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COMPARATIVE ASSESSMENT OF PERFORMANCE DIFFERENTIALS FOR MALE- AND FEMALE-OWNED SMALL ACCOUNTING FIRMS AT THE BEGINNING AND END OF A TEN YEAR PERIOD

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ABSTRACT

The objective of this study was to determine whether the performance gap over a period of ten years between male- and female-owned small accounting firms has converged utilizing a resource-based framework to assess performance. The relevant assets for these firms included human, organizational, and entrepreneurial capital. An analysis of covariance (ANCOVA) was used to determine whether the gender productivity gap converged over this period of time. The response rates were 30 percent and 23 percent respectively for the 1993 and 2003 investigations. An analysis of the data indicates several important findings that (1) a performance gap exists when measured by gross revenues between male- and female-owned small accounting firms, (2) this performance gap has converged after ten years, and (3) the performance gap as measured by the ratio of net profit to sales indicates that female-owned small accounting firms do better than male owned accounting firms.

Keywords: male and female, small CPA firms, assessment, comparative financial performance, gross revenues and net profit comparisons, longitudinal studies

INTRODUCTION

There is a significant body of research documenting performance differentials between male- and female-owned businesses. The performance gap between male- and female-owned businesses as measured by numerous indicators has been well reported. Such indicators include business revenues (Fairlie and Robb, 2009;

Fasci and Valdez, 1998), four-year survival rates (Robb, 2002), and business discontinuance (Watson 2003). Explanations offered for the performance differential of male- and female-owned businesses include management style (Gibson, 2011), differences in goals (Rauch, Wilklund, Lumpkin, and Frese, 2009), different capital structure due to the gender discrimination in credit market (Coleman, 2002), and differences in education and experience of male vs. female owners (Runyan, Huddleston, and Swinney 2006). While the body of research investigating gender differentials between male- and female-owned businesses is significant, we contend that very little research has been performed to determine whether this gender productivity gap is a stable or dynamic phenomenon. Alternatively, we are interested in the change of performance gap over time between male- and female-owned businesses.

This study investigates the implication of gender for the performance of small accounting firms at two points in time over a period of ten years. Previously, Fasci and Valdez (1998) found that a difference in productivity exists between male- and-female-owned small accounting firms. This study replicates the performance comparison between male- and female-owned firms with ten-year interval and finds that the performance gap still remains. Nonetheless, we find that the gender productivity gap has been narrowed down during the ten year period. We provide an explanation on the performance gap convergence.

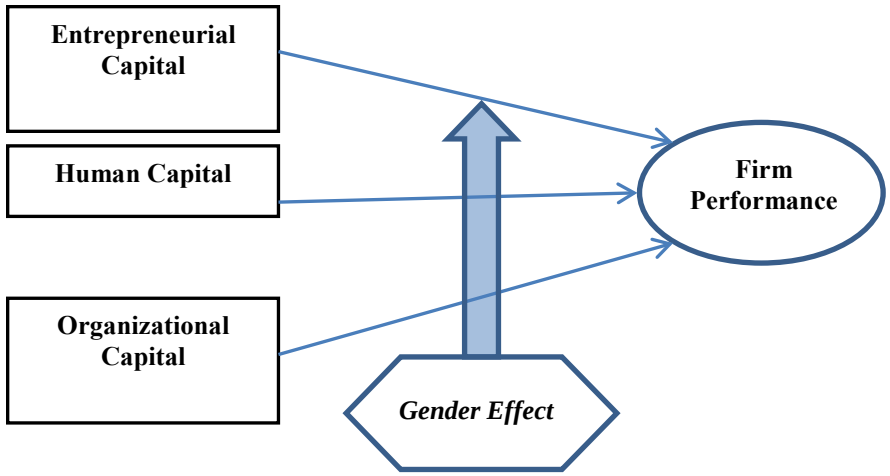
Conceptual Framework

Extant literature has discussed the determinants of performance in small firms. According to the "resource-based" view of the firm, performance differentials between male- and female-owned businesses can be attributed to the resource heterogeneity across firms (Alvarez and Busenitz, 2001). Barney (1991) has classified firm resources into three groups: physical capital resources, human capital resources, and organizational capital resources. Considering that professional service firms rely less on physical capital resources such as buildings and equipment, it becomes more critical to leverage human and organizational capital to achieve a competitive advantage and better firm performance (Hitt, Bierman, Shimizu, and Kochhar, 2001).

