

# Mind the gender gap

by Magnus Aronsson and Nancy Carter

**Research shows that female entrepreneurs find it hard to secure venture capital, although they have the skills and education that investors seek.**

Around the world women entrepreneurs are building enterprises, employing workers, creating wealth and generally contributing to community well being. But despite this welcome burst of activity the potential for economic growth from female-led businesses remains largely untapped. Not all women can become entrepreneurs as the EBF question suggests - but a lot more should, and a lot more support should be directed at them if this entrepreneurial capacity is to be fully utilised. One consistent finding in the annual Global Entrepreneurship Monitor (GEM), an assessment of the national level of entrepreneurial activity, is the difference in entrepreneurial activity between men and women. The rate of female participation is about one half the rate of men across all countries surveyed in GEM (37 countries in 2002). In most European countries the participation rate among women is even lower than that.

Why then do more professional women in Europe not consider the entrepreneurial career choice? Is it a lack of role models, structural barriers or a lack of the skills and knowledge needed to start a business? There is surely a strong case for policymakers to think harder about ways to stimulate an increase in the number of start-ups run and owned by women, and for researchers to help policymakers develop an agenda.

Turning to what one might term the 'high end' of women-led businesses, those with strong growth potential, a similar picture emerges. In the US, women have launched businesses in every industry, sector and geographic region. Yet, while 28 per cent of all businesses are majority-owned by women, only about 18 per cent of businesses with 100 or more employees are women-owned. The same applies in most European countries, though the proportion of women-led firms with 100 employees or more is generally lower than in the US.

What has kept many women-owned businesses from joining the ranks of the high potentials? A short answer is money.

Money is crucial to the growth and long-term prospects of businesses everywhere and few entrepreneurs of either sex have all the capital they need. Female entrepreneurs, though, seem to have more difficulty than their male counterparts in securing funding for their businesses. Data from the US capital markets show that even in the 'go-go' years of 1999 and 2000 women-led businesses received less than six per cent of the equity investments made. This figure was probably even lower in other countries. The question is how to explain this low level of outside investment, and whether the experience of female entrepreneurs in the US is similar to that of women in other parts of the world. What factors other than money are inhibiting the growth of women-owned businesses worldwide?

This apparent gender gap in venture capital investments was a

starting point for the Diana Project launched in the US in 1999. Named after the heroic huntress and reflecting the reality that women currently hunt for capital in a male-dominated arena, the Diana Project was established to raise awareness and expectations of women business owners regarding the growth of their firms. The studies in the project have covered both the demand and the supply side, looking at both women-led business seeking venture capital and the structure of, and career movements, in the venture capital industry. From these studies it is clear that women-led businesses have a great potential for growth. Women have increasingly acquired the education, business experience, and networking know-how to launch and manage high growth businesses. Since 1995 more than one-third of all MBAs are women, and even more are earning advanced degrees in biotechnology and sciences - growth areas of the future. To complement their formal education, women are gaining industry and managerial experience at senior levels and in industries characterised by high growth business opportunities. They are actively engaged in business networking, both in the business and investment communities. The outcome of these efforts is a highly talented group of entrepreneurs with the skills desired by experienced investors. Supporting the entrepreneurial ventures of these women can pay big dividends to local, regional and national economies.

More successful women-owned businesses must be a good thing in itself (not least as a role model for others). But an important side effect of having more women growing their businesses is an increased pool of potential board members for other companies. Today the route for women to the boardroom still seems to be via a career in a large, established corporation; the knowledge and experience gained by women who run and grow their own firms does not seem to count when new directors are recruited.

More systematic and trans-national research is needed to understand female entrepreneurship and help tap into this valuable resource. With this in mind an international consortium was initiated by the Entrepreneurship and Small Business Research Institute (ESBRI) and the professors behind the Diana Project and now involves researchers from close to 20 countries. The First International Symposium on Growth Financing for Women Entrepreneurs was held in Stockholm, Sweden, in June 2003.

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