

Women-Led Enterprises, Institutional Barriers, and Economic Development

Jing Wen

Henan University of Economics and Law, Zhengzhou, Henan, China.

ABSTRACT

Women-led enterprises represent a substantial and growing segment of the global economy, yet they continue to face a set of institutional barriers that limit their scale, survival, and contribution to economic growth. This paper examines how formal and informal institutional structures, including legal frameworks, access to credit, cultural norms, and regulatory environments, shape the outcomes of women-owned businesses. Drawing on institutional theory and empirical evidence from both developed and developing economies, the paper argues that the underperformance of women-led enterprises relative to their potential is not a product of entrepreneurial deficiency but of structurally embedded constraints. The paper also discusses how removing these barriers generates measurable gains in GDP, employment, and household welfare. The findings call for coordinated reforms across financial, legal, and social institutions to unlock the full economic contribution of women entrepreneurs.

Keywords: Women entrepreneurship, institutional barriers, economic development, gender gap, access to finance, informal institutions

INTRODUCTION

Across the world, women are starting businesses at a pace that has never been seen before. From solo freelancers in Sub-Saharan Africa to technology startup founders in Silicon Valley, women are increasingly taking entrepreneurship as a career path. Despite this, the numbers tell a less celebratory story. Women-led enterprises, on average, remain smaller, grow more slowly, access less capital, and exit markets more frequently than businesses owned by men. The question is not whether women can build businesses; they clearly can and do. The question is why the structural conditions in which those businesses operate continue to work against them.

This paper takes the position that the underperformance of women-led enterprises is not rooted in individual entrepreneurial capacity. Instead, it is the product of institutional arrangements, both formal rules such as laws, credit policies, and property rights, and informal ones such as social norms, cultural expectations, and networks, that consistently disadvantage women. Institutional economics, as articulated by North (1990), gives us a productive lens through which to understand this: institutions are the rules of the game, and when those rules are written in ways that exclude or constrain a particular group, the outcomes for that group will reflect that exclusion.

The economic stakes here are significant. The World Bank's 2012 World Development Report estimated that gender gaps in the labor market and entrepreneurship cost economies billions in foregone output. The International Labour Organization (2019) has similarly documented how closing these gaps generates compounding returns across employment, household welfare, and national income. Women's entrepreneurship is not a development charity; it is an underutilized economic engine.

This paper is organized as follows. The next section reviews the literature on women's entrepreneurship, focusing on the theoretical frameworks used to understand it. The third section examines specific institutional barriers in detail. The fourth section connects women's entrepreneurial activity to broader economic development outcomes. The fifth section discusses implications for policy and research, followed by a conclusion.

LITERATURE REVIEW

Women's Entrepreneurship: A Brief Overview

Research on women's entrepreneurship as a distinct field began gaining traction in the 1980s and 1990s, though for much of that period it operated in the shadow of a male-defined entrepreneurship canon. Early scholarship tended to ask why women-owned businesses performed differently from men's without questioning whether the benchmarks used to define "performance" were themselves gendered. Ahl (2006) identified this as a structural problem in the field: by measuring women's entrepreneurship against male-dominated norms, researchers were producing findings that framed women as deficient rather than differently situated.

By the 2000s, a more nuanced body of work had emerged. Brush et al. (2009) proposed a gender-aware framework for understanding women's entrepreneurship, one that acknowledged the embeddedness of business activity in social, familial, and cultural contexts. This framework moved away from individual-level explanations and toward context-level analysis, arguing that the resources women access, the networks they operate in, and the institutional environments they face are all shaped by gendered structures outside their immediate control.

The Global Entrepreneurship Monitor's women's entrepreneurship reports have documented consistent patterns across countries: women are more likely than men to start necessity-driven businesses, operate in lower-revenue sectors, and report lower growth ambitions, a finding that researchers have attributed not to preference but to constrained opportunity sets (GEM, 2021). Minniti and Naudé (2010) found that female entrepreneurship rates vary substantially across countries in ways that correlate with institutional quality, suggesting that the environment matters at least as much as individual motivation.

Institutional Theory and Entrepreneurship

Institutional theory, particularly the framework developed by North (1990), has become one of the most widely applied lenses for understanding entrepreneurship. North distinguished between formal institutions, the codified rules of a society such as laws, regulations, and property rights, and informal institutions, the unwritten conventions, norms, and customs that shape behavior. Both types of institutions create incentives and constraints for economic actors.

