



WECOE

WOMEN'S ENTERPRISE
CENTRE OF EXPERTISE

Policy Briefing

**Women's Business Access to
Finance
in the West Midlands**



The regional leader for
developing economic prosperity

WECOE

POLICY BRIEFING

Women's Business Access to Finance in the West Midlands

Research conducted by Delta Economics

Foreword by Marla Nelson, Director, WECOE

"We can't afford to waste any business talent. Broadening participation in enterprise is vital to tackling the economic and social challenges the UK faces today. For Britain to emerge from the downturn in the strongest position, we need all of our talented people to maximise their business potential. We are committed to ensuring that those under-represented in business are given every opportunity to turn their ideas and aspirations into successful enterprises."

Business Secretary Lord Mandelson

Entrepreneurship is an important driver for economic growth, competitiveness and job creation. Stimulating entrepreneurship is an important challenge for the UK as a whole.

The importance of women as a largely untapped pool of entrepreneurial talent has been widely recognised within the West Midlands region, with Advantage West Midlands, the Regional Development Agency funding the creation of four *Enterprise Centres of Expertise*, to address the fact many under-represented groups are not featured within Enterprise – namely; Women (WECOE); those from Black and Minority Ethnic groups and communities (CRÈME); Young people

(YPECOE); and Social enterprise (Social Enterprise West Midlands). Over the past two years, (Dec 07-09) WECOE have provided a range of strategic, policy driven support for the wider development of the Women's Enterprise Agenda across the region.

Our role was to build the economic case for women's enterprise, to be a "voice" for individuals and organisations helping women start and sustain their own businesses, and to influence the development of enterprise policy and practice – ensuring the development of a more effective and appropriate 'women-friendly' business support infrastructure and culture across the region.

Creating the conditions that allow women to start and grow their business, exploit their ideas and ensure they have access to high quality support is vital, if the West Midlands region is going to bridge a widening gender gap, when it comes to entrepreneurial activity.

An escalator of support and a more holistic approach to women in business must be considered as a viable element of the “solutions mix”, if the intention is to decrease the regional output gap.

More women-led enterprises are needed to increase the stock of businesses and to contribute to economic growth and innovation. SMEs represent 99.9% of Britain’s business community with women-led SMEs representing 15%, contributing £45 billion to GVA per year. However, if women started businesses at the same rate as men there would be an extra 150,000 business created (BIS Enterprise Directorate Analytical Unit estimates).

Women’s Enterprise related policy actions must focus on the development of a “support escalator” to allow women’s business to grow and achieve their full potential. In an output declining environment – raising productivity through innovation & entrepreneurship is KEY to pulling the West Midlands region out of recession. The fact that fewer women become growth orientated entrepreneurs = waste of resources. In terms of focusing specialist targeted support to existing female owned businesses, conservative estimates carried out by WECOE based on the work we have done during the past two years show that through targeted business support alone the region could generate an additional £2.32bn in value added profit over the next 6 year from women’s enterprise alone.

WECOE commissioned Dr Rebecca Harding of Delta Economics to produce a series of regionally focused Women’s Enterprise Papers, focusing on four key areas:

1. Enterprise Culture
2. Start-Up
3. Existing Businesses
4. Access to Finance

Dr Harding was also commissioned by WECOE to produce an additional report looking at growth orientated women entrepreneurs (sectors, types of business, growth and performance, motivations and challenges) entitled “Challenges and Opportunities for Growth and Sustainability Study” (COGS).

The findings of Dr Harding’s reports lend considerable weight to the fact that we must explore further the way in which business support is delivered, and steps taken towards delivery of a more holistic approach in developing our female entrepreneurs and established business owners.

Confidence, in particular, is a critical issue in changing the mindset of potential women to establish and grow their business. WECOE’s policy recommendations focus on further developing support in the critical areas of business support, access to finance, procurement opportunities, advocacy and data.

If we can successfully put in measures that help to bridge the regional gender gap, we will be responsible for creating tens of thousands of jobs - adding millions of pounds to the regional economy. In simple terms, this is precisely what the region must aim for.

There is an undoubted economic argument for the women's enterprise agenda. Women are STILL half as likely as less likely to set up businesses as men; are less likely to think they have the skills to set up a business, and less likely to know other people who have set up businesses.

Despite many initiatives to increase the number of women in self employment/business ownership: the gender gap remains stubbornly wide. Men are almost **TWICE** as likely to start businesses as women. If women started businesses at the same rate as men, there would be **150,000 EXTRA** start-ups each year in the UK.

