

Introduction to special issue of "Small Business Economics" on female entrepreneurship in developed and developing economies

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## Introduction to special issue of *Small Business Economics* on female entrepreneurship in developed and developing economies

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**Abstract** Research into entrepreneurship has for many years been interested in the differences in rate of participation and performance by female entrepreneurs. The motivation for considering female entrepreneurship in both developing and developed countries arises from our increasing understanding of the significance of the role of women in creating, running and growing businesses as a fundamental driver for economic growth. This special issue examines the reasons for differences in gender participation across levels of development using empirical studies.

**Keywords** Entrepreneurship · Gender · Development · World Bank

**JEL Classifications** J16 · L26 · M13 · O1 · O5

Entrepreneurship is considered to be an important mechanism for economic development, innovation and welfare effects. The nature and structure of entrepreneurial activities vary across countries and over time. These differences are explained in part by the marked interdependencies between economic development and institutions. Institutions are critical determinants of economic behaviour and economic transactions in general, and they can impose direct and indirect effects on both the supply and the demand of entrepreneurs.

Therefore, if one is interested in studying entrepreneurship within or across countries, the broad nexus between entrepreneurship, economic development and institutions is a critical area of inquiry. The nexus is especially important in helping understand why the relative contribution of entrepreneurship can vary significantly across countries and regions (Acs et al. 2008). However, the relationship between development economics and entrepreneurship developed in isolation as sub-fields within the respected fields of economics and management. And they both did so in relative isolation from each other, with the entrepreneurship field being more concerned with the process

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of entrepreneurship and the development economic field being more concerned with the global and country level determinates of economic performance.

Both of these fields have converged on the realization that the institutional framework in a country, where institutions are broadly understood as the 'rules of the game', is important for understanding the outcomes observed in each field. Thus, development economists now routinely advocate the building and strengthening of appropriate institutions for development, such as property rights, contract enforcement, the rule of law and accountability and good governance. Entrepreneurship scholars now accept that the allocation of entrepreneurship towards particular activities, be it productive, unproductive or even destructive (Desai et al. 2011), are the outcomes of institutions (Acs et al. 2008).

However, two important gaps still exist. First, the role and function of entrepreneurship is still underestimated in the economic development literature. The second gap is that although both fields recognize the importance of institutions, the outcomes are often treated as a 'black box'. There are two issues. The first is that the nature of the institutions may be country-specific and, therefore, we do not know how to configure theoretical institutions. The second is that even if we can identify such institutions, we do not know how to build them (Naude 2010). These issues were addressed and advanced in two special issues of *Small Business Economics* recently edited by Naude (2010) and Acs et al. (2008). However, neither of these broached the gender issue.

Researchers into entrepreneurship have for many years been interested in the differences in rates of participation and performance by female entrepreneurs. Parker (2009) notes that "a higher proportion of men than women engage in entrepreneurship in all developed economies, despite a recent trend increase in female entrepreneurship in some of them". Considerable research effort has been expended on explaining this difference as well as the observed gender gaps in performance; see, for example, Brush (1992, 2006) and Minniti (2009). The explanations focus on the one hand on differences in preferences (often shaped by women's assigned social roles), such as being a consequence of women's position within family structures, and on the other hand on constraints, most notably access to finance. However, the literature has primarily concentrated on developed economies,

and the potentially important role of female entrepreneurs in the development process remains under-researched. Our aim in this special issue is to contribute to filling this gap by providing new evidence on the participation and performance of female entrepreneurs and by looking at developing as well as developed economies.

This special issue contains the fruits of a Conference jointly organized by the Gender and Development Group at the World Bank and the International Policy Center at the Gerald R. Ford School, University of Michigan in June 2009. The Conference itself indicates the growing interest in this subject matter—the call for proposals prompted more than 100 submissions, and the selection of papers for the Conference and later for this journal was very difficult. The motivation for considering female entrepreneurship in both developed and developing economies arises from our increasing understanding of the significance of the role of women in creating, running and growing businesses as a fundamental driver for economic growth, development and poverty reduction. Entrepreneurial activity might in principle be a highly significant way for women to engage in the market economy—a vehicle to construct employment opportunities, including when these are scarce or when discrimination in the labour market does not facilitate full women's participation in the economic sphere.

However, the fact that women everywhere play a less than proportionate entrepreneurial role suggests, on the one hand, the existence of gender-based obstacles and, on the other hand, the potential for major welfare gains if the reasons could be understood and addressed through economic policy. Hypotheses include the possibility that female entrepreneurs face larger constraints than their male counterparts because of legal, institutional and cultural barriers, such as asymmetries in property rights, family laws, inheritance practices, among others. A second important issue is household responsibilities. In his exhaustive survey, Parker (2009) argues that the tendency of women to spend relatively more time in child-rearing and household production activities is a particularly important explanation of the differences between men and women in entrepreneurial activity. This is due to the potential effects on preferences and on attitudes towards risk, and these differences can then be exacerbated (or indeed caused) by social norms in which women are assigned a restricted set of roles.

