast, relatively modest.

Average annual turnover by sector



Women-owned firms are also significantly smaller in terms of employee numbers. The average woman-owned firm employs 23.1 people, while firms owned by men employ an average of 29.6. Firms owned by women in the manufacturing and tourism sectors employ considerably fewer people than their male counterparts (close to six fewer employees among manufacturers, and close to seven among tourism firms). However, the gap between business services firms owned by women and those owned by men is far closer, with women-owned firms employing only one less staff member than their male counterparts.

Average number of employees by sector



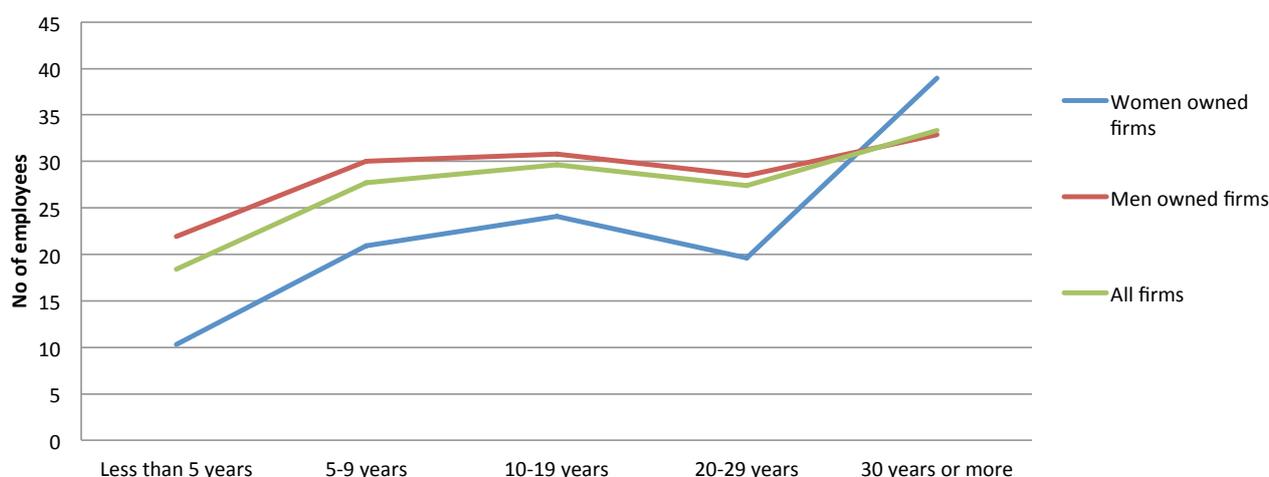
Our panel points to a strong correlation between gender and size among South Africa’s SMEs. Globally, there is considerable debate about the extent to which differences in firm size are attributable to the gender of the business owner, when other factors are controlled for. In the US, research has found that differences between firms owned by men and women in terms of venture size are explained by variables such as growth aspirations, and prior start-up and industry experience, rather than by the gender of the owner per se. These studies show that women entrepreneurs tend to have less business experience prior to starting their businesses, and that their aspirations for growth are typically far more modest than their male counterparts, and that their businesses tend to be smaller as a result.

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Firm age is an important variable for understanding firm dynamics, since firms of different ages often develop different modes of doing business and have different needs. Within the SME Growth Index panel, firms owned by women tend to have been operating for a shorter period than those owned by men. Around a third of women-owned firms on the panel have been operating for nine years or less, as opposed to 19% of firms owned by men. By contrast, one male-owned firm in five is over 30 years old, against only one in ten women-owned firms.

Controlling for firm age and sector among our panellists, we still find that firms owned by women employ fewer people. The prominent exception is among firms that have been operating for more than 30 years, where we find that the average women-owned firm employs six more staff than its male counterpart. Note however that this anomaly is based on a very small number of women-owned firms (six in all) in manufacturing and business services.

