

Launching women-owned businesses onto a high growth trajectory

Introduction

This paper provides a foundation for the National Women’s Business Council (NWBC) to develop and launch a major initiative targeted to helping women achieve high levels of business growth. NWBC is the single government organization that focuses exclusively on ensuring that this nation’s economy realizes the full potential of one of its fastest growing segments – women-owned businesses. Integral to achieving this mission is to be a catalyst for women-owned businesses creating jobs and generating revenue.

This paper reviews the growth-trends of women-owned businesses, reports on what differentiates the women who own the largest, fastest growing businesses from those with smaller businesses, and concludes with a proposed strategic platform for action.

Background

The phenomenal growth of women-owned businesses has been making headlines for 25 years. Women consistently have been launching businesses at nearly twice the rate of men. As important, their growth in employment and revenues has continued to outpace the economy.

Even as the nation’s economic growth slowed, employment in women-owned firms continued to expand while men-owned firms were contracting.¹ Furthermore, projections indicate that the trend in employment growth among women-owned firms will continue. The Guardian Small Business Research Institute projects that women-owned businesses will create 5 to 5.5 million new jobs by 2018 – more than half the 9.7 million new small business jobs expected to be created and about one-third of the 15.3 million total new jobs anticipated by the Bureau of Labor Statistics by 2018.²

Women-owned businesses already are serious players in this nation’s economy. An economic impact study conducted by the Center for Women’s Business Research and the National Women’s Business Council documented that majority women-owned firms today are driving more than 23 million jobs – both directly and indirectly.³



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However, although the gap has been narrowing, women-owned businesses continue to lag men-owned businesses, and are under-represented in the top revenue categories. Only 3% of majority women-owned firms have revenues over \$1 million compared to 6% of majority men-owned businesses. As of 2008 – the latest year for which data are available – the average revenue of majority women-owned businesses is 27% of the average revenue of majority men-owned businesses.

Looking at the trends from a more positive perspective, a substantial number of women now own and lead businesses over a million dollars, and many of these businesses are multi-million dollar enterprises. The number of women-owned businesses with \$1 million or more in revenue grew 2,000% between 1977 and 2002. While the proportion of women-owned businesses over \$1 million (3%) may seem small, this translates into more than a quarter of a million women-owned enterprises. Further, 20% of all businesses over \$1 million are owned by women, and women-owned businesses are found at all levels of revenue. In fact, of the women-owned businesses over \$1 million, 35% are over \$5 million, 2% are over \$50 million, and a fair number have revenues over \$1 billion. A recent Kauffman Foundation publication reporting on a survey of high tech firms concluded that women and men entrepreneurs are equally likely to succeed given similar conditions. Clearly, the data substantiate that women have the vision, capacity, and perseverance to build thriving companies.

This is a group of business owners that already is having a measureable impact on the nation's economic health. However, there is tremendous untapped and unrealized potential for these businesses to make an even greater contribution to the nation's economic health, particularly in the critical area of job creation.

Over the past quarter of a century, the world has changed for women business owners. Access to capital, access to markets, and access to networks of decision makers and experts have expanded dramatically thanks in great part to many dedicated leaders in business, government, and non-profit sectors. Today, women own businesses succeed in all industries, including those formerly considered "non-traditional" for

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women business owners – engineering, construction, manufacturing, wholesale distribution, and information technology. Women bring unique strengths women business owners – engineering, construction, manufacturing, wholesale distribution, and information technology. Women bring unique strengths to entrepreneurship, and there is evidence that women’s leadership styles give them an edge in running successful businesses especially in today’s time of turbulence and transformation.

So, what differentiates the women with the largest, fastest growing businesses from those with the smaller firms? What can we learn from these women with the more substantial enterprises that can help women who aspire to the same level of business achievement? To answer that question, this paper pulls together 20 years of research by the Center for Women’s Business Research with thousands of women business owners, recent research from other sources, and the author’s extensive experience with leading women business owners, bankers, Women’s Business Centers and others who coach women business owners, and non-profit leaders of women business owner associations.

It starts with goals.

The value of setting high goals for growth is not just a motivational myth! Research shows that the only statistically significant predictor of business growth is not the industry, size of business or length of time in business. It is the entrepreneur’s goal for growth.

We are not advocating that every woman should grow a large business. Indeed, the choice to grow the business large or keep it small is the entrepreneur’s. However, it is critical for women to understand the implications of their future goals for business structure when establishing their business so they can make an informed decision about setting growth goals from the out-set and about laying the foundation for launching growth should they decide to do so.