Baumol (1990) extended this logic specifically to entrepreneurship by arguing that the supply of entrepreneurial talent is relatively fixed across societies, but the direction that talent takes, whether into productive, unproductive, or destructive activity, depends on the institutional payoff structure. In environments where institutions reward productive entrepreneurship, talented individuals build firms. Where institutions reward rent-seeking or political maneuvering, talent flows there instead.

Welter (2011) applied a contextual perspective to entrepreneurship, arguing that opportunity recognition, resource mobilization, and firm growth all occur within specific social, spatial, and institutional contexts. This perspective is particularly relevant to women's entrepreneurship because women's contexts are consistently differentiated from men's in ways that matter: they have different access to social capital, face different regulatory burdens, and operate against different cultural expectations about their roles as entrepreneurs and caregivers.

Together, these theoretical contributions suggest that to understand why women-led enterprises perform as they do, we need to look at the institutions within which those enterprises are embedded. The following section does exactly that.

INSTITUTIONAL BARRIERS FACING WOMEN-LED ENTERPRISES

Access to Finance

Financing is perhaps the most consistently documented barrier facing women entrepreneurs across countries at all income levels. Women-owned businesses are more likely than male-owned businesses to be denied credit, to receive smaller loan amounts, to face higher interest rates, and to rely on informal or personal sources of capital rather than institutional lending (World Bank, 2012). These gaps exist even after controlling for business size, sector, and creditworthiness.

Several institutional mechanisms drive this pattern. First, formal credit markets in many countries are built around collateral requirements, and land and property titles, which historically have been concentrated in male names, serve as the primary form of acceptable collateral. Women who lack independently held property cannot meet this requirement regardless of their business prospects. Second, bank loan officers and venture capital gatekeepers are predominantly male, and research has documented that gender of the applicant, independent of business quality, influences funding decisions (Marlow & Patton, 2005).

Third, and less often discussed, is the role of informal financial networks. Male entrepreneurs frequently access capital through personal networks, golf clubs, alumni associations, and fraternal organizations. Women are systematically excluded from many of these networks, not by formal rule but by social convention. The ILO (2019) found that in most regions, women-owned small and medium enterprises face a financing gap estimated in the hundreds of billions of dollars annually.

Microfinance programs targeted at women have expanded in many developing economies and have shown real results in increasing women's access to startup capital. However, the scale of these programs and the size of loans they offer tend to keep women in subsistence-level enterprises rather than enabling growth into medium or large firms. Structural access to mainstream finance remains the more consequential institutional problem.

Legal and Regulatory Environments

Formal institutions, in the form of laws and regulations, shape the terrain of business ownership in ways that are often directly discriminatory toward women and in other cases facially neutral but functionally constraining. North (1990) emphasized that formal rules, even when they change, often fail to produce corresponding behavioral change because informal institutions adapt more slowly. This insight matters here.

In dozens of countries, formal laws continue to restrict women's rights to own property, enter contracts, open bank accounts, or register businesses independently of a husband or male guardian. The World Bank's Women, Business and the Law project has tracked these restrictions systematically and documented that economies with stronger legal gender equality tend to have higher rates of women's entrepreneurship. This correlation is not merely associative; it reflects the basic fact that business registration, credit access, and contract enforcement all require a legal identity that women in restrictive jurisdictions do not fully possess.

Even in economies with formally gender-neutral laws, regulatory complexity functions as a practical barrier. Women entrepreneurs, particularly those who run smaller businesses with fewer administrative resources, bear a disproportionate compliance burden because they are more likely to operate in informal or semi-formal sectors where regulatory uncertainty is high and the costs of formalization, including time, fees, and the risk of tax liability, are significant. Sen's (1999) capability framework is useful here: formal

freedom on paper does not translate into substantive freedom to act if the enabling conditions for that freedom are absent.

Social and Cultural Norms

Informal institutions, particularly social norms about gender roles, represent a barrier that is harder to legislate away than formal legal restrictions. In many societies, women who pursue entrepreneurship face expectations that they will prioritize caregiving over business growth, that their business activities will remain within certain "acceptable" sectors, and that their authority over employees, suppliers, and customers is less legitimate than that of male counterparts.