Number of employees by age of firm



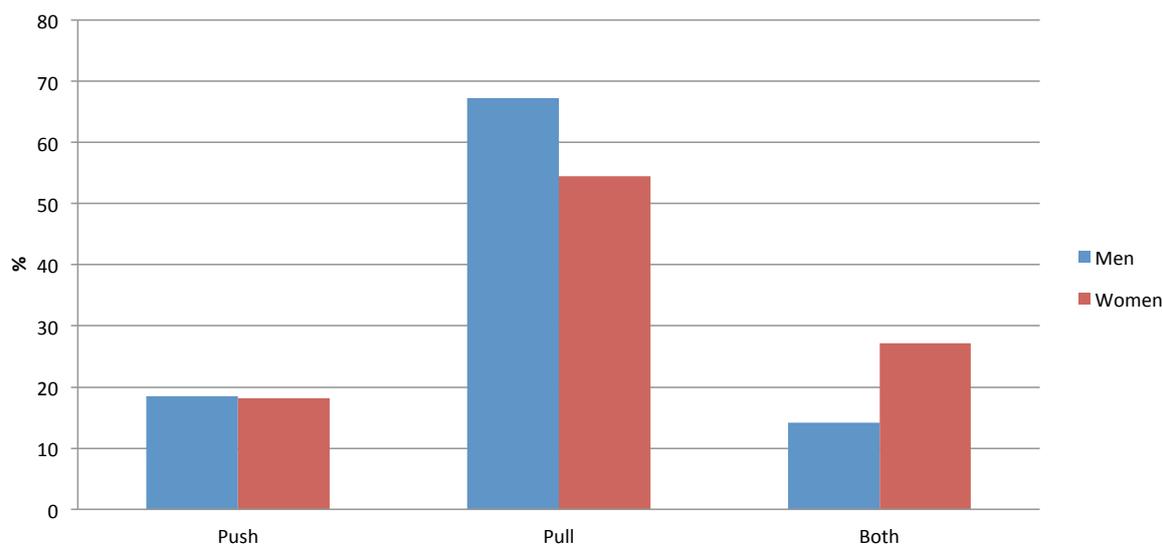
In terms of turnover too, firms owned by women tend to lag behind those owned by men across the age continuum. However, women-owned firms do have higher average turnovers among the youngest group of firms (less than five years old), chiefly because of high turnovers by women-owned business services firms in this group. At this age, the average turnover of a women-owned business services firm is more than double that of one owned by a man.

What motivates women's entrepreneurship?

Motivations for starting a business can vary almost infinitely, but a basic distinction is made between so-called "necessity" and "opportunity" factors. Necessity, or "push", factors are a product of unsatisfactory or even desperate conditions; entrepreneurship is the only option available to earn a living, rather than positive choice. Opportunity, or "pull", factors, in contrast, are associated with perceptions of entrepreneurship as an enticing avenue for a better and more fulfilling life. Comparative studies suggest that women are motivated to a higher degree than equally qualified men to become entrepreneurs for family-related lifestyle reasons; and that women are less motivated than men by wealth creation and advancement reasons.

Among our SME Growth Index panellists, however, the motivations of the panellists in the SME Growth Index are heavily opportunity-driven. Majorities among both our male and female panellists were motivated by pull factors. Roughly equal proportions of men women had done so out of necessity. Considerable proportions of both groups were motivated by a combination of opportunity and necessity factors - highlighting the ambiguities that might accompany a decision to enter an entrepreneurial career.

Motivation by gender



Research on specific entrepreneurial motivations suggests that similar sets of factors – desires for money, recognition, independence and so on – are important to both men and women, albeit with different emphases. A key difference in entrepreneurial motivation between men and women is their perceived family responsibilities. In the US, research among MBA graduates of a top-line business school compared entrepreneurial motivations of men and women. It concluded that while male entrepreneurs are likely to pursue wealth and career advancement as a primary motive, women were attracted to career options that would allow them to balance work and family life. Studies also show that many women in developed economies are attracted to entrepreneurship by the desire to make a social contribution.