Finally, there is the possibility of open discrimination, most importantly by lenders but perhaps also within other networks which provide credit, often of a more informal type. All of these issues may arise in developed economies, but they may differ in form and impact as well as be more corrosive in the sometimes weaker institutional environments of developing economies. For example, the informal sector is likely to play a much larger role in developing economies, but it is not clear whether the impact on female entrepreneurship will be positive or negative.

Clearly, if the reasons for differences in the participation and performance of female entrepreneurs stems primarily from differences in preferences (we do not know, for example, to what extent women are generally more likely than men to prefer paid employment over self-employment and entrepreneurship, but there are indications that this may be the case in some contexts—see Bruhn and Love in this special issue), the observed outcomes may not be inefficient and would not warrant intervention. However, many of the constraints proposed above do not fall into this category, indicating that on purely economic grounds there may be an under-utilization of human and physical resources in both developed and developing economies which should be addressed by policy-makers. One might add that in this case the outcomes are also a source of unfairness and inequality.

Case studies and qualitative evidence strongly suggest that there are indeed major constraints facing female entrepreneurs, and these do not all reflect efficiency considerations. However, there is as yet no strong, consistent and robust quantitative evidence for such constraints either with respect to female participation in entrepreneurship or to the size and determinants of the gender gap in terms of company size, efficiency or performance. There are a number of reasons for this. Perhaps the most important relates to data limitations. Until very recently, there were very few datasets on entrepreneurship in developed economies outside the USA, and data were even sparser for developing economies. However, the last few years has seen the collection of new information for a large group of developed and middle income countries by the Global Entrepreneurship Monitor (GEM), allowing—for the first time—systematic cross-country analysis over time. Concomitantly, the World Bank and other agencies have been collecting data for a large variety of developing economies, including low-

income countries such as sub-Saharan Africa. A second major constraint has been the lack of clarity in definitions. Different studies have developed their own definitions of entrepreneurship, and these have not yet been consolidated, resulting in some of the disparities in findings being hard to interpret. Finally, this type of analysis requires the impact of preferences and constraints to be disentangled, which is a problem of considerable analytical and econometric complexity. Nonetheless, in this special issue we present a selection of papers on female entrepreneurship which not only use these recently available datasets and more careful definitions of entrepreneurship but which also attempt to tackle the complex causality issues.

The special issue contains five papers. Saul Estrin and Tomek Mickiewicz use the New Entrepreneurship International (GEM) dataset to explore how institutions, including some detailed legal aspects of discrimination against women, affect female participation in entrepreneurship across countries. They differentiate between entrepreneurship as a whole, including self-employment, and high employment growth aspiration entrepreneurship, which is more likely to be associated with economic growth and development. Elena Bardasi, Shwetlana Sabarwal and Kathy Terrell focus instead on quantifying the gender gap in performance using the Enterprise Survey for three World Bank regions. They analyze possible explanations of the gap, in particular access to finance. The paper by Reyes Aterido and Mary Hallward-Driemeier tackles the issue of who controls the firm and how we define female entrepreneurship in a development context, also using the World Bank Enterprise Surveys and concentrating on sub-Saharan Africa.

We noted above that the specific characteristics of female entrepreneurship may be partially explained by differences in preferences and attitudes to risk, perhaps caused by women's need to combine productive and reproductive roles. Such issues are perhaps more easily explored using data from developed economies, and in the USA, relevant longitudinal information has been collected since 1968. Berkay Ozcan uses this dataset to analyze the influence of different types of household relationships and marital status on constraints and resources available to different household members.

The research issue can also be addressed by exploring the impact of policies put in place to

facilitate women's access to entrepreneurship and to the resources needed to succeed as an entrepreneur, including training, business development services (BDS), access to finance and the provision of appropriate information. An increasing number of these interventions undergo rigorous impact evaluation, which both allows for an assessment of their effectiveness and adds to the body of empirical evidence. At times, the results can be surprising and counter-intuitive, as can be seen in the paper by Miriam Bruhn and Inessa Love. They evaluate the impact on formal and informal entrepreneurship as well as individual earnings of the opening of over 800 new *Banco Azteca* branches simultaneously in Mexico in 2002. The opening of new bank branches created a strong incentive for men to become entrepreneurs, but women responded to the new employment opportunities created by disproportionately entering paid employment.

This special issue is dedicated to Kathy Terrell, whose intellectual curiosity pushed her to add female entrepreneurship to the list of research ideas about which she was passionate.

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