The development of women's enterprise remains a key Ministerial priority for the Government. Women are the largest under represented group in terms of participation in enterprise, and offer a wealth of untapped talent and economic opportunity.

Closing the gap between male and female entrepreneurship rates across the West Midlands region will significantly boost GDP - women are vastly untapped as an economic force. Increasing female entrepreneurial activity rates across this region, will make a direct and significant impact on regional economic development.

As we emerge from the recession and prior economic crisis, we must jointly elevate our actions towards gender equality in enterprise, as an economic imperative.

The case for Women's enterprise

The policy debate about women's start-up businesses is confused. On the one hand, it has become a public policy mantra: more women's businesses mean more economic activity, higher productivity and greater wealth for the economy. If we had levels of business start-up activity amongst women as there is in the US, it is argued, we would have 750,000 more businesses a year creating jobs and giving women opportunities to fulfil their dreams.¹ On the other hand, women are treated as an "under-represented group": in the interests of creating opportunities for all, policy needs to provide special support to women as a group that are excluded from enterprise because of their gender.² The first statement speaks to the importance of increasing the number of growth-oriented women's businesses, the second to working with women to build their human and social capital through skills acquisition, networking, education, training and coaching or mentoring.

Summary

When growth businesses owned by men and women are compared in the UK and the West Midlands, there appear to be

no differences in levels of initial investment, turnover, job growth, expectations of turnover and job creation between women and men. Nor are there differences in terms of turnover in relation to initial investment, nor turnover per employee. Women's businesses have as much to offer the UK generally and the West Midlands in particular as their male counterparts.

However, there are fewer growth oriented women's businesses and the reasons behind this are ambiguous. This policy briefing explores the role of access to finance in taking women's businesses up the growth escalator to the point where they can visibly generate value added within the region.

It argues there is no evidence of a gender difference amongst growth-oriented women entrepreneurs in terms of the amounts they invest themselves or in terms of the types of external finance accessed, with the only exception that women are nearly twice as likely to go to their banks for finance than men when they start up their business. Equally, they are more likely to be happy with the advice they receive.

In the current climate women in the UK are substantially more likely to be looking for finance than men, although this is not the case in the West Midlands. Of the 11.4% of women who did say that they were looking for finance now in the region, 75% said they were looking for growth finance and 87.5% said they were looking for investment finance.

In-depth interview evidence does suggest that women in the region are

experiencing difficulties in accessing finance but that much of this may be due to the lack of training and advice about how to communicate their business plan rather than any substantive gender bias. Policy should be focusing on providing the access to finance support escalator to work alongside existing supply of finance and, where practical, to work particularly with private sector providers, since their advice is valued by the women entrepreneurs themselves.

A note on method

The policy briefings are based on 30 in-depth telephone interviews with entrepreneurs and business advisers across the region between September and the middle of November 2009. Alongside this ten case studies were also put together with female entrepreneurs in the region. The interviews and cases were supplemented by a regional focus group and stakeholder meetings. All qualitative interviews and a literature and documentary search were triangulated with secondary data mining (Labour Force Survey, GEM and Barclays data) and primary data analysis (COGS).

The context: Is it tougher for women to get finance for their business?

Analysing access to finance for women founders and business owners is fraught with difficulties. There is no evidence to support the idea that there is any kind of differential treatment of men and women in access to finance.³ Yet there persists a perception that women are in some way disadvantaged when they attempt

to access finance and it was this belief that led to the establishment of the Aspire Fund⁴ in 2008 to service the needs of women-owned or led businesses in accessing growth finance.

Much of the confusion has emanated from the fact that academics and

commentators tend to compare “all men” with “all women.” This is misleading because women’s businesses are intrinsically different to men’s.⁵

- Women tend to set up and own smaller businesses than men: 91% of them, for example, run businesses that have turnovers of less than £250,000 a year compared to 82% of men;⁶
- Women’s businesses are disproportionately represented in sectors where growth is restricted because the entry barriers are low making them more competitive and, equally, prone to fluctuations in the economic climate;⁷
- Women tend to want to work flexibly around caring responsibilities;⁸
- Women tend to under-capitalise their businesses and this limits their growth potential.⁹

Instead, if similar groups of businesses owned by men and women are compared, then the differences disappear: banks do not charge higher prices for debt and may in some circumstances charge lower prices for women’s businesses¹⁰ and women do not under-capitalise their businesses or under-perform financially or productively compared to their male counterparts.¹¹