The SME Growth Index did not uncover any clear evidence of such differentiated motives. Among our panel, reasons for starting the business were fairly consistent across genders: exploiting a market opportunity; seeking avenues of personal interest or fulfilment; escaping an unfavourable working environment; and meeting commitments to family (often expressed in taking over a family-owned firm). We did note however that men gave relatively greater importance to independence (“being one’s own boss”), and that several of our male panellists described starting their own business as a natural progression in their career paths. These responses were far less common among women panellists.

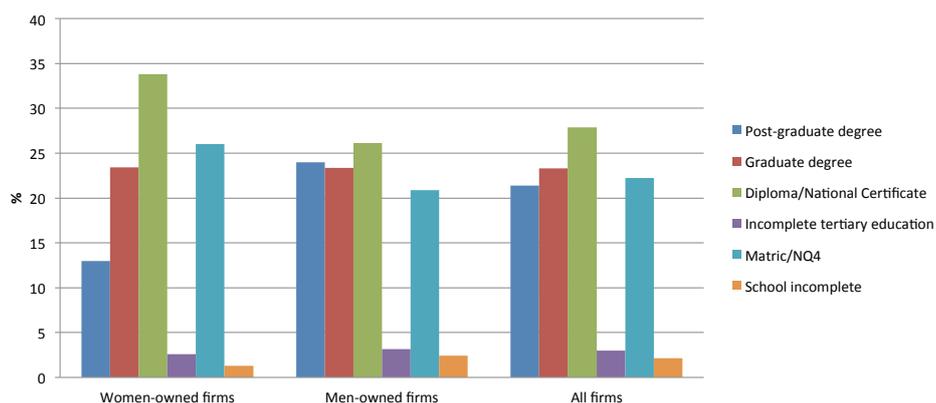
Entrepreneurial preparation

An understanding of the factors that contribute to the emergence of entrepreneurs – the so-called “incubation” factors – is important. Not only can it help explain particular patterns of entrepreneurial uptake and subsequent success (or failure), but it can be a vital basis for policy geared at growing the pool of entrepreneurs. If these factors differ significantly across genders, there is a powerful case for programmes geared at the specific needs of men or women.

The first of these that we will assess is education and training – the process of laying the foundations for the cognitive and later the professional skills that entrepreneurs rely on. Global studies show that entrepreneurs tend to have a somewhat higher level of formal education than average. This is consistent in our findings from the SME Growth Index panel, as shown in the figure below.

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Education level of entrepreneurs, by gender

