Professional Networks and Female Entrepreneurship

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Can access to online networking opportunities combined with legal support increase business collaborations and improve business performance? In this study, we show that connecting growth-oriented female entrepreneurs on an online platform shifts business collaborations from friends and family members to business network members in the intervention and leads to greater innovation, better business practices, and higher profits.

Introduction

Despite being the only region in the world where there are more female entrepreneurs than men, the vast majority of female-owned businesses in Sub-Saharan Africa are microenterprises and women's businesses earn 34% lower profits than male-owned ones. Identifying the constraints faced by female entrepreneurs is vital for fostering economic growth. Recent studies have shown that interfirm relationships and access to professional networks can be important determinants of business success (Ashraf et al., 2019; Kanter, 1994; Cai and Szeidl, 2017). However, past interventions aimed at expanding business networks mainly considered male entrepreneurs (Cai and Szeidl, 2017). At the same time, the literature on female entrepreneurs in the developing settings has primarily focused on informal microenterprises. Therefore, there is limited evidence on the importance of interfirm relationships for female entrepreneurs of potential high-growth firms.

The formation of interfirm relationships may be limited by networking and contracting frictions. Because female entrepreneurs tend to have smaller networks and are less connected to other firms (World Bank Group, 2019), they are more likely to rely on their friends and family members and have less access to high-quality entrepreneurs with whom to collaborate. Moreover, effective interfirm relationships may be hindered by contracting frictions, especially in a developing setting with a weak rule of law and where the use of formal contracts continues to be infrequent (Ashraf et al., 2019). Limited understanding of regulations and the potential contractual relationships between firms may also constrain the creation of business partnerships and cross-firm collaborations.

Context and Methodology

In this paper, we study how access to online networking opportunities and legal support affect business collaborations and firm performance in a field experiment in Ghana. We focus on a sample of 1,771 female entrepreneurs who have applied to the COVID-19 Stimulus Fund offered by our partner NGOs, Women's

Empowerment & Investment Group (WEIG), Annan Capital Partners (ACP), and GUBA Foundation, that aim to invest in high-growth and sustainable firms. It is important to note that while most of the firms in our sample are small microenterprises, the firms are more growth-oriented than the typical small firm due to the application process. Over 30% of the women in our sample hold college degrees and 80% of the firms are registered.

We randomly assigned the female entrepreneurs into two treatment arms and a control group. The intervention consists of two treatment arms: 1) "networking only": access to small WhatsApp networking groups of 8 entrepreneurs with similar collaboration and sector preferences, a business directory and ability to request contacts of specific potential collaboration partners, 2) "networking and legal": same as (1) but entrepreneurs additionally receive weekly legal video lessons on collaboration-related topics, and free legal advisory services. We hypothesise that access to the WhatsApp groups can alleviate networking frictions. In addition, access to legal advisory may help mitigate contracting frictions by formalising interfirm relationships and lowering risks of collaboration.

Main Findings

First, we study how the intervention affected the formation of business collaborations. We find that access to online networking groups led to an increase in intermediate steps toward collaboration such as greater search effort and a higher probability of contacting and meeting other firms. However, while the intervention increased efforts towards collaboration, we find no effects on realised collaborations for the networking arm and a surprising significant decline in collaborations for the legal arm. This contradictory result is explained by a shift in the types of collaborators induced by the intervention. For both treatment arms, we find a decline in collaborations with friends and family members which is partially offset by an increase in collaborations with business network members in our intervention. We show that this shift in collaborators comes from a change in beliefs about the quality of potential collaborators. In particular, those in the treatment group perceive a higher return to collaborating with someone external to their friends and family network.

Second, we turn to outcomes related to firm performance. We find significant positive impacts on innovation, business practices, and profits. One year after the intervention, the treatment groups increased business innovation by 25 to 31%, as measured by likelihood of introducing changes to their businesses, such as new products or new ways of marketing. We also document an improvement in business practices, driven by a positive effect on marketing and financial planning practices. The treatment groups also experience a 21% increase in business profits. Quantile estimates show that the effects are not homogeneous across businesses. Instead, a significant increase in profits emerges above the 60th percentile in profits for both treatment groups, suggesting that firms in the upper tail of the distribution benefited more from the intervention.