This does not mean that women find it any easier to access finance and there is evidence to suggest that women are less confident about their capabilities to present their business to potential investors, especially as their businesses tend to be in non-traditional, female, sectors while investors themselves are predominantly male.¹²

Market Failure and Policy

The evidence to support a market failure in women’s access to finance is contradictory:

- At start up, men and women use similar forms of finance but women are over-represented in higher risk/lower

growth business groups and may therefore be more likely to find it more expensive or difficult to access.¹³

However, at this end of the market, the evidence also suggests that women have a higher success rate than men,

even though the absolute numbers accessing finance are smaller.¹⁴

- Women who are already embarked on a growth path, although in a minority, do not appear to be disadvantaged in any sense compared to men but are nevertheless less likely to access venture capital than men suggesting that they are not fully utilising potential sources of growth finance.¹⁵

This suggests that there is no unambiguous case for market failure on the supply side of access to finance at the smaller end of the market but there may be a case for supporting the demand side through access to finance, business planning and business growth training to ensure that those women who do wish to grow their businesses

are able to access the finance they require.

For women already classified as growth-oriented, the market failure appears to be the low take-up of venture capital for financing growth. As a result, the Aspire Fund was established to for a very specific group of high-growth women-owned or led business that have proven track record, qualify as Small or Medium Sized Enterprises (SMEs) because they have between 10 and 250 employees and can match any investment from the Fund with money from an experienced co-investor who is prepared to take a leading role.

How difficult is access to finance in the West Midlands?

Previous research in the region suggests that women in the region are more likely to fear not getting finance but more likely to apply and be successful than men.¹⁶ It also suggests that women tend to use banks for finance while men use a more varied approach to raising finance. They raise similar amounts of external finance.¹⁷

30 in-depth interviews across the region were held and highlighted the following issues:

- Business support advisers reported women in networking and support sessions who argued that they had experienced difficulties in accessing finance.

- Many of these businesses were small and planning at an early stage, however and one adviser argued that the women themselves had unrealistic expectations of what they could achieve in terms of finance. In particular, it was suggested that women moving from unemployment into employment needed substantial guidance in what they could realistically expect from their banks at the earliest stages. One adviser noted “It was if she actually *expected* us to give her money rather than her to present a valid business case”, although this was only one isolated example.
- Entrepreneurs themselves pointed out the difficulties at the earliest

stages in accessing finance and many highlighted how they had not been successful in the first instance. However, they also acknowledged that once they had put financial resources in to the business themselves, reviewed their business models and taken a longer-term and strategic perspective, they had been successful in accessing finance, especially through banks, and appreciated the advice they received.

- There was no evidence from interviews that women were being disproportionately affected by the credit crunch: this was not cited as an issue for them when they were approaching sources of finance.

COGS survey evidence on access to finance¹⁸

The differences between the amounts that men and women will invest in their start up businesses themselves are not statistically significant in the West Midlands, although women do invest less at start up compared to their female counterparts in the whole of the UK (£90,000 compared to £104,000 in the whole of the UK). On average, men in the region invest 68.6% and women 75% of the start up finance themselves.

This money comes predominantly from personal savings and current accounts (75.9% amongst men and 70.6% amongst women).

The money that is not put into the business by the founder themselves comes from external sources. This is illustrated in Figure 1 for the West Midlands.

