

Focus on Economics

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How female is the world of small business? Women as business leaders

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German small business is becoming increasingly female. One in every five small and medium-sized enterprises (SMEs) is led by a woman.

The economic importance of women-led SMEs is considerable but smaller than the percentage of female business leaders. This is because of the kinds of business they tend to choose: it is more common to find women running businesses in the service sector. In some segments, every other business is now led by a female.

The march of women into the boardrooms of SMEs is set to continue, if recent start-up data is anything to go by.

Increasing the proportion of women in the upper echelons of German companies is a political objective. A legal quota for women on the boards of public companies has been in force since May 2015.¹ By 2016, at least 30% of supervisory board members must be female (for new appointments). This requirement is currently met by 24 of the 101 companies concerned. Overall, 22.1% of supervisory board seats are filled by women.² That is a relatively high proportion compared with management boards, where women currently account for 4.8%.

However, Germany's 1,800 large companies form only part of the country's corporate landscape. In terms of numbers, the 3.6 million small and medium-sized enterprises clearly predominate.

Nothing new about female-led SMEs

Around 700,000 small and medium-sized enterprises (SMEs) in Germany are currently led by women. Since the turn of the millennium, the percentage of female SME owners has ranged from around 15 to just under 20% (Figure 1), according to the representative KfW SME Panel³.

Female entrepreneurs are not an exceptional phenomenon, yet the percentage of women entrepreneurs is growing slowly, whereas the female employment rate rose swiftly between 2002 and 2012 from 59 to 68%.

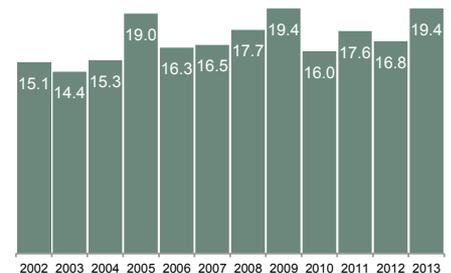
"Profile" of women-led SMEs

The economic importance of small businesses led by women should not be underestimated. In 2014 they⁴ ...

- employed around four million people (14% of all people employed by SMEs),
- trained 112,000 young people (9% of all trainees in SMEs),

Figure 1: Women as owners

Percentage of SMEs led by women



Source: KfW SME Panel 2003-2014

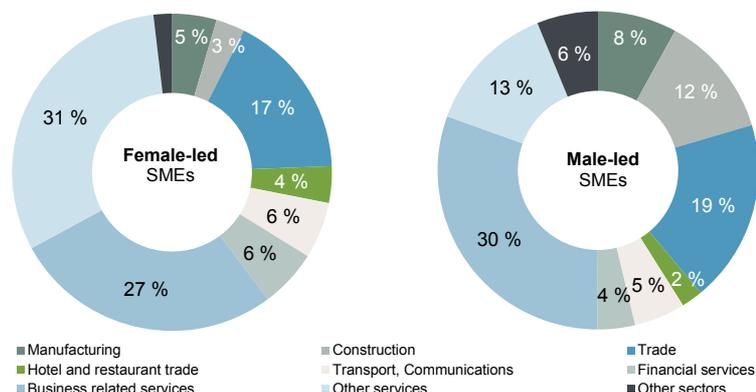
- invested EUR 15 billion in new and used equipment and buildings (8% of total investment by SMEs), and
- achieved sales of EUR 32 billion on foreign markets (6% of SMEs' foreign trade volume).

However, it is also clear that, compared with the share of female-managed companies (20%), these SMEs still punch below their weight on many key indicators. This has to do with the types of businesses that women tend to lead.

Women prefer service companies

A look at female and male-led businesses highlights the differences (Figure 2). SMEs led by female owners are far more

Figure 2: SME sector breakdown by sex of owner



Source: KfW SME Panel 2014.

likely to be in the service sector.

The segment of Other Services stands out in particular: nearly a third of all companies led by women (31%) fall into this category. It includes business from the care sector, training and development, culture and sport.

In second place are companies providing business support services. These account for 27% of female-led SMEs and cover a broad spectrum of activities, such as law firms, architectural and engineering practices, public relations, financial advice, HR consulting and industry-related services (e.g. maintenance, quality management or assembly).

The two segments together make up well over half of women-led small businesses (58% or roughly 406,000 SMEs).

Sectors with high and low percentages of female bosses

Service sectors⁵ accordingly have a high proportion of female proprietors: in the sub-segment of Training and Education and in Other Services, almost every other SME has a woman at the helm or is a self-employed person with her own business (46% of owners are female in both sectors).

Female bosses are also frequently found in the hotel and restaurant trade (33%), healthcare, veterinary and social services (30%) and other business support services (39%).