The women with the most substantial businesses set high goals and when they achieve these goals, they ratchet up to an even higher level. In an informal survey of the 2010 Enterprising Women awardees, regardless of whether the business was at \$1 million or over \$25 million, the owners reported growth goals that equaled or exceeded their growth rate for the past five years.

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Establishing high growth goals from the outset makes the business owner think differently about her business and drives decision making. The women with the faster growing businesses say they behaved as if they had \$1 million firms long before they achieved that level of revenue.

Women's growth goals are influenced by many factors including their reasons for starting a business. Research shows that women and men start businesses for different reasons. Men tend to start a business to be the boss and grow the business as large as possible; women start businesses to be personally challenged and to integrate personal and business goals.

Definitions of success also influence goals. Men tend to define success in monetary terms while for women, fulfilling a value-based vision and mission is at least as important and often more important than monetary goals. Many women business owners believe that they cannot both grow a business and fulfill their values-based goals. So, they often default to focusing on the mission rather than growth goals.

The most successful women business owners recognize that they can integrate profitability and wealth creation with values and mission. As one woman CEO with a multi-million dollar business said in an interview, "While I always expected to build a business that would be an institution, from the start, I also defined success in two ways: (1) by providing professionally meaningful jobs for people to help them find their voice through a rewarding career; and (2) by providing services to make a positive difference in other people's lives. More than 25 years later, these values still drive our business."

As we said, most men start businesses to be the boss and grow the business to be as large as possible. In contrast, almost two-thirds of women say their goal is to keep the company at a size where they personally can stay involved in product or service delivery to ensure the quality and customer service that is their critical market differentiator. When a woman thinks like this, she becomes the greatest barrier to her business' growth.

All too often, start-up training tends to ignore planning for future growth, focusing instead on business start-up planning

The women owners of the most substantial businesses recognize that they must make the transition from being the chief technical person to being the business leader. To preserve the quality of products and services, they create a culture that institutionalizes their values and expectations and build a team of top talent. They realize that others can deliver the services but that only they can take care of the health of the organization. They fall in love with running the business.

The mind-set of deferring establishing serious long-term growth goals until after the start-up phase of the business often is re-enforced by the training for new business owners. All too often, start-up training tends to ignore planning for future growth, focusing instead on business start-up planning, marketing advice, and personal budget planning to ensure the new entrepreneur has enough cash to carry her until the business gets going.

That lack of focus on future growth makes a huge difference. The woman business owner may not establish the necessary tools for tracking and analyzing financial information and business operations or invest in the technology that would facilitate future growth. So, if after a few years, the woman realizes she has a successful enterprise on her hands or her circumstances change and she wants to expand the business, she is unlikely to have the three to five years of financial records and projections that banks require to provide credit. In the end, she either delays growth or, more commonly, lowers her goals.

Focusing on finance and uses of capital is vital.

One of the key differentiators between the women with the most substantial businesses and those with smaller businesses is their attitude toward business finance and capital. Women business owners who are focused on growth and expansion are more confident in their business skills, including planning, strategy, and finance than the women who are not expansion oriented. They are much more likely to embrace financial measurements as a major component of their business strategy. They produce more financial reports more often, review them regularly, and use them to drive business decisions.

Research shows that one of the most important determinants of whether a business owner will succeed in getting capital is sheer persistence.

While women who are focused on expansion are more likely than other women business owners to seek outside capital, overall, women tend to prefer to use business earnings rather than credit to invest in expansion. Even when we control for revenue, women business owners are less likely than men business owners to say they are using or intend to use either credit or equity products. Further, many view debt as “bad.” This restricts the amount of capital available for expansion and, therefore, inhibits growth potential.

This attitude toward using outside capital may be due, in part, to women’s lack of comfort with financial products and services. One of women’s strengths is building relationships, yet they seldom focus on building relationships with banks and bankers. Lack of relationships with banks and limited knowledge about financial products and services often creates a barrier to aggressively seeking expansion capital. The most successful women business owners have moved from seeing themselves as a supplicant in relation to the bank to viewing the banking relationship like any other business relationship. It is about getting to know the banks and bankers and finding the right one(s) for your business.

Many women business owners, especially those of color, believe they would not get credit even if they applied. So they don’t even bother to ask. When they do apply for credit, they are often cautious, asking for as little as possible. This only re-enforces the perception that they are not serious about growth.

Research shows that one of the most important determinants of whether a business owner will succeed in getting capital is sheer persistence. In general, over half of the women business owners who sought a line of credit or bank loan were successful. On average, it took those who were successful in obtaining capital four attempts to get a line of credit and 22 attempts to obtain equity investments. Most women business owners received the same amount of money they sought; but nearly a quarter (22%) actually received higher lines of credit than they requested.