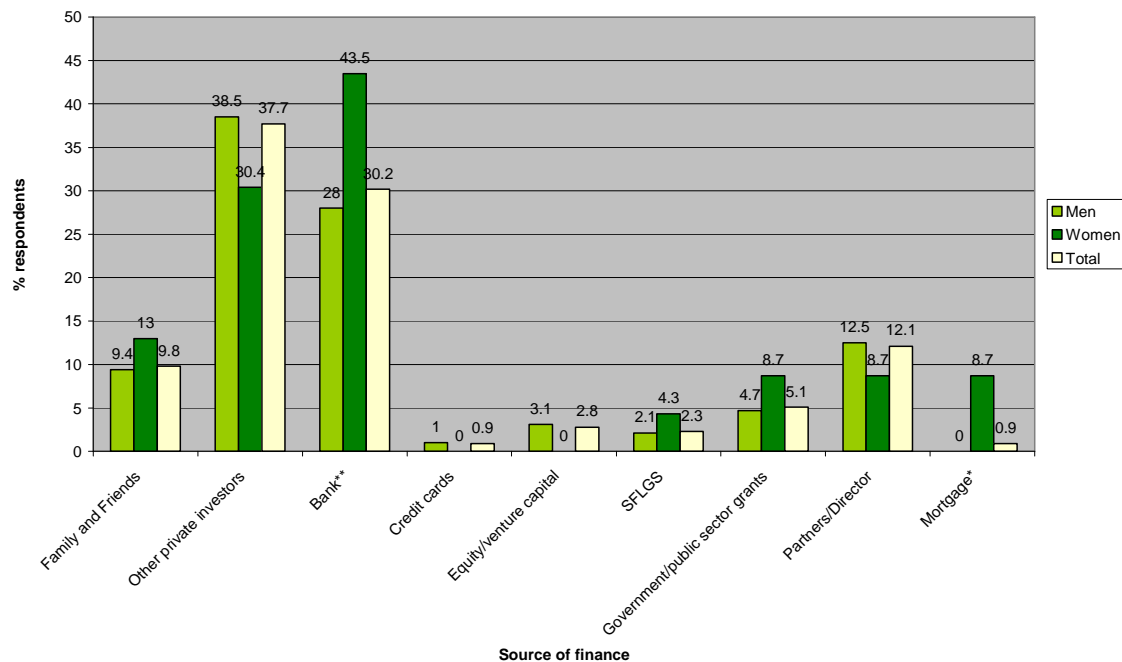


Figure 1
Sources of external finance used at start-up

Source: COGS 2009 West Midlands

Only two of the sources of external finance used are statistically significant: women are nearly twice as likely to go to their bank for external start-up finance and more likely to use mortgages. Women in the West Midlands are more likely than men to try to get finance and fail (21.4% compared to 18.1%) and this is higher than the UK figure of 16.6% for men and women. This is illustrated in Figure 2

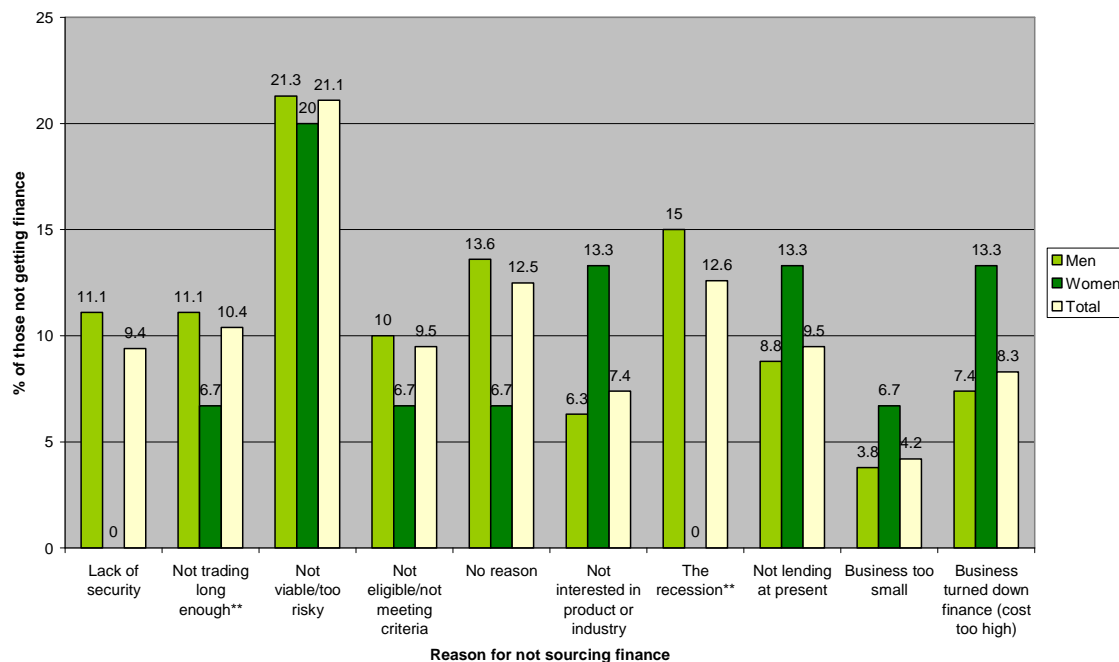


Figure 2

Reasons for not accessing finance

Source: Delta Economics, COGS 2009

The reasons given to the entrepreneur for failing to access finance are similar for men and women however, and are mostly centred around insufficient business planning: 20% were too small or had not been trading for long enough and 13.3% said that the source of finance was not interested in the product or not investing in the sector. Interestingly, there is a significant difference between men and women for

those who cited the recession as a reason for failing to access finance. No women cited this but 15% of men did.

