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SME Financing Data Initiative

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Women Entrepreneurs

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HIGHLIGHTS

- Majority female-owned small and medium-sized enterprises (SMEs) (i.e., 51 to 100 percent of the ownership of the business is held by women) constituted 16 percent of SMEs in Canada in 2007.
- On average, female business owners were younger and reported fewer years of management or ownership experience compared with male business owners.
- Majority female-owned firms were more likely to operate in the tourism industry than majority male-owned firms.
- Revenues earned by majority female-owned firms were still significantly less than revenues earned by majority male-owned firms in 2004 and 2007; however, before-tax net incomes generated by majority female-owned firms were comparable to net incomes generated by majority male-owned firms.
- In 2007, majority female-owned firms were just as likely as majority male-owned firms to seek external financing (17 percent request rate), in contrast to 2004 when majority male-owned firms were more likely to seek financing than majority female-owned firms (24 percent versus 15 percent respectively).
- Most majority female-owned firms that sought financing in 2007 were successful in acquiring at least some form of external financing; however, majority female-owned firms were less likely to be approved for short-term debt financing, such as lines of credit and credit cards, than majority male-owned firms (77 percent versus 94 percent respectively).
- There was little evidence of disparity with regards to interest rates or requests for collateral among majority female-owned and majority male-owned firms that were successful in obtaining financing. On the other hand, among SMEs that were denied debt financing, majority female-owned firms were significantly more likely to be turned down due to a poor credit history or insufficient collateral than majority male-owned firms.
- Among SMEs that intended to expand the size and scope of their businesses within two years (i.e., declared growth intentions), majority female-owned firms were more likely to require external financing to fund their expansion plans than majority male-owned firms. Interestingly, majority female-owned firms were more likely to consider sharing equity in the business to fund their expansion plans than majority male-owned firms.
- In 2007, majority female-owned firms were more likely to declare growth intentions than majority male-owned firms.
- From 2004 to 2008, firms that declared growth intentions exhibited noticeably stronger growth in total revenue and full-time equivalents (employees) than firms that did not declare growth intentions regardless of owner gender.

INTRODUCTION

Women entrepreneurs are an important part of the small and medium-sized enterprise (SME) landscape in Canada. Fostering entrepreneurial activity among women, therefore, will have a significant impact on wealth and job creation across the country. Access to financing is an essential ingredient to achieve growth for almost all entrepreneurs. However, there is concern among some researchers that female business owners have less access to financing — or receive financing under less favourable loan conditions — than male business owners due to a number of factors, including smaller business size, a lack of managerial experience and a weaker credit history or lack thereof. At the same time, there is a considerable volume of literature suggesting that no disparity exists in access to financing among female and male business owners.

Using the most comprehensive database on SME financing available through the SME Financing Data Initiative (SME FDI), this report outlines the business characteristics and recent financing activities of majority female-owned SMEs (i.e., 51 to 100 percent of the ownership of the business is held by women). Hereafter, “female business owners” refers to owners of majority female-owned SMEs only. Based primarily on the 2004 and 2007 results of the *Survey on Financing of Small and Medium Enterprises*, the two most recent years available, this report attempts to address the following questions:

- How do the characteristics of majority female-owned SMEs differ from those of majority male-owned SMEs?
- How do the experiences of female business owners differ from those of male business owners when seeking financing?
- Do majority female-owned SMEs exhibit different growth patterns than majority male-owned SMEs?
- What are the substantial obstacles to accessing financing faced by female business owners?

¹ Source: Statistics Canada, CANSIM, Table 282-0012.

SME Financing Data

For the purposes of this report, small and medium-sized enterprises are defined as enterprises with fewer than 500 employees and less than \$50 million in annual revenues. The SME population excludes non-profit and government organizations, schools, hospitals, subsidiaries, co-operatives, and financing and leasing companies.

The financing data used in this analysis originate from the SME Financing Data Initiative (SME FDI) *Survey on Financing of Small and Medium Enterprises*. This survey is intended to study the demand for, and sources of, SME financing. The resulting database includes information on the application process, firm profiles and demographic characteristics of SME ownership. For more information on this survey, visit the SME FDI website (www.sme-fdi.gc.ca).

Although this report focuses on SMEs that are majority female-owned or majority male-owned, about one fifth of the SMEs surveyed were identified as being jointly owned (i.e., 50–50 split ownership between the two genders). As it is impossible to ascertain any disproportionate authority or responsibility among the owners, if present, jointly owned SMEs have been mostly excluded from this analysis.

BUSINESS CHARACTERISTICS OF FEMALE BUSINESS OWNERS

Female business owners were typically younger and had less management or ownership experience than male business owners

After a sustained period of strong growth, the number of women entering self-employment has stabilized over the past decade. From 1999 to 2009, the number of self-employed women grew by 13 percent compared with 10 percent for men.¹

In 2007, just over 260 000 firms were majority female-owned, constituting 16 percent of Canada’s SMEs (Figure 1). Almost half of all SMEs in Canada had at least one female owner. Overall, gender distribution of SME ownership changed little between 2001 and 2007.

The age profile of female business owners has changed considerably as the percentage of those under 40 years of age dropped from 28 percent in 2004 to 16 percent

in 2007 (Figure 2). In spite of this, female business owners were generally younger than their male counterparts in 2007, averaging 48.5 years of age compared with 51.1 years of age for male business owners.

In 2007, 51 percent of female business owners had more than 10 years of management or ownership experience compared with 74 percent of male business owners (Figure 3). The difference in experience was statistically significant at 5 percent.

