

THE CHALLENGES OF BUSINESS OWNERSHIP: A COMPARISON OF MINORITY AND NON-MINORITY WOMEN BUSINESS OWNERS

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ABSTRACT

Women business owners often face a different set of challenges than those faced by male business owners. Among women business owners, minority women may face a different set of challenges than their non-minority counterparts. Both the actual challenges and the perceptions of such challenges may impact business practices and decisions. The present paper compares the perceptions of challenges faced by minority and non-minority women business owners. We found that minority women business owners often perceived that they faced greater challenges than did non-minority women business owners, even when factors such as the size of the business and the owner's age and education were controlled.

INTRODUCTION

Women-owned businesses represent a rapidly growing segment of the U.S. economy. According to the Small Business Administration (2001), approximately one-third of all small businesses are women-owned and the number continues to grow. While business ownership presents its own set of challenges, it may be particularly challenging for women business owners (e.g., Winn, 2004). Further, among women business owners, minority women may face a different set of challenges than their non-minority counterparts. Smith-Hunter and Boyd (2004) found that minority women became business owners for different reasons than did non-minority women, and that they faced different challenges in starting and operating their businesses.

Studies of the challenges faced by women business owners in general and minority women business owners in particular have most often focused on challenges in obtaining financial capital and in developing or accessing social capital. Coleman (2004) and Lucas (2006) studied the extent to which women and minority group members faced challenges in obtaining access to capital. Lucas (2006) argued that minority women business owners may have difficulty in obtaining access to capital because of a lack of both business experience and industry-specific experience and because their businesses tend to be smaller and newer. Coleman (2004) examined the relationship between the business owners' gender, race, level of education and their ability to borrow money. She found that white women were no less likely than white men to apply for loans or to avoid applying because of a fear of being turned down. However, she did find that black men were more likely to be turned down or to avoid applying for a loan due to a fear of being turned down. She was not able to examine this phenomenon in minority women business owners because there were too few minority women business owners in her sample.

Other studies have found that women business owners in general and minority women business owners in particular may lack some of the social capital and access to networks that would enhance business success (e.g. Smith-Hunter & Boyd, 2004). Social capital may be in the form of knowledge and experience gained from working at high levels of an established company before becoming a business owner, or having access to networks that could provide information on the availability of financing or on access to markets.

Together, these results suggest that women and minority business owners are impacted by differences in the business environment and that their decisions and actions may be influenced simply by perceptions of these differences. Business owners may choose to not fully explore access to capital or due to a belief that they will be unsuccessful attaining their goal because of challenges in the business environment. Thus, not only do actual challenges impact the outcomes of the business, perceived challenges may be a factor considered in the owner's decision-making process.

The purpose of this paper is to examine the differences in perceptions of challenges facing minority versus non-minority business owners, and to explore the reason for those challenges. We examine differences in business owners' perceptions of the challenges that they face personally, and in the challenges that they believe are faced by women business owners in general. Company and owner characteristics may be related to challenges faced by the business owners, so we control for differences in size of the company as operationalized by number of full-time employees (FTEs), the number of part time employees (PTEs) and the amount of sales of the business. We also control for the age of the business since the newness of the business is often a factor in determining need for access to capital, and at the same time a liability in obtaining access to such capital (e.g. Coleman, 2004). We also control for the educational attainment and the age of the business owner. As Coleman (2007) noted, research has shown a relationship between educational attainment and business success. Similarly, Coleman (2007) suggested that age of the business owner may serve as a proxy for experience and maturity which contribute to business success.

METHODS

Sampling Technique, and Response Rates

As part of a larger study, a mailing list of women owned businesses in a southern state was purchased from Dunn and Bradstreet. The mailing list reported 30,511 women businesses owners throughout the state. The mailing list was sorted by zip code, aggregating zip codes into strata using the first three digits of the zip code. The proportion of the population represented by each stratum was calculated. We then randomly sampled addresses within each stratum so that the proportion of addresses in the selected sample from each stratum was consistent with that stratum's representation in the population. For example, one stratum comprised 14.09% of the addresses on the mailing list; therefore, 14.09% of the total surveys were sent to addresses randomly selected from that stratum.