The low numbers of people citing the recession as a reason for not accessing finance is reflected in the lower numbers who are attempting to access finance in the region compared to the UK. This is illustrated in Figure 3.

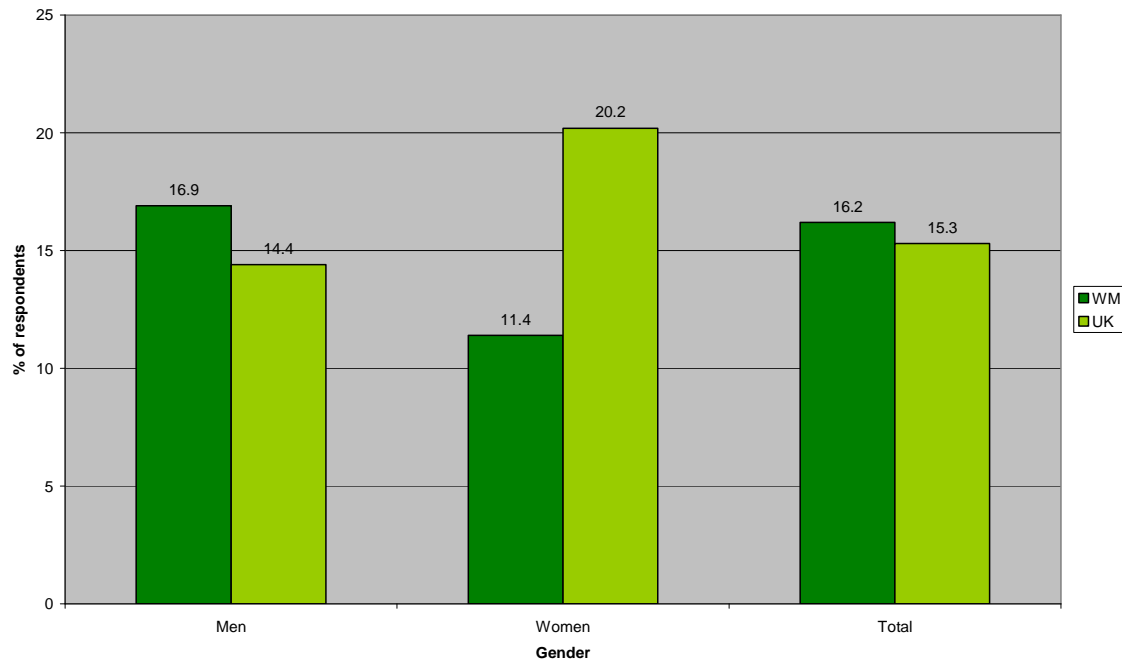


Figure 3

Those looking for finance now (UK and West Midlands compared)

Source: Delta Economics/COGS 2009

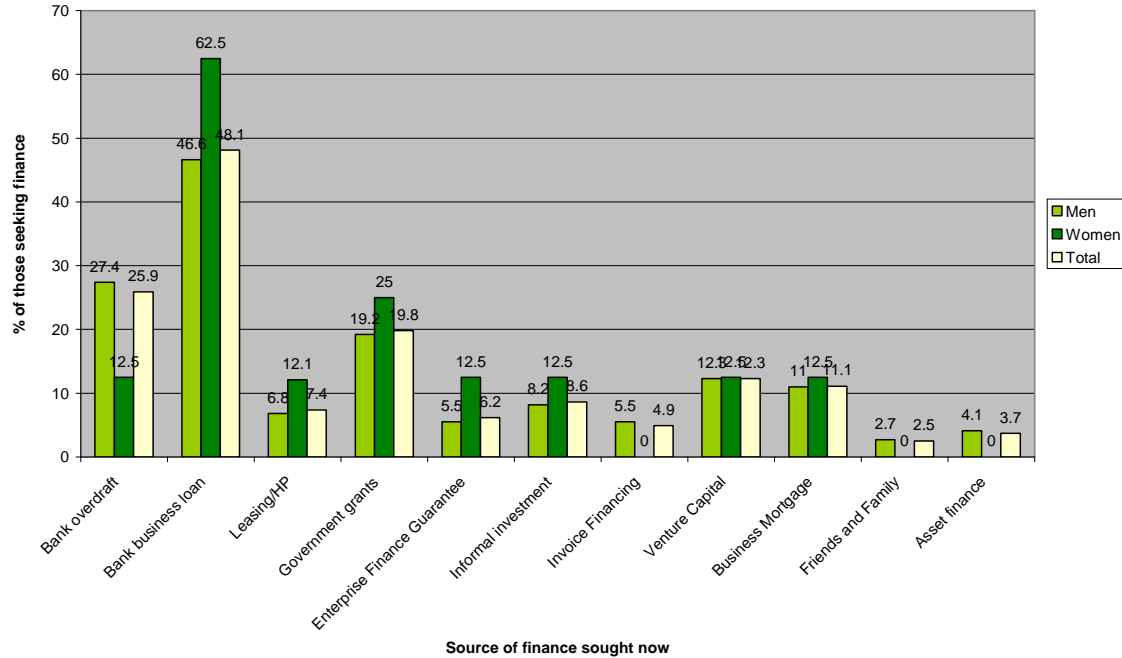
Overall, founders in the West Midlands are slightly more likely to be looking for finance than their UK counterparts. However, there is a difference between genders here as men in the West Midlands are more likely than men in UK to want to access finance while women are correspondingly less likely.