Owners' influence on small professional service firms may not be limited to their contribution of firm resources per se. Owner's ability to identify more business opportunities and growth potential should facilitate enhanced firm performances. Alvarez and Busenitz (2001) name this ability as "entrepreneurial recognition", and consider this entrepreneurial factor as a strategic resource to influence the firm performance of small businesses.

The gender effect on small business performance has been widely discussed. This gender effect ranges from a relative small influence on the firms productivity (Collins-Dodd, Gordon, and Smart 2004) to that of a significant influence (Chaganti and Parasuraman, 1996). Likewise, the gender effect on performance seems to vary among industry sectors (Brush, 1992). In this study, the focus is on the moderating role of gender in the explanation of firm performance and the study examines how the moderating role has evolved throughout the ten year period. Figure 1 represents the conceptual framework for the resource-based view of performance for service firms and the moderating effect of gender.

Figure 1: Conceptual Framework



Human Capital Resources

The role of human capital as a driver in the profitability and growth of small businesses is well-documented. Dyke, Fischer, and Reuber (1992) identify that owner's previous experience in small business and the particular experience in business startup are critical success factors in industries like computer-services with numerous small independent firms. In the Federal Reserve's 1998 Survey of Small Business Finances, Coleman (2007) finds that education level as well as prior business experience is a significant variable in explaining firm performance. Similarly, Fairlie and Robb (2009) find that female-owned businesses are less successful because they have less human capital with prior work experiences. Specifically, for the professional service industry, Fasci and Valdez (1998) find a positive relationship between owner's prior work experience and firm performance in small accounting firms. In their study of professional legal service firms, Hitt, Bierman, Shimizu, and Kochhar (2001) use total experience in the firm as a proxy for the firm-specific knowledge effect of human capital. An implication from these studies is that some of the cross-sectional variation of firm performance in the professional service industry can be explained by the heterogeneity of human capital resources. Considering that the client-base is a proprietary asset of accounting firms built up throughout a professional's tenure at a specific firm, owner's firm-specific experience becomes an important human capital resource in small accounting firms.

Organizational Capital Resources

Organizational capital includes a firm's internal management system, informal relations among groups within a firm and between firms in its environments (Barney, 1991). In the professional service industry where the quality of human capital is a dominant resource, the internal

management of human resources becomes a strategic resource for firm performance.

Estimating a production function in the public accounting industry, Banker, Chang, and Cunningham (2003) incorporate the service diversification and the leverage into their specification of the production function. They measure the output of each accounting firm with the net revenue from three different service groups: accounting and auditing, tax services, and management advisory services. The leverage is considered with the number of professional employees and the number of other administrative personnel. In the context of accounting firms, the leverage can be defined as the total number of full-time professional employees; the service diversification may be measured by the percentage of work performed in mainly five possible practice areas for accounting firms (financial and estate planning, investment analysis, management consulting, tax, and write-up). However, in the case of small accounting firms where Certified Public Accountants are limited, service diversification would not represent the strength of organizational capital because it may simply reflect the human resources available in the context of available capital investment to successfully complete the work.

Entrepreneurial Capital Resources

Although the resource-based view of the firm emphasizes the differences in the resource endowments across firms to explain performance differences (Barney, 1991), the way of applying the firm resources in the production process may also influence the outcome of small businesses. Entrepreneurs may be able to recognize business opportunities and to organize the firm resources effectively to exploit the opportunities. Wiklund and Shepherd (2005) call this attribute of entrepreneurs as "entrepreneurial strategic orientation or EO". They argue that "EO" affects small business performance. "EO" is associated with a willingness to innovate, to exploit market opportunities, to take risks, to venture with a new product or service, to obtain first mover's advantage, or to become more proactive to cope with emerging business opportunities and competitors (Alvarez and Busenitz, 2001; Wiklund and Shepherd, 2005).

While the resource-based view is focusing on the cross-sectional heterogeneity of firm resources, "EO" focuses on the heterogeneity in an entrepreneur's beliefs about the value of firm resources and his or her willingness to market and promote the firm. The performance implication of "EO" may be context-specific. Su, Xie, and Li (2011) postulate that the relationship of "EO" and performance between established firms and new ventures is not comparable. Without sufficient firm resources or solid organizational structures, "EO" may not be able to induce more positive firm performance.