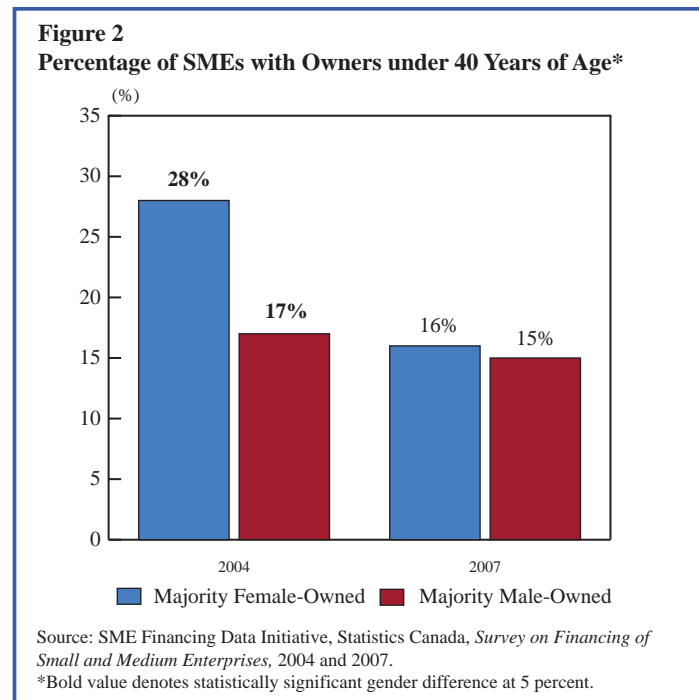
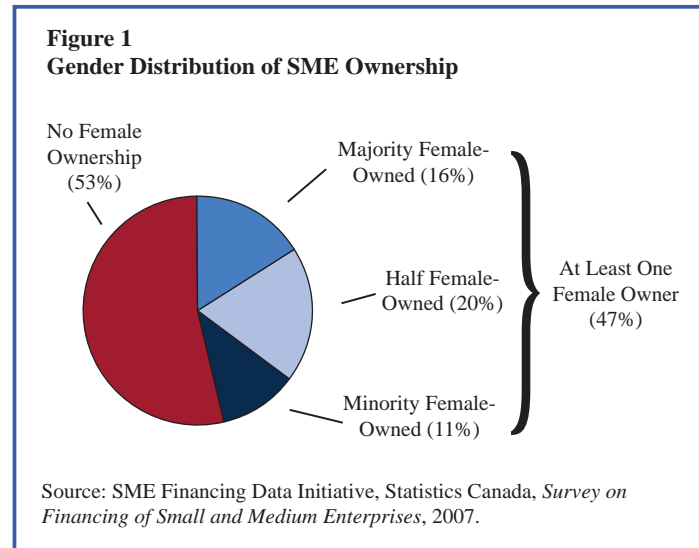
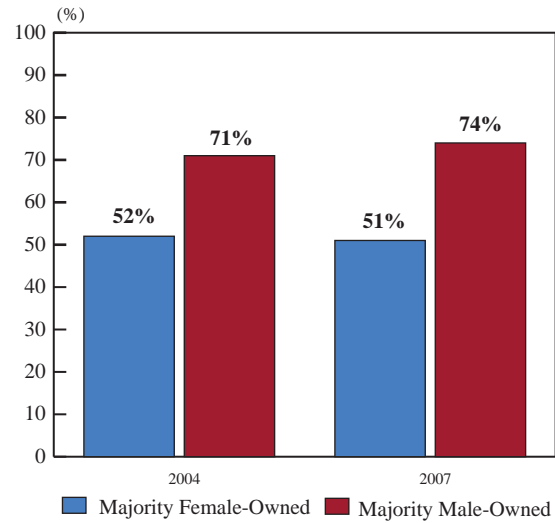


Figure 3
Percentage of SMEs with Owners Who Have More than 10 Years of Management or Ownership Experience*



Female business owners were more likely to operate a younger business and to operate in the tourism industry

A comparison of general business characteristics between majority female-owned and majority male-owned SMEs is presented in Table 1. In 2007, majority female-owned firms were younger than majority male-owned firms. Thirty-eight percent of majority female-owned firms started selling goods and services after 2001 compared with 30 percent of majority male-owned firms. Forty-four percent of majority female-owned SMEs were located in Ontario. Interestingly, female business owners were more likely than male business owners to speak a language other than English or French (22 percent versus 12 percent), yet only a very small percentage of female business owners (0.3 percent) have resided in Canada for less than five years. In 2007, female business owners were more likely than male business owners to identify their firms as “slow growth” businesses (47 percent versus 37 percent), whereas male business owners were more likely than female business owners to operate firms whose sales have stopped growing (“maturity”) or have started to decrease (“decline”).

Table 1
Profile of Majority Female-Owned and Majority Male-Owned SMEs, 2007*

Characteristics	Majority Female-Owned (%)	Majority Male-Owned (%)
<i>Age of Owner (years)</i>		
Under 40	16	15
40–49	37	28
50–64	41	44
65 or older	6	13
<i>Year Firm Started Selling Goods and Services</i>		
Started between 2005 and 2007 (1 to 2 years old)	15	13
Started between 2002 and 2004 (3 to 5 years old)	23	17
Started prior to 2002 (6+ years old)	62	70
<i>Industry</i>		
Agriculture/primary	4	9
Knowledge-based industries	6	8
Manufacturing	3	5
Tourism	13	7
Professional services	15	11
Wholesale/retail	17	13
Other industries	42	47
<i>Stage of Development (as identified by owner)</i>		
Start-up	4	5
Fast growth	9	9
Slow growth	47	37
Maturity	32	37
Decline	8	12
<i>Mother Tongue</i>		
Spoke English	60	66
Spoke French	18	22
Spoke other	22	12
<i>Majority Ownership of the Business Held</i>		
By Aboriginal persons	1	2
By persons from a visible minority group (other than Aboriginal)	11	8
By a person with a disability	2	2
By persons who have resided in Canada for less than 5 years	0.3	2
By members of the same family	57	62
<i>Region (share of all SMEs in region in parentheses)**</i>		
Atlantic	7 (17)	7 (65)
British Columbia	14 (16)	14 (65)
Ontario	44 (20)	33 (60)
Prairies	15 (11)	21 (61)
Quebec	20 (15)	25 (74)
Canada	100 (16)	100 (64)
<i>Operated Firm in Rural Area</i>	16	23
<i>Exported Goods and Services</i>	9	9

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

*Bold value denotes statistically significant gender difference at 5 percent.

** For example, 7 percent of all majority female-owned SMEs in Canada were located in Atlantic Canada in 2007. Similarly, these majority female-owned SMEs accounted for 17 percent of all SMEs in Atlantic Canada.

Historically, majority female-owned SMEs have been concentrated in the retail and service sectors (Carter 2002). In 2007, majority female-owned SMEs still tended to favour sectors related to wholesale/retail (17 percent), professional services (15 percent) and tourism (13 percent). The gender difference, however, was only statistically significant for tourism. There were fewer majority female-owned SMEs in agriculture/primary, manufacturing and knowledge-based industries than majority male-owned firms, but the gender differences were not statistically significant.

COMPARISON OF BUSINESS SIZES

Majority female-owned SMEs appear to be catching up in size to majority male-owned SMEs

Previous research has indicated that majority female-owned firms tend to be smaller than majority male-owned firms in both numbers of employees and assets (Jennings and Cash 2006, Cole and Mehran 2009, Fairlie and Robb 2009). The gap between the two gender groups appears to be narrowing, however, with respect to both measurements.

As shown in Table 2, the percentage of majority female-owned SMEs that were micro-businesses (fewer than five employees) was 81 percent in 2007, just higher than 79 percent for majority male-owned micro-businesses. Majority female-owned firms were less likely to employ 20 or more people, on the other hand, than majority male-owned firms. Nevertheless, the gender differences were not statistically significant in any of the firm-size categories presented in Table 2.

Table 2
Distribution (%) of Firms by Business Size (number of employees)

Number of Employees	2004		2007	
	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned
0	54	50	54	50
1–4	32	32	27	29
5–19	12	13	17	15
20–99	2	4	1	5
100–499	<1	<1	<1	<1

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.

Based on tax file data linked by Statistics Canada, a summary of financial figures from incorporated majority female-owned and majority male-owned SMEs is presented in Table 3.² As shown in the table, majority female-owned firms exhibited a strong performance in terms of average total revenue, jumping from \$335 000 in 2000 to \$525 000 in 2004 and \$563 000 in 2007. Notwithstanding these increases in revenue, the average total revenue generated by majority female-owned firms in 2007 was half of that reported by majority male-owned firms. On the other hand, the average net profit (before tax) of majority female-owned firms was \$32 000 in 2004 and \$48 000 in 2007. In both of these years, the gender difference in average net profit before tax was not statistically significant. When measured as a percentage of net profit before tax of majority male-owned firms (male profit), net profit before tax of majority female-owned firms jumped from 52 percent in 2000 to 89 percent in 2004 and remained at 89 percent in 2007, suggesting that the gap in terms of net profit before tax between majority female-owned firms and majority male-owned firms is shrinking.