Figure 1: Distribution of Monthly Profits by Treatment Status

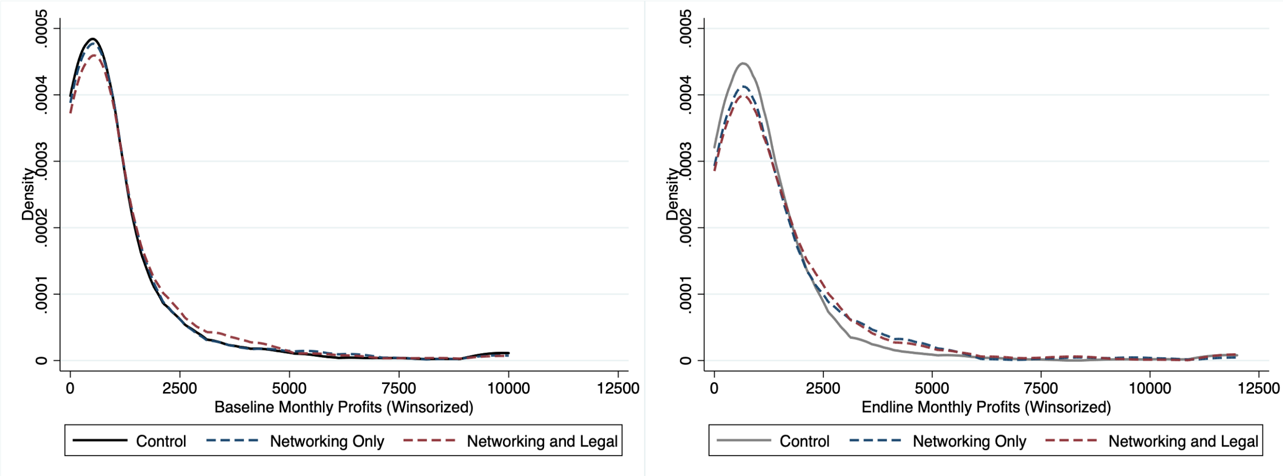
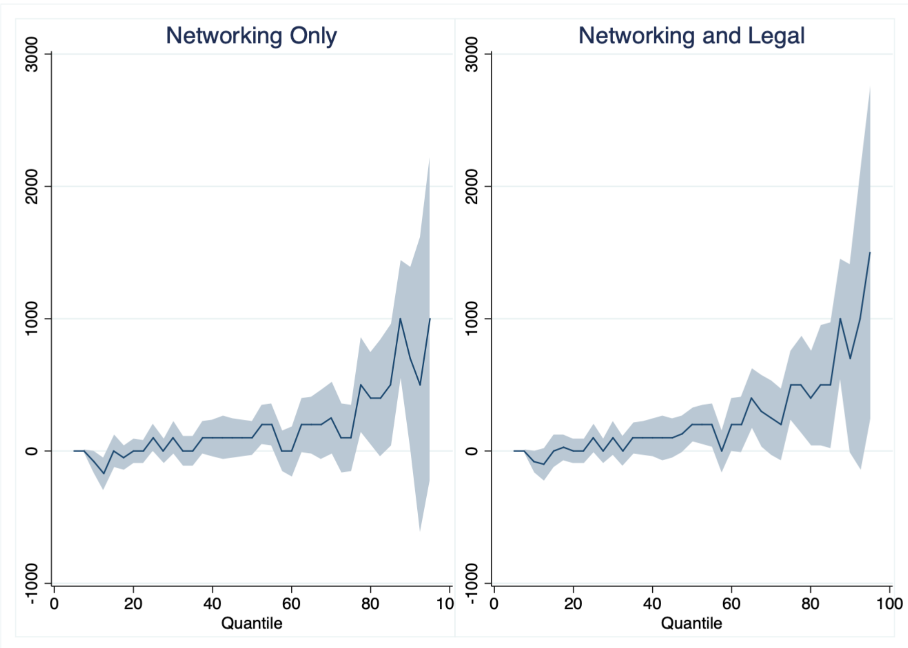


Figure 2: Quantile Effects on Monthly Profits



While legal support leads to a decline in overall collaborations due to a greater reduction in collaborations within pre-existing networks (e.g., friends and family), it does not have additional impacts on business outcomes, suggesting that legal contracting barriers are unlikely to be the key barrier to growth for these firms.

In the last part of the project, we investigate the role of group composition in explaining the positive impacts on firm outcomes. Female entrepreneurs randomly assigned into WhatsApp groups with more entrepreneurs that are college-educated, with better baseline business practices, and higher baseline sales and profits are more likely to innovate, improve business practices, and have higher profits. We also find that businesses of entrepreneurs in groups with a larger share of peers from the same industry are less likely to improve. This suggests that networking with high-quality entrepreneurs with diverse experiences can accelerate firm growth and innovation.

Policy Impact

This project provides new evidence on the constraints facing female entrepreneurs and helps identify policies that can best protect and support the growth of their businesses. First, we show that policies that connect female entrepreneurs to other female entrepreneurs can improve business outcomes. Specifically, we find that online networking groups can be an effective and low-cost intervention to address the gender gap in entrepreneurship. Second, our research sheds light on whether legal support can influence the effectiveness of interfirm relationships and lead to more formal business relationships. In our preliminary findings, we show these legal contracting barriers are unlikely to be the primary constraint for the growth of these firms.

Moving Forward

In future work, we will explore the underlying mechanisms for our results, focusing specifically on the role of group composition. We will also explore potential heterogeneous treatment effects to understand whether specific entrepreneurs benefit more from the intervention. Eventually, we hope to extend this intervention to include male entrepreneurs to understand whether there are potential gender differences in the formation of business collaborations and group dynamics.

References

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