Financial Challenges Facing Women Entrepreneurs: An Exploratory Cross-National Study

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Abstract: - This study of US and Non-US women entrepreneurs examines their perspective on seeking funding for their businesses. Furthermore, the study examines the effect of the age of the business on financing efforts.

Key-Words: -cross-national, women entrepreneurs, financing small businesses

1 Introduction

Financing sources have traditionally viewed women as representing a greater risk in relation to the funding requirements of entrepreneurial business ventures than their male counterparts. Numerous studies have reported that it is harder for female entrepreneurs to obtain funding than for their male counterparts [1,2,3].

According to the National Foundation of Women Business Owners [2], women have made great strides in recent years in obtaining traditional financing through banks and venture capitalists for operating capital; however, they still do not achieve financing at the same levels as men.

Elliot's study [4] focused on financing as being a priority for women entrepreneurs and looked at this subject from the perspective that women are often not viewed as seriously as their male counterparts. Riding and Swift [5] found that for women, banks required higher collateral for a line of credit than for men.

The U.S. Small Business Administration [6] released the following information concerning women owned businesses:

1. Women are relying to a much greater extent on credit cards to fulfill their short term capital needs: 52% versus only 18% among all small firms. Because of the lack of education and due to women's inability to establish creditability as a businessperson, women have learned to utilize alternative vehicles for financing much as they have done in family budgets in the past.
2. In fiscal year 1992, the SBA approved 24,060 loans. Of these, only 3,273 went to women. As women owned businesses continue to increase substantially in number, extrapolation would indicate a larger number of loan approvals than those realized; however, the smaller number of loan approvals might be due to the lack of financial education, lack of credibility or even the reluctance women have in submitting loan requests to loan providers.
3. Women-owned businesses show a greater tendency than all businesses to be stable.

Force and McFerrin [7] found that women need greater access to capital, while Phillips [8] found that banks might be "missing the boat" so to speak by not specializing and catering to the special lending needs of women entrepreneurs since this segment is one of major growth. Nelton [9] found women entrepreneurs were almost as likely to have a bank loan or credit line as their male counterparts; however, women's use of this capital differed. Nelton and later Godsey [10] supported the NFWBO findings that women business owners used credit primarily for growth and expansion, while men were more likely to use it to smooth out cash flow and consolidate debt.

While there is some evidence to indicate that gender is linked to the accessibility of funds, Buttner and Rosen [11] found no difference between male and female entrepreneurs' perceptions of the difficulty in securing capital for a new business start-up. In addition, they found no tendency for women to attribute their difficulty in obtaining small business loans to gender discrimination.

Researchers have conducted their studies on US women so there is no way of knowing if women in other parts of the world experience the same financial challenges. Intuitively, it would appear to be so, but the empirical evidence is lacking. Exploring the issue of financial challenges facing women entrepreneurs outside the US is critical since they are growing in numbers at an increasing rate according to Moore and Buttner [12].

2 The Study

The purpose of the study was to determine if US and non-US women entrepreneurs had similar perceptions of their ability to successfully obtain external financing for their businesses and whether this perception includes the belief that their male counterparts have an advantage based on gender in accessing financial resources. In addition, the study sought to determine if the longer the owner has been in business affects those perceptions.

The study was conducted via email using a 24 item survey composed of open-ended and Likert-scaled questions. The sample consisted of 21 US women entrepreneurs and 19 women entrepreneurs from India, Germany, Italy, South Africa, the Philippines.

3 Findings

The average Non-U.S. respondent is 42, has the equivalent of a Bachelor Degree, worked 20.15 years prior to owning her current business and had owned her current business 12.81 years. The average U.S. respondent is slightly older (45.32), also holds the equivalent of a Bachelor Degree, had worked 26.63 years prior to owning her current business, and had owned her current business 6.59 years. Forty-five percent of Non-U.S. respondents were married at the time they started their businesses compared to 58.00% of U.S. respondents. Both groups of Owners tended not to involve their spouses in the starting of their businesses. Non-U.S. Owners involved someone who was not related to them 30.00% of the time as compared to their US counterpart who involved an outside party 15.79% of the time. Both groups were overwhelming in the service industries.

Respondents were requested to rate the success of their respective businesses in relation to their industry. The selections available for the respondents to choose from were leader, above average, average, below average, and struggling. While the rating is purely subjective, the rationale behind the request for respondents to do so is two-fold. First, if the business is successful, financing objectives should be easier to accomplish than if the business is not successful, and secondly, to analyze the relationship between the use of an advisor and the women business owner's perception of success. In the U.S. 87.50% of the business owners perceive their companies, within their respective industry, to be a leader, above average or average with the remaining 12.50% of the owners perceiving their firm as being below average or struggling. Similarly 90% of the non-U.S. women business owners perceive their companies to be a leader, above average, or average with the remaining 10% viewing their firms to be below average or struggling. In analyzing the total responses the majority of women business owners in the sample obtained perceive that their companies have had some degree of success.