² Tax file data were linked to both the 2004 and 2007 SME FDI data sets. The data also included unincorporated firms, but the volume of data was much more limited than that provided on incorporated firms. All tax file data are anonymous and cannot be traced back to a particular firm.

Table 3
Selected Financial Statement Figures (average \$)*

	2000		2004		2007	
	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned**	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned
Total Revenue	335 000	706 000	525 000	936 000	563 000	1 126 000
Total Expenses	301 000	641 000	493 000	900 000	515 000	1 072 000
Net Profit Before Tax	34 000	65 000	32 000	36 000	48 000	54 000
Net Profit Before Tax (as % of male profit)	52	—	89	—	89	—
Current Assets	117 000	250 000	202 000	311 000	436 000	393 000
Fixed Assets	152 000	337 000	121 000	304 000	125 000	396 000
Total Assets	269 000	587 000	323 000	615 000	561 000	789 000
Current Liabilities	—	—	113 000	231 000	145 000	283 000
Total Liabilities	152 000	351 000	209 000	422 000	345 000	549 000
Retained Earnings	—	—	106 000	119 000	154 000	137 000
Total Equity	117 000	236 000	114 000	193 000	216 000	240 000

Source: Tax file data linked to SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000, 2004 and 2007.

*Bold value denotes statistically significant gender difference at 5 percent. Statistical tests were not carried out for 2000 as the raw data were not made available.

**Due to a significant presence of large outliers in the 2004 sample of majority female-owned firms, observations beyond the 99th percentile in total revenue among majority female-owned firms were excluded in this year.

Between 2004 and 2007, the gender gap narrowed with regards to current assets, total liabilities, total equity and retained earnings. Average current assets of majority female-owned firms jumped dramatically in both 2004 and 2007 such that the gender difference was no longer statistically significant in 2007. On the other side of the balance sheet, average total liabilities increased considerably for both gender groups, especially for majority female-owned firms such that the gender difference was no longer statistically significant in 2007. Majority female-owned firms also saw average total equity increase by a substantial margin from 2004 to 2007, whereas the average total equity of majority male-owned firms in 2007 was only slightly higher than the average in 2000. Also noteworthy is the fact that average retained earnings were higher for majority female-owned firms in 2007 than majority male-owned firms, but this difference was not statistically significant.

FINANCIAL STATEMENT ANALYSIS

To better assess the financial health of a firm, five standard financial ratios (see text box) were calculated

using linked tax file data (Table 4).³ As shown in the table, there are discernible differences between gender groups in each year. In 2004, the median current ratio for majority female-owned firms was slightly less than 1.0, whereas the median current ratio for majority male-owned firms was about 1.3, suggesting stronger financial health. In 2007, however, the median current ratios for majority female-owned and majority male-owned firms were almost identical.

In terms of median gross profit margin, majority female-owned firms performed marginally better than majority male-owned firms in 2004 and 2007. In contrast, majority female-owned firms had lower median operating profit margins in both years.

Majority female-owned firms also had lower median interest coverage ratios in 2004 and 2007 than majority male-owned firms, suggesting that majority female-owned firms were in a weaker position to meet interest expenses. Finally, the median debt-to-equity ratio was higher for majority male-owned firms than majority female-owned firms in both years, suggesting that male business owners were more aggressive in financing firm growth through debt.

³ Due to the frequent presence of large outliers, the use of median values — in lieu of average values — was considered to be more reasonable.

Table 4
Selected Financial Ratios (median values)

	2004		2007	
	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned
Current Ratio	0.98	1.27	1.51	1.49
Gross Profit Margin	0.66	0.59	0.74	0.69
Operating Profit Margin	2.6%	3.5%	2.1%	4.6%
Interest Coverage	1.82	2.25	1.98	3.46
Debt-to-Equity	0.86	1.07	0.62	0.85

Source: Tax file data linked to SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.

Financial Ratios

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Indicates the market liquidity of a business. A higher current ratio signals that a firm is in a better position to cover short-term liabilities.

$$\text{Gross Profit Margin} = \frac{\text{Sales Revenues} - \text{Cost of Goods Sold}}{\text{Sales Revenues}}$$

Measures the proportion of net revenue after accounting for the cost of goods sold. A higher gross profit margin indicates that a firm has more resources available to pay overhead costs.

$$\text{Operating Profit Margin} = \frac{\text{Net Profit Before Tax} + \text{Interest Expenses and Bank Charges}}{\text{Sales Revenues}}$$

Expresses operating profit as a proportion of sales revenues. A higher operating profit margin signals that a firm has more resources available to pay fixed costs.

$$\text{Interest Coverage} = \frac{\text{Net Profit Before Tax}}{\text{Interest Expenses and Bank Charges}} + 1$$

Indicates a firm's ability to generate enough income to cover interest expenses. A higher interest coverage ratio suggests that a firm is in a better position to avoid default.

$$\text{Debt-to-Equity} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

Indicates what proportion of equity and debt a firm is using to finance its assets. A higher debt-to-equity ratio indicates that a firm is using greater leverage.

FINANCING ACTIVITIES

Majority female-owned firms were just as likely to seek financing as majority male-owned firms in 2007

Considering the crucial role financing has in the capitalization of SMEs, it is imperative to identify if female business owners are facing unique obstacles with respect to accessing external financing. Previous research has suggested that majority female-owned firms are less likely to seek external financing than majority male-owned firms (Coleman 2002, Fabowale et al. 1995), but a study by Orser et al. (2006), which examined the financing activities of Canadian SMEs in 2001, suggests otherwise. Indeed, the evidence presented here reveals diminishing gender differences in financing activities.

Recent request rates by type of financing by gender are presented in Table 5. In 2004, request rates by majority male-owned firms were higher than majority female-owned firms at a statistically significant level for all categories except equity. In 2007, however, the percentage of SMEs that sought financing was identical for both gender groups (17 percent). In fact, request rates by majority female-owned and majority male-owned firms in 2007 were almost identical for each type of financing.

Table 5
Request Rates (%) by Type of Financing*

	2000		2004		2007	
	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned
Any Financing	—	—	15	24	17	17
Debt	17	23	13	19	12	12
Long Term	—	—	5	9	5	6
Short Term	—	—	8	10	8	8
Lease	7	9	1	4	3	5
Equity	2	2	1	1	1	1
Trade Credit	—	—	5	12	8	9

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000, 2004 and 2007.

*Bold value denotes statistically significant gender difference at 5 percent. Statistical tests were not carried out for 2000 as the raw data were not made available.