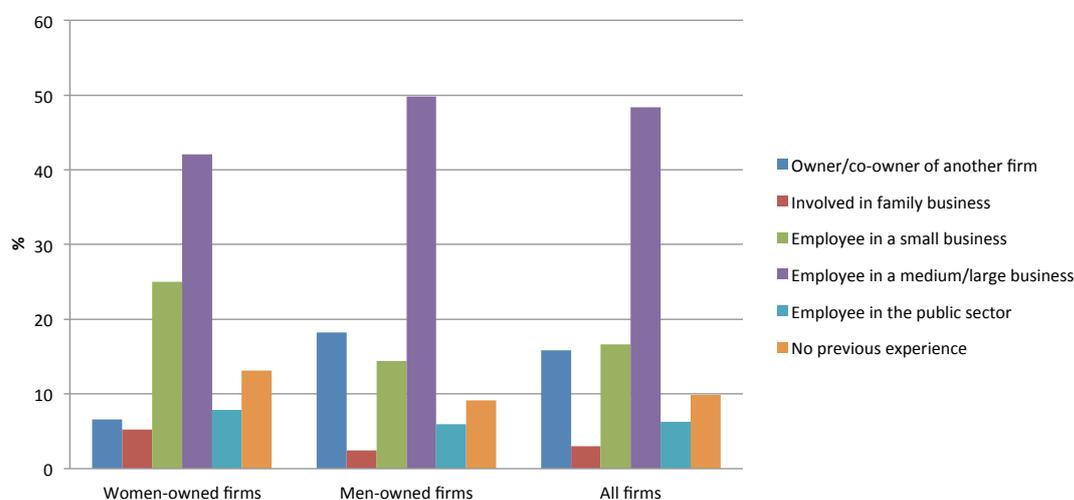


Among our panellists, the men are on average more highly educated, with nearly half having a graduate or post-graduate degree, against one third of women. It is worth noting that the levels of tertiary education among South African women are rising steadily. Increasing numbers are obtaining qualifications in such traditionally “male” fields as engineering. This narrowing of the gender gap in tertiary studies could in time help to generate more women entrepreneurs in these fields.

Arguably more important than formal education is an entrepreneurs’ prior work experience. In a study conducted by the Kauffman Foundation among successful entrepreneurs in the United States, work experience was regarded as the single most important preparatory factor for both men and women business owners. However, women identified it as substantially more important than men. The study’s authors speculated that this may be because women enter competitive fields with low self-confidence, owing to gender stereotyping, and hands-on experience improves their confidence.

The overwhelming majority of the SME Growth Index panellists had several years of work experience behind them prior to starting their businesses, generally as employees in small, medium or large firms. This was the experience of roughly two thirds of panellists of both genders, although men were more likely than women to have worked in a large firm. Women do, however trail behind men in relation to previous specific entrepreneurial experience. Men are more than twice as likely as women to have operated another business. The differences in this respect are extreme in the manufacturing sector: some 19% of the male panellists had owned another firm, in contrast to none of the women.

Previous experience of owner, by gender



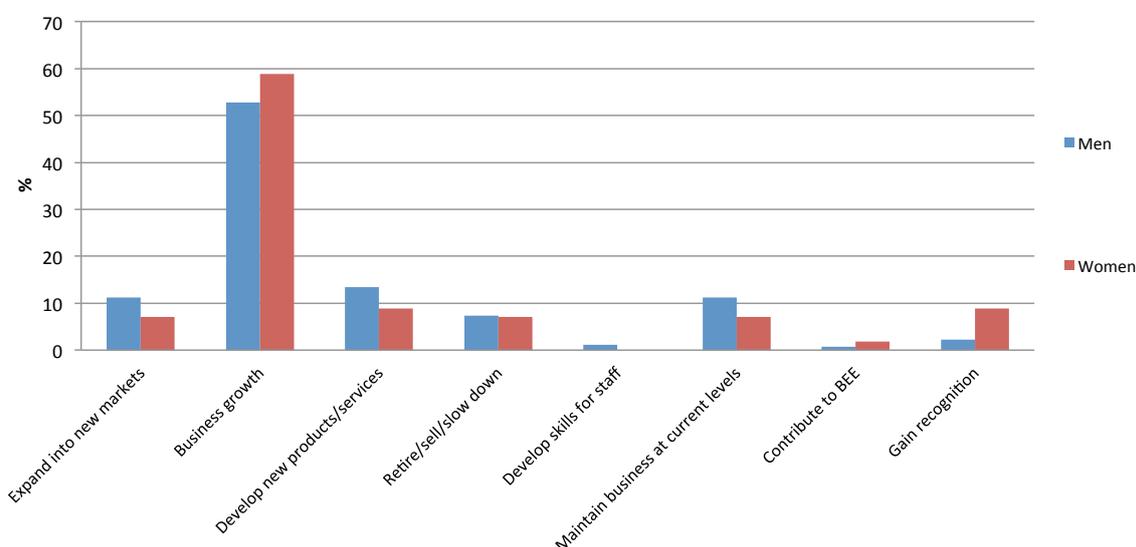
Aspirations for Growth

A 2007 US study found that male owners were more likely to start a business to make money, had higher expectations for their business, and did more research to identify business opportunities. Women, in contrast, were found to be more likely to have started their business with a particular mission or purpose in mind, often driven by the desire to make a social contribution. According to the study, women typically talk about how and why they started their business, whereas men talk about how big the business will grow.