This stratified random sampling technique (see Pedhazur & Schmelkin, 1991) was used to reach a representative sample of women-owned businesses throughout the state. Thus, while the

numbers of businesses sampled in more densely populated areas of the state were larger than those in other, more rural, areas of the state, the sample was proportionate to their representation in the larger mailing list.

We initially selected 6,000 addresses to send complete survey packets. The survey was available in both electronic and paper forms. Each woman-owned business in the sample was sent a survey packet including a cover letter describing the purpose of the survey and instructions for accessing the on-line survey, and a printed copy of the survey. The recipients were instructed to complete only one copy of the survey (electronic or paper).

In an attempt to increase sample size, while not incurring the expense of mailing additional survey packets, we selected an additional 3,000 of the remaining addresses again using the stratified random sampling technique. Business owners in the second sample were sent a postcard with an abbreviated description of the study and instructions for accessing the on-line instrument. Some respondents who received the post card requested a paper copy of the survey and were provided with one upon such a request.

The proportion of respondents from each stratum was compared to the proportion of businesses selected for the overall sample from each stratum using a chi-square test. The results of the test ($\chi^2 = 1.62$, n.s.) indicate that there are no statistically significant differences in the proportion responding across postal distribution centers. Thus, with respect to geographic dispersion, the sample is representative of the population as defined by the mailing list.

The overall usable response rate to the survey was 4.8%, yielding a sample of 432 usable responses. Some of the returned surveys could not be included in the study. Some respondents reported that they had no ownership stake in the business, and could therefore not be counted as business owners. Although the mailing list went to businesses described as women-owned, there were some male survey respondents. Only responses from females were included in the final sample. Further, the first author was contacted by several individuals who were selected from the mailing list, but were who not business owners, and by one person reporting that the addressee was deceased. Thus, it should be noted that some portion of the addresses on the mailing list were not women business owners; therefore, the usable response rate of 4.8% must be viewed as a conservative estimate of the true response rate from women business owners.

Survey Instrument

Company characteristics. Company characteristics were measured using items developed for the present study. Business owners were asked to indicate how many full-employees and part-time employees employed by their company. They were also asked to report how long the company has been in business (in years) and the previous year's gross annual sales (in dollars).

Owner characteristics. Owners were asked to indicate their age. This item included a categorical response format (1 = "under 30"; 2 = "30-39"; 3 = "40-49"; 4 = "50-59"; 5 = "60-69"; and 7 = "age 70 and older"). Education was also measured using a categorical response format. Response options were: 1="less than high school"; 2 = "high school graduate"; 3 = "some college"; 4 = "college degree"; 5 = "some graduate work"; and 6 = "graduate degree."

Similarly, owners were asked to indicate their race. Response options were “Black,” “Hispanic,” “Asian and Pacific Islander,” “American Indian and Alaska Native,” “White,” and “Other.”

Perceived challenges . Respondents were also asked to indicate what challenges they believed faced them personally as a woman business owner. The list of challenges included: 1) securing capital for building or expanding a business; 2) health insurance costs; 3) understanding the tax code; 4) the current state of the economy; 5) competitive business environment; 6) regulatory burden; 7) procurement opportunities in the public sector; 8) procurement opportunities in the private sector; 9) managing your business relationship with your corporate legal advisor; 10) managing your business relationship with your certified public accountant under the new accounting regulations; 11) understanding the new accounting regulations; 12) recruiting and retaining an effective workforce; 13) networking effectively; and 14) achieving a satisfying work/life balance. Participants responded to these items using a 5-point Likert-type response format (5 = “very difficult for me personally”; 4 = “difficult for me personally”; 3 = “neutral”; 2 = “minor concern for me personally” and 1 = “not a concern for me personally”).