Majority female-owned firms were less likely to be approved for debt financing than majority male-owned firms

Approval rates by type of financing by gender are presented in Table 6. As shown in the table, majority female-owned firms generally had lower approval rates than majority male-owned firms in 2004. There is evidence, however, that the gap in approval rates had narrowed in some aspects in 2007. In 2004, the approval rate for debt financing among majority female-owned firms was 79 percent, a statistically significant lower rate than the 88 percent approval rate for majority male-owned firms. On the other hand, majority female-owned firms were very successful in receiving trade credit when requested in 2004, boosting the overall approval rate for financing of majority female-owned firms to 84 percent.⁴

In 2007, lending markets were very active, leading to large increases in approval rates for financing for both gender groups. The statistically significant discrepancy in approval rates for debt financing remained between the two gender groups; however, upon closer inspection, the approval rate for long-term debt financing (term loans and mortgages) for majority female-owned firms was a very healthy 95 percent, but the approval rate for short-term debt financing (credit cards and lines of credit) remained stagnant at 77 percent (compared with 94 percent for majority male-owned firms).⁵ Note, however, that approval rates here do not distinguish between full and partial approvals,⁶ nor do they consider scale effects.⁷

⁴ Due to a lack of observations, equity approval rates in 2004 and 2007 were considered to be unreliable and, therefore, are not presented in the table.

⁵ The 2004 and 2007 comparisons of approval rates partially conflict with the results of Orser et al. (2006), who found that in 2001 female business owners were not more likely to be rejected for debt financing, leasing or trade credit at a statistically significant level than male business owners. In 2007, short-term debt financing represented about 36 percent of total debt financing requested by female owners.

⁶ In other words, a request for financing would be considered “approved” as long as “some” amount of financing was approved, not necessarily the full amount requested.

⁷ In this case, each request for financing had the same weight in the calculations, even though the amount of financing requested could differ substantially from one request to another.

Table 6
Approval Rates (%) by Type of Financing*

	2000		2004		2007	
	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned
Any Financing	—	—	84	90	95	98
Debt	82	80	79	88	85	96
Long Term	—	—	70	84	95	98
Short Term	—	—	77	80	77	94
Lease	99	97	91	96	100	97
Equity	87	70	—	—	—	—
Trade Credit	—	—	93	88	97	100

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000, 2004 and 2007.

*Bold value denotes statistically significant gender difference at 5 percent. Statistical tests were not carried out for 2000 as the raw data were not made available.

Majority female-owned firms typically received significantly smaller amounts of debt financing than majority male-owned firms

As the impact of financing requests that are not approved is often dependent on the amount of financing requested, it is important to investigate the amount of debt financing being requested by and approved for the two gender groups. Regardless of the type of debt financing requested, the average amount approved for majority female-owned firms was smaller than that approved for majority male-owned firms at a statistically significant level in 2007. As shown in Table 7, the average total debt financing approved for majority female-owned firms was \$68 000 and \$118 000 in 2004 and 2007 respectively. Both of these figures were less than half of the average amount approved for majority male-owned firms in each respective year.

Based upon these figures alone, it is not possible to determine if female applicants were more likely than male applicants to be fully or partially denied debt financing or if female applicants simply requested smaller amounts of debt financing. To find the answer, the ratio of the aggregated amount of approved debt financing to the aggregated amount of requested debt financing (i.e., the sum of all approved debt financing divided by the sum of all requested debt financing) was calculated for each gender group. As shown

in Table 7, the ratio was very similar between the two gender groups in both 2004 and 2007, suggesting that female applicants indeed requested smaller amounts of debt financing than male applicants. Thus, in terms of this ratio there appears to be little difference between majority female-owned firms and majority male-owned firms with respect to accessing debt financing.

Table 7
Approved Debt Financing (average \$)*

	2004		2007	
	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned
Average Long-Term Debt Approved	161 000	221 000	163 000	340 000
Average Short-Term Debt Approved	43 000	96 000	72 000	177 000
Average Total Debt Approved	68 000	147 000	118 000	284 000
(Approved/Requested) Total Debt	87%	89%	94%	94%

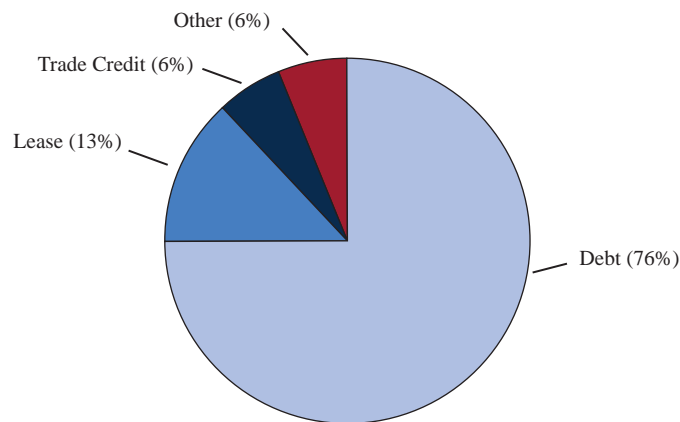
Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.

*Bold value denotes statistically significant gender difference at 5 percent.

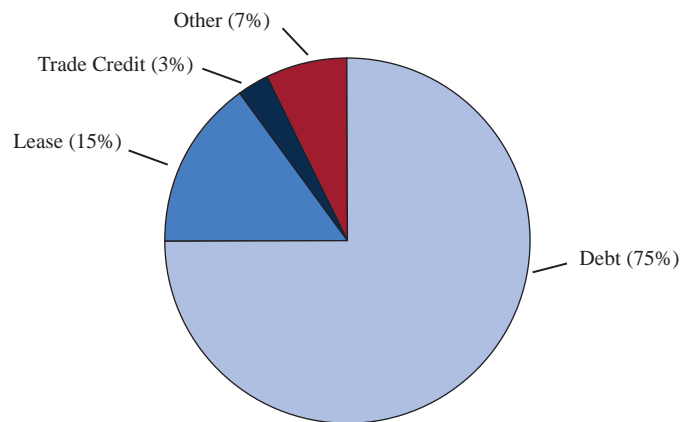
Overall, debt financing remains the dominant choice of external financing of both majority female-owned and majority male-owned firms. In 2007, the distribution of financing by type was very similar between the

two gender groups, with at least 75 percent of the total amount of financing approved being in the form of debt financing (Figure 4).

Figure 4
Distribution of Approved Financing, 2007*



Majority Female-Owned SMEs



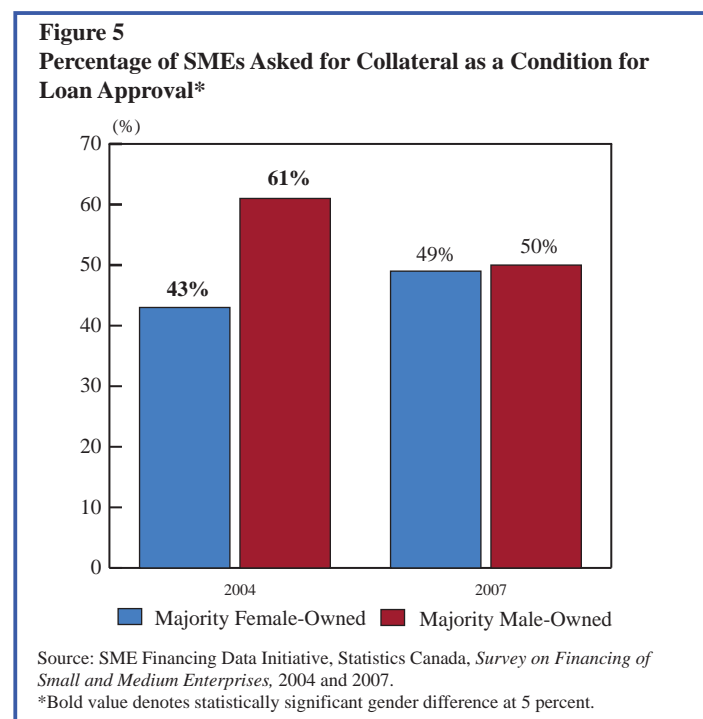
Majority Male-Owned SMEs

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

*Sources of financing in the "Other" category include equity financing and government-sponsored programs.