Since one European respondent claimed that her business had been in continuous operation 519 years, the median was to group the respondents into two groups: less than 5.5 years, and 5.5 or greater than. In the analysis of whether age of the business had any effect on the perceptions women business owners have of their companies, the age of the business was used as the independent variable and the perception of success was used as the dependent variable. Analysis of Variance (ANOVA) results shown in Table 1 suggest there is no linear relationship between the age of the business and the perception of success.

In response to the statement: Women have an easier time than men obtaining financing from banks or venture capitalists, 76.47% of U.S. respondents either strongly disagree or disagree somewhat. Their international counterparts followed the same pattern (65.00%) in evaluating this statement. Further comparison between the mean age of the business and the perception of whether women have an easier time than men in obtaining financing from traditional sources was undertaken to attempt to test the assumption that an established business would find financing less difficult to achieve than a start-up or relatively new business would.

The analysis of the data suggests that regardless of nationality or geographic location, the majority of respondents hold the perception that men obtain financing easier than women do, although Non-U.S. Owners do not appear to hold the perspective as strongly as their counterparts do.

U.S. Owners, as a group, demonstrate that 76.47% of the respondents feel that men have an easier time obtaining financing than women. Further analysis of the U.S. Owner responses demonstrate that those in business longer than the median age of 5.5 years, or 47.06% , hold stronger perceptions that women do not gain financing as easily as men do than those who have been in business for less than 5.5 years, or 29.41%.

Non-U.S. Owners, as a group, demonstrate that 65.00% of the respondents feel that men have an easier time obtaining financing than women, with 25.00% of those in business longer than the median age and 40.00% of those in business less than the median age concurring that women do not gain financing from traditional sources as easily as men do.

The findings presented in (Table 1) provide support for the idea that the age of the business does influence women business owner's perceptions of previous difficulties in obtaining financing .

Of total responses (both groups combined), only 16.22% identified that they perceive that women have an easier time in obtaining traditional financing than men, 13.51% were undecided and the remaining 70.27% either agreed or strongly agreed that women do not have an easier time than men in obtaining financing from traditional sources.

However, when the respondents were asked if they were having or have had problems in obtaining financing the majority of respondents stated they had not. Of U.S. Owners, 72.22% answered that they have had no difficulties. Age of the business did not demonstrate significant impact as 33.33% with businesses less than 5.5 years and 38.89% with businesses in excess of 5.5 years of continuous operation answered no as well.

Interestingly, a similar pattern emerged for Non-U.S. Owners with 57.89% responding that they had not experienced difficulties in obtaining financing. Again, the age of the business did not seem to have significant impact upon response, with 31.58% of respondents with businesses under 5.5 years and 26.51% of respondents with businesses over 5.5 years of operations responding no.

There is evidence (Table 1) to conclude that the age of the business does influence the perceptions of previous difficulty in obtaining financing However, most of the women had used and continue to use personal forms of finance such as savings or credit cards for financing their companies. Many of them stated they had not found it necessary to seek financing and that they did not necessarily see the problems associated with obtaining financing as a gender issue.

One respondent, when asked to describe any problems in obtaining financing, stated on her questionnaire, "Most lenders want you to be able to demonstrate a substantial financial standing as it is before getting the backing...this a double edge sword but (you) need money to make money, so to speak."

Another respondent stated, " Last year (I) applied for a car loan and was denied. Not enough history or a "stable" enough income. (I) found financing through personal avenues."

A third respondent answered," Only (problem) is in documentation of income from self employment."

These statements from U.S. Owners indicate the lack of success for achieving financing goals were not gender based, and in fact, the refusal reasons would most likely be the same regardless of the gender of the applicant. Most respondents view requirements of traditional financing sources to be issues any gender would face and therefore do not view it as a female gender exclusive problem. As the survey did not anticipate that respondents would be willing to discuss the specifics of financing requests that had indeed been refused, the question as to whether the respondents believe that given identical circumstances except for gender, would the financing request still have been refused. . . . must go unanswered. Further, what the questionnaire also failed to identify was whether the respondents believed that the circumstances of their loan denials were legitimate or not.

However, when the respondents were asked to rate, "How difficult do you feel it is to obtain financing through a venture capitalist or bank", the responses changed. Seventy-one percent of the U.S. respondents expressed the opinion that it was extremely difficult or difficult to obtain financing through a venture capitalist or bank. A relationship may exist between age of business and respondent opinion in regard to this topic as 21.43% of respondents with businesses fewer than 5.5 years perceiving that it would be extremely difficult or difficult to obtain financing through a venture capitalist or bank, and 50.00% of the respondents with businesses over 5.5 years in age concurring as well.