We sought to understand whether differences in size of business across gender may be attributable to different attitudes toward and aspirations for growth.

We found that our panellists did not express significant differences in growth aspirations according to their gender. An open-ended question about panellists' motivation produced no evidence that women are any less growth oriented than men. Indeed, quite the contrary - the women on the panel are six percentage points more likely than men to indicate an aspiration for firm growth. Women also stress the importance of their firms being recognised for their achievements.

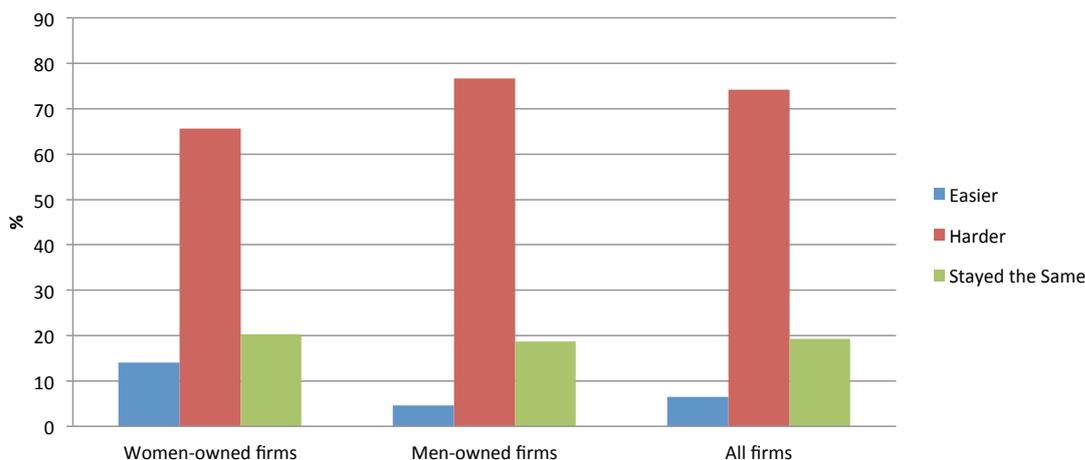
Aspirations for the firm



One small but important difference between the genders is that men show a greater interest than women in expanding into new markets, typically outside South Africa. SBP has previously pointed out the importance of taking advantage of global markets, and the benefits to SMEs that do. (See *Developing a new path for SMEs in South Africa; Reassessing for Growth.*) The difference in aspirations here matches a difference in behaviour. Only one in five women-owned SMEs is exporting, against nearly one third of those owned by men. The largest difference between the genders' export behaviour is found in manufacturing: nearly half of all manufacturing firms owned by men export, while only 29% of those owned by women do so. Again, this is consistent with the findings of international studies, which show that women are more likely than men to have businesses with a geographically localised client base. Our panel showed not only that women are keen to grow their businesses, but also that they are more positive about the business environment and the future than their male counterparts.

Over the three years that the SME Growth Index has been running, one of the clearest messages we're seeing is that business owners are finding the environment increasingly tough. Although this view has been expressed across the panel, it is somewhat less prevalent among women than among men. In fact, around 14% of women entrepreneurs believe that it has become easier to do business.

"Has it become easier, harder or stayed the same to run a business?"