Loan conditions were very similar between majority female-owned and majority male-owned firms

Previous research has suggested that female business owners were more likely to be asked for collateral as a condition for loan approval than male business owners (Coleman 2002, Riding and Swift 1990), but the data presented in Figure 5 suggest otherwise. In 2004, majority female-owned firms were significantly less likely to be asked for collateral than majority male-owned firms (43 percent versus 61 percent). In 2007, the demand for collateral was almost identical between the two gender groups.



In terms of interest rates, majority female-owned firms faced higher overall rates than majority male-owned firms in 2004, but in 2007 majority male-owned firms were charged higher overall rates (Table 8). Note, however, that the interest rate charged on long-term debt financing was very similar for both majority female-owned and majority male-owned firms in 2004 and 2007. Overall, there is no convincing evidence that female business owners faced less favourable loan conditions in terms of requests for collateral or interest rates.

Table 8
Lending Terms (%) (weighted average)*

	2004		2007	
	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned
Long-Term Rate	6.1	6.0	7.3	7.0
Length (months)	77.8	71.1	49.8	68.0
Short-Term Rate	8.0	7.3	6.9	7.6
Overall Rate	7.2	6.7	7.1	7.4

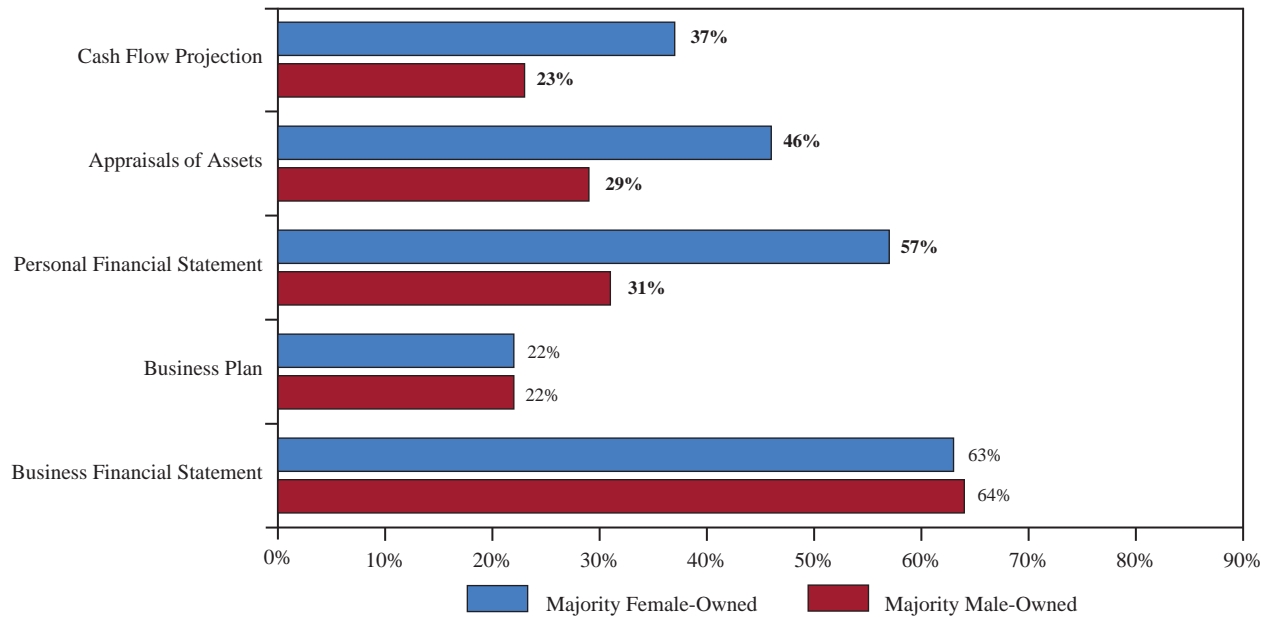
Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.

*As these values are weighted averages of various subcategories, statistical test results were unreliable and are not, therefore, presented here.

Documentation requirements were higher for female business owners

The documentation required as part of the loan application process was greater for female business owners than for male business owners in 2007. As illustrated in Figure 6, female business owners were just as likely, if not more likely, as male business owners to be required to provide each type of documentation listed. In particular, female business owners were significantly more likely to be asked for personal financial statements, appraisals of assets to be financed and cash flow projections than male business owners.

Figure 6
Documentation Required During the Loan Application Process, 2007*

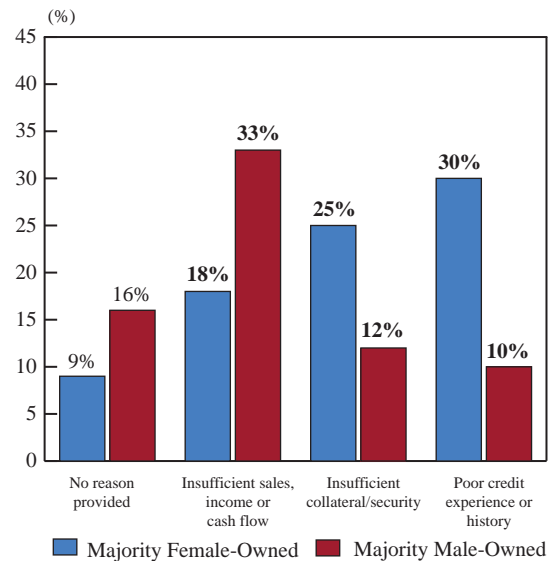


Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.
 *Bold value denotes statistically significant gender difference at 5 percent.

Poor credit history and lack of collateral more likely to affect female business owners than male business owners

Previous research has suggested that a weaker credit history may be constraining access to credit among female business owners (Moore 2003). In 2004, 30 percent of female business owners who were denied credit indicated a poor credit history as the reason for being denied credit compared with only 10 percent of male business owners (Figure 7).⁸ In addition, female business owners were more than twice as likely as male business owners to cite a lack of collateral as the reason for being denied credit.