Gender Performance Gap

The question of gender effect on small business performance has continued to interest many researchers. Some studies strongly acknowledge that there is a performance gap attributable to the gender of the small business owner. For instance, Chaganti and Parasuraman (1996) examine impacts of gender on business performance and management patterns. They find that female-owned businesses had lower sales than male-owned businesses, but significant differences existed in financial and motivation goals between female and male owners of businesses. Meanwhile, Collins-Dodd, Gordon, and Smart (2004) report that gender is not a significant direct

explanatory variable for financial performance gap among accounting firms. Financial performance is found to be different between female-owned sole proprietorships and male-owned ones but can be explained by practice characteristics, motivations, and individual owner characteristics. Bardwell, Spiller, and Andersen (2003) find that female entrepreneurs with home-based businesses have fewer employees, work fewer hours, are more likely to hold second jobs, are not involved in international business activity, and are most often located in suburban and rural areas. To provide an explanation of these conflicting results on the gender performance gap, Cron, Bruton, and Slocum (2006) argue that firm performance is determined by some resource-based factors including industry experience, hours worked, and financial motivation, and these factors are affected by gender.

Prior studies based on the resource-based view suggest that the difference in firm performance may be explained away by the heterogeneous endowment of firm resources. To the extent that human capital, organization capital, and entrepreneurial capital play a dominant role in the explanation of firm performance, gender might become a second-order effect that may indirectly affect the performance. In this respect, the gender effect on firm performance requires an empirical test to isolate the unique contribution of gender difference to cross-sectional variation in small business firm performances. For this, the following hypotheses are used in this study to investigate the relationship between firm performance and the gender of small business owners, controlling for variables associated with the resource-based framework for small service firms. In addition, the gender performance gap, if it still exists, is tested to see whether the gap converged during the ten year period since Fasci and Valdez's (1998) finding. Furthermore, to investigate the relationship between firm performance and the gender of small business owners, the study will extend its review to include how the male- and female-firm performance compare on their annual profit ratio.

H1: Controlling for human, organizational, and entrepreneurial capital, there is no performance gap between male- and female-owned small accounting firms.

H2: Controlling for human, organizational, and entrepreneurial capital, there is no narrowing of the performance gap over a ten-year period between male- and female-owned small accounting firms.

H3: Controlling for human, organizational, and entrepreneurial capital, there is no performance gap relating to the net profit ratio of the firm over a ten-year period between male- and female-owned small accounting firms.

Research Design

The primary objective of this study is to determine whether the performance gap over a period of ten years between male- and female-owned small accounting firms has changed utilizing a resource-based framework to assess performance. Consistent with Fasci and Valdez (1998), we used a field-test questionnaire to collect data in 1993 and 2003. For each year, a sample of 1000 female owners and 1000 male owners of small accounting firms was randomly selected by the American Institute

of Certified Public Accountants from their database. In the first survey, a total of 604 usable surveys were returned including 328 responses from female owners and 276 responses from male owners of small accounting firms. In the second survey, a total of 466 usable surveys were returned including 250 responses from female owners and 216 responses from male owners. Response rates are 30% and 23% for the 1993 and 2003 survey, respectively. Considering that our sample is restricted to individual owners of small accounting practices who face higher time cost to commit to the survey instrument, these response rates are acceptable. Given that our main variables are composite measures representing human-, organizational-, and entrepreneurial capital resources, the relative response rates of 30% and 23% does not bias the inference from our analysis (Curtin et al. 2000; Keeter et al. 2000). The survey questionnaire included over 47 items regarding the business and owner. A profile of responses for select items is provided in Table 1.

Table 1: 1993 and 2003 Profile Small Accounting Practices

	1993		2003	
Business Characteristics	**M**	**F**	**M**	**F**
Sole Proprietorship	78%	81%	72%	76%
Home Based	14%	42%	19%	47%
Sole Practitioner	64%	82%	68%	77%
Age of Practice	10.9	6.2	16.1	11.5
Owner Characteristics				
Age of Owner/Principal	43.9	39.4	49.9	46.4
Education – Graduate Degree	25%	24%	25%	30%
Accounting Experience Prior to Practice	7.7	6.6	11.3	8.7
Married	82%	73%	84%	76%
Highest Salary before Practice	$35,840	$32,720	$46,860	$43,400

Since the objective of the study is to determine whether a performance gap between male- and female-owned small accounting firms has changed over a ten year period, an analysis of covariance (ANCOVA) method is used to evaluate the performance gap while controlling for other resource-based covariates. Given that the resource-based view implicitly assumes the context of market competition, the gross revenue was selected for small accounting firms as the dependent variable because it is an unmitigated, straight-forward variable for measuring the overall performance of the small accounting service industry firms. The net profit rates of the firms was employed as a second dependent variable to indicate productivity. To make an inferential comparison over the two survey periods, the Chi-square test is used to

determine the homogeneity of the groups. We find no significant difference between two surveys for the gender distribution, $\chi 2 = 0.0329$, $p = 0.36$. This result demonstrates that the two groups are comparable. Homogeneity of groups can also be inferred from the fact that both sample years were selected from the same universe (the membership list of the American Institute of Certified Public Accountants), but at two different times. Table 2 presents the mean annual gross revenue by gender and year of survey for all the small accounting firms in the study.