Other COGS data suggest the following for the West Midlands:

- Women are significantly more likely than men to be accessing finance to pay off existing debt (62.5% compared to 17.8%).

- Women are significantly more likely than men to be accessing finance to invest (87.5% compared to 63.0%).
- There are no significant gender differences in other reasons for accessing finance.
- 75% of those women seeking finance were doing so in order to grow their businesses.

Figure 4 shows the sources of finance that men and women in the West Midlands are seeking at present. While the results are not statistically significant, there are some interesting indicative gender differences.¹⁹



62.5% of women and 46.6% of men are seeking bank loans while 25% of women compared to 19% of men are looking for government grants. One interviewee stated “I know that I want and need a grant but I’m not sure that I have covered every opportunity. I keep thinking there are some available that I haven’t seen yet.” Interestingly, the numbers of men and women looking for venture capital are almost identical. This was seen as a viable option for women owners of established businesses and on further prompting, they had assessed it as an option with others in considerable depth.

Finally, the reasons for not looking for finance at the current time give us some indication of how founders are planning for the long term future. Where they are not looking for finance, either because there is no need or because they have put in the money themselves, it suggests that they are bootstrapping their businesses in the interests of surviving the current downturn.²⁰ One interviewee was typical: “I’m not looking for finance at the moment as although we have plans which will mean getting quite a lot of money, its just at the moment we’ve put our plans on hold. But we will do it – just not yet.”

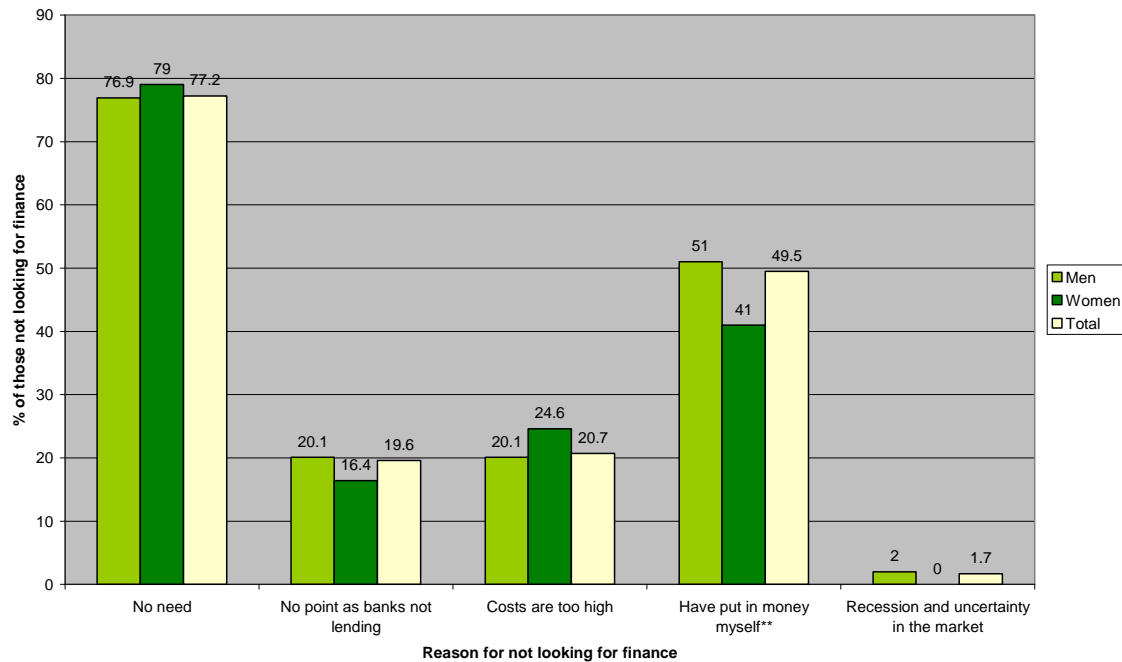


Figure 5
Reasons for not looking for finance now by gender

Source: Delta Economics/COGS 2009

There are two features of Figure 5 which are particularly relevant:

1. Women are significantly less likely to say that they have put in the finance themselves.

2. The recession is not cited as a reason for not accessing finance by any women in the sample and for only 2% of the male sample.