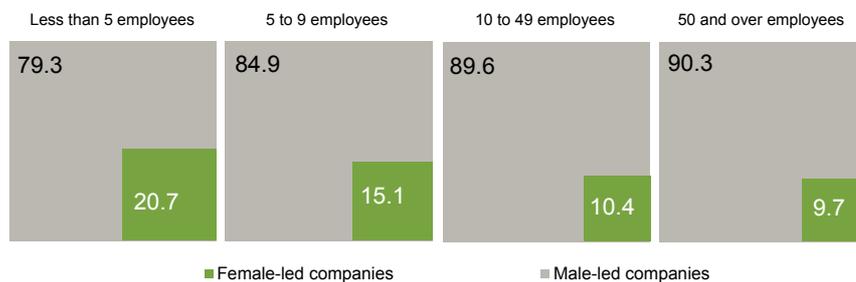
On the other hand, scarcely any women are found at the head of SMEs concerned with IT (percentage of women-led companies: 0.2%), measurement and control (0.7%) or the automotive trade (4%).

Women founders are riding the trend

The percentage of women in the – often professional – businesses mentioned above can be expected to remain high in the future: according to the KfW Start-up Monitor 2015, 43% of business founders were women (2014: 393,000) but in professional fields more than half (56%) were female.⁶ This may be partly due to the increasing participation of women in the labour force and the growing demand for education and training opportunities.

Figure 3: Female-led businesses by company size

Percentage of companies; size categories based on full-time equivalent employees



Source: KfW SME Panel 2014.

Women are traditionally strongly represented in this area.

Women often lead smaller SMEs

The proportion of women decreases with the size of the company, based on the number of employees (Figure 3). The same applies where size is based on annual turnover (not graphically illustrated). For example, only 5% of SMEs with an annual turnover of more than EUR 50 million are owned by women. On the other hand, 20.5% of businesses with annual turnover of up to EUR 1 million are female-led.

This is explained by the sector composition of female-run businesses: service companies are generally smaller and women are very strongly represented in this area. Both aspects (sector and size) contribute to a situation where women-

led SMEs as a percentage of all SMEs (still) account for a disproportionately small share of the overall economic power of the SME sector.

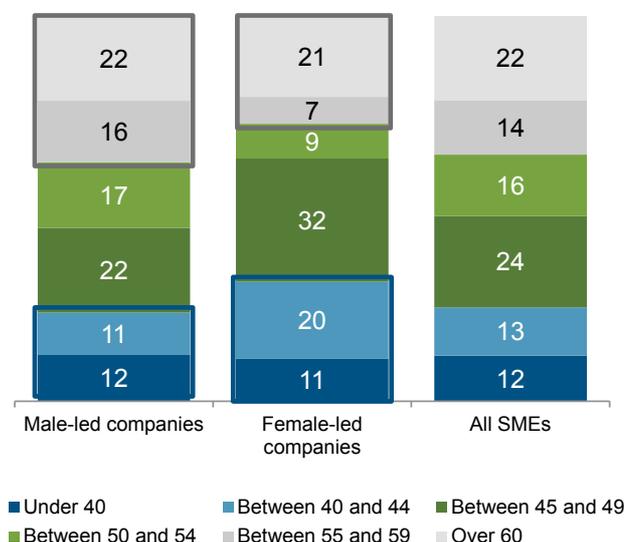
Female owners are younger

Demographic change is having an impact on small businesses – German SMEs face rapid ageing. KfW Research recently published a report on this subject.⁷ The report points out that 1.3 million business owners (200,000 of whom are women) are aged 55 or over.

There is hardly any difference in the average age of men and women who lead SMEs: at 50.2 years, women are only about one and a half years younger than their male counterparts (51.4 years).

However, these averages hide the trend of recent years. The employment rate of

Figure 4: Age profile of owners



Note: only companies newly included in the data set in the survey year of 2014.

Source: KfW SME Panel 2014.

women – and hence the percentage of female business owners – has grown disproportionately in recent decades. Consequently, female entrepreneurs show a greater preponderance of younger people than male entrepreneurs (Figure 4): The proportion of owners under 45 (bordered in blue) is 31% for women, about eight percentage points higher than for men. At the same time, “only” 28% of owners are 55 or older (bordered in grey), against 38% for men (all SMEs: 36% / general population: 38%).