Table 2: Mean Gross Revenue by Gender and Year of Survey

GENDER	Survey Year	Mean	Standard Deviation	N
FEMALE	1993	74,043	90.75	328
	2003	114,462	108.97	246
MALE	1993	147,496	146.79	276
	2003	207,990	197.78	213

In reporting the results of the earlier survey, Fasci and Valdez (1998) find that a gender performance gap existed between male- and female-owned small accounting firms. A similar performance gap is recognized in the later survey and this study indicates how the gap has changed over 10 years. In order to determine the gender differential of the small accounting firms' performance, explanatory variables under the resource-based conceptual framework are controlled.

Specifically, control variables in the ANCOVA include the proxy variable-- HUMCAP, which represents human capital resources for the business such as the owners previous experience, type of experience, and the length of that experience; the proxy variable-- ORGCAP, which represents organizational capital resources such as the number and type of employees, and age of firm; and the proxy variable ENTRCAP to represent entrepreneurial capital resources. which includes the location of the business business location or home-based, the goals of the business owner, age and start-up capital. Tests of Multicollinearity and Homogeneity of Variance (Levene's test) are conducted. The results of the tests are well within acceptable research standards. In addition, a Test of the Homogeneity of Regression Slopes is conducted. The results show no evidence of violation of the equal slopes assumption. The results of ANCOVA are presented in Table 3.

Table 3: ANCOVA Results of Gross Revenue by Gender and Year Controlling for Three Resource Variables

Variables	Type III Sum of Squares	*df*	Mean Square	*F*-value	*p*-value
Corrected Model	*6,065,718.44	6	1010953.07	72.45	0.000
Intercept	786,253.13	1	786,253.13	56.35	0.004
ORGCAP	2,807,952.69	1	2,807,952.69	201.24	0.002
HUMCAP	334,377.95	1	334,377.95	23.97	0.000
ENTRCAP	115,969.52	1	115,969.52	8.31	0.004
Gender	625,041.23	1	625,041.23	44.80	0.012
Survey year	66,077.28	1	66,077.28	4.74	0.030
Gender*Survey year	17,197.11	1	17,197.11	3.23	0.040
Error	14,734,389.55	1,056	13,953.02		
Total	38,574,084.56	1,063			
Corrected Total	20,800,107.99	1,062			

* R^2 = .692 (Adjusted R^2 = .688)

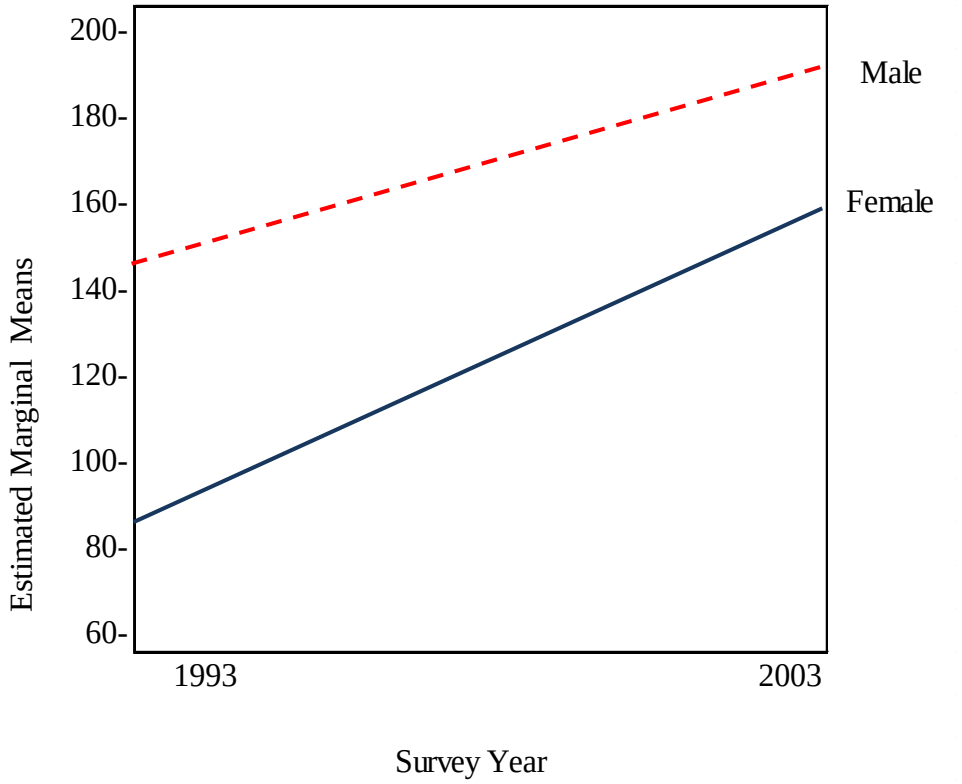
The variable "Survey year" represents the year in which the survey was completed a ten year period between the first and second survey. The ANCOVA supported the main effect for Gender, yielding an F ratio of 44.80, p < .01. This indicates that male-owned small accounting firms' annual gross revenue is higher than that of female-owned firms in the study. Specifically, a performance gap exists between male-owned and female-owned small accounting firms, which is consistent with Fasci and Valdez (1998).