Metrics establish credibility.

The greatest potential for growth is in the business-to-business and business-to-government markets. Gaining access to these markets is

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critical to achieving business growth. However in both the corporate and government procurement programs many women business owners believe there is an unspoken perception that their companies do not have the capacity to perform and that holds back their ability to win those contracts.

In business, if you cannot measure it, it is not real. The women with the larger, faster growing businesses have developed the metrics that document their capabilities. Many have adopted commercially available standardized quality measurement processes. These are available for both product and service businesses. Industry associations also have widely recognized certifications or standardized quality related measurements that a company can adopt.

In addition to providing potential customers evidence of the company's capacity, these metrics provide the business owner with an excellent tool for tracking the business and evaluating processes and programs – adding to the strength of the business.

Believe in yourself.

Women are leading businesses differently and breaking new ground in product and service delivery. So it is not uncommon for there to be “nay-sayers” who tell them that their ideas won't work and their goals are unattainable.

A key characteristic of the women who lead the most substantial businesses is confidence in their ability to run the company, to seek capital and to act quickly. When asked what advice they would give to other women business owners, almost every one of the 2010 Enterprising Women honorees focused on believing in yourself, staying true to your vision and your dream, and not allowing others to tell you that you “can't.”

Take advantage of multiple networks.

Networks are a vital source of business and industry knowledge, leads on contracts, and access to decision makers in finance, purchasing and the community. The Kauffman study of women and men entrepreneurs in high tech industries found that mentoring and well-developed professional networks were significantly more important to women than to men.

The challenge confronting the women's entrepreneurship community today is to help women business owners do more than plan for business growth as usual.

All too often women restrict their networking to women business owner groups or networks within their community. The women who own the larger, faster growing businesses belong to more organizations than do the women with the smaller businesses. It is not only about the number of organizations, but also about the diversity. They join multiple organizations, each with its own focus – to gain industry knowledge, to make marketing contacts, to become active in the business and political communities, and to make financial contacts as well as maintaining their membership in key women's networks. Further, they use every network as an opportunity to learn from the experience of proven leaders.

Confounding the problem is women's lack of connections for credible introductions into industry associations, chambers of commerce, venture capital groups and other networks. Increasingly women business owner associations are helping to make those introductions.

The most successful women business owners say the best way to gain full advantage from organization membership is to take a leadership position. This provides access to the leaders and decision makers. In addition, it is imperative that as women move into the more "traditional" organizations that they create a critical mass of women members by reaching out to other women. Having a critical mass of women business owners in these networks helps women gain acceptance, credibility, and recognition.

Conclusion and Recommendations

Women business owners have been a major force in economic recovery in the past, and there is much benefit in taking advantage of their resiliency. Our nation's recovery – indeed the global recovery – will not be about re-creating what we had before. Business models are shifting, values are becoming more aligned with women's values of collaboration and inclusion, and how we view ourselves is changing.

The challenge confronting the women's entrepreneurship community today is to help women business owners do more than plan for business growth as usual. We need to dramatically transform women's concepts of the future of their enterprises – to move them into a place where they have the vision and the confidence to catapult their businesses to a whole new level.

Research documents that women approach leadership with a different perspective than do men.

To do this, we have to show women how to embrace the break neck pace of change; to be trend-setters rather than simply reactors; to invest in what might be rather than what is; to innovate beyond expectations; and, to develop global integration. We need to help them identify ways to make their enterprises scalable and to build teams of talented people for where the enterprise should be in five years, not just today.

Research documents that women approach leadership with a different perspective than do men. As a result, they relate more easily to the experience of other women. We need to build on initiatives already underway in many parts of the women's entrepreneurship community to convert the experiences of women who have achieved high business growth into generalizable, practical learning programs that are available to every woman business owner aspiring to lead a flourishing enterprise of whatever size.

This is the next threshold for women-owned businesses – it is what will ensure that women achieve their full potential as business owners and that the U.S. economy fully benefits from these enterprising women leaders.

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ABOUT NWBC

The National Women’s Business Council is a bi-partisan federal government council created to serve as an independent source of advice and counsel to the President, Congress, and the U.S. Small Business Administration on economic issues of importance to women business owners. Members of the Council are prominent women business owners and leaders of women’s business organizations. The Council’s mission includes conducting and supporting research on issues of importance to women business owners and their organizations in order to promote bold initiatives, policies and programs designed to support women’s business enterprises at all stages of development in the public and private sector marketplaces.



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