Figure 7
Reasons for Denying Debt Financing, 2004*

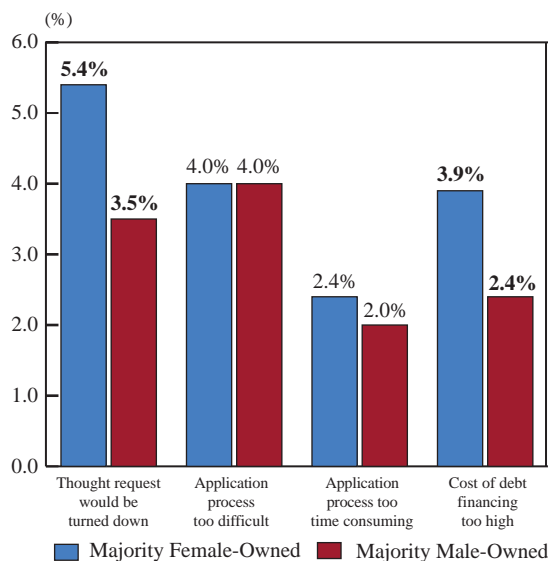


Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004.
 *Bold value denotes statistically significant gender difference at 5 percent.

⁸ Due to a lack of observations, results from the 2007 survey were deemed to be unreliable.

Discouraged borrowers are business owners who require credit but do not apply for financing out of fear of being rejected. In 2004, the vast majority of female business owners who did not apply for credit did not apply because they were not in need of external financing;⁹ however, as illustrated in Figure 8, about 5.4 percent of female business owners who did not apply for credit thought they would be denied financing, a slightly higher rate compared with male business owners (3.5 percent). On the other hand, the study by Orser et al. (2006), which employed 2001 SME FDI data, found no statistically significant gender difference in the likelihood of being a discouraged borrower. Indeed, recent research has revealed that when controlling for various firm, owner and market characteristics, female business owners were no more likely to be discouraged borrowers than male business owners (Cole and Mehran 2009).

Figure 8
Reasons for Not Applying for Debt Financing (excluding firms that did not require financing), 2004*



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004.
*Bold value denotes statistically significant gender difference at 5 percent.

INTENDED USE OF DEBT FINANCING

Majority female-owned firms were more likely to use debt financing for working/operating capital than majority male-owned firms

Although majority female-owned firms were just as likely to seek credit financing as majority male-owned firms in 2007 (Table 5), the intended use of the requested financing differed substantially between the two gender groups. As revealed in Table 9, 72 percent of debt-seeking majority female-owned firms intended to use the financing for working capital compared with 56 percent of majority male-owned firms.

Table 9
Intended Use (%) of Debt Financing, 2007*

	Majority Female-Owned	Majority Male-Owned
Land and Buildings	17	12
Vehicles / Rolling Stock	9	19
Computer Hardware and Software	8	7
Other Machinery and Equipment	22	31
Fixed Assets**	37	53
Working Capital / Operating Capital	72	56
Research and Development	5	3
Debt Consolidations	25	7
Intangibles	9	3
Purchase a Business	12	7
Grow the Business	53	34
Other Purposes	19	13

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

*Bold value denotes statistically significant gender difference at 5 percent.

**Represents the first four categories; SMEs often seek multiple types of fixed assets.

Notably, female business owners were significantly more likely to use debt financing to help grow their businesses than male business owners (53 percent versus 34 percent respectively). Majority female-owned firms were also far more likely to use the financing for debt consolidation. On the other hand, majority female-owned firms were less likely to allocate financing to fixed assets, such as vehicles and rolling stock. This may be due to the fact that majority female-owned SMEs are less likely to be

⁹ The 2007 survey does not include information regarding reasons for not applying for credit.

goods-producing industries, such as manufacturing, which may, in part, explain why the average approved amount of financing was significantly higher for majority male-owned firms than majority female-owned firms (Table 7).

TOP SOURCES OF FINANCING

Female business owners were less likely to use multiple sources of financing to start up a business

Although financial institutions are a prominent source of external financing for all business owners, entrepreneurs seeking to create a new business tend

to rely on internal financing sources to acquire capital. As shown in Table 10, personal savings was a major source of financing during start-up for both gender groups in each year surveyed. Leasing surged in popularity as a source of start-up financing among female business owners, jumping from 5 percent in 2004 to 20 percent in 2007. On the other hand, far fewer female business owners used trade credit during start-up in 2007 than in previous years. Overall, female business owners appeared to be less active in acquiring multiple forms of start-up financing compared with male business owners.

Table 10
Top Sources (%) of Financing During Business Start-Up*

Financing Source	2000		2004		2007	
	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned
Commercial/Personal Loans, Lines of Credit, Credit Cards	**	**	44	70	49	51
Credit from Government Lending Agencies	5	5	7	7	6	3
Trade Credit	13	20	21	33	3	13
Leasing	8	14	5	20	20	10
Personal Savings of Owner(s)	63	67	56	64	70	76
Loans from Friends and Relatives of Owner(s)	14	11	6	10	9	7
Angel Financing	—	—	0.2	3	1	3

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000, 2004 and 2007.

*Bold value denotes statistically significant gender difference at 5 percent. Statistical tests were not carried out for 2000 as the raw data were not made available.

**Figures could not be calculated here as the raw data were not made available for 2000.

Unlike start-up firms, external financing was the most popular source of financing among business owners in more established SMEs

Beyond the start-up stage, external financing is the top source of financing for both gender groups (Table 11). In 2004, male business owners were significantly more likely to use external financing during operations than female business owners; however, this disparity was no longer statistically significant in 2007. While personal savings remained an important source of financing, more than half of the female business

owners surveyed in 2007 indicated that they used retained earnings as a financing source. Similar to female business owners engaged in start-up, leasing became more popular among female owners in more established businesses in 2007, whereas trade credit fell out of favour, dropping from 30 percent in 2000 to 14 percent in 2007.

Table 11
Top Sources (%) of Financing Among Established SMEs*

Financing Source	2000		2004		2007	
	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned
Commercial/Personal Loans, Lines of Credit, Credit Cards	**	**	58	72	67	63
Credit from Government Lending Agencies	4	7	8	9	7	7
Retained Earnings	—	—	—	—	53	59
Trade Credit	30	41	22	40	14	24
Leasing	17	17	9	16	27	20
Personal Savings of Owner(s)	40	34	39	43	60	54
Loans from Employees	—	—	2	3	2	2
Loans from Friends and Relatives of Owner(s)	8	10	6	9	12	8
Angel Financing	—	—	4	1	5	4

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2000, 2004 and 2007.

*Bold value denotes statistically significant gender difference at 5 percent. Statistical tests were not carried out for 2000 as the raw data were not made available.