The main effect for "Survey year", yielding an F ratio of 4.74, p <.03 is significant. This indicates that the performance change over the ten year period was significant for male-and female-owned small accounting firms in the survey. Hypotheses 1 can be rejected as there is a performance gap between male-and female-owned small accounting firms in both years of the study.

More importantly, the interaction effect (Gender*Survey year) is significant, F = 3.23, p < .04, indicating that over the ten year period there has been a decrease in the gender performance gap as measured by annual gross revenue and controlling for the three resource variables human, organizational, and entrepreneurial capital. Because the performance gap has decreased, Hypotheses 2 can also be rejected.

The ANCOVA estimates the means for annual gross revenue for small accounting firms in the study. The estimated marginal means for annual gross revenue for male-and-female owned small accounting firms over the ten year period are plotted in Figure 2. This strongly suggests that women-owned small accounting firms in the study are closing the performance gap as measured by the firm's annual gross revenue.

Figure 2: Plots of Estimated Marginal Means of ANNUAL GROSS REVENUE by Year for Male and Female-owned Firms



A second ANCOVA analysis was undertaken utilizing the net profit ratio (net profit to gross sales) as the independent variable. Net profit to gross ratio demonstrates productivity of the firm, and it was felt that a second ANCOVA analysis should reinforce the study's hypothesis. Interestingly, the net profit ratio for female accounting entrepreneurs in the sample was stronger than for male accounting entrepreneurs, yet a gap existed between the two. Table 4 presents the results of the ANCOVA analysis using net profit ratio as the independent variable.

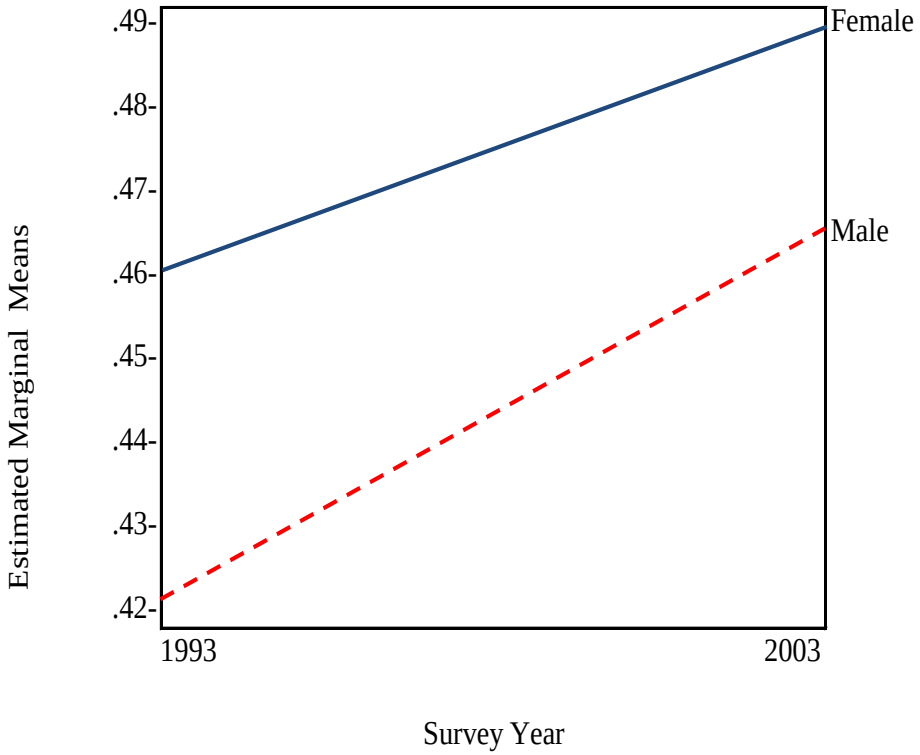
Table 4: ANCOVA Results of NET Profit Ratio by Gender and Year Controlling for Three Resource Variables