There is a similar pattern of perception among Non-U.S. Owners, with 60% of the respondents perceiving that it was extremely difficult or difficult to obtain financing through a venture capitalist or bank. Again, the age of the business appears to have significance with 13.33% of respondents with businesses with less than 5.5 years of operation perceiving that obtaining financing would be extremely difficult or difficult and 46.67 of the respondents with businesses over 5.5 years of operations also concurring.

Sixty-five percent of all respondents perceived that obtaining financing from a venture capitalist or bank would be either extremely difficult or difficult, 17.24% represented Owners with operations of less than 5.5 years and 48.27% represent Owners with operations greater than 5.5 years. The ANOVA supports these findings (Table 1). There is evidence to conclude that the age of the business affects a woman business owner's perception of the degree of difficulty in obtaining financing. The balance of responses to this question identified that 20.69% perceive that it would not be difficult to obtain financing from these sources, and 13.79% perceive that it would even be extremely easy to do so.

Further analysis, however, identifies an interesting divergence. In the comparison between the responses of Non-U.S. Owners and U.S. Owners with less than

5.5 years of operations, 20.00% of the Non-U.S. Owners perceive that such financing would be extremely easy to achieve as opposed to 0.00% of their U.S. Owner counterparts. In the comparison of Non-U.S. Owners with operations in excess of 5.5 years, however, 0.00% perceives that such financing would be extremely easy to obtain as opposed to 7.14% of their U.S. Owner counterparts. One question was designed to determine how respondents view their credibility with financial institutions as opposed to how they perceive financial institutions view the credibility of their male counterparts. The respondents were requested to identify to what extent they agreed with the statement, "As a woman, I feel my credibility with financial institutions is equal to men owned businesses." The majority of respondents (51.35%) believe their credibility equal a man's.

Evidence is provided in Table 1 to suggest that the age of the business influences the owner's perception of her credibility. Of Non-U.S. Owners, 52.63% either strongly agreed or agreed with the statement, 5.26% were undecided and 42.11% either disagreed or strongly disagreed. In regard to length of operations, 26.32% of respondents with less than 5.5 years of operations agreed and 26.31% of respondents with more than 5.5 years of operations agreed.

Interestingly, respondents who disagreed demonstrate a significant time line divergence, with 15.79% of respondents with operations of less than 5.5 years disagreeing as opposed to 26.32% of respondents with operations in excess of 5.5 years who disagreed with the statement.

The responses to this question were evenly distributed between U.S. Owners with 50.00% of the respondents answering that they strongly agree or agree and 50.00% of the respondents answering they disagree or strongly disagree. As with the Non-U.S. Owners, time line distinctions for respondents in agreement with the statement were not significant, with 22.22% of those with fewer than 5.5 years of operations and 27.78% of those over 5.5 years of operations agreed with the statement. However, as with Non-U.S. Owners, the 50.00% that disagreed show a well defined demarcation based upon time in operations, with 16.67% of respondents with less than 5.5 years of operations disagreeing as opposed to 33.33% of respondents with more than 5.5 years of operations.

Both groups demonstrate that the longer the business had been in operations, the more strongly the respondents disagreed with the statement, and perceive that financial institutions grant more credibility to men than to women.

4 Conclusions

Women business owners, regardless of the nations in which they operate, tend to perceive that they have more difficulty in obtaining financing through traditional means (bank, venture capitalist, etc.) for business operations than men do. The longer the owner has been in business, the more likely she will perceive that women as a class have more difficulty in obtaining financing than men do. Further, the longer the business has been in operation, the more likely it is that the respondent will perceive that she is not granted the same degree of credibility that her male counterpart is accorded.

While previous studies have indicated that women in the United States hold a perception that they experience more difficulty in obtaining financing through traditional means than their male counterparts do, there has been little empirical evidence to indicate if women from other countries feel the same way. This study shows Non US women hold the same perception as US women about the difficulty of securing financing for their business ventures.

Findings from this exploratory study indicate women entrepreneurs throughout the world do **not** perceive that they:

1. Are treated equally by banks or venture capitalists.
2. Are accorded the same level of credibility, by banks or venture capitalists, as their male counterparts.

It is important to note that the study is limited by the number of responses; the results should be considered only exploratory in nature and indicative of areas for further research.

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TABLE 1 ANOVA

GROUP	N	SUM	AVERAGE	df	F	P-value
Age of Business	40	849.5	21.237	1	1.811	0.182
Perception of Success	38	132	3.473			
Age of Business	39	330.5	8.4743	1	18.23	5.59E-05
Perception of Difficulty in obtaining financing	39	60	1.5384			
Age of Business	39	330.5	8.4743	1	15.96	0.0001
Perception of Difficulty in obtaining venture capital	39	60	1.5384			