Respondents were then asked to respond to the same set of items a second time indicating the extent to which they believed the challenges were difficult for women business owners in general. A 5-point Likert-type response format was again used (5 = “very difficult for women business owners”; 4 = “difficult for women business owners”; 3 = “neutral”; 2 = “minor concern for women business owners” and 1 = “not a concern for women business owners”).

RESULTS

Preliminary analyses were conducted to examine the characteristics of the sample. As noted above, the sample for the present study was 432 women owned businesses in a southeastern state. Thirty four percent of the women business owners were between ages 50-59 and 65% had a college degree or higher levels of education. The racial composition of the sample was 7.9% Black, 1.2% Asian and Pacific Islander, 86.6% White, 1.6% Hispanic, and 1.9% American Indian and Alaska Native. The responses of Black, Asian and Pacific Islander, Hispanic, and American Indian and Alaska Native participants were combined into the minority women sample (coded 1) and the responses of White participants were the non-minority sample (coded 0).

The average age of the businesses was 13.2 years, average dollars in sales was \$524,000. The businesses employed an average of 5.2 full-time employees and 2.8 part-time employees.

The means, standard deviations, and correlations among study variables are presented in Tables 1 and 2. Table 1 reports the correlations among company and owner characteristics and the challenges the business owners believe they face personally. Table 2 reports the correlations among company and owner characteristics and the challenges the business owners believe are faced by women business owners in general.

Table 1

Correlations Among Minority Status, Control Variable and Perceived Challenges for the Business Owner Personally

[illegible]

Table 2

Correlations Among Minority Status, Control Variable and Perceived Challenges for Women Business Owners in General

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Initial Comparisons of Minority and Non-Minority Women Business Owners

We used one-way analysis of variance (ANOVA; results indicated by an F-test) to examine differences in characteristics of the business, owner demographics, and perceived challenges facing the business owners.

The characteristics of the businesses and the owners were compared based on minority status. There were no significant differences between businesses owned by minority women and non-minority women with respect to the number of full-time employees. There was a significant difference ($F = 6.2$; $p < .05$) in the number of part-time employees employed by the two groups. Minority women reported an average of 5.6 part-time employees (s.d. = 16.6), while non-minority women reported an average of 2.3 part-time employees (s.d. = 6.8). There was no significant difference in annual sales reported by the two groups. There was a significant difference in the age of the business ($F = 15.4$; $p < .01$). The businesses owned by minority women were an average of 7.8 years old (s.d. = 5.8), while businesses owned by non-minority women were an average of 14.0 years old (s.d. = 11.2). The demographics of the business owners were also compared. There were no significant differences in the age or educational levels of the business owners between the two groups.

Challenges Facing Women Business Owners

The responses of minority women were compared to those of non-minority women on the items measuring the extent to which respondents believed various aspects of the business environment were challenging for them personally. There were many significant differences between the two groups in their response to these items. The items on which there were statistically differences (F-test; $p < .05$) appear in bold in Table 3 below. Again, these items were scored so that a higher mean indicates a greater challenge. As Table 3 indicates, minority women perceived significantly greater challenges in managing a business on all but two items. There were no significant differences in perception of “health care costs” and “the current state of the economy” as challenges to the business owners personally. This finding is notable because health care costs and the state of the economy represent more objective external realities which are likely to have an impact on businesses independent of the race or gender of the business owner.

Table 4 presents the business owners perceptions of the challenges of various environmental factors for women business owners in general. The items on which there are statistically significant differences between the groups appear in bold. Again, responses to these items are scored such that a higher number indicates a greater perceived challenge. As Table 4 shows, there were fewer significant differences in the responses of the two groups to these items; however, the differences that were found indicate that minority women perceive greater challenges in the business environment for women business owners in general. There were significant differences in perception of “procurement opportunities in the public sector” as a challenge for women business owners. Similarly, there were greater perceived challenges in the areas of “managing your business relationship with your corporate legal advisor,” in “managing your relationship with your certified public accountant under the new accounting regulations,” in “understanding the new accounting regulations,” “recruiting and retaining an effective workforce,” and “networking effectively.”