Variables	Type III Sum of Squares	*df*	Mean Square	*F*-value	*p*-value
Corrected Model	*4.732	6	.676	18.547	0.005
Intercept	30.936	1	30.936	848.751	0.002
ORGCAP	.955	1	.955	26.202	0.001
HUMCAP	2.488	1	2.488	68.270	0.006
ENTRCAP	2.079	1	2.079	2.179	0.040
Gender	1.480	1	1.480	13.180	0.010
Survey Year	1.682	1	1.682	18.711	0.010
Gender *Survey Year	1.002	1	1.002	.050	0.022
Error	33.751	926	0.36		
Total	302.328	934			
Corrected Model	38.483	933			

R Squared = .599 Adjusted R Squared = .582

As can be seen the results and conclusions are similar to the first ANCOVA analysis. In particular, the interaction effect (Gender * Survey year) is significant, F =.050 < .02, indicating that over the ten year period there has been a convergence in the productivity gap as measured by profit rates and controlling for the three resource variables. Accordingly, Hypothesis 3 can be rejected. Figure 3 plots the estimated marginal means for annual net profit ratio for male and female-owned small accounting firms over the ten year period.

Figure 3: Plots of Estimated Marginal Means of ANNUAL NET PROFIT RATIO by Year for Male and Female-owned Firms



Conclusion and Implications

A significant body of research confirms that women have had to face different and additional challenges than men to succeed in their businesses which have resulted in different levels of performance. This phenomenon has historically been referred to as the "gender performance gap". This study examines this gender performance gap with respect to small accounting firms. Specifically, the study examines this performance gap between male- and female-owned small accounting firms over a ten year period, utilizing the same study population selected from the membership list of the American Institute of Certified Public Accountants. The small accounting firms are studied through the resource-based framework, which views business performance and productivity (output) as a result of human, organizational and entrepreneurial capital resources (input). The implication underlying the resource-based framework would suggest that the "gender performance gap" might be explained away once the firm's human, organizational and entrepreneurial capital resources are held constant across all firms in the study regardless of gender ownership.

Nonetheless, the study finds that performance differentials continue to exist between male- and female-owned small accounting firms, even after controlling for variations in firm resources. First, we find that the performance differential between male- and female-owned businesses exists for both the initial study group and for the second study group ten years later. It is interesting to note that approximately 69%

of the variance between male and female small accounting firms is accounted for by the variables in the resource-based model. Second, while a real performance gap remains between male-and female-owned small accounting firms in both study groups, we find that the performance gap has decreased or converged. This is most encouraging as women owned small accounting firms are "catching up" to their male owned counterparts. Most significantly, this study further extends the comparison between male- and female-owners of small accounting firms by exploring the comparison performance based on the firms' net profit ratio. This additional analysis provided an interesting finding in that the female entrepreneurs achieved a higher net profit ratio in their firms' financial performance as compared to the male entrepreneurs. This result could be explained by the different circumstances for managing the firm between the two groups. Compared to the male entrepreneurs, more female entrepreneurs locate their practice in their home, more of them have been seeking a graduate degree, and more of them are sole practitioners.

The changes that have occurred in this comparison are interesting and compelling. We show that, to the extent that the gaps in human capital, organizational capital, and entrepreneurial capital resources are mitigated, female-owned small accounting practices are trending towards increasing firm performance. Therefore, we argue that more effort and attention should be invested on fostering the firm's resources to promote the success of female-owned small accounting firms instead of focusing on the impact of social norm and culture. The study will be replicated to determine whether there is a continuation of the narrowing of the performance gap between these two groups in the subsequent decade.

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