**Figures could not be calculated here as the raw data were not made available for 2000.

FUTURE INTENTIONS

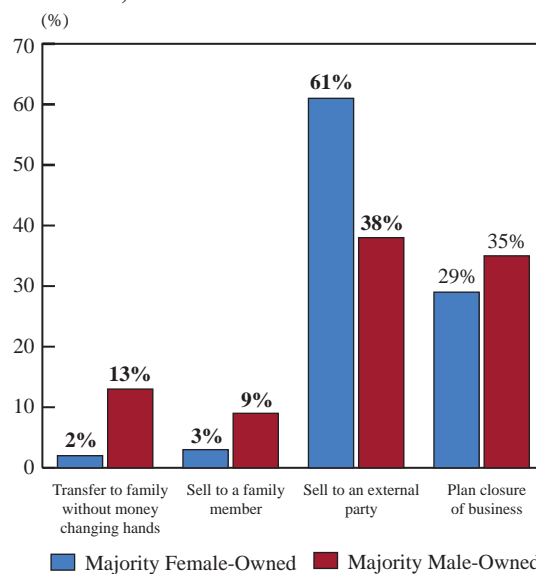
Among owners who were planning to sell their business, women were far more likely to sell to an external party than men

In 2007, 25 percent of female business owners — the same percentage as male business owners — indicated that they intended to sell, transfer or close their business within five years. Of these business owners, women were far more likely to sell their business to an external party (61 percent) than men (38 percent) (Figure 9). In contrast, men were significantly more likely to transfer or sell the business to a family member. In addition, female business owners were less likely to plan the closure of their business (29 percent) than male business owners (35 percent), but this difference was not statistically significant.

Among owners with growth intentions, women were more likely to consider sharing equity to raise capital for expansion than men

Previous studies have suggested that the financial performance of majority female-owned SMEs is associated with the aspirations of the owner with regards to growth (Hughes 2006, Cliff 1998). In 2007, 44 percent of female business owners indicated that they intended to expand the size and scope of their business within two years (Figure 10). This finding conflicts with Orser and Hogarth-Scott (2002),

Figure 9
Intentions of Those Who Planned to Sell, Transfer or Close Their Business, 2007*



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.

*Bold value denotes statistically significant gender difference at 5 percent.

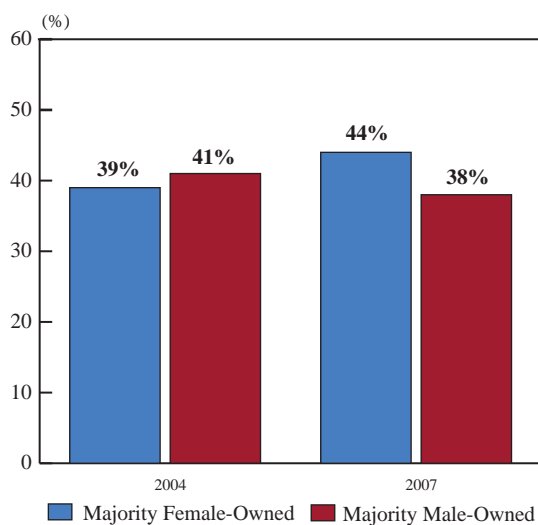
who found that female business owners were less oriented toward growth than male business owners.

Among the female business owners who declared growth intentions, only 46 percent indicated that their company's current financing was sufficient to fund their expansion plans (compared with 57 percent of male business owners with growth intentions, a statistically significant difference). This finding

implies that among owners with growth intentions, women exhibited greater financing needs than men in 2007. Interestingly, of those owners who required additional financing to fund expansion plans, women were significantly more likely than men to consider sharing equity in the business, whereas men were significantly more likely than women to make a loan request (Figure 11). Although previous research has suggested that female business owners are generally

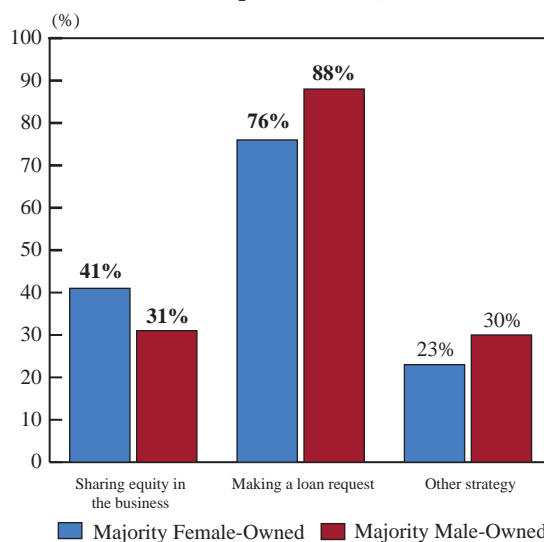
hesitant to share business equity out of fear of reduced independence and control (Manigart and Struyf 1997), the evidence presented here implies that majority female-owned firms with growth intentions may view sharing equity as an opportunity for expansion. In other words, female business owners with growth intentions may be more flexible in their capitalization strategies than the literature would suggest.

Figure 10
SMEs Intending to Expand the Size and Scope of Their Business*



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.
*Bold value denotes statistically significant gender difference at 5 percent.

Figure 11
Capitalization Strategies Considered When Current Financing is Insufficient to Fund Expansion Plans, 2007*



Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2007.
*Bold value denotes statistically significant gender difference at 5 percent.

PERCEIVED OBSTACLES TO GROWTH

Majority female-owned firms were facing more perceived obstacles to growth than majority male-owned firms

Table 12 presents the perceived obstacles to growth identified by business owners in 2004 and 2007. In 2007, rising business costs was the top perceived obstacle to growth for both majority female-owned and majority male-owned firms; however, female business owners appeared to be more concerned about this obstacle than male business owners. Moreover, majority female-owned firms were also significantly more likely to be concerned about rising competition and insurance premiums than majority male-owned

firms. Importantly, 21 percent of female business owners cited access to financing as an obstacle to growth compared with 16 percent of male business owners (a statistically significant difference). Overall, judging by the generally higher comparative percentages for majority female-owned SMEs in 2007, the evidence suggests that female business owners were more likely than male business owners to operate their firms in challenging business environments.

Table 12
Perceived Obstacles (%) to Growth and Development*

Perceived Obstacles	2004		2007	
	Majority Female-Owned	Majority Male-Owned	Majority Female-Owned	Majority Male-Owned
Finding Qualified Labour	31	39	34	40
Levels of Taxation	49	46	—	—
Instability of Demand	39	35	37	32
Low Profitability	34	37	—	—
Obtaining Financing	26	20	21	16
Government Regulations	27	35	28	27
Managerial Skills	12	14	12	10
Insurance Premiums	27	38	43	31
Environmental Regulations	—	—	10	12
Rising Business Costs	—	—	59	53
Increasing Competition	—	—	49	36

Source: SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004 and 2007.

*Bold value denotes statistically significant gender difference at 5 percent.

FINANCIAL PERFORMANCE

Results from previous research on the financial performance of majority female-owned firms have been mixed. While some studies have suggested that businesses owned by women have underperformed compared with businesses owned by men (Fairlie and Robb 2009, Fischer et al. 1993), other studies have produced evidence suggesting that after controlling for factors such as business size, business age and industry effects there is no difference between the two gender groups in terms of financial performance

(Watson 2002, Kalleberg and Leicht 1991). Using linked tax file data, weighted annualized average growth rates in total revenue and full-time equivalents (employees) were calculated from 2004 to 2008 (Tables 13 and 14).¹⁰ As mentioned earlier, the financial performance of a firm can be heavily influenced by initial aspirations for growth. Therefore, growth rates are compared not only across gender but also across growth intentions and financing activities.