These norms operate through multiple channels. Within the household, women entrepreneurs frequently report that access to startup capital depends on spousal approval and that time spent on the business must be negotiated against domestic responsibilities that are not similarly imposed on male entrepreneurs. Brush et al. (2009) documented how women's businesses are often embedded in household economies in ways that constrain their growth, not because women choose small-scale businesses but because the household institutional context limits available time and resources.

In the marketplace, gender stereotypes affect how women entrepreneurs are perceived by customers, suppliers, and financial institutions. Studies across multiple cultural contexts have found that women entrepreneurs in male-dominated sectors face lower assumed competence and higher scrutiny of their credentials than their male peers. This credibility gap translates into practical disadvantages in negotiating contracts, accessing supply chains, and building the professional reputations that drive business growth.

Welter (2011) noted that context is not static; social norms shift over time and vary across regions even within countries. This variation is instructive: where norms have shifted to be more supportive of women's economic participation, women-led enterprise rates and performance have improved. The relationship between informal institutions and women's entrepreneurship is therefore not deterministic, but it is real and persistent enough to demand attention in any account of why women-led enterprises face the barriers they do.

Business Networks and Social Capital

Access to information, markets, suppliers, and talent flows heavily through social networks, and women entrepreneurs are consistently found to have smaller, less diverse, and less economically connected networks than their male counterparts. Network size and composition are not simply personal choices; they reflect patterns of inclusion and exclusion that are socially structured.

Professional associations, chambers of commerce, industry groups, and trade organizations have historically been male-dominated spaces. Even as formal barriers to membership have been removed, the social dynamics within these organizations can remain unwelcoming to women in subtle but consequential ways. Women who participate report spending more time and energy managing social dynamics relative to the economic returns they receive from these networks.

Mentorship is another dimension of social capital with documented gender gaps. Male entrepreneurs have greater access to informal mentors who provide guidance, introductions, and endorsements that accelerate business growth. Women entrepreneurs are more likely to lack mentors with the industry authority and network reach to open equivalent doors. Formal mentorship programs for women entrepreneurs have been developed in many contexts, but the quality and economic impact of these programs vary considerably.

WOMEN-LED ENTERPRISES AND ECONOMIC DEVELOPMENT

GDP and Employment Effects

The macroeconomic case for removing barriers to women's entrepreneurship is well established. The World Bank (2012) estimated that closing gender gaps in economic participation could add trillions of dollars to global GDP. Women-owned businesses, when they reach the scale of similarly positioned male-owned businesses, employ workers, generate tax revenue, and create supply chain demand in the same way. The gap in outcomes between women-led and male-led enterprises therefore represents foregone output, not merely foregone equity.

The ILO (2019) documented that women-led businesses tend to employ higher proportions of women workers than male-led businesses, creating a multiplier effect: when women entrepreneurs succeed, the gains extend disproportionately to other women in the workforce. This is not because women-owned businesses make deliberate hiring choices for social reasons, though some do; it is partly a function of sector concentration and partly a result of network-based recruitment that draws from women's own social circles.

In developing economies, the employment and income effects of women's entrepreneurship are particularly pronounced. Small and medium enterprises owned by women account for substantial shares of employment in countries from Bangladesh to Kenya to Indonesia. Minniti and Naudé (2010) found that in many lower-income countries, female entrepreneurship rates are positively associated with poverty reduction outcomes, particularly at the household level.

Household and Community Welfare

Sen (1999) argued that development must be understood not only as income growth but as the expansion of human capabilities and freedoms. Women's economic agency, including control over income and productive resources, is a dimension of capability expansion that yields benefits extending well beyond the individual. A substantial body of development research has documented that when women control household income, a higher proportion is invested in children's nutrition, education, and health than when men control equivalent income.

Women entrepreneurs who succeed in growing their businesses gain income that they control directly, giving them the authority to make household investment decisions that tend to benefit the next generation. This intergenerational dimension of women's entrepreneurship is underappreciated in economic development discussions that focus exclusively on firm-level or macro-level metrics. The household is an institution in its own right, and changes in women's economic position within it have long-run development implications.

At the community level, women-owned businesses frequently invest in local procurement, local employment, and community institutions in ways that keep economic gains within geographic areas. While this localization effect is not unique to women-owned businesses, it tends to be more pronounced among smaller enterprises concentrated in local markets, which characterizes a disproportionate share of women-led firms in developing economies.