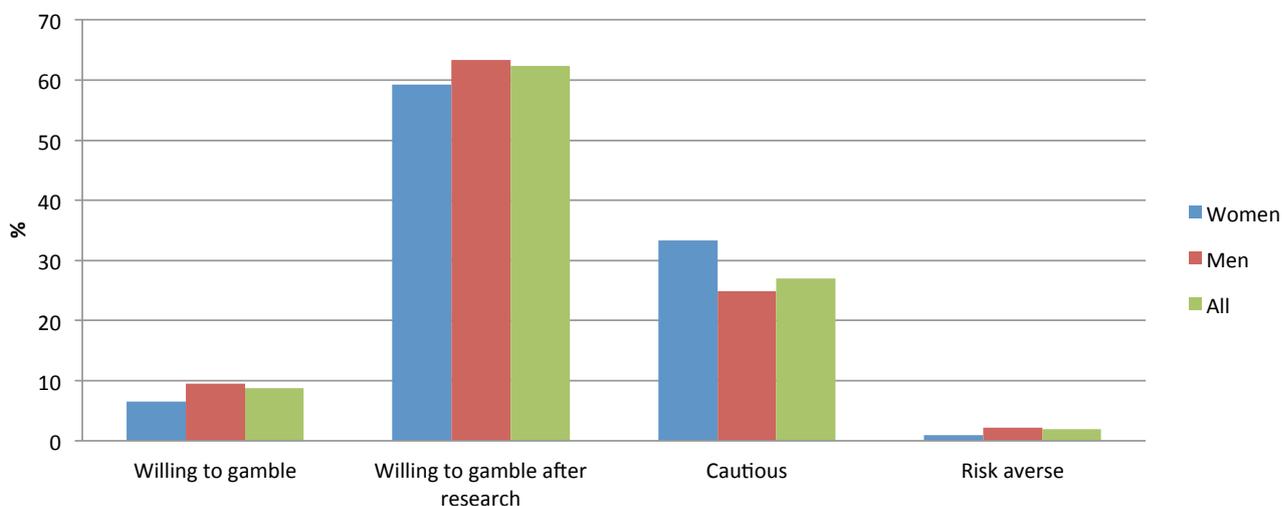


This generally more favourable view of the business environment is matched by greater optimism. When asked about their aspirations, two thirds of women entrepreneurs say that they had changed for the better, and only 8% for the worse. Men are notably more pessimistic: just over half say their aspirations had changed for the better, and 13% for the worse. With the exception of tourism, women’s aspirations consistently reflected a more confident mood than their male counterparts.

If women are keen on growth, and are showing greater optimism for the future, how willing are they to make the commitments and investments to make growth possible? Risk is inherent in entrepreneurship, and some observers argue that women tend inherently to shy away from it – and that this is partially responsible for the smaller size and slower growth of women-owned firms. The 2012 GEM survey found that, in every region surveyed, women reported being more afraid of failure on average than their male counterparts, and more show reluctance to scale their businesses or to enter new and less tested markets.

The findings of the SME Growth Index partly confirm this. Women do indeed appear to have a more restrained approach to risk taking than men. However, the differences are not extreme. A clear majority of both women and men are moderately open to risk (“willing to gamble after research”), although a noticeably larger proportion of women term themselves “cautious”. Few of either gender are “willing to gamble”, while even fewer are “risk averse”.

Self-described attitudes to risk, by gender



In attitudinal terms, the broad picture to emerge among our panellists is of a community of women entrepreneurs positively geared towards growth – and an equal if not greater eagerness than their male counterparts to grow under current conditions.

Do women entrepreneurs face unique challenges?

Understanding women's entrepreneurship – indeed, women's economic activity as a whole – inevitably raises the question of whether women suffer disadvantages arising explicitly from their gender.

Most commonly, it is argued that women entrepreneurs have to make trade-offs between their work and family responsibilities. Their male counterparts do not face the same pressures, and can make a greater time commitment to their businesses. Studies across the world have demonstrated the link between family responsibility pressures and lower growth patterns among women-owned firms. Studies have also shown the vital importance of a supportive family environment for a successful woman entrepreneur.