Differences in training paths

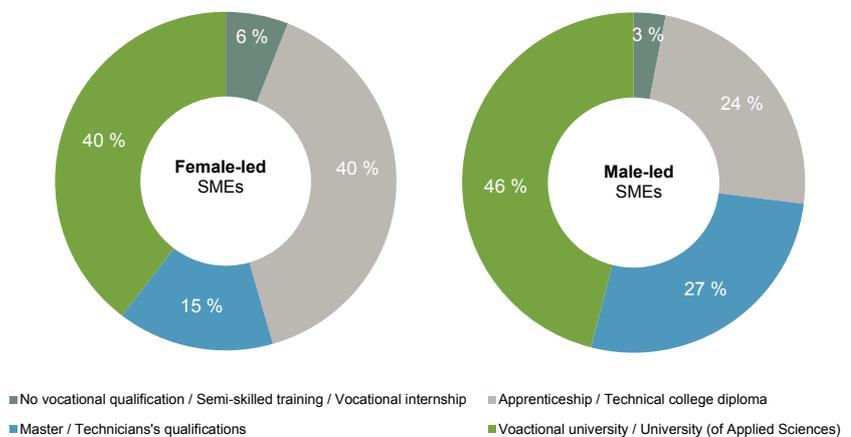
Women and men scarcely differ in terms of the proportion of graduates (Figure 5). However, the sexes differ when it comes to vocational qualifications.

Among the men, 27% have a master's or technician's qualification, whereas for the women the figure is only 15%. It is the other way around when it comes to apprenticeship certificates or technical college diplomas: nearly 40% of female owners have vocational qualifications in this category, compared with only 24% of men.

Ample expertise

Both sexes have a wealth of professional experience and an impressive level of specialist knowledge: women have an average of 27.1 years of professional

Figure 5: Owners' highest vocational qualification



Source: KfW SME Panel 2014.

experience, while men have 28.9 years. It is a similar story when it comes to specific industry experience – here the figures are 18.1 years for women and 20.8 years for men. This merely reflects the slightly lower average age of female business owners.

Outlook

Every fifth SME in Germany is led by a woman. The number of female-run companies can be expected to increase because start-ups by women are on the rise.

Given the demographic changes taking place in Germany – particularly among

German SME owners – this trend is to be welcomed. A shrinking workforce, looming shortages of skilled labour and rapid ageing of SME owners present clear incentives, if not a compulsion, to exploit the potential of women as leaders of SMEs.⁸

There is also expected to be greater penetration of those segments that up to now have been clearly dominated by male owners, especially manufacturing. ■

The **KfW SME Panel** (KfW-Mittelstandspanel) has been conducted since 2003 as a recurring postal survey of small and medium-sized enterprises in Germany. The basic population used for the KfW SME Panel comprises all private-sector companies from all sectors of the economy with an annual turnover of no more than EUR 500 million. The sample is designed in such a way that it can generate representative, reliable data that are as precise as possible.

With data based on up to 15,000 companies a year, the KfW SME Panel is the **only representative survey of the German SME sector**, making it the most important source of data on issues relevant to the SME sector.

¹ German Bundestag (2015), Entwurf eines Gesetzes für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst, Gesetzentwurf der Bundesregierung, Drucksache 18/3784, 20.01.2015 (only available in German).
² FidAR – Frauen in die Aufsichtsräte e. V. (2015), Studie zum Frauenanteil in Führungspositionen der rund 100 börsennotierten und voll mitbestimmten Unternehmen in Deutschland, Berlin (only available in German).
³ The data presented in this article are based on a special survey by the KfW SME Panel. See box for general information about the survey. Concerning the latest general publication, see Schwartz, M. (2014), KfW-Mittelstandspanel 2014: Mittelstand spürt Wachstumsschwäche in Europa und rüstet sich für schwierigere Zeiten, KfW Research, Frankfurt am Main. Relevant tables with key data relating to SMEs can be downloaded at: <https://www.kfw.de/KfW-Konzern/KfW-Research/KfW-Mittelstandspanel.html#1> (only available in German).
⁴ Comparative figures for the year 2012 can be found in Tchouvakhina, M. (2013), Female Leaders – An economic success factor, KfW Research, Economics in Brief no. 31, Frankfurt am Main.

⁵ For this part of the analysis the KfW SME Panel also looked at a more detailed breakdown of sectors in order to detect more subtle differences. Even in large and representative data sources such as the KfW SME Panel, analysis is hampered by limited sample sizes. The detailed analyses relate exclusively to sectors with adequate sample sizes.

⁶ Metzger, G. (2015), KfW Start-up Monitor 2015.; KfW Research, Frankfurt am Main (not yet available in English).

⁷ Gerstenberger, J.; Leifels, A.; Metzger, G.; Schwartz, M.; Zeuner, J. and V. Zimmermann (2015), Demografie im Mittelstand – Alterung der Unternehmer ist nicht nur Nachfolgethema, Fokus Volkswirtschaft Nr. 92, KfW Banking Group, Frankfurt am Main (only available in German).

⁸ In the literature there is little indication as yet of a connection between the proportion of women in management and the success of a company. Studies have produced different results depending on the sample, region or success factors considered. In this regard, see the literature review in Reinert, R., Weigert, F. and C. H. Winnefeld (2015), Does female management influence firm performance? Evidence from Luxembourg banks, University of St. Gallen, Working Papers on Finance No. 2015/1.