Majority female-owned firms that intended to grow in 2004 posted significantly larger growth in total revenue and full-time equivalents (employees) than majority female-owned firms that had no growth intentions

As shown in Table 13, total revenue grew more slowly among majority female-owned SMEs than majority male-owned SMEs regardless of financing activities or growth intentions. Nevertheless, majority female-owned firms that sought financing or had growth intentions in 2004 were able to produce a respectable annualized growth rate of at least 3.6 percent. In sharp contrast, majority female-owned firms with no growth intentions saw total income grow by only 0.9 percent. This discrepancy in growth performance is even larger for majority male-owned firms (6.7 percent versus 1.2 percent for firms with growth intentions and firms with no growth intentions respectively). Thus, notwithstanding the differences in total revenue growth performance between majority female-owned and majority male-owned firms, there is a strong connection between initial growth intentions and actual total revenue growth regardless of gender.

The influence of growth intentions is also apparent in comparisons of growth in full-time equivalents (employees), especially among majority female-owned firms (Table 14). Majority female-owned firms with growth intentions were very active in boosting staff size (7.6 percent growth rate), whereas majority female-owned firms with no growth intentions actually

¹⁰ Growth rates were calculated only for incorporated firms that reported figures for both 2004 and 2008. Consequently, the results presented in Tables 13 and 14 do not include unincorporated SMEs or SMEs that were no longer in existence in 2008. To calculate the weighted growth rates, aggregated figures by gender group in each year were utilized.

reduced their numbers of employees (-5.3 percent). In addition, majority female-owned firms with growth intentions were also much more likely to hire new employees than majority male-owned firms. These results suggest that majority female-owned firms with growth intentions are playing an important part in job creation in Canada.

Table 13
Weighted Annualized Growth Rate (%) in Total Revenue, 2004–2008

SME Category	Majority Female-Owned	Majority Male-Owned
Firms that sought financing	3.6	5.4
Firms that did not seek financing	2.1	4.1
Firms that intended to grow	3.9	6.7
Firms that did not intend to grow	0.9	1.2

Source: Tax file data linked to SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004.

Table 14
Weighted Annualized Growth Rate (%) in Full-Time Equivalents, 2004–2008

SME Category	Majority Female-Owned	Majority Male-Owned
Firms that sought financing	7.4	2.9
Firms that did not seek financing	-2.5	-1.0
Firms that intended to grow	7.6	1.4
Firms that did not intend to grow	-5.3	-0.6

Source: Tax file data linked to SME Financing Data Initiative, Statistics Canada, *Survey on Financing of Small and Medium Enterprises*, 2004.

SUMMARY AND CONCLUSIONS

Women entrepreneurs play a significant role in wealth and job creation in Canada. Therefore, it is important to investigate the characteristics of majority female-owned firms and examine if they face unique challenges in acquiring financing. Despite the large amount of research conducted on female business owners, a consensus on access to financing by and the financial performance of majority female-owned firms is sometimes elusive. Using primarily 2004 and 2007 data from the SME Financing Data Initiative *Survey on Financing of Small and Medium Enterprises*, this report aimed to update the business profile of female business owners, conduct comparisons with male business owners and reveal important new trends that may be emerging among majority female-owned SMEs.

Although significantly fewer female business owners were under 40 years of age in 2007 compared with 2004, the average female business owner was still younger and had less management or ownership experience than the average male business owner. Moreover, majority female-owned firms were typically younger and more likely to be operating in the tourism sector than majority male-owned firms.

On the other hand, there is some evidence that majority female-owned SMEs may be catching up in term of business size to majority male-owned firms. Majority female-owned firms also had comparable amounts of before-tax net profit, assets and equity to majority male-owned firms in 2007. A word of caution should be made here, however, with regards to the interpretation of these results. Due to data limitations, it is too early to tell whether the results represent a short-term phenomenon or a long-term trend. Further data and research will be required to resolve this issue. Majority female-owned firms were just as likely to seek external financing as majority male-owned firms in 2007. While there appears to be a difference in approval rates for debt financing between the gender groups in 2007, upon closer examination majority

female-owned firms had a very similar approval rate as majority male-owned firms when it came to long-term debt financing, which accounted for almost two thirds of the total amount of debt financing requested by majority female-owned firms. However, majority female-owned firms were significantly less likely to be approved for short-term debt financing than majority male-owned firms. When measured as a ratio of the aggregated amount of approved debt financing to the aggregated amount of requested debt financing, however, the ratios were very similar between the gender groups in both 2004 and 2007. Thus, in terms of this ratio, there appears to be little difference in access to credit between majority female-owned and majority male-owned firms.

This report also found little evidence of disparity with regards to interest rates or requests for collateral between majority female-owned and majority male-owned firms that received debt financing. On the other hand, among SMEs that were denied debt financing, majority female-owned firms were significantly more likely to be turned down due to poor credit or insufficient collateral than majority male-owned firms.

Among SMEs with growth intentions, majority female-owned firms were more likely to require external financing to fund expansion plans than majority male-owned firms. While a majority of firms with growth intentions considered making a loan request to support these plans, majority female-owned firms were more likely to consider sharing equity in the business than majority male-owned firms, which contradicts previous research suggesting that female business owners were more hesitant than male business owners to change the ownership structure.

Based upon linked tax file data, majority female-owned SMEs exhibited lower growth rates in total revenue than majority male-owned SMEs. In terms of growth rates of full-time equivalents (employees), majority female-owned firms with growth intentions were significantly more active in hiring new employees than majority male-owned firms. Perhaps more importantly, firms with growth intentions posted noticeably stronger growth performances than firms with no growth intentions regardless of gender.

Results presented in this report suggest that while there continues to be differences between majority female-owned and majority male-owned SMEs, some of these differences may be fading. This report also provides evidence that the financing strategies and growth patterns of majority female-owned firms are influenced by initial growth intentions. Consequently, investigating female business owners as a homogeneous group will likely mask the varying financing challenges within this group. Indeed, the relationship between financing needs and growth intentions will likely be evident in other forms of SME categorization (e.g., rural firms, exporters). Further research that focuses on separate groups of female business owners by growth intentions, rather than comparisons made solely across gender, may help researchers gain a better understanding of the actual financing needs and concerns of this very important group of entrepreneurs.

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SME Financing Data Initiative

Small Business Financing Profiles is an ongoing series of articles on specific segments of the marketplace and a component of Industry Canada's reporting efforts on SME financing.

Consistent with recommendations in 1999 from the Task Force on the Future of the Canadian Financial Services Sector, the SME Financing Data Initiative is a comprehensive data collection program on SME financing in Canada. In partnership with Statistics Canada and Finance Canada, Industry Canada reports on the supply of, and demand for, small and medium-sized business financing to provide a complete picture of SME financing.

As part of the initiative, Statistics Canada administers a series of national surveys on small and medium-sized enterprises (*Survey on Financing of Small and Medium Enterprises*) and financial providers (*Survey of Suppliers of Business Financing*). Industry Canada supplements these surveys with additional research into niche areas of SME financing.

For further information on the SME Financing Data Initiative and access to statistical findings and reports, visit www.sme-fdi.gc.ca. For information regarding the methodology of the *Survey on Financing of Small and Medium Enterprises*, visit Statistics Canada's website at www.statcan.ca.

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