Policy implications of the analysis

The main long-term market failure appears to be the provision of appropriate access to finance training since many of the gender differences in the data presented above point to this.

For example, the qualitative research conducted for this briefing suggests that women are having less success accessing finance than their male counterparts because they have

insufficient awareness of the processes through which they have to go in order to be successful.

The survey data presented above does suggest that women’s businesses have the growth potential of their male counterparts. They are as likely to be seeking venture capital finance and more likely to be accessing bank finance but are also more likely to fail than men, unlike their counterparts in the UK. In the words of one business adviser, “Women tend to have unrealistic expectations of what they are going to be able to access given the stage of

their business...We need a support escalator that runs along side the funding escalator to train people to plan before they start to approach potential financiers.”

In the short term, however, there is an issue of helping women to plan for the long term through the recession. Although in 2008 the differences in turnover were not statistically significant in the West Midlands for men and women, in 2009 they were, as illustrated in Figure 6.

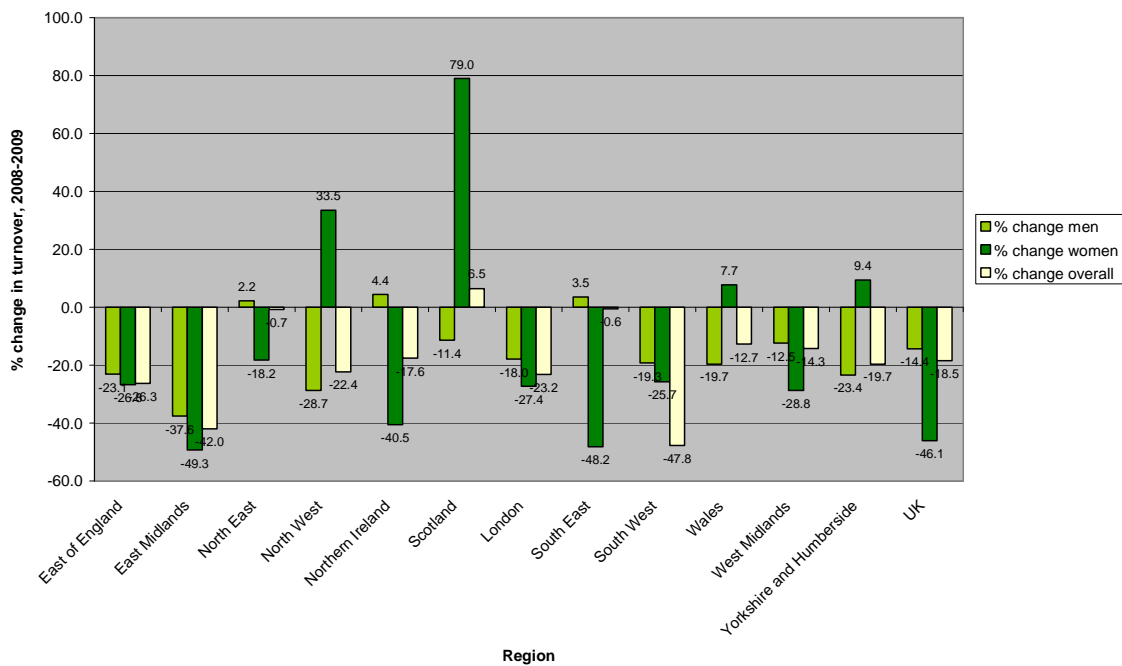


Figure 6

Changes in turnover, 2008-2009, men and women compared by region

Source: Delta Economics/COGS 2009

Women's business turnovers have shrunk by 28.9% while men's have only shrunk by 12.5%. Women are less likely to be looking for finance now, and marginally more likely to say that the costs are too high, even though they are not explicitly citing the recession as a reason for them being rejected for finance or for not accessing finance.