It is likely that elements of this argument hold true for South Africa's women entrepreneurs. However, the SME Growth Index has not thus far recorded any firm evidence of it. Women operating in the formal SME environment do not appear to regard cultural mores or family responsibility as an impediment to their business activities.

Another issue is whether women face barriers resulting from prejudice and chauvinism. This is a topical issue: the Women Empowerment and Gender Equality Bill, currently under consideration in Parliament, seeks to compel "designated bodies" – which will certainly include businesses – to ensure that half of their decision-making positions are held by women. This is based on the belief that "pervasive discriminatory patriarchal attitudes" deny opportunities to women and retard their social and economic progress.

This does not appear to be supported by the SME Growth Index data. While it is true that societal attitudes towards women's places in the economy (and indeed, laws that regulated this) have historically limited women's entrepreneurship in this country, it is also clear that this is changing profoundly. Certainly at the level of the economy studied by the SME Growth Index, perceptions of discrimination are not a large issue. Notably, not a single panellist has yet raised any concerns related to gender discrimination.

In fact, South Africa appears to be increasingly accepting of women's entrepreneurship. According to a survey carried out in the Free State in 2012, the attitudes of young people towards women's involvement in entrepreneurship were highly positive, and most did not believe that women should be constrained by their traditional roles.

Conclusion

As a potential force for economic growth, women entrepreneurs are coming strongly into their own. This is the experience internationally, and in South Africa. It is, however, a process that has only gained real momentum in the past few decades, and has enormous potential for the future.

In South Africa – as in much of the world – firms owned by women tend to be smaller than their male-owned counterparts. They are nonetheless a pioneering community. They are educated and well primed for their role as entrepreneurs. Many demonstrate excellent results and growth prospects. As a whole, they are showing remarkably positive attitudes to the future – more positive than those of their male counterparts. Social attitudes, while perhaps leaving significant room for improvement, are not a fatally constraining factor. It appears that our country's prospects for creating a growing pool of successful women entrepreneurs are looking very bright.

Perhaps the most striking finding emerging from the SME Growth Index data is that the differences between South Africa's men and women entrepreneurs in formal-sector SMEs are overshadowed by the fundamental similarities. Both are entrepreneurs first and foremost. They are driven by fundamentally commercial imperatives. The environment in which they operate is a difficult one. It appears that the challenges facing South Africa's formal sector women entrepreneurs are much the same as those facing their male counterparts – and that gender plays little if any role in this.

In this context, it is important to think clearly and carefully about measures intended to benefit women, including the very topical Women Empowerment and Gender Equality Bill. Entering entrepreneurship is a risky and difficult commitment. Too few South Africans of either gender do so. There is much to be gained from expanding the pool of entrepreneurs, and women entrepreneurs in particular. But gender specific programmes, and legislation designed to impose a 50:50 gender ratio in the business environment, are unlikely to be the most effective means of doing so. The Women Empowerment and Gender Equality Bill aims to redistribute existing opportunities. We would argue that a focus on enabling more people – men and women – to create their own opportunities would be far more empowering.

Our panellists have demonstrated that their gender does not determine the sector in which they work, their aspirations for growth, or their optimism about the future. In fact, they've demonstrated precisely what a 2012 study of gender and entrepreneurship concluded: "Both men and women are equally capable of characteristics such as initiative taking and accomplishment, being active, independent, decisive, and self-confident."

¹Tagg S and Wilson F, "Construing business owners: are men and women really different?", International Journal of Gender and Entrepreneurship, 2 (1), 2012, p. 13, available online at <http://strathprints.strath.ac.uk/20115/2/strathprints020115.pdf>.



SBP is a not for profit company specialising in improving the environment for doing business. We have worked in Africa and internationally since 1998 providing innovative solutions for policy formulation, better regulation and development in emerging markets. We have a special interest in small business as vehicles for growth and job creation.

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