Table 3

Respondents' Perceptions of Difficulty of Business Challenges for Themselves by Race of the Business Owner

	Non Minority			Women of Color	
	Mean	S.D.		Mean	S.D.
Securing capital for building or expanding a business	2.4	1.5		3.4	1.7
Health insurance costs	3.2	1.6		3.5	1.6
Understanding the tax code	2.8	1.4		3.5	1.2
The current state of the economy	3.0	1.1		3.3	1.0
Competitive business environment	2.8	1.1		3.0	1.2
Regulatory burden	2.5	1.2		2.7	1.2
Procurement opportunities in the public sector	2.4	1.3		3.2	1.5
Procurement opportunities in the private sector	2.4	1.2		3.3	1.3
Managing your business relationship with your corporate legal advisor	1.8	1.0		2.1	1.2
Managing your business relationship with your certified public accountant under the new accounting regulations	1.8	1.0		2.2	1.4
Understanding the new accounting regulations	2.3	1.3		2.8	1.5
Recruiting and retaining an effective workforce	2.5	1.4		3.2	1.5
Networking effectively	2.5	1.3		3.1	1.4
Achieving a satisfying work/life balance	3.0	1.4		3.5	1.4

Table 4

**Respondents' Perceptions of Difficulty of Business Challenges for Women Business Owners
in General by Race of the Business Owner**

	Non-minority Women			Women of Color	
	Mean	S.D.		Mean	S.D.
Securing capital for building or expanding a business	3.6	1.1		3.9	1.1
Health insurance costs	3.7	1.1		4.0	1.0
Understanding the tax code	3.3	1.0		3.6	1.1
The current state of the economy	3.4	0.9		3.6	0.9
Competitive business environment	3.5	1.0		3.6	1.0
Regulatory burden	3.2	0.9		3.4	1.0
Procurement opportunities in the public sector	3.3	1.0		3.7	1.2
Procurement opportunities in the private sector	3.2	1.0		3.5	1.2
Managing your business relationship with your corporate legal advisor	2.7	1.0		3.1	1.1
Managing your business relationship with your certified public accountant under the new accounting regulations	2.6	1.0		3.0	1.1
Understanding the new accounting regulations	2.9	1.0		3.2	1.1
Recruiting and retaining an effective workforce	3.2	1.1		3.9	1.1
Networking effectively	3.1	1.1		3.6	1.0
Achieving a satisfying work/life balance	3.8	1.1		4.0	1.0

Results of regression analysis

Regression analysis was used to examine the relationship between minority status and perceived challenges facing the business owners personally as well as the perceived challenges facing women business owners in general, controlling for company and owner characteristics. The results of these regression analyses are presented in Tables 5 and 6.

As Table 5 shows minority status was significantly related to perceptions of challenges above and beyond factors often associated with business success such as the size of the business (as operationalized by the number of employees and the dollar volume of sales), how long the business has been established, and the age and education of the business owner. As Table 6 shows, minority status also explained significant variance in perceptions of challenges for women business owners in general above and beyond the above-noted control factors. It should be noted, however, that the control variables as a group were not significantly related to perceived challenges for women business owners in general.

DISCUSSION

The results of the present study taken together with those of earlier studies highlight the fact that although women business owners as a group often face more challenges in establishing and operating their businesses than do male business owners, minority women business owners may face even grater challenges. Perceptions of such challenges may impact decisions made for the business such as whether to pursue applying for a business loan and whether and how to impact social networks that could contribute to business success.

The limitations of the study center on the fact that the data were all self-reported. In future studies it would be useful to obtain additional external measures of the challenges faced by women business owners.

Future research should focus in the impact of perceived challenges on behavior and decision making. As noted previously, simply the perception of challenges may impact on business decisions, entirely independently of the reality of such challenges.

Table 5

Results of Regressing Perceived Challenges to the Business Owner on Control Variable and Minority Status

[illegible]

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