Innovation and Market Diversification

Women entrepreneurs often enter markets and develop products or services that address needs previously unserved by male-dominated business communities. This is not a romantic generalization; it reflects the fact that entrepreneurs typically have keener insight into the needs of markets they inhabit. Women constitute the majority of purchasing decisions in many product categories, and women entrepreneurs'

proximity to those consumer experiences creates entrepreneurial opportunities that male entrepreneurs may not perceive as readily.

Baumol's (1990) framework on productive entrepreneurship is applicable here: when institutions allow women entrepreneurs to compete in formal markets, the result is productive innovation that expands the economic pie. When institutions restrict women to informal or subsistence activities, the innovation that women could generate is channeled into lower-productivity uses or suppressed entirely.

DISCUSSION

The Institutional Reform Agenda

The evidence reviewed in this paper points toward a set of institutional reforms that would likely improve outcomes for women-led enterprises and, through them, for broader economic development. These reforms span formal and informal institutional domains, and they work at different speeds.

In the formal domain, the most direct reforms involve property rights, credit access, and legal identity. Countries that have not yet granted women equal rights to own property, register businesses, and enter contracts independently should do so as a matter of economic policy, not just gender equity. The evidence connecting legal gender equality to women's entrepreneurship rates is strong enough to justify these reforms on purely instrumental grounds. Regulatory simplification that reduces the burden of formalization is also consequential, particularly for smaller women-owned enterprises that lack the administrative resources to manage complex compliance requirements.

Financial institutions require targeted reform as well. Collateral requirements that systematically exclude women because of historical property title patterns should be replaced or supplemented with alternative creditworthiness assessment tools. Some financial institutions in both developed and developing economies have experimented with cash flow-based lending, psychometric testing, and group lending approaches that have expanded credit access without increasing default rates.

In the informal institutional domain, change is slower but not impossible. Public campaigns, role model visibility, and changes in school curricula that present women as legitimate economic actors have documented effects on gender norm evolution. North (1990) warned that informal institutions do not change simply because formal rules change, but sustained exposure to alternative models of gender and economic participation does shift norms over time.

Research Gaps

Despite the growing literature on women's entrepreneurship, several areas would benefit from more rigorous investigation. First, the interaction between formal and informal institutions in shaping women's entrepreneurship outcomes is not well understood at the micro level. Most existing research documents correlation between institutional quality and entrepreneurial outcomes; the mechanisms through which institutions affect individual entrepreneurial decisions in gendered ways need more fine-grained analysis.

Second, longitudinal data on women-owned businesses remain scarcer than cross-sectional snapshots. Understanding how women-led enterprises evolve over time, which ones scale and which ones exit and why, requires longitudinal datasets that most countries do not yet systematically collect.

Third, the literature on women's entrepreneurship in middle-income countries is thinner than coverage of either high-income or low-income contexts. Countries in this middle category often combine elements of formal gender equality with strong informal norms that constrain women's economic agency, making them an analytically interesting and practically important group to study more carefully.

CONCLUSION

Women-led enterprises face a set of institutional barriers, across finance, law, social norms, and business networks, that constrain their scale and economic contribution in ways that are not explained by individual entrepreneurial capacity. This paper has argued that understanding these barriers requires attention to both formal and informal institutions, and that removing them is economically consequential rather than merely politically desirable.

The theoretical frameworks of North (1990), Baumol (1990), Sen (1999), and Welter (2011) together provide a coherent account of how institutions shape entrepreneurial behavior and outcomes in gendered ways. The empirical record assembled by the World Bank, ILO, Global Entrepreneurship Monitor, and academic researchers confirms that these theoretical predictions hold in practice: institutional quality is a consistent predictor of women's entrepreneurship rates and performance across countries.

The economic development implications of this are direct. Economies that successfully reduce institutional barriers to women's entrepreneurship can expect gains in output, employment, household welfare, and innovation. These gains do not accrue exclusively to women; they extend to families, communities, and national economies. Framing women's entrepreneurship as an economic development strategy rather than a gender equity project may help build the broader political coalitions needed to sustain the institutional reforms that the evidence demands.

Future research should deepen understanding of the mechanisms through which institutions affect women's entrepreneurial decisions at the individual level, expand longitudinal datasets on women-owned firms, and pay greater attention to the middle-income country context where institutional constraints are often most complex. Policy actors should treat the institutional environment as a lever for economic growth and design financial, legal, and social reforms accordingly.

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