This may be symptomatic of a general problem: that women's businesses in the region are significantly smaller than their UK counterparts and that therefore they may attribute their turnover declines to general problems in their sectors rather than the recession directly. This, combined with the fact that qualitatively women seem to be less external finance ready, would mean that the real market failure is the low proportion of women who grow their businesses in the region rather than any issues in the supply of finance.

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- ¹⁸ The Delta Economics Challenges and Opportunities for Growth and Sustainability (COGS) study is an annual survey of founders of growth-oriented, sustainable businesses with turnovers of above £250,000 and that have been running for between 2 and 10 years. The survey, which is essentially looking at the "survivors" – those who have got through onto a growth and

sustainability path beyond the first 24 months – was of 1800 entrepreneurs in 2008 and 2120 in 2009. Each year, 500 of these were in the West Midlands region; 13.7% were women.

¹⁹ The results for the UK are similar and for the first four sources of finance, Bank overdrafts, bank loans, leasing and hire purchase and government grants are statistically significant.

²⁰ HSBC (2009): “The Business of Recovery” www.hsbc.co.uk.

Background to the Women's Enterprise Centre of Expertise

Advantage West Midlands recognised the importance of women's enterprise as being a key economic driver however, in order to ensure that appropriate policies were developed they commissioned the Women's Enterprise Centre of Expertise (WECOE) project along with four other Centres of Expertise (COE's) focusing on minority ethnic young people and social enterprise.

WECOE, funded by Advantage West Midlands (AWM) the West Midlands Regional Development Agency, had a fixed-term, two-year timescale (Dec 2007 – 2009), with a series of specific objectives to embed within mainstream support over that period and provided a range of strategic, policy driven support for the wider development of the Women's Enterprise Agenda across the region. Our role was to:

- Develop Market Intelligence
- Stakeholder Engagement
- Act as a critical friend to AWM/Business Link and other key stakeholders
- Pilot new activities in order to develop learning from action
- Provide capacity building support

WECOE offered a dedicated source of information and expertise on women's enterprise issues, supporting the existing infrastructure of economic development and regeneration across the region. This included, for example, AWM, Business Link West Midlands, regional partnerships, business-women's networks, local networks, consortia, voluntary and community groups and the private sector.

WECOE's aim was to reinforce *the economic case* for women's enterprise support throughout the region; building on, informing and strengthening the existing infrastructure, and embedding good practice. It also sought to understand areas of market failure and to work with partners and organisations to address this.

Finally, WECOE sought to raise the profile of women's enterprise across the region, by influencing regional and national policy and by supporting a greater range of strategic partners in embedding women's enterprise into the core of their work.

The Centre:

- Provided a range of services which embedded quality policies, practices and procedures within organisations such as West Midlands Business Link, thus both capacity building and supporting more women into enterprise.
- Enabled policy makers and support organisations to assist a diverse range of women in business in a more strategic and appropriate way than had previously been seen across the region.
- Worked to raise the ambitions of economic development and business support organisations in their expectations and perceptions of women's enterprise and its contribution to the regional economy.

- Engaged regional policy makers, and a strong body of women entrepreneurs, in national dialogue with Government departments (including the Department for Business Innovation & Skills) to enable regional needs to be both identified and incorporated in the national enterprise strategy.
- WECOE worked to influence the development of regional policy and related research, through active involvement and attendance at all Sub-Groups of AWM's Enterprise Board.
- WECOE also influenced national activity, through the Ethnic Minority and Women's Enterprise Task Forces.

WECOE did not provide direct service delivery for business support and economic development itself; instead it provided ideas, methodologies and good practice models through which organisations could increase the participation of women in enterprise activity across the region.

It acted as an independent referent and 'critical friend' to organisations such as Business Link West Midlands providing both expert assistance and robust analysis to improve services to clients, building on local, regional, national and international good practice in the field, whilst also exploring market failure and addressing how best to tackle such issues in a sensitive and appropriate way.

WECOE worked in parallel with the other three other Centres of Expertise (COE's) commissioned by AWM (for minority ethnic enterprise, social enterprise and young people's enterprise).

The COEs worked closely together to ensure a complementary approach to potential 'cross cutting' themes (e.g. ME women's enterprise issues, women in social enterprise and young women/girls) whilst ensuring that the specific issues of region-wide women's enterprise were addressed.

Women are not a homogeneous group, and as such have differing needs and requirements for economic activity and enterprise. Therefore WECOE focused upon ensuring that the needs of women who are under-represented, even within specialist women's enterprise support, (e.g. ME women, refugees and new migrants) were adequately addressed across the region.

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